NatWest Group

The Royal Bank of Scotland plc

2023 Annual Report and Accounts

Strategic report

	Page

Presentation of information

The Royal Bank of Scotland plc ('RBS plc' or 'we') 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 is 'the ultimate holding company'. The term 'NatWest Group' refers to NatWest Group plc and its subsidiaries.

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 ('GBP'), respectively, and references to 'pence' represent pence where amounts are denominated in pounds sterling. 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. The abbreviation '€' represents the 'euro', and the abbreviations '€m' and '€bn' represent millions and thousands of millions of euros, respectively.

Description of business

The Royal Bank of Scotland plc ('RBS plc') is a principal entity under NatWest Holdings Limited ('NWH Ltd'), together with National Westminster Bank Plc ('NWB Plc', which wholly owns Coutts & Company). In 2022 Ulster Bank Ireland DAC ('UBIDAC') was also a principal entity under NWH Ltd. The term 'NWB Group' refers to NWB Plc and its subsidiary and associated undertakings.

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 personal customers in the UK.

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

Commercial & Institutional consists of customer businesses reported under Business Banking, Commercial Mid-market and Corporate & Institutions, supporting our domestic customers across the full non-personal customer lifecycle.

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.

Performance overview

Profit for 2023 was £1,399 million compared with £1,176 million in 2022, driven by an increase in total income, partially offset by net impairment losses

Total income increased by £462 million to £2,533 million, reflecting the beneficial impact of interest rate increases, partially offset by a reduction in lending.

Operating expenses increased by £9 million to £901 million, primarily reflecting an increase in legal and professional charges partially offset by lower depreciation and amortisation costs and lower recharges of costs from other NatWest Group entities.

A net impairment loss of £44 million for 2023 reflects increased economic uncertainty. Defaults remain stable and at low levels across the portfolio.

Total assets decreased by £6.3 billion to £90.4 billion at 31 December 2023, primarily driven by a reduction in cash and balances at central banks resulting from business segment net funding outflows due to an overall market liquidity contraction, a reduction in lending due to the continued run-off of mortgage portfolios, with intermediary new lending being originated through the NatWest Bank business, and net contraction of Commercial & Institutional lending. This is partially offset by an increase in amounts due from holding companies and fellow subsidiaries.

Loans to customers decreased by £2.9 billion to £34.8 billion, driven by the continued run-off of mortgage portfolios, repayment of UK Government Scheme lending and reduction in supplier finance, partly offset by an increase in term finance and reference rate lending.

Customer deposits decreased by £5.8 billion to £77.5 billion, driven by higher deposit outflows and overall market liquidity contraction.

The Common Equity Tier 1 (CET1) capital ratio decreased 40 basis points reflecting a £0.1 billion reduction in CET1 capital, predominantly due to interim and foreseeable dividends, partially offset by a £0.3 billion decrease in RWAs.

Risk-weighted assets (RWAs) decreased £0.3 billion to £18.2 billion, reflecting a £0.2 billion decrease in credit risk RWAs as well as a £0.1 billion decrease in operational risk RWAs, following the annual recalculation.

Stakeholder engagement and s.172(1) statement

Stakeholder engagement and s.172(1) statement

This statement describes how the directors have had regard to the matters set out in section 172(1) (a) to (f) of the Companies Act 2006 (section 172) when performing their duty to promote the success of the company.

Board engagement with stakeholders

The Board reviews and confirms its key stakeholder groups for the purposes of section 172 annually. For 2023, they remained investors, customers, colleagues, regulators, communities and suppliers.

Directors are mindful that it is not always possible to achieve an outcome which meets the expectations of all stakeholders who may be impacted, and that there may be impacted stakeholders outside the six key groups the Board has identified. Examples of how the Board has engaged with key stakeholders, including the impact on principal decisions, can be found in this statement and on page 68 (Corporate governance statement).

Supporting effective Board discussions and decision-making

Board and Committee terms of reference reinforce the importance of considering the matters set out in section 172 (the s172 factors, as set out below). The Board and Committee paper template also supports consideration of stakeholders and enables good decision making.

Principal decisions

Principal decisions are those decisions taken by the Board that are material or of strategic importance to the company, or are significant to the company's key stakeholders.

This statement includes a case study of a principal decision taken by the Board during 2023. Further information on the Board's principal activities can be found in the Corporate governance statement on pages 68 to 74.

The s172 factors

A – Likely long-term consequences
B – Employee interests
C – Relationships with customers, suppliers and others
D – The impact on community and environment
E – Maintaining a reputation for high standards of business conduct
F – Acting fairly between members of the company

Case Study – Appointing a new non-executive director

Factors considered: A C E

What was the decision-making process?

On 22 August 2023 the Board approved the appointment of Mark Rennison as an independent non-executive director with effect from 1 September 2023.

The appointment followed a rigorous search process led by the NWH Ltd Nominations Committee on behalf of the Board to recruit an additional double independent non-executive director (DINED) to the Boards of NWH Ltd, National Westminster Bank Plc and The Royal Bank of Scotland plc, as part of ongoing Board succession planning activity. An additional DINED was also needed in order to maintain three DINEDs on the Board following the resignation of Graham Beale on 31 August 2023, ensuring continued compliance with ring-fencing requirements.

To support the Board's decision, a detailed paper was prepared for consideration by the directors which described how Mr Rennison had been identified as the preferred candidate. Directors considered how the role specification criteria had been met, and how the appointment would enhance the Board's composition.

Following discussion, the Board approved the appointment, noting that Mr Rennison had extensive retail banking and financial services expertise alongside broad experience at a board and committee level.

How did the directors fulfil their duties under section 172? How were stakeholders considered?

In identifying the skills, knowledge and experience required at Board level to support delivery of NatWest Group's purpose and strategic priorities, a long-term view was taken.

The Board discussed how Mr Rennison's background as a Chartered Accountant with 12 years' experience as CFO for Nationwide would enhance the balance of skills and experience on the Board. Mr Rennison would also bring significant non-executive experience from previous external roles, including as non-executive director and audit committee Chair of another UK bank.

In the context of maintaining a reputation for high standards of business conduct, directors considered detailed character references from Mr Rennison's current and previous Boards and employers prior to approval, and in order to support their assessment of Mr Rennison's fitness, propriety and suitability. Directors also noted that Mr Rennison had sufficient time to devote to the role and that the UK Corporate Governance Code criteria on director independence would be met.

The Board noted that Mr Rennison's strengths and experience, combined with his non-executive portfolio experience would complement and enhance the overall knowledge and experience of the Board.

Actions and outcomes

Since joining the Board, Mr Rennison has embarked on a tailored induction programme, spending time with key stakeholders to deepen his knowledge of the business and the context in which it operates.

He has also joined the NWH Audit Committee and the NWH Performance and Remuneration Committee.

Further details on the search process leading to Mr Rennison's appointment can be found in the Group Nominations and Governance Committee report on pages 105 to 109 of the NatWest Group plc 2023 Annual Report and Accounts.

Board of directors and secretary

Approval of Strategic report

The Strategic report for the year ended 31 December 2023 set out on pages 1 to 67 was approved by the Board of directors on 15 February 2024.

By order of the Board
Jan Cargill

Chief Governance Officer and Company Secretary

15 February 2024

Chairman

Howard Davies

Executive directors

John-Paul Thwaite (CEO)
Katie Murray (CFO)

Non-executive directors

Francesca Barnes
Ian Cormack
Roisin Donnelly
Patrick Flynn
Rick Haythornthwaite
Yasmin Jetha
Stuart Lewis
Mark Rennison
Mark Seligman
Lena Wilson

Board and committee membership

Nominations Committee

Howard Davies (Chair)
Ian Cormack
Patrick Flynn
Rick Haythornthwaite
Stuart Lewis
Mark Seligman
Lena Wilson

Audit Committee

Patrick Flynn (Chair)
Ian Cormack
Stuart Lewis
Mark Rennison
Mark Seligman

Board Risk Committee

Stuart Lewis (Chair)
Francesca Barnes
Ian Cormack
Patrick Flynn
Lena Wilson

Performance and Remuneration Committee

Lena Wilson (Chair)
Ian Cormack
Mark Rennison
Mark Seligman

Senior independent non-executive director

Ian Cormack

Chief Governance Officer and Company Secretary

Jan Cargill

Board changes in 2023

Stuart Lewis (non-executive director) appointed on 1 April 2023
Mike Rogers (non-executive director) stood down on 25 April 2023
Alison Rose (executive director) stood down on 25 July 2023
Morten Friis (non-executive director) stood down on 31 July 2023
Graham Beale (non-executive director) stood down on 31 August 2023
Mark Rennison (non-executive director) appointed on 1 September 2023
Rick Haythornthwaite (non-executive director and Chair Designate) appointed on 8 January 2024

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

Auditor

Ernst & Young LLP
Chartered Accountants and Statutory Auditor
25 Churchill Place
London E14 5EY

Registered office

36 St Andrew Square
Edinburgh EH2 2YB

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

Financial review

Financial summary

Summary income statement for the year ended 31 December 2023

	Retail Banking £m	Private Banking £m	Commercial & Institutional £m	Central items & other £m	2023 £m	2022 £m	Variance £m	Variance %
Net interest income	**945**	**(1)**	**903**	**246**	**2,093**	1,782	*311*	*17*
Non-interest income	**101**	**5**	**254**	**80**	**440**	289	*151*	*52*
Total income	**1,046**	**4**	**1,157**	**326**	**2,533**	2,071	*462*	*22*
Operating expenses	**(487)**	**-**	**(414)**	**-**	**(901)**	(892)	*(9)*	*1*
Profit before impairment losses/releases	**559**	**4**	**743**	**326**	**1,632**	1,179	*453*	*38*
Impairment (losses)/releases	**(55)**	**-**	**9**	**2**	**(44)**	(20)	*(24)*	*120*
Operating profit before tax	**504**	**4**	**752**	**328**	**1,588**	1,159	*429*	*37*
Tax (charge)/credit					**(189)**	17	*(206)*	*(1,212)*
Profit for the year					**1,399**	1,176	*223*	*19*

Key metrics and ratios	2023	2022
Cost:income ratio (1)	**35.6%**	43.1%
Loan impairment rate (2)	**13bps**	5bps
CET1 ratio (3)	**11.2%**	11.6%
Leverage ratio (4)	**5.8%**	6.4%
Risk weighted assets	**£18.2bn**	£18.5bn
Loan:deposit ratio (5)	**45.7%**	46.0%

(1) Cost:income ratio is total operating expenses divided by total income.
(2) Loan impairment rate is the loan impairment charge divided by gross customer loans.
(3) CET1 ratio is CET1 capital divided by RWAs.
(4) Leverage ratio is Tier 1 capital divided by total exposure. This is in accordance with changes to the UK's leverage ratio framework, refer to page 57 for further details.
(5) Loan deposit ratio is total loans divided by total deposits.

RBS plc reported a profit of £1,399 million compared with £1,176 million in 2022, driven by an increase in total income, partially offset by net impairment losses.

Net interest income increased by £311 million to £2,093 million, reflecting increased lending to fellow subsidiaries and the beneficial impact of interest rate increases, partially offset by a reduction in customer lending.

Non-interest income increased by £151 million to £440 million, primarily driven by other operating income.

Other operating income increased by £152 million, primarily reflecting:

- a £67 million increase due to gains from economic hedging resulting from interest rate fluctuations, combined with an increase of £17 million as a result of hedge ineffectiveness;
- a £28 million increase primarily due to gains upon the sale of properties; and
- a prior year fair value loss of £23 million upon the transfer of Adam & Company's remaining banking business from RBS plc to Coutts & Company.

Operating expenses increased by £9 million to £901 million, primarily reflecting an increase in legal and professional charges, partially offset by lower depreciation and amortisation costs and lower recharges of costs from other NatWest Group entities.

Net impairment losses of £44 million reflects increased economic uncertainty. Defaults remain stable and at low levels across the portfolio. Total impairment provisions on loans reduced by £11 million to £653 million in the year. Expected credit loss (ECL) provision coverage ratio increased from 1.61% to 1.72%

Operating profit before tax of £1,588 million includes:

- a decrease in Retail Banking of £19 million to £504 million, reflecting higher operating expenses and increased impairment losses due to good book releases in 2022, and higher stage 3 defaults, partially offset by the beneficial impact of interest rate increases;
- an increase in Private Banking of £69 million to £4 million, following the transfer of the remaining Adam & Company banking business to Coutts & Company in 2022;
- a decrease in Commercial & Institutional of £10 million to £752 million, primarily reflecting increased back office and funding costs, partially offset by an increase in net interest income reflecting the beneficial impact of interest rate increases, and lower impairment stage 3 losses; and
- an increase in Central items & other of £389 million to £328 million, primarily reflecting increased funding income, gains from economic hedging driven by interest rate fluctuations, and gains upon the sale of properties.

Financial summary

Summary balance sheet as at 31 December 2023

	2023	2022	Variance	
	£m	£m	£m	%
Assets				
Cash and balances at central banks	**23,984**	34,323	*(10,339)*	*(30)*
Derivatives	**623**	498	*125*	*25*
Loans to banks - amortised cost	**1,059**	1,071	*(12)*	*(1)*
Loans to customers - amortised cost	**34,805**	37,667	*(2,862)*	*(8)*
Amounts due from holding companies and fellow subsidiaries	**28,497**	21,722	*6,775*	*31*
Other assets	**1,421**	1,382	*39*	*3*
Total assets	**90,389**	96,663	*(6,274)*	*(6)*
Liabilities				
Bank deposits	**1,027**	986	*41*	*4*
Customer deposits	**77,504**	83,306	*(5,802)*	*(7)*
Amounts due to holding companies and fellow subsidiaries	**3,577**	3,910	*(333)*	*(9)*
Derivatives	**1,932**	2,683	*(751)*	*(28)*
Notes in circulation	**2,430**	2,409	*21*	*1*
Other liabilities	**816**	708	*108*	*15*
Total liabilities	**87,286**	94,002	*(6,716)*	*(7)*
Total equity	**3,103**	2,661	*442*	*17*
Total liabilities and equity	**90,389**	96,663	*(6,274)*	*(6)*

Total assets decreased by £6.3 billion to £90.4 billion as at 31 December 2023 primarily driven by a reduction in cash and balances at central banks resulting from business segment net funding outflows, due to an overall market liquidity contraction, a reduction in lending due to the continued run-off of mortgage portfolios, with intermediary new lending being originated through the NatWest Bank business, and a net contraction of Commercial & Institutional lending. This is partially offset by an increase in amounts due from holding companies and fellow subsidiaries.

Cash and balances at central banks decreased by £10.3 billion to £24.0 billion, primarily driven by the business segment net funding outflows, £4.0 billion funding provided to a subsidiary undertaking of NWB Plc, and the payment of ordinary dividends to NWH Ltd of £1.1 billion.

Loans to customers – amortised cost decreased by £2.9 billion to £34.8 billion, reflecting:

- £1.6 billion decrease in Retail Banking primarily due to the continued run-off of mortgage portfolios, partly offset by increased credit card balances due to business initiatives; and
- £1.3 billion decrease in Commercial & Institutional due to UK Government financial support scheme repayments and a reduction in trade and working capital as a result of a decrease in supplier finance, partly offset by an increase in term finance and reference rate lending.

Amounts due from holding companies and fellow subsidiaries increased by £6.8 billion to £28.5 billion primarily due to movements on balances with NWB Plc and its subsidiary undertakings.

Customer deposits decreased by £5.8 billion to £77.5 billion, due to a reduction in Commercial & Institutional, driven by higher deposit outflows and overall market liquidity contraction.

Amounts due to holding companies and fellow subsidiaries decreased by £0.3 billion to £3.6 billion driven by a redemption of subordinated liabilities, partly offset by a net increase in balances with the intermediate holding company and other counterparties primarily within NWH Group.

Derivatives liabilities decreased by £0.8 billion to £1.9 billion driven by favourable movements within the liquidity portfolio due to floating rate and foreign exchange swap movements during the year.

Notes in circulation of £2.4 billion represent the value of the RBS plc bank notes in issue.

Total equity increased by £0.4 billion to £3.1 billion. The increase reflects profit generated in the year, and a reduction in cash flow hedging reserves, partly offset by dividend payments to NWH Ltd, and a redemption of paid-in equity.

Risk and capital management

Presentation of information

Where marked as audited in the section header, certain information in the Risk and capital management section pages 6 to 68 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.

Risk management framework

Introduction

RBS plc operates under NatWest Group's enterprise-wide risk management framework, which is centred on 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. It sets out the standards and objectives for risk management as well as defining the division of roles and responsibilities.

This seeks to ensure a consistent approach to risk management across RBS plc. It aligns risk management with RBS plc's overall strategic objectives.

The framework, which is designed and maintained by NatWest Group's independent Risk function, is owned by the NatWest Group Chief Risk Officer. It is reviewed and approved annually by the NatWest Group Board. The framework incorporates risk governance, NatWest Group's three lines of defence operating model and the Risk function's mandate.

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.

While all RBS plc colleagues are responsible for managing risk, the Risk function provides oversight and monitoring of risk management activities, including the implementation of the framework and adherence to its supporting policies, standards and operational procedures. The Chief Risk Officer plays an integral role in providing the Board with advice on RBS plc's risk profile, the performance of its controls and in providing challenge where a proposed business strategy may exceed risk tolerance.

In addition, there is a process to identify and manage top and emerging threats, which are those that could have a significant negative impact on RBS plc's ability to meet its strategic objectives. Both top and emerging threats may incorporate aspects of – or correlate to – a number of principal risks and are reported alongside them to the Board on a regular basis.

Risk management framework continued

Culture

RBS plc supports NatWest Group's multi-year programme to enhance risk management capability at different levels of the organisation which has an ongoing emphasis on risk culture. The approach to risk culture, under the banner of intelligent risk-taking, ensures a focus on robust risk management behaviours and practices. This underpins the strategy and values across all three lines of defence, enables RBS plc to support better customer outcomes, develop a stronger and more sustainable business and deliver an improved cost base.

RBS plc expects leaders to act as role models for strong risk behaviours and practices building clarity, developing capability and motivating employees to reach the required standards set out in the intelligent risk-taking approach. Colleagues are expected to:

- Consistently role-model the values and behaviours in Our Code, based on strong ethical standards.
- Empower others to take risks aligned to RBS plc's strategy, explore issues from a fresh perspective, and tackle challenges in new and better ways across organisational boundaries.
- Manage risk in line with appropriate risk appetite.
- Ensure each decision made keeps RBS plc, colleagues, customers, communities and shareholders safe and secure.
- Understand their role in managing risk, remaining clear and capable, grounded in knowledge of regulatory obligations.
- Consider risk in all actions and decisions.
- Escalate risks and issues early; taking action to mitigate risks and learning from mistakes and near-misses, reporting and communicating these transparently.
- Challenge others' attitudes, ideas and actions.

The target intelligent risk-taking behaviours are embedded in NatWest Group's Critical People Capabilities and are clearly aligned to the core values of inclusive, curious, robust, sustainable and ambitious. These aim to act as an effective basis for a strong risk culture because the Critical People Capabilities form the basis of all recruitment and selection processes.

Training

Enabling employees to have the capabilities and confidence to manage risk is core to NatWest Group's learning strategy. NatWest Group offers a wide range of learning, both technical and behavioural, across the risk disciplines. This training may be mandatory, role-specific or for personal development. Mandatory learning for all staff is focused on keeping employees, customers and NatWest Group safe. This is easily accessed online and is assigned to each person according to their role and business area. The system allows monitoring at all levels to ensure completion.

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.

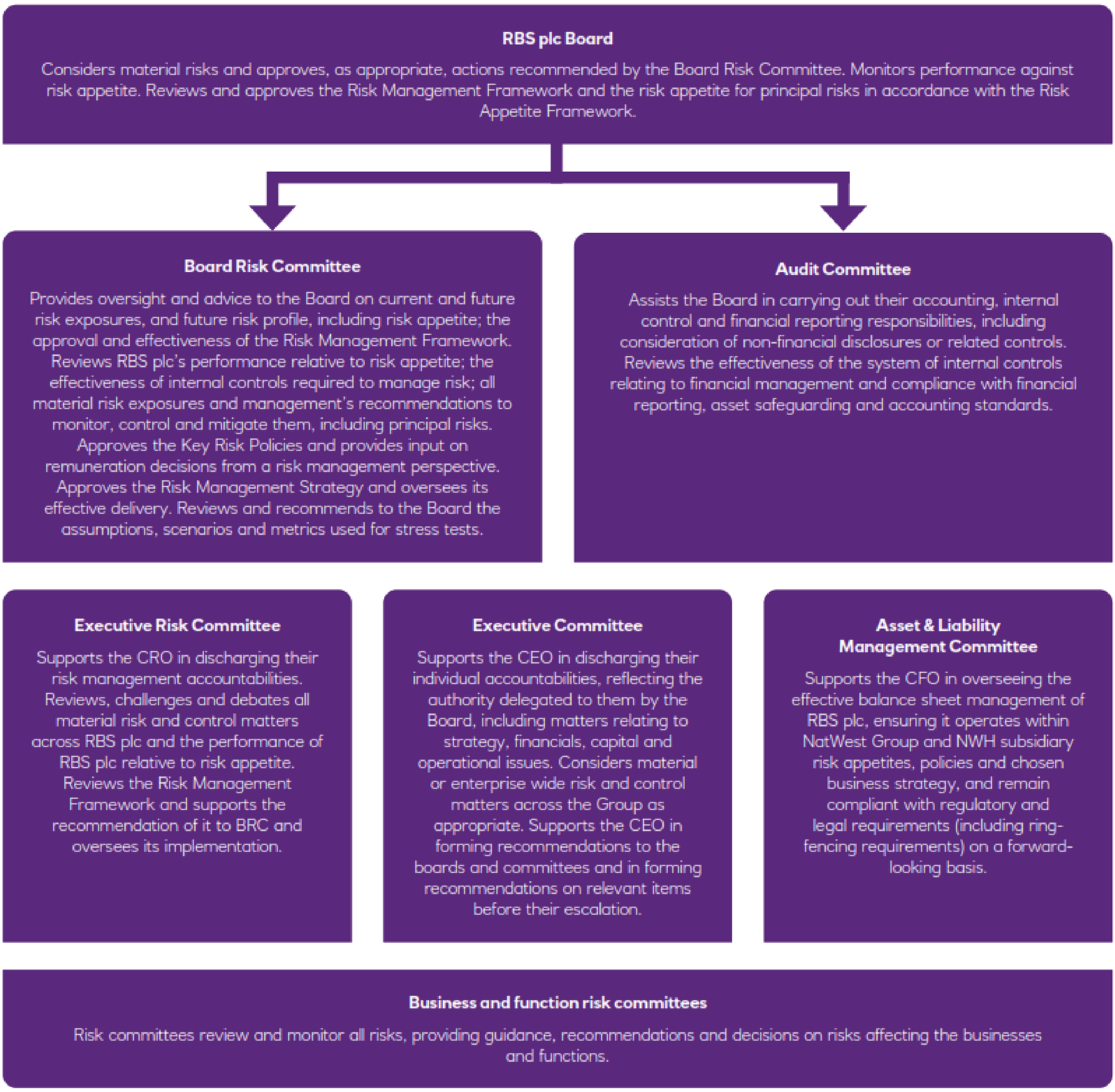
Where appropriate, if conduct falls short of NatWest Group's required standards, the accountability review process is used to assess how this should be reflected in pay outcomes for the individuals concerned. The NatWest Group remuneration policy ensures that the remuneration arrangements for all employees 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 management framework continued

Governance

Committee structure

The diagram shows RBS plc's governance structure in 2023 and the main purposes of each committee.

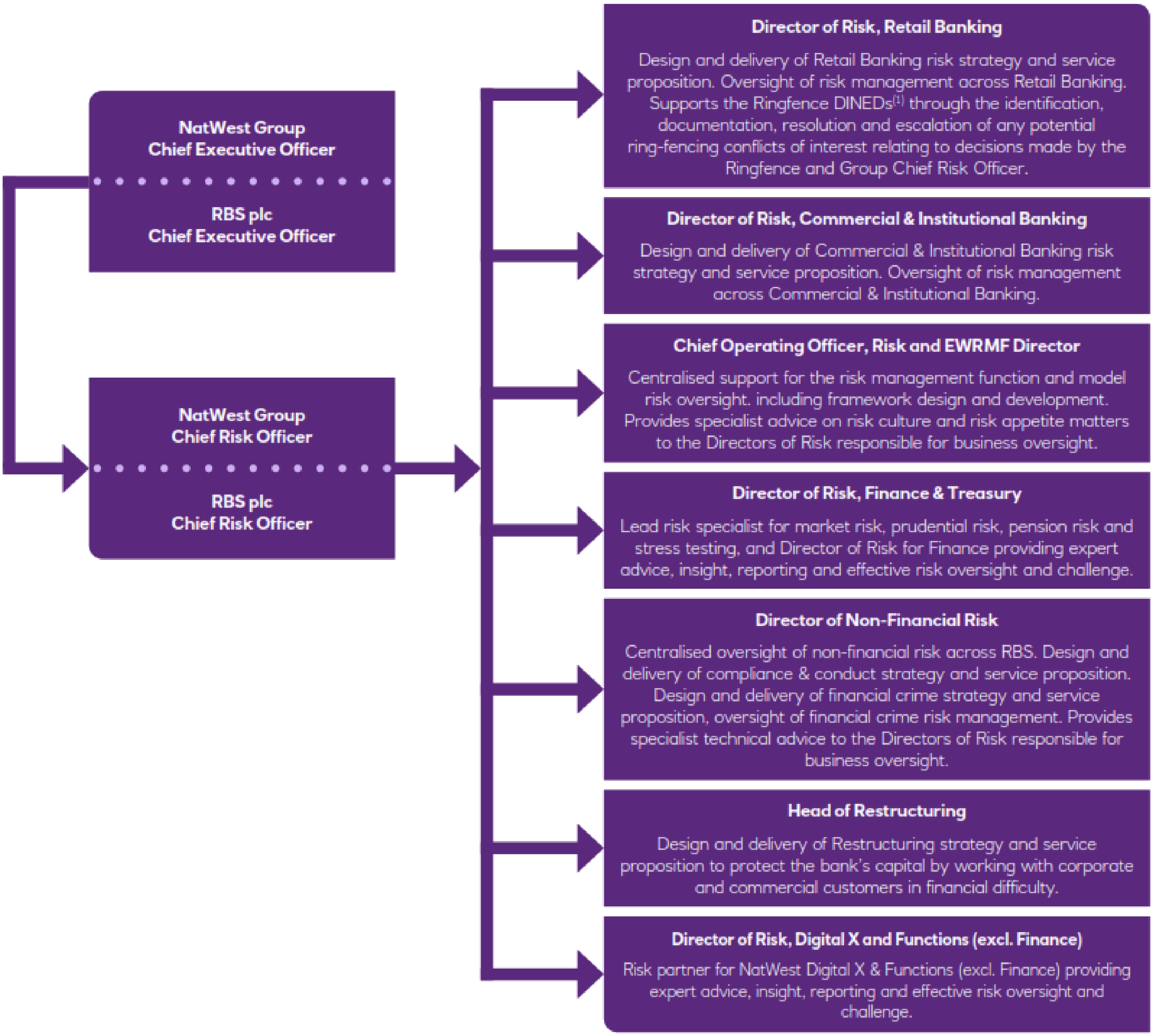


(1) The NatWest Group Chief Executive Officer also performs the role of RBS plc Chief Executive Officer.
(2) The NatWest Group Chief Risk Officer also performs the role of RBS plc Chief Risk Officer.
(3) The NatWest Group Chief Financial Officer also performs the role of RBS plc Chief Financial Officer.

Risk management framework continued

Risk management structure

The diagram shows RBS plc's risk management structure in 2023 and key risk management responsibilities.



(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 business segments 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 & Institutional 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 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. This supports the embedding of effective risk management throughout the organisation.

First line of defence

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

The first line of defence is empowered to take risks within the constraints of the risk management framework, policies, risk appetite statements set by NatWest Group and measures set by the RBS plc Board.

The first line of defence is responsible for managing its direct risks, and with the support of specialist functions, 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 RBS plc engages in permissible and sustainable risk-taking activities.

The second line of defence advises on, monitors, challenges, approves and escalates where required and reports on the risk-taking activities of the first line, ensuring that these are within the constraints of the risk management framework, policies, risk appetite statements set by NatWest Group and measures set by the RBS plc 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 assurance to the NatWest Group Board, its subsidiary legal entity boards and executive management on the overall design and operating effectiveness of the risk management framework and its components. This includes the adequacy and effectiveness of key internal controls, governance and the risk management in place to monitor, manage and mitigate the principal 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 Chartered Institute of Internal Auditors' Code of Ethics and International Standards on independence and objectivity.

Risk appetite

Risk appetite defines the type and aggregate level of risk RBS plc is willing to accept in pursuit of its strategic objectives and business plans. Risk appetite supports sound risk-taking, the promotion of robust risk practices and risk behaviours, and is calibrated annually.

For certain principal risks, risk capacity defines the maximum level of risk RBS plc can assume before breaching constraints determined by regulatory capital and liquidity requirements, the operational environment, and from a conduct perspective. Establishing risk capacity helps determine where risk appetite should be set, ensuring there is a buffer between internal risk appetite and RBS plc's ultimate capacity to absorb losses.

Risk appetite framework

The risk appetite framework supports effective risk management by promoting sound risk-taking through a structured approach, within agreed boundaries. It also ensures emerging threats and risk-taking activities that might be out of appetite are identified, assessed, escalated and addressed in a timely manner.

To facilitate this, a detailed review of the framework is carried out annually. The review includes:

Assessing the adequacy of the framework compared to internal and external expectations.

Ensuring the framework remains effective and acts as a strong control environment for risk appetite.

Assessing the level of embedding of risk appetite across the organisation.

Establishing risk appetite

In line with the risk appetite framework, risk appetite is maintained across RBS plc through risk appetite statements. These are in place for all principal risks and describe the extent and type of activities that can be undertaken.

Risk appetite statements consist of qualitative statements of appetite supported by risk limits and triggers that operate as a defence against excessive risk-taking. Risk measures 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 each principal risk is set in alignment with business activities.

The process of reviewing and updating risk appetite statements is completed alongside the business and financial planning process. This ensures that plans and risk appetite are appropriately aligned.

The Board sets risk appetite for all principal risks to help ensure RBS plc is well placed to meet its priorities and long-term, targets even in challenging economic environments. This supports RBS plc in remaining resilient and secure as it pursues its strategic business objectives.

Risk appetite statements and associated measures are reviewed at least annually by the Board on the Board Risk Committee's recommendation to ensure they remain appropriate and aligned to strategy.

RBS plc's risk profile is continually monitored and frequently reviewed. Management focus is concentrated on all principal risks as well as the top and emerging threats that may correlate to them. Risk profile relative to risk appetite is reported regularly to senior management and the Board.

NatWest Group policies directly support the qualitative aspects of risk appetite. They define the qualitative expectations, guidance and standards that stipulate the nature and extent of permissible risk-taking and are consistently applied across NatWest Group and its subsidiaries.

Risk management framework continued

Identification and measurement

Identification and measurement within the risk management process comprises:

- 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 NatWest Group Risk Directory. This provides a common risk language to ensure consistent terminology is used across RBS plc. The NatWest Group Risk Directory is subject to annual review to ensure it continues to fully reflect the risks that RBS plc faces.

Mitigation

Mitigation is a critical 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 arise from risk mitigation actions themselves) are also 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. Emerging threats that could affect future results and performance are also closely monitored. Action is taken to mitigate potential risks as and when required. Further in-depth analysis, including the stress testing of exposures, is also carried out.

Testing and monitoring

Specific activities relating to compliance and conduct, credit and financial crime are subject to testing and monitoring by the risk function. This confirms to both internal and external stakeholders – including the Board, senior management, the customer-facing businesses, Internal Audit and RBS plc's regulators – that risk policies and procedures are being correctly implemented and that they are operating adequately and effectively. Thematic reviews and targeted reviews are also carried out where relevant to ensure appropriate customer outcomes.

Independent control testing of the NWH Group Risk function is completed on principal processes and controls impacting the financial statements, in line with section 404 of the Sarbanes-Oxley Act 2002, which focusses on the formalised evaluation, testing and reporting of significant internal controls over financial reporting and the associated control environment.

The NatWest Group Risk Testing & Monitoring Forum assesses and validates the annual plan as well as the ongoing programme of reviews.

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:

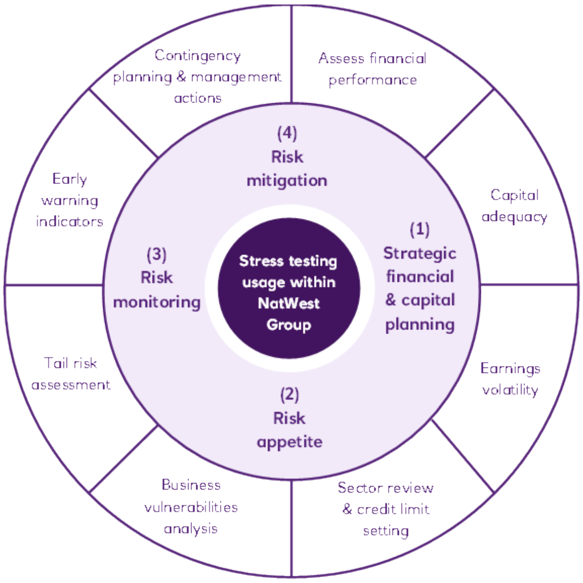
- Scenario testing, which examines the impact of a hypothetical future state to define changes in risk factors.
- Sensitivity testing, which examines the impact of an incremental change to one or more risk factors.

The process for stress testing consists of four broad stages:

Define scenarios	– Identify macro and 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 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 by the relevant Executive Risk Committees and Board Risk Committees and agreed by the relevant Boards.

Risk management framework continued

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. Principal 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 incorporate economic variables and key assumptions on balance sheet and P&L drivers, such as impairments, 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 both normal and adverse economic and market conditions enables NatWest Group to determine whether its projected business performance meets internal plans and regulatory capital requirements.

The potential impact of normal and adverse economic and market conditions on capital requirements is assessed through stress testing, the results of which 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.

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 CFO with support from 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 liquidity and funding 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 and funding 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.

Risk management framework continued

Internal assessment of liquidity

Under the liquidity risk management framework, NatWest Group maintains the Internal 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 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 reviewed and approved by the Board prior to submission to the PRA on a biennial basis. Individual recovery plans are also prepared for NatWest Holdings Limited, NatWest Markets Plc, RBS International Limited 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 event. 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). NatWest Group ensures ongoing maintenance and enhancements of its resolution capabilities, in line with regulatory requirements.

Stress testing – market risk

Non-traded market risk

Non-traded exposures are reported to the PRA on a quarterly basis. 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 test 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.

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.

Risk management framework continued

Internal scenarios

In 2023, NatWest Group deployed a new in-house corporate transition risk model, as part of an internal scenario analysis exercise, to assess climate transition related credit risks to corporate counterparties.

This involved running the following two climate scenarios:

- A disruptive policy response scenario, where the introduction of policy from the Network for Greening the Financial System delayed transition scenario, is accelerated to this decade.
- Inevitable policy response 1.8°C scenario, which anticipates investor, corporate and civil society pressure will push policymakers to make changes between 2023 and 2033, that could result in warming at or below 1.8°C by 2100.

These scenarios tested NatWest Group's resilience to alternative transition pathways, including a disruptive transition, and to identify losses that are sensitive to scenario policy and technology assumptions.

The corporate transition risk model and internal exercise builds on the learnings from the Climate Biennial Exploratory Scenario and integrates climate into ICAAP. The model is capable of accounting for sector specific exposure to climate-related transition risks and counterparty specific response to a limited set of demand shocks and rising carbon prices, by mitigating emissions and passing costs through to customers.

Regulatory stress testing

The Bank of England published the results of the 2022 annual cyclical scenario (ACS) stress test on 12 July 2023. The results of this stress test, and other relevant information, will be used to help inform NatWest Group capital buffers (both the UK countercyclical capital buffer rate and PRA buffers).

The 2022 stress test aimed to assess the impact of a UK and global macroeconomic stress on UK banks, spanning a five-year period from Q3 2022 to Q2 2027. It is a coherent 'tail risk' scenario, designed to be severe and broad enough to assess the resilience of UK banks to a range of adverse shocks.

The stress scenario is broadly similar to the 2019 ACS and more severe overall than the global financial crisis, with the key difference being elevated levels of inflation. Annual UK inflation averaged around 11% over the first three years of the scenario, peaking at 17% in early 2023.

The stress test was based on an end-of-June 2022 balance sheet starting position.

Further details can be found at:
https://www.bankofengland.co.uk/stress-testing/2023/bank-of-england-stress-testing-results

Following the UK's exit from the European Union on 31 December 2020, only relevant European subsidiaries of NatWest Group take part in the European Banking Authority stress tests. NatWest Group itself does not participate.

Natwest Group is taking part in the Bank of England's system-wide exploratory scenario in 2023/24. The objective of the exercise is to understand the risks and behaviours flowing from non-bank financial institutions under stress, and how these risks could amplify market shocks and pose a risk to financial stability. The Bank of England will publish a report on this scenario in 2024 following completion of the exercise.

Credit risk

Definition (audited)

Credit risk is the risk that customers, counterparties or issuers fail to meet a contractual obligation to settle outstanding amounts.

Sources of risk (audited)

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 (audited)

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

Governance activities include:

- Defining and proposing credit risk appetite measures for Board approval.
- Establishing credit risk policy, standards and toolkits which set out the mandatory limits and parameters required to ensure that credit risk is managed within risk appetite and which provide the minimum standards for the identification, assessment, management, monitoring and reporting of credit risk.
- Oversight of the first line of defence to ensure that credit risk remains within the appetite set by the Board and that it is being managed adequately and effectively.
- Assessing the adequacy of expected credit loss (ECL) provisions including approving key IFRS 9 inputs (such as significant increase in credit risk (SICR) thresholds) and any necessary in-model and post model adjustments through NatWest Group and business unit provisions and model committees.
- Development and approval of credit grading models.
- Providing regular reporting on credit risk to the Board Risk Committee and Board.

Risk appetite

Credit risk appetite is approved by the Board and is set and monitored through risk appetite frameworks tailored to RBS plc's Personal and Wholesale segments. Risk appetite statements and associated measures are reviewed at least annually by the Board on the Board Risk Committee's recommendation to ensure they remain appropriate and aligned to strategy.

Personal

The Personal credit risk appetite framework sets limits that control the quality and concentration of both existing and new business for each relevant business segment. These risk appetite measures consider the segments' ability to grow sustainably and the level of losses expected under stress. Credit risk is further controlled through operational limits specific to customer or product characteristics.

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.

Operational limits are used to manage concentrations of risk which may arise across four lenses – single name, sector, country and product and asset classes.

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

Identification and measurement

Credit stewardship (audited)

Risks are identified through relationship management and credit stewardship of customers and portfolios. Credit 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.

Asset quality (audited)

All credit grades map to an asset quality (AQ) scale, used for financial reporting. This AQ scale is based on Basel probability of defaults. 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.

Mitigation

Mitigation techniques, as set out in the appropriate credit risk toolkits 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 individually during the loan underwriting process, either by obtaining an appraisal by a suitably qualified appraiser (for example Royal Institution of Chartered Surveyors (RICS)) or using a statistically valid model. In both cases, a sample of the valuation outputs are periodically reviewed by an independent RICS qualified appraiser. RBS plc updates Retail Banking UK residential property values quarterly using country (Scotland, Wales and Northern Ireland) or English regional specific Office for National Statistics House Price indices.

Within the Private Banking segment, properties securing loans greater than £2.5 million are revalued every three years.

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

Commercial real estate valuations – RBS plc has an actively managed panel of chartered surveying firms that cover the spectrum of geography and property sectors in which RBS plc takes collateral. Suitable RICS registered valuers for particular assets are contracted through a service agreement to ensure consistency of quality and advice. In the UK, an independent third-party market indexation is applied to update external valuations for commercial property once they are more than a year old. For loan obligations in excess of £2.5 million and where the charged property has a book value in excess of £0.5 million, a formal valuation review is commissioned at least every three years.

Credit risk continued

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.

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.

The actual performance of each portfolio is tracked relative to operational limits. The limits apply to a range of credit risk-related measures including projected credit default rates across products and the loan-to-value (LTV) ratio of the mortgage portfolios. Where operational limits identify areas of concern management action is taken to adjust credit or business strategy.

Wholesale

Wholesale customers, including corporates, banks and other financial institutions are managed on an individual basis. Customers are aggregated as a single risk when sufficiently interconnected to the extent that a failure of one could lead to the failure of another.

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. Customer specific climate risk commentary is now mandatory.

For lower risk transactions below specific thresholds, credit decisions can be approved through a combination of fully automated or relationship manager self-sanctioning within the business. This process is facilitated through an auto-decision making system, which utilises scorecards, strategies and policy rules.

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.

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 quality through PD credit grades or performance against a combination of risk triggers in business banking, and loss given default (LGD) are reviewed and if appropriate reapproved 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.

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.

In July 2023, Mortgage Charter support was introduced for residential mortgage customers. Mortgage Charter support includes temporary interest only or term extensions at the customer's request. A request for Mortgage Charter does not, of itself trigger transfer to a specialist team.

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 resolved then, where appropriate, the Collections team will become more 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'. All treatments available to customers experiencing financial difficulties are reviewed to ensure they remain appropriate for customers impacted by current economic conditions. In the event that an affordable and 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 triggered any other unlikeliness to pay indicators, 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, under IFRS 9, categorised as Stage 3.

Credit risk continued

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. There is an equivalent process for business banking customers, with problem debt cases reallocated to increased monitoring and support under a Portfolio Management Relationship team or the Financial Health and Support Team. Broader macro-economic trends including commodity prices, foreign exchange rates and consumer and government spend are also tracked, helping inform decisions on sector risk appetite. Customer level early warning indicators are regularly reviewed to ensure alignment with prevailing economic conditions, ensuring both the volume and focus of alerts is aligned to the point-in-time risk within each sector.

The aligned Risk of Credit Loss and Viability framework

This framework focuses on all Wholesale customers to provide early identification of credit deterioration, support intelligent risk-taking, ensure fair and consistent customer outcomes and provide key insights into Wholesale lending portfolios. 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 in the framework that apply to non-defaulted customers who are in financial stress – Heightened Monitoring and Risk of Credit Loss. For the purposes of provisioning, all exposures categorised as Heightened Monitoring or Risk of Credit Loss 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.

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.

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 forum. The forum members are experienced credit, business and restructuring specialists. The purpose of the forum 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. 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: return the customer to a satisfactory status, offer additional lending and continue monitoring, transfer the relationship to Restructuring if appropriate, or exit the relationship.

The aligned Risk of Credit Loss and Viability 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 and the lending exposure is above £1 million, relationships are supported by the Restructuring team. The objective of Restructuring is to protect RBS plc's capital. Restructuring does this by working with corporate and commercial customers in financial difficulty to help them understand their options and how their restructuring or repayment strategies can be delivered. Helping viable customers return to financial health and restoring a normal banking relationship is always the preferred outcome, however, where this is not possible, RBS plc will work with customers to achieve a solvent outcome. Throughout this period, the mainstream relationship manager will remain an integral part of the customer relationship. Insolvency is considered as a last resort and if deemed necessary, RBS plc will work to recover its capital in a fair and efficient manner, while upholding the fair treatment of customers and RBS plc's core values.

Forbearance (audited)

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.

Loans are reported as forborne until they meet the exit criteria as detailed in the appropriate regulatory guidance. 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.

Types of forbearance

Personal

In the Personal portfolio, forbearance may involve payment concessions, 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 for forbearance (audited)

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 appropriate regulatory guidance.

For ECL provisioning, all forborne but performing exposures are categorised as Stage 2 and are subject to a lifetime loss provisioning assessment. Where the forbearance treatment includes the cessation of interest on the customer balance (i.e. non-accrual), this will be treated as a Stage 3 default.

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

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 credit 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 can be returned to performing status once exit criteria, as set out by regulatory guidance, is met.

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 rate, loss and exposure estimates that are used in the capital calculation or wider risk management purposes.

Impairment, provisioning and write-offs (audited)

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 use existing IRB models as a starting point, incorporate term structures and forward-looking information. Regulatory conservatism within the IRB 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 exposures 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.

For accounting policy information refer to Accounting policy 2.2.

Credit risk continued

IFRS 9 ECL model design principles (audited)

Modelling of ECL for IFRS 9 follows the conventional approach to divide the estimation of credit losses 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 (IRB) 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.
- **Economic forecasts** – IFRS 9 PD estimates and, where appropriate, EAD and LGD estimates reflect forward-looking economic conditions.
- **Lifetime measurement** – IFRS 9 PD, LGD and EAD are provided as multi-period term structures up to exposure lifetimes instead of over 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) and 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 follow a discrete multi-horizon survival approach, predicting quarterly PDs up to lifetime at account level, with a key driver being scores from related IRB PD models. Forward-looking economic information is brought in by economic response models, which leverage the existing stress test model suite. The current suite of PD models was introduced in 2022 replacing the previous, first-generation models to remediate a range of model weaknesses.

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 reflect economic conditions at the reporting date. The framework utilises credit cycle indices (CCIs) for 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 extended to forward-looking lifetime PDs using a conditional transition matrix approach and a set of econometric forecasting models.

LGD estimates

The general approach for the IFRS 9 LGD models is to leverage corresponding IRB 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 point-in-time/through-the-cycle 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 IRB 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.

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 IRB model. However, the CCFs are estimated over multi-year time horizons and contain no regulatory conservatism or downturn assumptions.

No explicit forward-looking information is incorporated, on the basis of analysis showing the temporal variation in CCFs is mainly attributable to changes in exposure management practices rather than economic conditions.

Governance and post model adjustments (audited)

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 were applied where management judged they were necessary to ensure an adequate level of overall ECL provision. All post model adjustments were subject to review, challenge and approval through model or provisioning committees.

Post model adjustments will remain a key focus area of RBS plc's ongoing ECL adequacy assessment process. A holistic framework has been established including reviewing a range of economic data, external benchmark information and portfolio performance trends with a particular focus on segments of the portfolio (both commercial and consumer) that are likely to be more susceptible to high inflation, high interest rates and supply chain disruption.

Credit risk continued

ECL post model adjustments

The table below shows ECL post model adjustments.

	Retail Banking		Commercial	
	Mortgages	Other	& Institutional	Total
2023	£m	£m	£m	£m
Deferred model calibrations	**-**	**-**	**6**	**6**
Economic uncertainty	**10**	**8**	**43**	**61**
Other adjustments	**-**	**-**	**1**	**1**
Total	**10**	**8**	**50**	**68**
Of which:				
- Stage 1	***4***	***3***	***15***	***22***
- Stage 2	***2***	***5***	***34***	***41***
- Stage 3	***4***	***-***	***1***	***5***
2022				
Economic uncertainty	11	11	38	60
Other adjustments	-	5	2	7
Total	11	16	40	67
Of which:				
- Stage 1	*4*	*6*	*9*	*19*
- Stage 2	*2*	*10*	*30*	*42*
- Stage 3	*5*	*-*	*1*	*6*

Post model adjustments increased since 31 December 2022 reflected:

- The addition of deferred model calibration post model adjustments to account for elevated refinance risks on deteriorated exposures largely due to pressures from inflation and liquidity.
- The increase in the economic uncertainty post model adjustments for Wholesale portfolios relating to inflation, supply chain and liquidity prompted by continued affordability risks, as a result of higher interest rates and sustained inflation. This was partially offset by a reduction in COVID-19 related post model adjustments.

- Retail Banking – The post model adjustments for economic uncertainty reduced slightly to £18 million at 31 December 2023, from £22 million at 31 December 2022. Despite continued consumer affordability risks, as a result of higher interest rates and sustained inflation, there was a slight reduction in the cost of living post model adjustment (down from £16 million to £14 million). The cost of living post model adjustment captured the risk on segments in the Retail Banking portfolio that are more susceptible to the effects of cost of living rises. It focused on key affordability lenses, including customers with lower income in fuel poverty, over-indebted borrowers and customers vulnerable to a potential mortgage rate shock Furthermore, there was a reduction of £2 million in LGD post model adjustments and the judgemental post model adjustment relating to the modelling of cards EAD (£5 million at 31 December 2022) was discontinued.
- Commercial & Institutional – The post model adjustments for economic uncertainty increased to £43 million at 31 December 2023, from £38 million at 31 December 2022. It included an overlay of £11 million at 31 December 2023, from £23 million at 31 December 2022, to cover the residual risks from COVID-19, including the risk that government support schemes could affect future recoveries and concerns surrounding associated debt, to customers that have utilised government support schemes. The inflation and supply chain post model adjustment was maintained with a mechanistic adjustment, via a sector-level downgrade, being applied to the sectors that were considered most at risk from these headwinds. A number of additional sectors were added to the sector-level downgrade reflecting the ongoing pressures from inflation being higher for longer plus broader concerns around reducing cash reserves across many sectors. The impact of the sector-level downgrades is a post model adjustment increase to £32 million at 31 December 2023 from £15 million at 31 December 2022, reflecting these significant headwinds which are not fully captured in the models.

The £5 million judgemental overlay for deferred model calibrations relates to refinance risk with the existing mechanistic modelling approach not fully capturing the risk on deteriorated exposures.

Credit risk continued

Significant increase in credit risk (SICR) (audited)

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 into 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:

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	>=4.306x%	1.7x PD@DOIR

- **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.
- **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.

Monitoring the effect on relative PD deterioration when originating new lending at times of weaker economic outlook (therefore, higher PDs at initial recognition) is important to ensure SICR criteria remains effective.

Asset lifetimes (audited)

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 customer review schedules and will be set to the next review date.

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 £28 million (2022 – £19 million). However, credit card balances originated under the 0% balance transfer product and representing approximately 23% (2022 – 14%) of performing card balances, have their ECL calculated on a behavioural lifetime 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 (audited)

Introduction

The portfolio segmentation and selection of economic loss drivers for IFRS 9 follows 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 variables, (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 significant economic loss drivers for the most material portfolios are shown in the table below:

Portfolio	Economic loss drivers
UK Personal mortgages	UK unemployment rate, sterling swap rate, UK house price index, UK real wage
UK Personal unsecured	UK unemployment rate, sterling swap rate, UK real wage
UK corporates	UK stock price index, UK gross domestic product (GDP), Bank of England base rate
UK commercial real estate	UK stock price index, UK commercial property price index, UK GDP, Bank of England base rate

Credit risk continued

Economic loss drivers continued

Economic scenarios

At 31 December 2023, the range of anticipated future economic conditions was defined by a set of four internally developed scenarios and their respective probabilities. In addition to the base case, they comprised upside, downside and extreme downside scenarios. The scenarios primarily reflected the current risks faced by the economy, particularly in relation to the path of inflation and interest rates.

For 2023, 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, inflation, asset price declines and the degree of permanent damage to the economy, around which there remains pronounced levels of uncertainty.

Upside – This scenario assumes robust growth as inflation falls sharply and rates are lowered more quickly than expected. Consumer spending is supported by savings built up since COVID-19 and further helped by fiscal support and strong business investment. The labour market remains resilient, with the unemployment rate falling. The housing market slows down compared to the previous year but remains robust.

Compared to 31 December 2022, the upside scenario remains similarly configured, exploring a more benign set of economic outcomes, including a stronger performing stock market, real estate prices, and supported by a stronger global growth backdrop, relative to the base case view. Reflecting recent outturn data, inflation falls back quicker and the labour market is tighter than previously assumed.

Base case – High inflation and tight monetary policy leads to muted economic growth. However, continued disinflation allows an easing cycle to start in 2024. The unemployment rate rises modestly but there are no wide-spread job losses. Inflation moderates and falls to a target level of 2% by early 2025. The housing market experiences modest nominal price decline but the extent of the decline is lower than experienced during prior stresses. Housing market activities remain weak but gains pace gradually as interest rates fall and real income recovers.

Since 31 December 2022, the economic outlook has improved as energy prices fell sharply and the labour market remained resilient. The near-term inflation outlook remains elevated and upside risks remain but they have reduced since last year. Rates increased to levels higher than expected previously and are expected to remain higher for longer. Economic growth is still expected to be muted in the near-term. The base case now assumes muted growth in 2023 as opposed to a mild recession assumed previously. The unemployment rate still rises but the peak is marginally lower and is underpinned by a resilient labour market The peak to trough house price correction remains broadly similar to the previous assumption but the timing of the fall is more spread out.

Downside – Inflation resurges as energy prices rise and core inflation remains persistently high. The economy experiences a recession as consumer confidence weakens due to a fall in real income. Interest rates are raised higher than the base case and remain elevated for longer. High rates are assumed to have a more significant impact on the labour market. Unemployment is higher than the base case scenario while house prices experience declines comparable to previous episodes of stress.

Compared to 31 December 2022, the downside scenario explores risks associated with ongoing price pressures and significantly higher interest rates across the period. This contrasts with last year's scenario, which assumed lower rates than the base case view. Partly as a result, UK economic activity and labour market are slightly weaker. Nominal asset prices, while experiencing declines comparable with past downturns, perform slightly better than previously assumed.

Extreme downside – This scenario assumes a classical recession with loss of consumer confidence leading to a deep economic recession. This results in widespread job losses with the unemployment rate rising above the levels seen during the 2008 financial crisis. Rates are cut sharply in response, leading to some support to the recovery. House prices lose approximately a third of their value.

Compared to 31 December 2022, the extreme downside again captures an extreme set of economic outcomes, with very sharp falls in asset prices and a marked deterioration in the labour market. The key difference is the assumed path for interest rates. Unlike at 31 December 2022, when recessionary risks were explored in the context of a stubbornly high inflation environment, both inflation and interest rates are now assumed to follow a significantly lower trajectory – consistent with recession driven by material weakness in domestic demand.

Main macroeconomic variables

The main macroeconomic variables for each of the four scenarios used for expected credit loss (ECL) modelling are set out in the main macroeconomic variables table below.

	2023					2022				
	Upside	Base case	Downside	Extreme downside	Weighted average	Upside	Base case	Downside	Extreme downside	Weighted average
Five-year summary	%	%	%	%	%	%	%	%	%	%
GDP	**1.8**	**1.0**	**0.5**	**(0.3)**	**0.9**	2.2	1.3	0.8	0.4	1.2
Unemployment	**3.5**	**4.6**	**5.2**	**6.8**	**4.8**	3.9	4.5	4.9	6.7	4.8
House price index	**3.9**	**0.3**	**(0.4)**	**(5.7)**	**0.3**	5.1	0.8	(0.7)	(4.4)	0.6
Commercial real estate price	**3.1**	**(0.2)**	**(2.0)**	**(6.8)**	**(0.6)**	1.2	(1.9)	(2.8)	(9.1)	(2.5)
Consumer price index	**1.7**	**2.6**	**5.2**	**1.8**	**2.8**	3.6	4.2	4.4	8.2	4.8
Bank of England base rate	**3.8**	**3.7**	**5.6**	**2.9**	**4.0**	2.4	3.1	1.5	4.5	2.8
UK stock price index	**4.8**	**3.3**	**1.2**	**(0.4)**	**2.8**	3.0	1.4	(1.1)	(3.7)	0.5
World GDP	**3.7**	**3.2**	**2.7**	**1.8**	**3.0**	3.7	3.3	1.7	1.1	2.7
Probability weight	**21.2**	**45.0**	**20.4**	**13.4**		18.6	45.0	20.8	15.6	

(1) The five-year summary runs from 2023-27 for 31 December 2023 and from 2022-26 for 31 December 2022.
(2) The table shows CAGR for annual GDP, average levels for the unemployment rate and Bank of England base rate and Q4 to Q4 CAGR for other parameters.

Credit risk continued

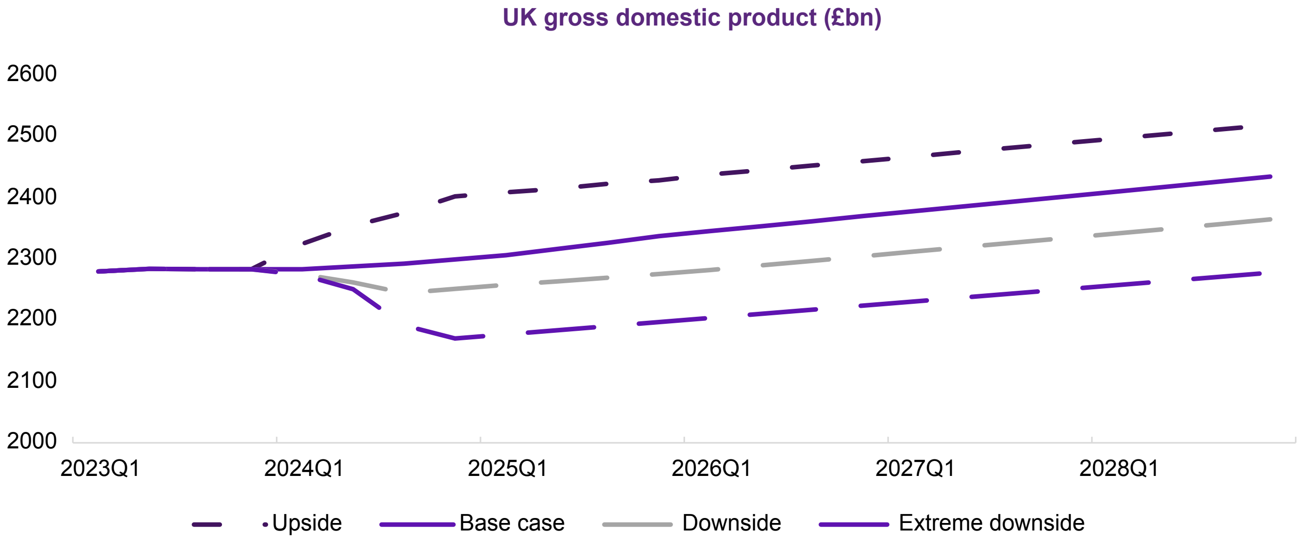
Economic loss drivers continued

Probability weightings of scenarios

RBS plc's quantitative 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. This quantitative approach is used for 31 December 2023.

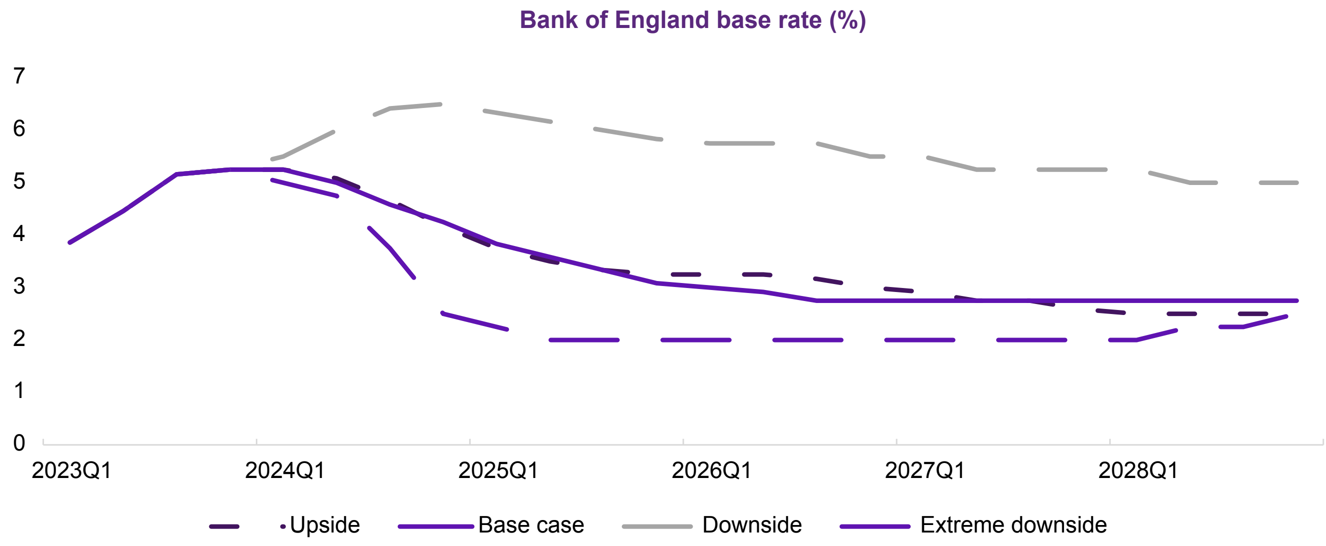
The approach involves comparing UK GDP paths for RBS plc's scenarios against a set of 1,000 model runs, following which, a percentile in the distribution is established that most closely corresponded to the scenario. Probability weight for base case is set first based on judgement, while probability weights for the alternate scenarios are assigned based on these percentiles scores.

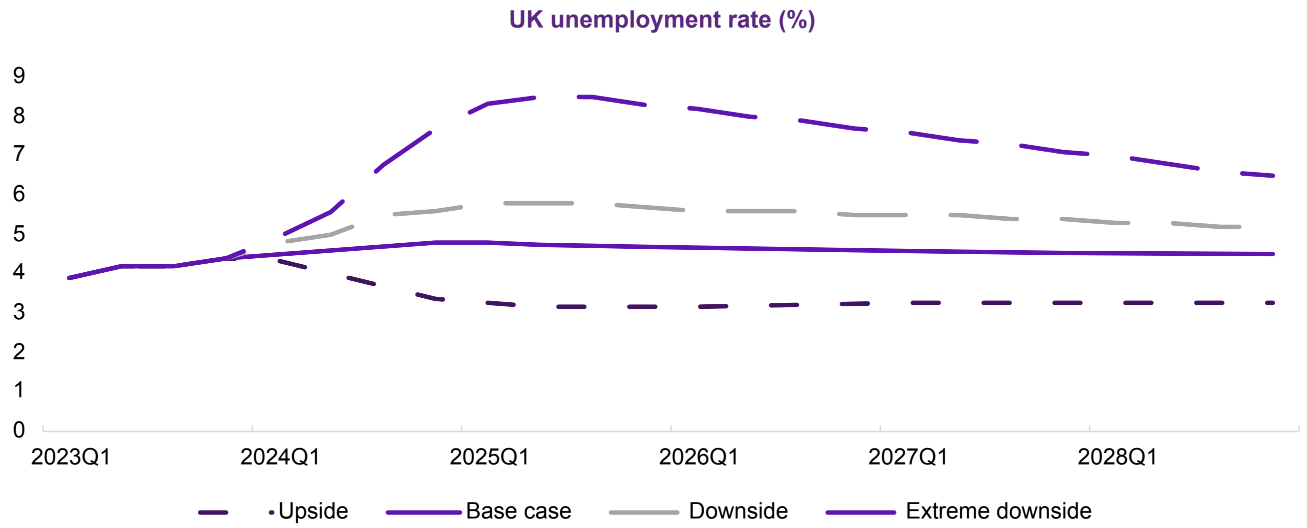
The assigned probability weights were judged to be aligned with the subjective assessment of balance of the risks in the economy. The weights were broadly comparable to those used at 31 December 2022 but with slightly less downside skew. This is reasonable as the inflation outturn since then has been encouraging, with continued disinflation and a reduced risk of stagflation. However, the risks still remain elevated and there is considerable uncertainty in the economic outlook, particularly with respect to persistence and the range of outcomes on inflation. Given that backdrop, RBS plc judges it appropriate that downside-biased scenarios have higher combined probability weights than the upside-biased scenario. It presents good coverage to the range of outcomes assumed in the scenarios, including the potential for a robust recovery on the upside and exceptionally challenging outcomes on the downside. A 21.2% weighting was applied to the upside scenario, a 45.0% weighting applied to the base case scenario, a 20.4% weighting applied to the downside scenario and a 13.4% weighting applied to the the extreme downside scenario.



Credit risk continued

Economic loss drivers continued





Credit risk continued

Economic loss drivers continued

Annual figures (audited)

GDP - annual growth

	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
2023	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**
2024	**3.6**	**0.4**	**(1.1)**	**(2.7)**	**0.3**
2025	**2.3**	**1.3**	**0.4**	**(1.6)**	**1.0**
2026	**1.2**	**1.6**	**1.2**	**1.2**	**1.4**
2027	**1.2**	**1.4**	**1.3**	**1.2**	**1.3**
2028	**1.2**	**1.4**	**1.3**	**1.2**	**1.3**

Consumer price index - four quarter change

	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
2023	**4.6**	**4.6**	**4.6**	**4.6**	**4.6**
2024	**0.9**	**2.5**	**8.5**	**(1.2)**	**2.9**
2025	**0.7**	**2.0**	**5.3**	**1.7**	**2.4**
2026	**1.1**	**1.9**	**3.8**	**2.0**	**2.1**
2027	**1.2**	**1.9**	**3.7**	**2.0**	**2.2**
2028	**1.1**	**1.9**	**3.6**	**2.0**	**2.1**

Unemployment rate - annual average

	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
2023	**4.2**	**4.2**	**4.2**	**4.2**	**4.2**
2024	**3.9**	**4.7**	**5.2**	**6.2**	**4.8**
2025	**3.2**	**4.7**	**5.8**	**8.4**	**5.1**
2026	**3.2**	**4.6**	**5.6**	**8.0**	**5.0**
2027	**3.3**	**4.6**	**5.5**	**7.4**	**4.8**
2028	**3.3**	**4.5**	**5.3**	**6.7**	**4.7**

Bank of England base rate - annual average

	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
2023	**4.68**	**4.68**	**4.68**	**4.68**	**4.68**
2024	**4.79**	**4.77**	**6.10**	**4.00**	**4.94**
2025	**3.46**	**3.46**	**6.08**	**2.06**	**3.81**
2026	**3.17**	**2.85**	**5.69**	**2.00**	**3.38**
2027	**2.75**	**2.75**	**5.31**	**2.00**	**3.17**
2028	**2.50**	**2.75**	**5.06**	**2.25**	**3.10**

House price index - four quarter change

	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
2023	**(2.9)**	**(2.9)**	**(2.9)**	**(2.9)**	**(2.9)**
2024	**7.2**	**(5.0)**	**(7.1)**	**(11.5)**	**(3.7)**
2025	**9.4**	**3.1**	**(3.1)**	**(14.2)**	**1.2**
2026	**2.8**	**3.4**	**5.5**	**(5.8)**	**2.7**
2027	**3.3**	**3.4**	**6.1**	**7.2**	**4.3**
2028	**3.5**	**3.4**	**4.4**	**6.6**	**3.9**

UK stock price index - four quarter change

	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
2023	**3.7**	**3.7**	**3.7**	**3.7**	**3.7**
2024	**8.1**	**3.2**	**(17.4)**	**(41.5)**	**(5.9)**
2025	**5.1**	**3.2**	**8.7**	**24.9**	**6.5**
2026	**3.6**	**3.2**	**7.9**	**16.7**	**5.5**
2027	**3.6**	**3.2**	**5.6**	**11.0**	**4.6**
2028	**2.9**	**3.2**	**5.3**	**9.9**	**4.3**

Commercial real estate price - four quarter change

	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
2023	**(7.2)**	**(7.2)**	**(7.2)**	**(7.2)**	**(7.2)**
2024	**12.7**	**-**	**(7.3)**	**(18.4)**	**(1.2)**
2025	**3.5**	**2.7**	**(2.0)**	**(20.0)**	**(0.5)**
2026	**4.6**	**2.0**	**3.8**	**6.7**	**3.4**
2027	**2.9**	**1.9**	**3.1**	**8.5**	**3.0**
2028	**1.3**	**0.8**	**2.6**	**8.6**	**2.0**

Worst points

	31 December 2023					31 December 2022				
	Downside %	**Quarter**	**Extreme downside %**	**Quarter**	**Weighted average %**	Downside %	Quarter	Extreme downside %	Quarter	Weighted average %
GDP	**(1.2)**	**Q3 2024**	**(4.5)**	**Q4 2024**	**0.3**	(3.2)	Q4 2023	(4.7)	Q4 2023	(0.8)
Unemployment rate - peak	**5.8**	**Q1 2025**	**8.5**	**Q2 2025**	**5.2**	6.0	Q1 2024	8.5	Q3 2024	5.4
House price index	**(12.5)**	**Q4 2025**	**(31.7)**	**Q2 2026**	**(6.5)**	(15.0)	Q1 2025	(26.2)	Q3 2025	(3.4)
Commercial real estate price	**(16.6)**	**Q1 2025**	**(39.9)**	**Q3 2025**	**(10.2)**	(21.8)	Q4 2023	(46.8)	Q3 2024	(16.4)
Consumer price index	**10.3**	**Q1 2023**	**10.3**	**Q1 2023**	**10.3**	15.7	Q1 2023	17.0	Q4 2023	11.7
Bank of England base rate	**6.5**	**Q4 2024**	**5.3**	**Q4 2023**	**5.3**	4.0	Q1 2023	6.0	Q1 2024	4.1
UK stock price index	**(14.3)**	**Q4 2024**	**(39.3)**	**Q4 2024**	**(2.4)**	(26.0)	Q4 2023	(48.7)	Q4 2023	(14.1)

(1) Unless specified otherwise, the figures show falls relative to the starting period. The calculations are performed over five years, with a starting point of Q4 2022 for 31 December 2023 scenarios and Q4 2021 for 31 December 2022 scenarios.

Credit risk continued

Economic loss drivers continued (audited)

Use of the scenarios in Personal lending

Personal lending follows a discrete scenario approach. The PD, EAD, LGD and resultant ECL for each discrete scenario is calculated using product specific economic response models. Probability weighted averages across the suite of economic scenarios are then calculated for each of the model outputs, with the weighted PD being used for staging purposes.

Business Banking utilises the Personal lending methodology rather than the Wholesale lending methodology.

Use of the scenarios in Wholesale lending

Wholesale lending follows a continuous scenario approach to calculate ECL. PD and LGD values arising from multiple economic forecasts (based on the concept of credit cycle indices) are simulated around the central projection. The central projection is a weighted average of economic scenarios with the scenarios translated into credit cycle indices using the Wholesale economic response models.

UK economic uncertainty

The high inflation environment alongside high interest rates are presenting significant headwinds for some businesses and consumers, in many cases compounding. These cost pressures remain a feature of the economic environment, though they are expected to moderate over 2024 and 2025 in the base case scenario. RBS plc has considered where these are most likely to affect the customer base, with the cost of borrowing during 2023 for both businesses and consumers presenting an additional affordability challenge.

The effects of these risks are not expected to be fully captured by forward-looking credit modelling, particularly given the high inflation environment, low unemployment base-case outlook. Any incremental ECL effects for these risks will be captured via post model adjustments and are detailed further in the Governance and post model adjustments section.

Model and monitoring enhancements

During 2023, the monitoring framework for the retail model suite was enhanced to enable more granular performance tracking at key segment levels, such as balance transfers versus non-balance transfers for the credit cards models.

A new Business Banking PD, EAD and LGD model suite was redeveloped in 2023, ensuring appropriate treatment of government-guaranteed loans.

In addition, the retail economic response models, which are used to bring forward-looking information into the IFRS 9 PD models, were redeveloped to bring in more inflationary drivers.

In Wholesale lending, new economic response models were introduced in 2022 and 2023 that follow an improved modelling approach and put higher weight on stock price indices compared to previous models.

Measurement uncertainty and ECL sensitivity analysis (audited)

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 impact arising from the base case upside, downside and extreme downside scenarios was simulated. These scenarios are 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 therefore serving as a single economic scenario.

These scenarios were applied to all modelled portfolios in the analysis below, with the simulation impacting both PDs and LGDs. Post model adjustments included in the ECL estimates that were modelled were sensitised in line with the modelled ECL movements, but those that were judgemental in nature, primarily those for deferred model calibrations and economic uncertainty, were not (refer to the Governance and post model adjustments section) on the basis these would be re-evaluated by management through ECL governance for any new economic scenario outlook and not be subject to an automated calculation. 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.

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 at 31 December 2023. 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 were not considered in this analysis.

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

Credit risk continued

Measurement uncertainty and ECL sensitivity analysis (audited)

2023	Actual	Base scenario	Moderate upside scenario	Moderate downside scenario	Extreme downside scenario
Stage 1 modelled loans (£m)					
Retail Banking - mortgages	**10,049**	**10,097**	**10,146**	**9,845**	**9,399**
Retail Banking - unsecured	**1,631**	**1,637**	**1,662**	**1,610**	**1,560**
Wholesale - property	**7,367**	**7,383**	**7,432**	**7,331**	**6,727**
Wholesale - non-property	**10,972**	**11,032**	**11,087**	**10,883**	**8,529**
	30,019	**30,149**	**30,327**	**29,669**	**26,215**
Stage 1 modelled ECL (£m)					
Retail Banking - mortgages	**4**	**4**	**4**	**4**	**4**
Retail Banking - unsecured	**37**	**36**	**36**	**37**	**36**
Wholesale - property	**19**	**15**	**12**	**23**	**32**
Wholesale - non-property	**32**	**29**	**25**	**37**	**47**
	92	**84**	**77**	**101**	**119**
Stage 1 coverage					
Retail Banking - mortgages	**0.04%**	**0.04%**	**0.04%**	**0.04%**	**0.04%**
Retail Banking - unsecured	**2.27%**	**2.20%**	**2.17%**	**2.30%**	**2.31%**
Wholesale - property	**0.26%**	**0.20%**	**0.16%**	**0.31%**	**0.48%**
Wholesale - non-property	**0.29%**	**0.26%**	**0.23%**	**0.34%**	**0.55%**
	0.31%	**0.28%**	**0.25%**	**0.34%**	**0.45%**
Stage 2 modelled loans (£m)					
Retail Banking - mortgages	**1,883**	**1,835**	**1,786**	**2,087**	**2,533**
Retail Banking - unsecured	**707**	**701**	**676**	**728**	**778**
Wholesale - property	**799**	**783**	**734**	**835**	**1,439**
Wholesale - non-property	**1,727**	**1,667**	**1,612**	**1,816**	**4,170**
	5,116	**4,986**	**4,808**	**5,466**	**8,920**
Stage 2 modelled ECL (£m)					
Retail Banking - mortgages	**5**	**5**	**4**	**6**	**7**
Retail Banking - unsecured	**77**	**76**	**67**	**84**	**94**
Wholesale - property	**20**	**17**	**14**	**26**	**60**
Wholesale - non-property	**56**	**49**	**42**	**67**	**104**
	158	**147**	**127**	**183**	**265**
Stage 2 coverage					
Retail Banking - mortgages	**0.27%**	**0.27%**	**0.22%**	**0.29%**	**0.28%**
Retail Banking - unsecured	**10.89%**	**10.84%**	**9.91%**	**11.54%**	**12.08%**
Wholesale - property	**2.50%**	**2.17%**	**1.91%**	**3.11%**	**4.17%**
Wholesale - non-property	**3.24%**	**2.94%**	**2.61%**	**3.69%**	**2.49%**
	3.09%	**2.95%**	**2.64%**	**3.35%**	**2.97%**
Stage 1 and Stage 2 modelled loans (£m)					
Retail Banking - mortgages	**11,932**	**11,932**	**11,932**	**11,932**	**11,932**
Retail Banking - unsecured	**2,338**	**2,338**	**2,338**	**2,338**	**2,338**
Wholesale - property	**8,166**	**8,166**	**8,166**	**8,166**	**8,166**
Wholesale - non-property	**12,699**	**12,699**	**12,699**	**12,699**	**12,699**
	35,135	**35,135**	**35,135**	**35,135**	**35,135**
Stage 1 and Stage 2 modelled ECL (£m)					
Retail Banking - mortgages	**9**	**9**	**8**	**10**	**11**
Retail Banking - unsecured	**114**	**112**	**103**	**121**	**130**
Wholesale - property	**39**	**32**	**26**	**49**	**92**
Wholesale - non-property	**88**	**78**	**67**	**104**	**151**
	250	**231**	**204**	**284**	**384**
Stage 1 and Stage 2 coverage					
Retail Banking - mortgages	**0.08%**	**0.08%**	**0.07%**	**0.08%**	**0.09%**
Retail Banking - unsecured	**4.88%**	**4.79%**	**4.41%**	**5.18%**	**5.56%**
Wholesale - property	**0.48%**	**0.39%**	**0.32%**	**0.60%**	**1.13%**
Wholesale - non-property	**0.69%**	**0.61%**	**0.53%**	**0.82%**	**1.19%**
	0.71%	**0.66%**	**0.58%**	**0.81%**	**1.09%**

Credit risk continued

Measurement uncertainty and ECL sensitivity analysis (audited) continued

	Actual	Base scenario	Moderate upside scenario	Moderate downside scenario	Extreme downside scenario
Reconciliation to Stage 1 and Stage 2 ECL (£m)					
ECL on modelled exposures	250	231	204	284	384
ECL on non-modelled exposures	2	2	2	2	2
Total Stage 1 and Stage 2 ECL (£m)	252	233	206	286	386
Variance – (lower)/higher to actual total Stage 1 and Stage 2 ECL (£m)		(19)	(46)	34	134
Reconciliation to Stage 1 and Stage 2 flow exposure (£m)					
Modelled loans	35,135	35,135	35,135	35,135	35,135
Non-modelled loans	176	176	176	176	176
Other assets classes	24,760	24,760	24,760	24,760	24,760

(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 2023 and therefore does not include variation in future undrawn exposure values.
(2) Reflects ECL for all modelled exposure in scope for IFRS 9. 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 2023. 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) Refer to the RBS plc 2022 Annual Report and Accounts for 2022 comparatives.

Measurement uncertainty and ECL adequacy

- If the economics were as negative as observed in the extreme downside (i.e. 100% probability weighting), total Stage 1 and Stage 2 ECL was simulated to increase by around £0.1 billion (approximately 53%). In this scenario, Stage 2 exposure increased significantly and was the key driver of the simulated ECL rise. The movement in Stage 2 balances in the other simulations was less significant.
- In the Wholesale portfolio, there was a significant increase in ECL under both a moderate and extreme downside scenario. The Wholesale property ECL increase was mainly due to commercial real estate prices which showed negative growth until 2025 and significant deterioration in the stock index. The non-property increase was mainly due to GDP contraction and significant deterioration in the stock index.
- A net improvement in the economic scenarios since 2022 resulted in a reduction in modelled ECL.
- Given that continued uncertainty remained due to high inflation, high interest rates during 2023 and supply chain disruption, RBS plc utilised a framework of quantitative and qualitative measures to support the levels of ECL coverage. This included economic data, credit performance insights, supply chain contagion analysis and problem debt trends. This was particularly important for consideration of post model adjustments.
- As the effects of these economic risks evolve into 2024, there is a risk of further credit deterioration. However, the income statement effect of this should have been mitigated by the forward-looking provisions retained on the balance sheet at 31 December 2023.
- 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. Such factors which could impact the IFRS 9 models, include an adverse deterioration in unemployment and GDP in the economies in which RBS plc operates.

Credit risk – Banking activities

Introduction

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

For accounting policy information refer to Accounting policy 2.3 and Note 12 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 (audited)

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.

	31 December 2023			31 December 2022		
	Gross	ECL	Net	Gross	ECL	Net
	£bn	£bn	£bn	£bn	£bn	£bn
Balance sheet total gross amortised cost and FVOCI	60.5			73.7		
In scope of IFRS 9 ECL framework	60.0			73.1		
% in scope	99%			99%		
Loans to customers - in scope - amortised cost	35.7	0.6	35.1	38.5	0.6	37.9
Loans to customers - in scope - FVOCI	-	-	-	-	-	-
Loans to banks - in scope - amortised cost	0.9	-	0.9	1.0	-	1.0
Total loans - in scope	36.6	0.6	36.0	39.5	0.6	38.9
Stage 1	30.6	0.1	30.5	30.4	0.1	30.3
Stage 2	5.0	0.1	4.9	8.1	0.2	7.9
Stage 3	1.0	0.4	0.6	1.0	0.3	0.7
Other financial assets - in scope - amortised cost	23.4	-	23.4	33.6	-	33.6
Other financial assets - in scope - FVOCI	-	-	-	-	-	-
Total other financial assets - in scope	23.4	-	23.4	33.6	-	33.6
Stage 1	23.4	-	23.4	33.6	-	33.6
Stage 2	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-
Out of scope of IFRS 9 ECL framework	0.5		0.5	0.6	na	0.6
Loans to customers - out of scope - amortised cost	(0.2)		(0.2)	(0.2)	na	(0.2)
Loans to banks - out of scope - amortised cost	0.1		0.1	0.1	na	0.1
Other financial assets - out of scope - amortised cost	0.6		0.6	0.7	na	0.7
Other financial assets - out of scope - FVOCI	-		-	-	na	-

na = not applicable

The assets outside the scope of 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 (2022 – £0.7 billion). These were assessed as having no ECL unless there was evidence that they were defaulted.
- Fair value adjustments on loans hedged by interest rate swaps, where the underlying loan was within the IFRS 9 ECL scope of £(0.1) billion (2022 – £(0.2) billion).

In scope assets also include an additional £28.5 billion (2022 – £21.6 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. Total contingent liabilities (including financial guarantees) and commitments within IFRS 9 ECL scope of £17.9 billion (2022 – £19.5 billion) comprised Stage 1 £16.1 billion (2022 – £16.4 billion); Stage 2 £1.6 billion (2022 – £3.0 billion); and Stage 3 £0.1 billion (2022 – £0.1 billion).

Credit risk – Banking activities continued

Segment analysis – portfolio summary (audited)

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

2023	Retail Banking £m	Private Banking £m	Commercial & Institutional £m	Central items & other £m	Total £m
Loans - amortised cost and FVOCI					
Stage 1	11,628	-	18,053	875	30,556
Stage 2	2,518	-	2,449	-	4,967
Stage 3	654	-	339	-	993
Inter-group	-	-	-	28,455	28,455
	14,800	-	20,841	29,330	64,971
ECL provisions (2)					
Stage 1	40	-	49	4	93
Stage 2	80	-	79	-	159
Stage 3	229	-	146	-	375
Inter-group	-	-	-	26	26
	349	-	274	30	653
ECL provisions coverage (1)					
Stage 1 (%)	0.34	-	0.27	0.46	0.30
Stage 2 (%)	3.18	-	3.23	-	3.20
Stage 3 (%)	35.02	-	43.07	-	37.76
Inter-group (%)	-	-	-	0.09	0.09
	2.36	-	1.31	0.46	1.72
Impairment (releases)/losses					
ECL (release)/charge (3)					
Stage 1	(31)	-	(49)	-	(80)
Stage 2	60	-	35	-	95
Stage 3	26	-	5	-	31
Inter-group	-	-	-	(2)	(2)
Total	55	-	(9)	(2)	44
Amounts written-off	44	-	25	-	69

Credit risk – Banking activities continued

Segment analysis – portfolio summary (audited)

2022	Retail Banking £m	Private Banking £m	Commercial & Institutional £m	Central items & other £m	Total £m
Loans - amortised cost and FVOCI					
Stage 1	12,985	-	16,472	976	30,433
Stage 2	2,793	-	5,301	-	8,094
Stage 3	576	-	433	-	1,009
Inter-group	-	-	-	21,638	21,638
	16,354	-	22,206	22,614	61,174
ECL provisions (2)					
Stage 1	38	-	46	4	88
Stage 2	78	-	99	-	177
Stage 3	205	-	167	-	372
Inter-group	-	-	-	27	27
	321	-	312	31	664
ECL provisions coverage (1)					
Stage 1 (%)	0.29	-	0.28	0.41	0.29
Stage 2 (%)	2.79	-	1.87	-	2.19
Stage 3 (%)	35.59	-	38.57	-	36.87
Inter-group (%)	-	-	-	0.12	0.12
	1.96	-	1.41	0.41	1.61
Impairment (releases)/losses					
ECL (release)/charge (3)					
Stage 1	(30)	1	(27)	(1)	(57)
Stage 2	37	-	(14)	-	23
Stage 3	4	(1)	27	-	30
Inter-group	-	-	-	24	24
	11	-	(14)	23	20
Amounts written-off	50	-	28	-	78

(1) ECL provisions coverage is calculated as ECL provisions divided by loans – amortised cost and FVOCI. It is calculated on loans and total ECL provisions, including ECL for other (non-loan) assets and unutilised exposure. Some segments with a high proportion of debt securities or unutilised exposure may result in a not meaningful coverage ratio.

(2) 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 £23.4 billion (2022 – £33.7 billion).

(3) The stage allocation of the ECL charge was aligned to the stage transition approach that underpins the analysis in the Flow statement section.

Credit risk – Banking activities continued

Segmental loans and impairment metrics (audited)

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
2023	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Retail Banking	11,628	2,339	118	61	2,518	654	14,800	40	73	2	5	80	229	349
Commercial & Institutional	18,053	2,288	94	67	2,449	339	20,841	49	72	5	2	79	146	274
Central items & other	875	-	-	-	-	-	875	4	-	-	-	-	-	4
Total loans	30,556	4,627	212	128	4,967	993	36,516	93	145	7	7	159	375	627
Of which:														
Personal	*11,628*	*2,339*	*118*	*61*	*2,518*	*654*	*14,800*	*40*	*73*	*2*	*5*	*80*	*229*	*349*
Wholesale	*18,928*	*2,288*	*94*	*67*	*2,449*	*339*	*21,716*	*53*	*72*	*5*	*2*	*79*	*146*	*278*

	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
2022	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Retail Banking	12,985	2,627	109	57	2,793	576	16,354	38	71	2	5	78	205	321
Commercial & Institutional	16,472	4,893	173	235	5,301	433	22,206	46	92	4	3	99	167	312
Central items & other	976	-	-	-	-	-	976	4	-	-	-	-	-	4
Total loans	30,433	7,520	282	292	8,094	1,009	39,536	88	163	6	8	177	372	637
Of which:														
Personal	*12,985*	*2,627*	*109*	*57*	*2,793*	*576*	*16,354*	*38*	*71*	*2*	*5*	*78*	*205*	*321*
Wholesale	*17,448*	*4,893*	*173*	*235*	*5,301*	*433*	*23,182*	*50*	*92*	*4*	*3*	*99*	*167*	*316*

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

Credit risk – Banking activities continued

Segmental loans and impairment metrics (audited)

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 (1,2)						Total	
	Stage 1	Not past due	1-30 DPD	>30 DPD	Total	Stage 3	Total	(release) / charge	Amounts written-off
2023	%	%	%	%	%	%	%	£m	£m
Retail Banking	**0.34**	**3.12**	**1.69**	**8.20**	**3.18**	**35.02**	**2.36**	**55**	**44**
Commercial & Institutional	**0.27**	**3.15**	**5.32**	**2.99**	**3.23**	**43.07**	**1.31**	**(9)**	**25**
Central items & other	**0.46**	**-**	**-**	**-**	**-**	**-**	**0.46**	**-**	**-**
Total loans	**0.30**	**3.13**	**3.30**	**5.47**	**3.20**	**37.76**	**1.72**	**46**	**69**
Of which:								**-**	**-**
Personal	***0.34***	***3.12***	***1.69***	***8.20***	***3.18***	***35.02***	***2.36***	***55***	***44***
Wholesale	***0.28***	***3.15***	***5.32***	***2.99***	***3.23***	***43.07***	***1.28***	***(9)***	***25***

	ECL provisions coverage							ECL	
		Stage 2 (1,2)						Total	
	Stage 1	Not past due	1-30 DPD	>30 DPD	Total	Stage 3	Total	(release) / charge	Amounts written-off
2022	%	%	%	%	%	%	%	£m	£m
Retail Banking	0.29	2.70	1.83	8.77	2.79	35.59	1.96	11	50
Commercial & Institutional	0.28	1.88	2.31	1.28	1.87	38.57	1.41	(14)	28
Central items & other	0.41	-	-	-	-	-	0.41	(1)	-
Total loans	0.29	2.17	2.13	2.74	2.19	36.87	1.61	(4)	78
Of which:									
Personal	*0.29*	*2.70*	*1.83*	*8.77*	*2.79*	*35.59*	*1.96*	*11*	*50*
Wholesale	*0.29*	*1.88*	*2.31*	*1.28*	*1.87*	*38.57*	*1.36*	*(15)*	*28*

(1) 30 DPD – 30 days past due, the mandatory 30 days past due backstop as prescribed by IFRS 9 for a SICR.
(2) Some segments with a high proportion of debt securities or unutilised exposure may result in a not meaningful coverage ratio.

- **Retail Banking** – While portfolio performance continued to remain stable, total ECL coverage increased. The rise in coverage was reflective of increased Stage 3 ECL on unsecured portfolios, mainly due to reduced write-off activity, however, Stage 3 inflows were higher this year, in line with growth and normalisation of risk parameters. The modest increase in good book coverage during the year reflected a slight increase in early arrears levels and a rise in the unsecured mix of the portfolio.
- **Commercial & Institutional** – There was a modest reduction in Commercial & Institutional gross lending, with property and most corporate sectors observing small decreases. There were also continued repayments of COVID-19 government lending schemes, and strategic reductions in certain sectors. Sector appetite continues to be reviewed regularly, with particular focus on sector clusters and sub-sectors that are vulnerable to inflationary and supply chain pressures or deemed to represent a heightened risk. Stage 2 ECL and exposure reduced due to positive portfolio performance and improvements in the latest economic scenarios. Total coverage also decreased due to the Stage 2 exposure reduction, but combined coverage on Stage 1 and Stage 2 was still significantly above pre-COVID-19 levels, reflecting continued economic uncertainty.

Credit risk – Banking activities continued

Sector analysis – portfolio summary (audited)

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
	Mortgages	Credit cards	Other personal	Total	Property	Other wholesale	FI	Sovereign	Total	
2023	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Loans by geography	12,292	1,029	1,479	14,800	8,145	11,997	1,346	228	21,716	36,516
- UK	12,292	1,029	1,479	14,800	8,124	9,456	647	228	18,455	33,255
- RoI	-	-	-	-	-	29	-	-	29	29
- Other Europe	-	-	-	-	14	698	20	-	732	732
- RoW	-	-	-	-	7	1,814	679	-	2,500	2,500
Loans by stage and asset quality (1)	12,292	1,029	1,479	14,800	8,145	11,997	1,346	228	21,716	36,516
Stage 1	9,969	623	1,036	11,628	7,222	10,147	1,331	228	18,928	30,556
- AQ1	132	-	-	132	3	599	-	-	602	734
- AQ2	-	-	-	-	1,233	193	331	228	1,985	1,985
- AQ3	25	-	-	25	2,476	2,023	26	-	4,525	4,550
- AQ4	7,268	15	23	7,306	1,659	2,817	873	-	5,349	12,655
- AQ5	2,205	195	332	2,732	909	2,929	42	-	3,880	6,612
- AQ6	249	222	445	916	638	1,092	18	-	1,748	2,664
- AQ7	67	181	171	419	289	465	40	-	794	1,213
- AQ8	18	9	62	89	12	27	1	-	40	129
- AQ9	5	1	3	9	3	2	-	-	5	14
Stage 2	1,861	379	278	2,518	785	1,653	11	-	2,449	4,967
- AQ1	15	-	-	15	-	-	-	-	-	15
- AQ2	-	-	-	-	-	-	-	-	-	-
- AQ3	6	-	-	6	-	-	-	-	-	6
- AQ4	874	-	20	894	91	130	-	-	221	1,115
- AQ5	508	22	61	591	148	447	1	-	596	1,187
- AQ6	138	70	64	272	167	311	1	-	479	751
- AQ7	110	224	50	384	239	538	5	-	782	1,166
- AQ8	118	53	69	240	128	190	2	-	320	560
- AQ9	92	10	14	116	12	37	2	-	51	167
Stage 3	462	27	165	654	138	197	4	-	339	993
- AQ10	462	27	165	654	138	197	4	-	339	993
Loans - past due analysis (3)	12,292	1,029	1,479	14,800	8,145	11,997	1,346	228	21,716	36,516
- Not past due	11,804	1,000	1,311	14,115	7,989	11,508	1,340	228	21,065	35,180
- Past due 1-30 days	172	7	11	190	73	310	2	-	385	575
- Past due 31-90 days	87	6	17	110	19	63	1	-	83	193
- Past due 91-180 days	71	6	16	93	9	13	-	-	22	115
- Past due >180 days	158	10	124	292	55	103	3	-	161	453
Loans - Stage 2	1,861	379	278	2,518	785	1,653	11	-	2,449	4,967
- Not past due	1,706	370	263	2,339	755	1,523	10	-	2,288	4,627
- Past due 1-30 days	107	5	6	118	18	75	1	-	94	212
- Past due 31-90 days	48	4	9	61	12	55	-	-	67	128
Weighted average life**										
- ECL measurement (years)	8	3	6	5	4	7	4	-	6	6
Weighted average 12 months PDs**										
- IFRS 9 (%)	0.87	3.43	5.30	1.45	1.11	1.25	0.35	0.04	1.13	1.26
- Basel (%)	0.83	3.44	2.79	1.20	0.75	0.98	0.33	0.04	0.84	0.98
ECL provisions by geography	90	66	193	349	90	180	4	4	278	627
- UK	90	66	193	349	84	177	4	4	269	618
- RoI	-	-	-	-	-	-	-	-	-	-
- Other Europe	-	-	-	-	-	1	-	-	1	1
- RoW	-	-	-	-	6	2	-	-	8	8
ECL provisions by stage	90	66	193	349	90	180	4	4	278	627
- Stage 1	4	12	24	40	19	29	1	4	53	93
- Stage 2	5	38	37	80	21	58	-	-	79	159
- Stage 3	81	16	132	229	50	93	3	-	146	375
ECL provisions coverage (%)	0.73	6.41	13.05	2.36	1.10	1.50	0.30	1.75	1.28	1.72
- Stage 1 (%)	0.04	1.93	2.32	0.34	0.26	0.29	0.08	1.75	0.28	0.30
- Stage 2 (%)	0.27	10.03	13.31	3.18	2.68	3.51	-	-	3.23	3.20
- Stage 3 (%)	17.53	59.26	80.00	35.02	36.23	47.21	75.00	-	43.07	37.76
ECL (release)/charge - Third party	(2)	23	34	55	(2)	(6)	(1)	-	(9)	46
Amounts written-off	11	15	18	44	13	12	-	-	25	69

For the notes to this table refer to page 38.

Credit risk – Banking activities continued

Sector analysis – portfolio summary (audited)

	Personal				Wholesale					Total
	Mortgages	Credit cards	Other personal	Total	Property	Other wholesale	FI	Sovereign	Total	
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Other financial assets by asset quality (1)	-	-	-	-	-	-	-	23,375	23,375	23,375
- AQ1-AQ4	-	-	-	-	-	-	-	*23,375*	*23,375*	*23,375*
Off-balance sheet	2,235	3,421	1,133	6,789	3,577	6,723	775	-	11,075	17,864
- Loan commitments	*2,235*	*3,421*	*1,133*	*6,789*	*3,465*	*6,158*	*678*	-	*10,301*	*17,090*
- Financial guarantees	-	-	-	-	*112*	*565*	*97*	-	*774*	*774*
Off-balance sheet by asset quality (1)	2,235	3,421	1,133	6,789	3,577	6,723	775	-	11,075	17,864
- AQ1-AQ4	*1,965*	*59*	*1,021*	*3,045*	*3,120*	*3,722*	*645*	-	*7,487*	*10,532*
- AQ5-AQ8	*261*	*3,295*	*108*	*3,664*	*454*	*2,936*	*130*	-	*3,520*	*7,184*
- AQ9	-	*2*	-	*2*	-	*1*	-	-	*1*	*3*
- AQ10	*9*	*65*	*4*	*78*	*3*	*64*	-	-	*67*	*145*

For the notes to this table refer to page 38.

Credit risk – Banking activities continued

Sector analysis – portfolio summary (audited)

	Personal				Wholesale					Total
	Mortgages (1)	Credit cards	Other personal	Total	Property	Other wholesale	FI	Sovereign	Total	
2022 (3)	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Loans by geography	13,986	902	1,466	16,354	8,307	13,220	1,379	276	23,182	39,536
- UK	13,986	902	1,466	16,354	8,121	10,809	668	276	19,874	36,228
- RoI	-	-	-	-	-	57	-	-	57	57
- Other Europe	-	-	-	-	64	742	1	-	807	807
- RoW	-	-	-	-	122	1,612	710	-	2,444	2,444
Loans by stage and asset quality (1)	13,986	902	1,466	16,354	8,307	13,220	1,379	276	23,182	39,536
Stage 1	11,330	649	1,006	12,985	7,109	8,773	1,290	276	17,448	30,433
- AQ1	174	-	-	174	456	472	431	276	1,635	1,809
- AQ2	-	-	-	-	1,633	372	-	-	2,005	2,005
- AQ3	45	-	-	45	1,523	1,285	29	-	2,837	2,882
- AQ4	8,323	14	28	8,365	1,433	1,822	770	-	4,025	12,390
- AQ5	2,397	195	349	2,941	1,294	3,317	25	-	4,636	7,577
- AQ6	279	221	411	911	556	851	19	-	1,426	2,337
- AQ7	72	201	170	443	204	633	15	-	852	1,295
- AQ8	26	17	45	88	8	18	1	-	27	115
- AQ9	14	1	3	18	2	3	-	-	5	23
Stage 2	2,240	230	323	2,793	1,020	4,202	79	-	5,301	8,094
- AQ1	15	-	-	15	-	-	-	-	-	15
- AQ2	-	-	-	-	-	2	-	-	2	2
- AQ3	10	-	-	10	4	662	-	-	666	676
- AQ4	1,070	-	16	1,086	98	1,168	47	-	1,313	2,399
- AQ5	628	9	56	693	229	609	4	-	842	1,535
- AQ6	153	31	80	264	287	713	2	-	1,002	1,266
- AQ7	125	123	70	318	284	780	22	-	1,086	1,404
- AQ8	145	59	85	289	97	225	2	-	324	613
- AQ9	94	8	16	118	21	43	2	-	66	184
Stage 3	416	23	137	576	178	245	10	-	433	1,009
- AQ10	416	23	137	576	178	245	10	-	433	1,009
Loans - past due analysis (2)	13,986	902	1,466	16,354	8,307	13,220	1,379	276	23,182	39,536
- Not past due	13,552	876	1,318	15,746	7,995	12,575	1,348	276	22,194	37,940
- Past due 1-30 days	164	7	12	183	106	405	23	-	534	717
- Past due 31-90 days	101	6	15	122	125	133	3	-	261	383
- Past due 91-180 days	67	5	12	84	21	7	1	-	29	113
- Past due >180 days	102	8	109	219	60	100	4	-	164	383
Loans - Stage 2	2,240	230	323	2,793	1,020	4,202	79	-	5,301	8,094
- Not past due	2,097	223	307	2,627	869	3,947	77	-	4,893	7,520
- Past due 1-30 days	98	4	7	109	32	141	-	-	173	282
- Past due 31-90 days	45	3	9	57	119	114	2	-	235	292
Weighted average life**										
- ECL measurement (years)	8	2	6	5	4	6	3	-	5	5
Weighted average 12 months PDs**										
- IFRS 9 (%)	0.91	2.93	4.92	1.35	1.44	1.58	0.41	0.03	1.44	1.40
- Basel (%)	0.84	3.19	2.89	1.13	0.75	1.08	0.31	0.03	0.90	1.00
ECL provisions by geography	86	57	178	321	114	193	5	4	316	637
- UK	86	57	178	321	107	188	5	4	304	625
- RoI	-	-	-	-	-	-	-	-	-	-
- Other Europe	-	-	-	-	1	-	-	-	1	1
- RoW	-	-	-	-	6	5	-	-	11	11
ECL provisions by stage	86	57	178	321	114	193	5	4	316	637
- Stage 1	4	14	20	38	17	28	1	4	50	88
- Stage 2	7	28	43	78	25	72	2	-	99	177
- Stage 3	75	15	115	205	72	93	2	-	167	372
ECL provisions coverage (%)	0.61	6.32	12.14	1.96	1.37	1.46	0.36	1.45	1.36	1.61
- Stage 1 (%)	0.04	2.16	1.99	0.29	0.24	0.32	0.08	1.45	0.29	0.29
- Stage 2 (%)	0.31	12.17	13.31	2.79	2.45	1.71	2.53	-	1.87	2.19
- Stage 3 (%)	18.03	65.22	83.94	35.59	40.45	37.96	20.00	-	38.57	36.87
ECL (release)/charge - Third party	(46)	22	35	11	33	(49)	1	-	(15)	(4)
Amounts written-off	11	16	23	50	5	23	-	-	28	78

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

Credit risk – Banking activities continued

Sector analysis – portfolio summary continued (audited)

	Personal				Wholesale					Total
	Mortgages	Credit cards	Other personal	Total	Property	Other wholesale	FI	Sovereign	Total	
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Other financial assets by asset quality (1)	-	-	-	-	-	-	-	33,631	33,631	33,631
- AQ1-AQ4	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*33,631*	*33,631*	*33,631*
Off-balance sheet	2,778	3,261	1,172	7,211	4,078	7,546	656	25	12,305	19,516
- Loan commitments	*2,778*	*3,261*	*1,172*	*7,211*	*3,942*	*6,914*	*549*	*25*	*11,430*	*18,641*
- Financial guarantees	*-*	*-*	*-*	*-*	*136*	*632*	*107*	*-*	*875*	*875*
Off-balance sheet by asset quality (1)	2,778	3,261	1,172	7,211	4,078	7,546	656	25	12,305	19,516
- AQ1-AQ4	*2,464*	*66*	*1,056*	*3,586*	*3,639*	*4,316*	*488*	*25*	*8,468*	*12,054*
- AQ5-AQ8	*304*	*3,136*	*113*	*3,553*	*436*	*3,151*	*168*	*-*	*3,755*	*7,308*
- AQ9	*-*	*2*	*-*	*2*	*-*	*1*	*-*	*-*	*1*	*3*
- AQ10	*10*	*57*	*3*	*70*	*3*	*78*	*-*	*-*	*81*	*151*

(1) 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	0.000% - 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% - 100.00%	CCC to C
AQ10	100.00%	D

£0.1 billion (2022 – £0.1 billion) AQ10 Personal balances primarily relate to loan commitments, the drawdown of which is effectively prohibited.

(2) 30 DPD – 30 days past due, the mandatory 30 days past due backstop prescribed by IFRS 9 for a SICR.

(3) Previously published sectors for the Wholesale portfolio have been re-presented to reflect updated internal sector reporting.

(4) Not within scope of independent auditors' report.

Credit risk – Banking activities continued

Sector analysis – portfolio summary (audited)

The table below shows ECL by stage, for the Personal portfolio and selected sectors of the Wholesale portfolio including those that contain an element of exposure classified as heightened climate-related risk.

	Loans - amortised cost and FVOCI				Off-balance sheet		ECL provisions			
	Stage 1	Stage 2	Stage 3	Total	Loan commitments	Contingent liabilities	Stage 1	Stage 2	Stage 3	Total
2023	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Personal	11,628	2,518	654	14,800	6,789	-	40	80	229	349
Mortgages	9,969	1,861	462	12,292	2,235	-	4	5	81	90
Credit cards	623	379	27	1,029	3,421	-	12	38	16	66
Other personal	1,036	278	165	1,479	1,133	-	24	37	132	193
Wholesale	18,928	2,449	339	21,716	10,301	774	53	79	146	278
Property	7,222	785	138	8,145	3,465	112	19	21	50	90
Financial institutions	1,331	11	4	1,346	678	97	1	-	3	4
Sovereign	228	-	-	228	-	-	4	-	-	4
Other wholesale	10,147	1,653	197	11,997	6,158	565	29	58	93	180
Of which:										
Agriculture	542	187	10	739	181	6	3	7	5	15
Airlines and aerospace	136	151	-	287	246	26	-	2	-	2
Automotive	461	18	3	482	153	11	1	1	2	4
Building materials	84	32	1	117	36	2	-	1	-	1
Chemicals	32	-	-	32	33	1	-	-	-	-
Industrials	400	28	7	435	279	35	1	2	5	8
Land transport & logistics	640	43	38	721	292	49	1	1	8	10
Leisure	924	370	45	1,339	250	46	6	15	16	37
Mining & metals	115	2	-	117	168	5	-	-	-	-
Oil and gas	303	1	1	305	492	102	2	-	-	2
Power utilities	417	1	-	418	341	144	-	-	-	-
Retail	1,558	144	14	1,716	564	67	4	4	7	15
Shipping	13	27	-	40	17	10	-	1	-	1
Water & waste	18	40	-	58	49	16	-	1	-	1
Total	30,556	4,967	993	36,516	17,090	774	93	159	375	627

2022 (1)										
Personal	12,985	2,793	576	16,354	7,211	-	38	78	205	321
Mortgages	11,330	2,240	416	13,986	2,778	-	4	7	75	86
Credit cards	649	230	23	902	3,261	-	14	28	15	57
Other personal	1,006	323	137	1,466	1,172	-	20	43	115	178
Wholesale	17,448	5,301	433	23,182	11,430	875	50	99	167	316
Property	7,109	1,020	178	8,307	3,942	136	17	25	72	114
Financial institutions	1,290	79	10	1,379	549	107	1	2	2	5
Sovereign	276	-	-	276	25	-	4	-	-	4
Other wholesale	8,773	4,202	245	13,220	6,914	632	28	72	93	193
Of which:										
Agriculture	569	203	12	784	201	7	3	5	4	12
Airlines and aerospace	77	163	-	240	382	112	-	2	-	2
Automotive	503	44	8	555	190	20	1	1	2	4
Building materials	136	38	1	175	43	1	1	1	-	2
Chemicals	48	3	-	51	39	1	-	-	-	-
Industrials	164	274	8	446	203	59	1	2	5	8
Land transport & logistics	587	191	44	822	328	59	1	3	8	12
Leisure	612	850	44	1,506	342	49	5	33	18	56
Mining & metals	16	190	-	206	190	3	-	1	-	1
Oil and gas	340	48	3	391	527	109	2	2	3	7
Power utilities	367	2	5	374	428	62	-	-	1	1
Retail	1,360	459	16	1,835	671	72	4	3	8	15
Shipping	18	22	-	40	18	8	-	1	-	1
Water & waste	23	32	-	55	90	22	-	-	-	-
Total	30,433	8,094	1,009	39,536	18,641	875	88	177	372	637

(1) Previously published sectors for the Wholesale portfolio have been re-presented to reflect updated internal sector reporting.

Credit risk – Banking activities continued

Wholesale forbearance (audited)

The table below shows Wholesale forbearance, Heightened Monitoring and Risk of Credit Loss by sector. Personal forbearance is disclosed in the Personal portfolio section. This table show current exposure but reflects risk transfers where there is a guarantee by another customer

2023	Property £m	FI £m	Other wholesale £m	Total £m
Forbearance (flow)	**304**	**-**	**285**	**589**
Forbearance (stock)	**349**	**-**	**434**	**783**
Heightened Monitoring and Risk of Credit Loss	**335**	**1**	**514**	**850**

2022	Property £m	FI £m	Other wholesale £m	Total £m
Forbearance (flow)	232	1	409	642
Forbearance (stock)	300	1	942	1,243
Heightened Monitoring and Risk of Credit Loss	354	44	619	1,017

Sector analysis – Portfolio summary (audited)

- **Loans by geography and sector –** In line with RBS plc's strategic focus, exposures continued to be mainly in the UK.
- **Loans by stage –** There was a decrease in Stage 1 exposure, primarily due to continued reduction in mortgage portfolio balances in Personal. A net improvement in forward-looking economic impacts on probability of defaults meant a reduction in the proportion of Wholesale accounts triggering Stage 2 compared to 2022. This resulted in a migration of exposures from Stage 2 into Stage 1 during 2023. Stage 3 exposures remained large consistent with last year.
- **Loans – Past due analysis –** In Personal, the value of arrears increased during 2023 as expected with adjustments to lending criteria following COVID-19.
- **Weighted average 12 months PDs –** IFRS 9 PDs remained broadly stable overall, with some increases in Personal portfolios, most notably in credit cards which had an IFRS 9 PD modelling update. In Wholesale, some reductions were observed in PDs in corporate and property portfolios, linked to the economic scenario updates during the year.
- **ECL provisions by stage –** Stage 2 provisions reduced during 2023, reflecting broadly stable credit performance of the portfolios and the effect of improved 2023 forward-looking scenario updates. As outlined previously, Stage 3 provisions have yet to be materially affected by the customer affordability risks linked to the current economic uncertainty prevalent in the UK.
- **ECL provisions coverage –** Overall provisions coverage remained broadly consistent with 31 December 2022. This was mainly a result of continued stable portfolio performance and MES economics-driven modelled ECL releases contrasted with increased economic uncertainty, captured through ECL post model adjustments.
- **ECL charge –** The impairment charge for 2023 of £46 million (excluding inter-group lending) primarily reflected the underlying default charges.
- **Other financial assets by asset quality** – Consisting almost entirely of cash and balances at central banks and debt securities held in the course of treasury related management activities, these assets were mainly within the AQ1-AQ4 bands.
- **Off-balance sheet exposures by asset quality –** In Personal, undrawn exposures were reflective of available credit lines in credit cards and current accounts. Additionally, the mortgage portfolio had undrawn exposures, where a formal offer had been made to a customer but had not yet drawn down; the value decreased in line with the pipeline of offers. 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 was aligned to the wider portfolio.
- **Wholesale forbearance –** Forbearance flow and stock increased for 2023 compared to 2022. Increased levels of forbearance were observed in Q4 2023 and was in line with expectations from previous Q4 observations. Payment holidays and covenant waivers were the most common forms of forbearance granted.
- **Heightened Monitoring and Risk of Credit Loss –** Risk of Credit Loss framework exposures and inflows increased in 2023 compared to 2022. Retail SME customers do not form part of the Wholesale Risk of Credit Loss framework. Customers in financial difficulty within this group are managed by specialist problem debt management teams. The balances in arrears and recoveries remained flat in 2023, with inflows continuing to be driven by Bounce Back Loan Scheme (BBLS) exposures. Excluding BBLS balances, the debt value for this population that are in problem debt/recoveries also remained stable.

Credit risk – Banking activities continued

Credit risk enhancement and mitigation (audited)

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
2023	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Financial assets											
Cash and balances at central banks	**23.4**	**-**	**23.4**	**-**	**-**	**-**	**-**	**-**	**-**	**23.4**	**-**
Loans - amortised cost (3)	**36.5**	**0.6**	**35.9**	**0.6**	**1.2**	**22.3**	**3.0**	**26.5**	**0.6**	**9.4**	**-**
Personal (4)	**14.8**	**0.3**	**14.5**	**0.4**	**-**	**12.2**	**-**	**12.2**	**0.4**	**2.3**	**-**
Wholesale (5)	**21.7**	**0.3**	**21.4**	**0.2**	**1.2**	**10.1**	**3.0**	**14.3**	**0.2**	**7.1**	**-**
Total financial assets	**59.9**	**0.6**	**59.3**	**0.6**	**1.2**	**22.3**	**3.0**	**26.5**	**0.6**	**32.8**	**-**
Contingent liabilities and commitments											
Personal (6,7)	**6.8**	**-**	**6.8**	**0.1**	**-**	**2.2**	**-**	**2.2**	**-**	**4.6**	**0.1**
Wholesale	**11.1**	**-**	**11.1**	**0.1**	**0.1**	**2.3**	**0.4**	**2.8**	**-**	**8.3**	**0.1**
Total off-balance sheet	**17.9**	**-**	**17.9**	**0.2**	**0.1**	**4.5**	**0.4**	**5.0**	**-**	**12.9**	**0.2**
Total exposure	**77.8**	**0.6**	**77.2**	**0.8**	**1.3**	**26.8**	**3.4**	**31.5**	**0.6**	**45.7**	**0.2**
2022											
Financial assets											
Cash and balances at central banks	33.7	-	33.7	-	-	-	-	-	-	33.7	-
Loans - amortised cost (3)	39.5	0.6	38.9	0.7	1.7	24.4	3.9	30.0	0.7	8.9	-
Personal (4)	*16.3*	*0.3*	*16.0*	*0.4*	-	*13.9*	-	*13.9*	*0.4*	*2.1*	-
Wholesale (5)	*23.2*	*0.3*	*22.9*	*0.3*	*1.7*	*10.5*	*3.9*	*16.1*	*0.3*	*6.8*	-
Total financial assets	73.2	0.6	72.6	0.7	1.7	24.4	3.9	30.0	0.7	42.6	-
Contingent liabilities and commitments											
Personal (6,7)	7.2	-	7.2	0.1	-	2.5	-	2.5	0.1	4.7	-
Wholesale	12.3	-	12.3	0.1	0.2	2.6	0.6	3.4	-	8.9	0.1
Total off-balance sheet	19.5	-	19.5	0.2	0.2	5.1	0.6	5.9	0.1	13.6	0.1
Total exposure	92.7	0.6	92.1	0.9	1.9	29.5	4.5	35.9	0.8	56.2	0.1

(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) Personal Stage 3 balances primarily relate to loan commitments, the draw down of which is effectively prohibited.
(7) The Personal gross exposure value includes £0.1 billion (2022 – £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 (audited)

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

Personal lending	2023 £m	2022 £m
Mortgages	**12,286**	13,986
Of which:		
Owner occupied	**11,052**	12,565
Buy-to-let	**1,234**	1,421
Interest only	**2,988**	3,222
Mixed (1)	**860**	1,022
Impairment provisions (2)	**90**	86
Other personal lending	**2,507**	2,368
Impairment provisions (2)	**259**	231
Total personal lending	**14,793**	16,354
Mortgage LTV ratios		
- Owner occupied	**42%**	41%
- Stage 1	***42%***	*41%*
- Stage 2	***44%***	*44%*
- Stage 3	***43%***	*42%*
- Buy-to-let	**43%**	43%
- Stage 1	***42%***	*42%*
- Stage 2	***45%***	*44%*
- Stage 3	***47%***	*45%*
Gross new mortgage lending	**514**	979
Of which:		
Owner occupied	**496**	912
- LTV > 90%	**41**	72
Weighted average LTV	**63%**	65%
Buy-to-let	**18**	67
Weighted average LTV	**55%**	61%
Interest only	**54**	94
Mixed (1)	**17**	43
Mortgage forbearance		
Forbearance flow	**69**	30
Forbearance stock	**276**	272
Current	***168***	*176*
1-3 months in arrears	***20***	*25*
>3 months in arrears	***88***	*71*

(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 lending and provisions held on relatively small legacy portfolios.

For the key points to this table refer to the following page.

Credit risk – Banking activities continued

Personal portfolio (audited)

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			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
2023	£m	£m	£m	£m	£m	£m	£m	£m	%	%	%	%
≤50%	**6,829**	**1,217**	**315**	**8,361**	**2**	**2**	**47**	**51**	**-**	**0.2**	**14.8**	**0.6**
>50% and ≤70%	**2,420**	**535**	**138**	**3,093**	**1**	**2**	**27**	**30**	**0.1**	**0.4**	**19.4**	**1.0**
>70% and ≤80%	**397**	**53**	**13**	**463**	**-**	**-**	**4**	**4**	**0.1**	**0.6**	**28.2**	**1.1**
>80% and ≤90%	**253**	**45**	**4**	**302**	**1**	**-**	**1**	**2**	**0.1**	**0.7**	**28.4**	**0.8**
>90% and ≤100%	**40**	**9**	**2**	**51**	**-**	**-**	**1**	**1**	**0.1**	**0.6**	**52.5**	**5.8**
>100%	**1**	**-**	**1**	**2**	**-**	**-**	**1**	**1**	**-**	**-**	**50.0**	**50.0**
Total with LTVs	**9,940**	**1,859**	**473**	**12,272**	**4**	**4**	**81**	**89**	**-**	**0.3**	**17.0**	**0.7**
Other	**14**	**-**	**-**	**14**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**9,954**	**1,859**	**473**	**12,286**	**4**	**4**	**81**	**89**	**-**	**0.3**	**17.0**	**0.7**
2022												
≤50%	7,896	1,448	280	9,624	2	3	44	49	-	0.2	15.0	0.5
>50% and ≤70%	2,779	674	121	3,574	1	3	25	29	-	0.4	20.6	0.9
>70% and ≤80%	380	62	10	452	-	-	4	4	0.1	0.6	30.1	1.3
>80% and ≤90%	207	55	3	265	1	-	1	2	0.3	0.6	44.9	2.6
>90% and ≤100%	48	1	2	51	-	-	1	1	0.1	1.2	54.6	35.3
>100%	1	-	-	1	-	-	-	-	-	-	-	-
Total with LTVs	11,311	2,240	416	13,967	4	6	75	85	-	0.3	17.4	0.6
Other	19	-	-	19	-	-	-	-	-	-	-	-
Total	11,330	2,240	416	13,986	4	6	75	85	-	0.3	17.4	0.6

- The mortgage portfolio reduced during 2023 as repayments and redemptions exceeded new business.
- Mortgage portfolio LTV increased, due to the easing of house prices reflected in the Office for National Statistics house price indices.
- Portfolios and new business were closely monitored against agreed operating limits. These included loan-to-value ratios, buy-to-let concentrations, new-build concentrations and credit quality. Lending criteria, affordability calculations and assumptions for new lending were adjusted during the year, considering inflationary pressure and interest rate rises, to maintain credit quality in line with appetite and to ensure customers are assessed fairly.
- Other personal lending balances increased during the year mainly as a result of credit card new business. Lending criteria were carefully managed to maintain the credit quality of the new business written.
- Support for customers was proactively promoted during the year. The flow of forbearance increased during the year. The reported forbearance values included customers who used Mortgage Charter support if they met relevant forbearance triggers.
- As noted previously, ECL increased. For further details on the movements in ECL provisions at product level, refer to the Flow statements section.

Credit risk – Banking activities continued

Commercial real estate (audited)

CRE LTV distribution by stage

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

	Gross loans				ECL provisions				ECL provisions coverage			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
2023	£m	£m	£m	£m	£m	£m	£m	£m	%	%	%	%
≤50%	1,382	216	18	1,616	8	4	3	15	0.6	1.9	16.7	0.9
>50% and ≤70%	599	193	30	822	4	6	5	15	0.7	3.1	16.7	1.8
>70% and ≤100%	55	82	6	143	1	4	4	9	1.8	4.9	66.7	6.3
>100%	3	1	10	14	-	-	7	7	-	-	70.0	50.0
Total with LTVs	2,039	492	64	2,595	13	14	19	46	0.6	2.9	29.7	1.8
Total portfolio average LTV	44%	52%	67%	46%								
Other (1)	317	69	8	394	2	2	3	7	0.6	2.9	37.5	1.8
Investment	2,356	561	72	2,989	15	16	22	53	0.6	2.9	30.6	1.8
Development (2)	295	59	14	368	1	1	7	9	0.3	1.7	50.0	2.5
Total	2,651	620	86	3,357	16	17	29	62	0.6	2.7	33.7	1.9
2022												
≤50%	1,448	249	17	1,714	9	3	6	18	0.6	1.2	35.3	1.1
>50% and ≤70%	728	334	8	1,070	3	10	3	16	0.4	3.0	37.5	1.5
>70% and ≤100%	10	15	73	98	-	-	29	29	-	-	39.7	29.6
>100%	17	4	8	29	-	1	5	6	-	25.0	62.5	20.7
Total with LTVs	2,203	602	106	2,911	12	14	43	69	0.5	2.3	40.6	2.4
Total portfolio average LTV	46%	53%	83%	49%	-	-	-	-	-	-	-	-
Other (1)	426	92	9	527	2	2	5	9	0.5	2.2	55.6	1.7
Investment	2,629	694	115	3,438	14	16	48	78	0.5	2.3	41.7	2.3
Development (2)	232	198	14	444	1	4	6	11	0.4	2.0	42.9	2.5
Total	2,861	892	129	3,882	15	20	54	89	0.5	2.2	41.9	2.3

(1) Relates mainly to business banking and unsecured corporate lending.
(2) Relates to the development of commercial and residential properties. LTV is not a meaningful measure for this type of lending activity.

- Overall – The majority of the CRE portfolio was located and managed in the UK. Business appetite and strategy was aligned across RBS plc.
- 2023 trends – In H2 2023, conditions were impacted by the uncertain interest rate outlook. Investment volumes were at historic lows for much of 2023, and values continued to drift downwards in some sectors. There were some early signs of improving sentiment following a sharp reduction in medium-term interest rates, but valuations remain somewhat uncertain, particularly in the office sector.
- Credit quality – The CRE portfolio has coped well to date with the fall in capital values and increase in rates, with no significant increase to loans coming into the Risk of Credit Loss Framework.
- Risk appetite – Lending appetite is subject to regular review.

Credit risk – Banking activities continued

Flow statements (audited)

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 may 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 effect. 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 into 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 flows from Stage 1 into Stage 3 including transfers due to unexpected default events.
- The effect of any change in post model adjustments during the year is typically reported under changes in risk parameters, as are any effects 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 2023	**63,592**	**88**	**7,870**	**177**	**1,045**	**372**	**72,507**	**637**
Currency translation and other adjustments	**(130)**	**1**	**(31)**	**1**	**33**	**31**	**(128)**	**33**
Inter-group transfers	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Transfers from Stage 1 to Stage 2	**(6,304)**	**(46)**	**6,304**	**46**	**-**	**-**	**-**	**-**
Transfers from Stage 2 to Stage 1	**7,103**	**125**	**(7,103)**	**(125)**	**-**	**-**	**-**	**-**
Transfers to Stage 3	**(40)**	**(1)**	**(485)**	**(46)**	**525**	**47**	**-**	**-**
Transfers from Stage 3	**49**	**6**	**127**	**12**	**(176)**	**(18)**	**-**	**-**
Net re-measurement of ECL on stage transfer		**(91)**		**126**		**34**		**69**
Changes in risk parameters		**(12)**		**(2)**		**45**		**31**
Other changes in net exposure	**(9,318)**	**23**	**(1,563)**	**(30)**	**(343)**	**(38)**	**(11,224)**	**(45)**
Other (P&L only items)		**-**		**1**		**(10)**		**(9)**
Income statement (releases)/charges		**(80)**		**95**		**31**		**46**
Amounts written-off	**-**	**-**	**-**	**-**	**(69)**	**(69)**	**(69)**	**(69)**
Unwinding of discount		**-**	**-**	**-**		**(29)**		**(29)**
At 31 December 2023	**54,952**	**93**	**5,119**	**159**	**1,015**	**375**	**61,086**	**627**
Net carrying amount	**54,859**		**4,960**		**640**		**60,459**	
At 1 January 2022	70,490	47	6,580	282	1,071	373	78,141	702
2022 movements	(6,898)	41	1,290	(105)	(26)	(1)	(5,634)	(65)
At 31 December 2022	63,592	88	7,870	177	1,045	372	72,507	637
Net carrying amount	63,504		7,693		673		71,870	

Credit risk – Banking activities continued

Flow statements (audited)

	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 2023	11,474	4	2,273	7	441	75	14,188	86
Currency translation and other adjustments	-	-	1	-	23	25	24	25
Transfers from Stage 1 to Stage 2	(1,465)	(1)	1,465	1	-	-	-	-
Transfers from Stage 2 to Stage 1	1,346	2	(1,346)	(2)	-	-	-	-
Transfers to Stage 3	(11)	-	(202)	(1)	213	1	-	-
Transfers from Stage 3	5	-	61	2	(66)	(2)	-	-
Net re-measurement of ECL on stage transfer		(1)		-		3		2
Changes in risk parameters		1		(1)		15		15
Other changes in net exposure	(1,285)	(1)	(367)	(1)	(132)	(13)	(1,784)	(15)
Other (P&L only items)		-		-		(4)		(4)
Income statement (releases)/charges		(1)		(2)		1		(2)
Amounts written-off	-	-	-	-	(11)	(11)	(11)	(11)
Unwinding of discount		-		-		(12)		(12)
At 31 December 2023	10,064	4	1,885	5	468	81	12,417	90
Net carrying amount	10,060		1,880		387		12,327	
At 1 January 2022	13,516	3	2,056	33	391	92	15,963	128
2022 movements	(2,042)	1	217	(26)	50	(17)	(1,775)	(42)
At 31 December 2022	11,474	4	2,273	7	441	75	14,188	86
Net carrying amount	11,470		2,266		366		14,102	

- There were net flows into Stage 2 from Stage 1 with an upward trend in early arrears coupled with the collective migration into Stage 2 of higher risk customers utilising new Mortgage Charter treatments. PDs remained broadly stable due to the impact of improved economics since 2022.
- The increase in the cost of living post model adjustment during 2023 proportionately allocated more ECL to Stage 1 given the forward-looking nature of the affordability threat. Refer to the Governance and post model adjustments section for more information.
- Stage 3 ECL levels remained broadly stable year-on-year, reflecting reasonably stable portfolio performance.
- The relatively small ECL cost for net re-measurement on stage transfer included the effect of risk targeted ECL adjustments, when previously in the good book. Refer to the Governance and post model adjustments section for further details.
- Write-off occurs once the repossessed property has been sold and there is a residual shortfall balance remaining outstanding. This would typically be within five years from default but can be longer.

Credit risk – Banking activities continued

Flow statements (audited)

Retail Banking - credit cards	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 2023	642	14	243	28	24	15	909	57
Currency translation and other adjustments	-	-	-	-	1	1	1	1
Transfers from Stage 1 to Stage 2	(354)	(8)	354	8	-	-	-	-
Transfers from Stage 2 to Stage 1	143	9	(143)	(9)	-	-	-	-
Transfers to Stage 3	(4)	-	(24)	(9)	28	9	-	-
Transfers from Stage 3	-	-	2	1	(2)	(1)	-	-
Net re-measurement of ECL on stage transfer		(5)		26		8		29
Changes in risk parameters		3		3		1		7
Other changes in net exposure	179	(1)	(42)	(11)	(8)	-	129	(12)
Other (P&L only items)		-		-		(1)		(1)
Income statement (releases)/charges		(3)		18		8		23
Amounts written-off	-	-	-	-	(15)	(15)	(15)	(15)
Unwinding of discount		-		-		(2)		(2)
At 31 December 2023	606	12	390	37	28	16	1,024	65
Net carrying amount	594		353		12		959	
At 1 January 2022	644	10	196	27	22	14	862	51
2022 movements	(2)	4	47	1	2	1	47	6
At 31 December 2022	642	14	243	28	24	15	909	57
Net carrying amount	628		215		9		852	

- The overall increase in ECL was mainly due to the increase in Stage 2 ECL.
- While portfolio performance remained stable, a net flow into Stage 2 from Stage 1 was observed as PDs increased with observed unemployment and PD modelling updates capturing more economic downside.
- Credit card balances continued to grow since the 2022 year end, in line with industry trends in the UK, reflecting strong customer demand, while sustaining robust risk appetite.
- Stage 3 inflows remained relatively stable during the year, although there was a modest upward trend in default levels, in line with growth and normalisation of risk parameters.
- Charge-off (analogous to partial write-off) typically occurs after 12 missed payments.

Credit risk – Banking activities continued

Flow statements (audited)

	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 2023	**971**	**20**	**362**	**43**	**141**	**115**	**1,474**	**178**
Currency translation and other adjustments	**-**	**-**	**-**	**-**	**5**	**3**	**5**	**3**
Transfers from Stage 1 to Stage 2	**(457)**	**(17)**	**457**	**17**	**-**	**-**	**-**	**-**
Transfers from Stage 2 to Stage 1	**367**	**47**	**(367)**	**(47)**	**-**	**-**	**-**	**-**
Transfers to Stage 3	**(12)**	**-**	**(52)**	**(20)**	**64**	**20**	**-**	**-**
Transfers from Stage 3	**1**	**-**	**4**	**2**	**(5)**	**(2)**	**-**	**-**
Net re-measurement of ECL on stage transfer		**(34)**		**51**		**12**		**29**
Changes in risk parameters		**(6)**		**2**		**13**		**9**
Other changes in net exposure	**122**	**14**	**(118)**	**(10)**	**(21)**	**(7)**	**(17)**	**(3)**
Other (P&L only items)		**(1)**		**1**		**(1)**		**(1)**
Income statement (releases)/charges		**(27)**		**44**		**17**		**34**
Amounts written-off	**-**	**-**	**-**	**-**	**(17)**	**(17)**	**(17)**	**(17)**
Unwinding of discount		**-**		**-**		**(5)**		**(5)**
At 31 December 2023	**992**	**24**	**286**	**38**	**167**	**132**	**1,445**	**194**
Net carrying amount	**968**		**248**		**35**		**1,251**	
At 1 January 2022	912	9	393	52	119	103	1,424	164
2022 movements	59	11	(31)	(9)	22	12	50	14
At 31 December 2022	971	20	362	43	141	115	1,474	178
Net carrying amount	951		319		26		1,296	

- Total ECL increased, mainly in Stage 3. While default levels were broadly stable, they were higher than in 2022. This increase was in line with growth and normalisation of risk parameters. Furthermore, write-off levels were lower during 2023, which sustained a higher Stage 3 ECL position at 31 December 2023.
- A slight rise in early arrears levels since 2022 and modest PD increases during the year resulted in a net migration from Stage 1 into Stage 2. However, good book ECL and coverage levels were largely consistent with 2022, with the improved economic outlook since 2022 mitigating further IFRS 9 PD increases and balance paydown within Stage 2.
- 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.

Credit risk – Banking activities continued

Flow statements (audited)

Commercial & Institutional total	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 2023	16,525	46	4,991	99	440	167	21,956	312
Currency translation and other adjustments	(79)	-	(32)	-	3	2	(108)	2
Inter-group transfers	-	-	-	-	-	-	-	-
Transfers from Stage 1 to Stage 2	(4,028)	(19)	4,028	19	-	-	-	-
Transfers from Stage 2 to Stage 1	5,247	67	(5,247)	(67)	-	-	-	-
Transfers to Stage 3	(13)	-	(207)	(16)	220	16	-	-
Transfers from Stage 3	42	5	62	8	(104)	(13)	-	-
Net re-measurement of ECL on stage transfer		(51)		49		11		9
Changes in risk parameters		(10)		(6)		16		-
Other changes in net exposure	(36)	11	(1,037)	(7)	(182)	(18)	(1,255)	(14)
Other (P&L only items)		1		(1)		(4)		(4)
Income statement (releases)/charges		(49)		35		5		(9)
Amounts written-off	-	-	-	-	(25)	(25)	(25)	(25)
Unwinding of discount		-		-		(10)		(10)
At 31 December 2023	17,658	49	2,558	79	352	146	20,568	274
Net carrying amount	17,609		2,479		206		20,294	
At 1 January 2022	19,156	20	3,922	171	516	162	23,594	353
2022 movements	(2,631)	26	1,069	(72)	(76)	5	(1,638)	(41)
At 31 December 2022	16,525	46	4,991	99	440	167	21,956	312
Net carrying amount	16,479		4,892		273		21,644	

- A reduction in exposures as repayments and exits exceeded new lending.
- Reductions in modelled ECL from improving economic variables and risk metrics were partially offset by increases in post model adjustments to capture continued economic uncertainty.
- Stage 3 ECL reduced as write-offs exceeded charges.
- Overall, there was a net impairment release, as the effects of inflation, high interest rates and supply chain disruption have, to date, not led to a significant increase in defaults.

Credit risk – Banking activities continued

Flow statements (audited)

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
Commercial & Institutional - corporate	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2023	8,638	27	3,901	72	253	93	12,792	192
Currency translation and other adjustments	(84)	-	(31)	1	3	7	(112)	8
Inter-group transfers	(4)	-	24	-	-	-	20	-
Transfers from Stage 1 to Stage 2	(2,951)	(14)	2,951	14	-	-	-	-
Transfers from Stage 2 to Stage 1	4,060	41	(4,060)	(41)	-	-	-	-
Transfers to Stage 3	(10)	-	(131)	(11)	141	11	-	-
Transfers from Stage 3	29	4	42	5	(71)	(9)	-	-
Net re-measurement of ECL on stage transfer		(31)		36		9		14
Changes in risk parameters		(4)		(5)		13		4
Other changes in net exposure	(151)	6	(948)	(13)	(106)	(14)	(1,205)	(21)
Other (P&L only items)		1		-		(4)		(3)
Income statement (releases)/charges		(28)		18		4		(6)
Amounts written-off	-	-	-	-	(12)	(12)	(12)	(12)
Unwinding of discount		-		-		(8)		(8)
At 31 December 2023	9,527	29	1,748	58	208	90	11,483	177
Net carrying amount	9,498		1,690		118		11,306	

- There was a reduction in exposures as repayments and exits exceeded new lending.
- There was a small reduction in modelled ECL due to improving economic variables and risk metrics.
- Stage 3 ECL also reduced as write-offs exceeded charges.
- Overall, there was a net impairment release, as the effects of inflation, high interest rates and supply chain disruption have, to date, not led to a significant increase in defaults.

Credit risk – Banking activities continued

Flow statements (audited)

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
Commercial & Institutional - property	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2023	7,167	18	1,024	25	177	72	8,368	115
Currency translation and other adjustments	(1)	-	1	1	1	(5)	1	(4)
Inter-group transfers	6	-	(24)	-	-	-	(18)	-
Transfers from Stage 1 to Stage 2	(1,053)	(5)	1,053	5	-	-	-	-
Transfers from Stage 2 to Stage 1	1,054	24	(1,054)	(24)	-	-	-	-
Transfers to Stage 3	(4)	-	(72)	(5)	76	5	-	-
Transfers from Stage 3	8	1	19	2	(27)	(3)	-	-
Net re-measurement of ECL on stage transfer		(19)		12		2		(5)
Changes in risk parameters		(6)		-		2		(4)
Other changes in net exposure	190	6	(149)	5	(73)	(4)	(32)	7
Other (P&L only items)		-		-		-		-
Income statement (releases)/charges		(19)		17		-		(2)
Amounts written-off	-	-	-	-	(14)	(14)	(14)	(14)
Unwinding of discount		-		-		(2)		(2)
At 31 December 2023	7,367	19	798	21	140	53	8,305	93
Net carrying amount	7,348		777		87		8,212	

- There was a reduction in exposures as repayments and exits exceeded new lending.
- ECL reduced due to write-offs and improving economic variables and risk metrics.

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
Commercial & Institutional - other	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2023	720	1	66	2	10	2	796	5
Currency translation and other adjustments	4	1	-	(1)	-	-	4	-
Inter-group transfers	(2)	-	-	-	-	-	(2)	-
Transfers from Stage 1 to Stage 2	(23)	-	23	-	-	-	-	-
Transfers from Stage 2 to Stage 1	133	1	(133)	(1)	-	-	-	-
Transfers to Stage 3	-	-	(3)	-	3	-	-	-
Transfers from Stage 3	6	-	-	-	(6)	-	-	-
Net re-measurement of ECL on stage transfer		(2)		-		1		(1)
Changes in risk parameters		-		-		-		-
Other changes in net exposure	(74)	-	59	-	(3)	-	(18)	-
Other (P&L only items)		-		-		-		-
Income statement (releases)/charges		(2)		-		1		(1)
Amounts written-off	-	-	-	-	-	-	-	-
Unwinding of discount		-		-		-		-
At 31 December 2023	764	1	12	-	4	3	780	4
Net carrying amount	763		12		1		776	

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	
2023	£m	ECL	£m	ECL	£m	ECL	£m	ECL
Personal								
Currently >30 DPD	**35**	**-**	**2**	**1**	**7**	**3**	**44**	**4**
Currently <=30 DPD	**1,826**	**5**	**377**	**37**	**271**	**34**	**2,474**	**76**
- PD deterioration	***1,358***	***4***	***274***	***31***	***146***	***20***	***1,778***	***55***
- PD persistence	***202***	***-***	***90***	***5***	***68***	***6***	***360***	***11***
- Other driver (adverse credit, forbearance etc)	***266***	***1***	***13***	***1***	***57***	***8***	***336***	***10***
Total Stage 2	**1,861**	**5**	**379**	**38**	**278**	**37**	**2,518**	**80**
2022								
Personal								
Currently >30 DPD	29	1	2	1	6	2	37	4
Currently <=30 DPD	2,211	6	228	27	317	41	2,756	74
- PD deterioration	*1,859*	*6*	*177*	*22*	*188*	*25*	*2,224*	*53*
- PD persistence	*99*	*-*	*37*	*3*	*32*	*3*	*168*	*6*
- Other driver (adverse credit, forbearance etc)	*253*	*-*	*14*	*2*	*97*	*13*	*364*	*15*
Total Stage 2	2,240	7	230	28	323	43	2,793	78

- The levels of PD driven deterioration decreased in 2023, mainly in the mortgage portfolio. The economic scenario updates during 2023 resulted in a reduction in lifetime PDs for the mortgage and personal loan portfolios. This drove a segment of lower risk cases out of PD SICR deterioration (and captured in PD persistence in the case of Q4 MES update).
- The PD modelling update during H1 2023 on the credit card portfolio resulted in more downside risk captured through modelled ECL and this, alongside modest increase in early arrears levels, led to more PD SICR deterioration being captured during 2023.
- Higher risk mortgage customers who utilised the new Mortgage Charter measures were collectively migrated into Stage 2, approximately £50 million of exposures, and captured in the other driver category.
- Accounts that are less than 30 days past due continue to represent the vast majority of the Stage 2 population and, 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	
2023	£m	ECL	£m	ECL	£m	ECL	£m	ECL	£m	ECL
Wholesale										
Currently >30 DPD	**12**	**-**	**55**	**2**	**1**	**-**	**-**	**-**	**68**	**2**
Currently <=30 DPD	**773**	**21**	**1,598**	**56**	**10**	**-**	**-**	**-**	**2,381**	**77**
- PD deterioration	***439***	***15***	***973***	***40***	***3***	***-***	***-***	***-***	***1,415***	***55***
- PD persistence	***39***	***1***	***150***	***3***	***3***	***-***	***-***	***-***	***192***	***4***
- Other driver (forbearance, RoCL etc)	***295***	***5***	***475***	***13***	***4***	***-***	***-***	***-***	***774***	***18***
Total Stage 2	**785**	**21**	**1,653**	**58**	**11**	**-**	**-**	**-**	**2,449**	**79**
2022										
Wholesale										
Currently >30 DPD	119	1	112	2	2	-	-	-	233	3
Currently <=30 DPD	901	24	4,090	70	77	2	-	-	5,068	96
- PD deterioration	*539*	*14*	*3,526*	*57*	*70*	*2*	*-*	*-*	*4,135*	*73*
- PD persistence	*16*	*-*	*51*	*1*	*1*	*-*	*-*	*-*	*68*	*1*
- Other driver (forbearance, RoCL etc)	*346*	*10*	*513*	*12*	*6*	*-*	*-*	*-*	*865*	*22*
Total Stage 2	1,020	25	4,202	72	79	2	-	-	5,301	99

- The improved economic outlook, including a more optimistic forecast for stock index and commercial real estate valuations, resulted in a reduction of IFRS 9 PDs. Consequently, compared to 2022, a large proportion of exposure no longer exhibited a SICR and migrated back into Stage 1 resulting in a reduction in Stage 2 exposure.
- PD deterioration remained the primary trigger for identifying a SICR and Stage 2 treatment.

Credit risk – Banking activities continued

Stage 2 decomposition by a significant increase in credit risk trigger

2023	UK mortgages £m	UK mortgages %	Credit cards £m	Credit cards %	Other £m	Other %	Total £m	Total %
Personal trigger (1)								
PD movement	**1,385**	**74.4**	**277**	**73.1**	**152**	**54.6**	**1,814**	**72.1**
PD persistence	**202**	**10.9**	**90**	**23.7**	**68**	**24.5**	**360**	**14.3**
Adverse credit bureau recorded with credit reference agency	**170**	**9.1**	**9**	**2.4**	**17**	**6.1**	**196**	**7.8**
Forbearance support provided	**21**	**1.1**	**-**	**-**	**2**	**0.7**	**23**	**0.9**
Customers in collections	**20**	**1.1**	**-**	**-**	**1**	**0.4**	**21**	**0.8**
Collective SICR and other reasons (2)	**60**	**3.2**	**3**	**0.8**	**38**	**13.7**	**101**	**4.0**
Days past due >30	**3**	**0.2**	**-**	**-**	**-**	**-**	**3**	**0.1**
	1,861	**100**	**379**	**100**	**278**	**100**	**2,518**	**100**

2022	UK mortgages £m	UK mortgages %	Credit cards £m	Credit cards %	Other £m	Other %	Total £m	Total %
Personal trigger (1)								
PD movement	1,881	84.0	180	78.3	195	60.4	2,256	80.8
PD persistence	99	4.4	37	16.1	32	9.9	168	6.0
Adverse credit bureau recorded with credit reference agency	204	9.1	12	5.2	17	5.3	233	8.3
Forbearance support provided	21	0.9	-	-	3	0.9	24	0.9
Customers in collections	20	0.9	-	-	-	-	20	0.7
Collective SICR and other reasons (2)	13	0.6	1	0.4	76	23.5	90	3.2
Days past due >30	2	0.1	-	-	-	-	2	0.1
	2,240	100	230	100	323	100	2,793	100

- PD-related SICR triggers continued to represent the vast majority of Stage 2.
- The levels of PD driven deterioration decreased in 2023, mainly in the mortgage portfolio. The economic scenario updates during 2023 resulted in a reduction in lifetime PDs for the mortgage and personal loan portfolios, which drove a segment of lower risk cases out of PD SICR deterioration.
- The Q4 2023 economic modelling updates that reduced PDs on mortgages and loans are captured in PD persistence category (for at least three months).
- The PD modelling update during H1 2023 on the credit card portfolio resulted in more downside risk captured through modelled ECL and this, alongside modest increase in early arrears levels, led to more PD SICR deterioration being captured during 2023.
- Higher risk mortgage customers who utilised the new Mortgage Charter measures are collectively migrated into Stage 2, approximately £50 million of exposures. This is captured in the collective SICR and other reasons category.

Credit risk – Banking activities continued

Stage 2 decomposition by a significant increase in credit risk trigger continued

	Property		Corporate		FI		Other		Total	
2023	£m	%	£m	%	£m	%	£m	%	£m	%
Wholesale trigger (1)										
PD movement	**444**	**56.6**	**999**	**60.4**	**3**	**27.3**	**-**	**-**	**1,446**	**59.1**
PD persistence	**40**	**5.0**	**151**	**9.1**	**3**	**27.3**	**-**	**-**	**194**	**7.9**
Risk of Credit Loss	**210**	**26.8**	**393**	**23.8**	**3**	**27.2**	**-**	**-**	**606**	**24.8**
Forbearance support provided	**26**	**3.3**	**41**	**2.5**	**-**	**-**	**-**	**-**	**67**	**2.7**
Customers in collections	**2**	**0.3**	**4**	**0.3**	**-**	**-**	**-**	**-**	**6**	**0.2**
Collective SICR and other reasons (2)	**11**	**1.4**	**35**	**2.1**	**1**	**9.1**	**-**	**-**	**47**	**1.9**
Days past due >30	**52**	**6.6**	**30**	**1.8**	**1**	**9.1**	**-**	**-**	**83**	**3.4**
	785	**100**	**1,653**	**100**	**11**	**100**	**-**	**-**	**2,449**	**100**
2022										
Wholesale trigger (1)										
PD movement	549	53.7	3,553	84.5	71	89.8	-	-	4,173	78.7
PD persistence	16	1.6	52	1.2	1	1.3	-	-	69	1.3
Risk of Credit Loss	266	26.1	197	4.7	3	3.8	-	-	466	8.8
Forbearance support provided	18	1.8	137	3.3	-	-	-	-	155	2.9
Customers in collections	4	0.4	11	0.3	-	-	-	-	15	0.3
Collective SICR and other reasons (2)	71	7.0	185	4.4	3	3.8	-	-	259	4.9
Days past due >30	96	9.4	67	1.6	1	1.3	-	-	164	3.1
	1,020	100	4,202	100	79	100	-	-	5,301	100

(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.

- PD deterioration continued to be the primary trigger of migration of exposures from Stage 1 into Stage 2. As the economic outlook improved, there was a reduction in cases triggering 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 increased over the year, as less exposures were captured under the PD deterioration Stage 2 trigger.

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 its capital, liquidity and funding risks. The framework ensures the tools and capability are in place to facilitate the management and mitigation of risk ensuring NWH Group operates within its regulatory requirements and risk appetite.

Definitions (audited)

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 risk is the inability to conduct business in base or stress conditions on a risk or leverage basis due to insufficient qualifying capital as well as the failure to assess, monitor, plan and manage capital adequacy requirements.

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 actual or potential financial obligations in a timely manner as they fall due in the short term.

Funding consists of on-balance sheet liabilities that are used to provide cash to finance assets. Funding risk is the risk that current or prospective financial obligations cannot be met as they fall due in the medium to long term, either at all or without increasing funding costs unacceptably.

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 (audited)

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 at the point of issuance.

Minimum requirement for own funds and eligible liabilities (MREL)

In addition to capital, other specific loss absorbing instruments, including senior notes and Tier 2 capital instruments with certain qualifying criteria 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 of NWH Group's three licensed deposit taking UK banks: The Royal Bank of Scotland plc, National Westminster Bank Plc and Coutts & Company.

NWH Group maintains a prudent approach to the definition of liquidity portfolio to ensure it is available when and where required, taking into account regulatory, legal and other constraints

Liquidity portfolio of the UK DoLSub is divided into primary and secondary liquidity as follows:

- Primary liquidity is LCR eligible assets and includes cash and balances at central banks, Treasury bills and high quality government securities.
- Secondary liquidity is assets 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

Funding risk within RBS plc is managed as part of the UK DoLSub allowing regulatory metrics, Net Stable Funding ratio (NSFR) and internally defined views to be met as a single consolidated group.

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.

For further details on capital constituents and the regulatory framework covering capital, liquidity and funding requirements refer to the NatWest Holdings Group and RBS plc Pillar 3 Reports 2023.

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 risk 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, liquidity and funding risk continued

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.

This is summarised below. Other elements of capital management, including risk appetite and stress testing, are set out on pages 10 to 11.

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 buybacks, redemptions, dividends and new issuance. – 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.

Capital, liquidity and funding risk continued

Key points

CET1 ratio

11.2%

(2022 – 11.6%)

The CET1 capital ratio decreased by 40 basis points over the period due to a £0.1 billion decrease in CET1 capital, partially offset by a £0.3 billion decrease in RWAs. The CET1 decrease was mainly driven by:

- interim dividend paid of £0.5 billion;
- foreseeable final dividend of £0.8 billion; and
- other movements in reserves and regulatory adjustments of £0.2 billion.

These reductions were partially offset by the £1.4 billion attributable profit in the period.

RWAs

£18.2bn

(2022 - £18.5bn)

Total RWAs decreased by £0.3 billion to £18.2 billion mainly reflecting:

- a decrease in credit risk RWAs of £0.2 billion, primarily due to repayments and expired facilities within Commercial & Institutional. This is partially offset by the IRB Temporary Model Adjustments of £0.2 billion mainly applied for secured lending (mortgages) within the Retail Banking portfolio.
- a reduction in operational risk RWAs of £0.1 billion following the annual recalculation.

UK leverage ratio

5.8%

(2022 – 6.4%)

The leverage ratio decreased by 60 basis points to 5.8%. The key driver of the decrease is a £0.6 billion decrease in Tier 1 capital, partially offset by a £5.2 billion decrease in leverage exposure. The key drivers in the leverage exposure were a decrease in loans to customers, capital regulatory adjustments and off balance sheet items.

Liquidity portfolio

£180.6bn

(2022 - £184.0bn)

The liquidity portfolio decreased by £3.4 billion to £180.6 billion, with primary liquidity decreasing by £14.2 billion to £105.9 billion. The decrease in primary liquidity is driven by increased lending and reduced deposits, offset by repayment of loans and advances provided to UBIDAC and increased certificates of deposit and commercial paper issuance. The growth in secondary liquidity is due to an increase in the pre-positioned collateral at the Bank of England.

LCR

138%

(2022 - 131%)

The UK DoLSub Liquidity Coverage Ratio (LCR) increased during the year to 138% driven by a decrease in net outflows and a lower than proportionate reduction in liquidity portfolio. The decrease in net outflows was due to a reduction in current and instant access accounts partially offset by an increase in fixed term accounts. The decrease in liquidity portfolio was driven by increased customer lending offset by increased wholesale funding and repayment of loans and advances provided to UBIDAC.

NSFR

126%

(2022 - 137%)

The UK DoLSub net stable funding ratio (NSFR) has decreased 11% during the year to 126% driven by reduced customer deposits and increased lending.

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)	**1.9%**	**1.9%**	**1.9%**
Total (2)	**8.9%**	**10.4%**	**12.4%**

(1) The Financial Policy Committee increased the UK CCyB rate from 1% to 2% effective from 5 July 2023. The Central Bank of Ireland increased CCyB on Irish exposures from 0% to 0.5% applicable 15 June 2023 and 1% from 24 November 2023. A further increase to 1.5% will be effective 7 June 2024.
(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

RBS plc is not in scope of the minimum leverage ratio requirements. RBS plc manages its leverage ratio in line with the minimum requirements outlined in the UK leverage framework.

Liquidity and funding ratios

The table below summarises the minimum requirements for key liquidity and funding metrics under the PRA 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)	**100%**

Measurement

Capital, RWAs and leverage

The table below sets out the key capital and leverage ratios on a PRA transitional basis.

	2023	2022
Capital adequacy ratios	%	%
CET1 (1)	**11.2**	11.6
Tier 1	**13.9**	16.8
Total	**16.4**	25.4
Capital	£m	£m
CET1 (1)	**2,042**	2,149
Tier 1	**2,542**	3,119
Total	**2,998**	4,715
RWAs		
Credit risk	**14,950**	15,136
Counterparty credit risk	**-**	-
Market risk	**14**	8
Operational risk	**3,264**	3,396
Total RWAs	**18,228**	18,540
Leverage		
Tier 1 capital (£m)	**2,542**	3,119
Leverage exposure (£m) (2)	**43,770**	48,957
Leverage ratio (%) (1)	**5.8**	6.4

(1) Includes an IFRS 9 transitional adjustment of £40 million (2022 - £71 million). Excluding this adjustment, the CET1 ratio would be 11.0% (2022 – 11.2%) and the UK leverage ratio would be 5.7% (2022 – 6.2%).
(2) Leverage exposure is broadly aligned to the accounting value of on and off-balance sheet exposures albeit subject to specific adjustments for derivatives, securities financing positions and off-balance sheet exposures.

Capital, liquidity and funding risk continued

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.

2023	UK DoLSub
Liquidity Coverage Ratio	138%
Stressed Outflow Coverage (1)	143%
Net Stable Funding Ratio	126%

2022	
Liquidity Coverage Ratio	131%
Stressed Outflow Coverage (1)	131%
Net Stable Funding Ratio	137%

(1) 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.

Leverage exposure

The leverage metrics for UK entities are calculated in accordance with the Leverage ratio (CRR) part of the PRA Rulebook.

Leverage	2023 £m	2022 £m
Cash and balances at central banks	23,984	34,323
Derivatives	623	498
Financial assets	64,361	60,460
Other assets	1,421	1,382
Total assets	90,389	96,663
Derivatives		
- netting and variation margin	257	194
- potential future exposures	881	808
Securities financing transactions gross up	-	-
Undrawn commitments	6,208	6,544
Regulatory deductions and other adjustments	(551)	1,109
Exclusion of core UK-group exposures	(31,385)	(23,797)
Claims on central banks	(21,399)	(31,656)
Exclusion of bounce back loans	(630)	(908)
Leverage exposure	43,770	48,957

Liquidity portfolio

The table below shows the composition of the liquidity portfolio with primary liquidity aligned to high-quality liquid assets on a regulatory LCR basis. Secondary liquidity comprises of assets which are eligible as collateral for local central bank liquidity facilities and do not form part of the LCR eligible high-quality liquid assets.

	2023	2022 (4)
	UK DoLSub £m	UK DoLSub £m
Cash and balances at central banks	67,954	104,606
High quality government/MDB/PSE and GSE bonds (1)	26,510	11,714
Extremely high quality covered bonds	4,164	1,812
LCR Level 1 eligible assets	98,628	118,132
LCR Level 2 eligible assets (2)	7,320	2,032
Primary liquidity (HQLA) (3)	105,948	120,164
Secondary liquidity	74,683	63,849
Total liquidity value	180,631	184,013

(1) Multilateral development bank abbreviated to MDB, public sector entities abbreviated to PSE and government sponsored entities abbreviated to GSE.
(2) Includes Level 2A and Level 2B.
(3) High-quality liquid assets abbreviated to HQLA.
(4) Comparative periods have been re-presented on an LCR basis in line with the Liquidity portfolio definition as of 31 December 2023.

Capital, liquidity and funding risk continued

Funding sources (audited)

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.

	2023			2022		
	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	**1,027**	**-**	**1,027**	986	-	986
Customer deposits						
Personal	**34,253**	**1,081**	**35,334**	36,320	200	36,520
Corporate	**31,896**	**4**	**31,900**	35,077	1	35,078
Non-bank financial institutions (NBFI)	**10,270**	**-**	**10,270**	11,708	-	11,708
	76,419	**1,085**	**77,504**	83,105	201	83,306
Amounts due to holding company and fellow subsidiaries (1)						
Bank and customer deposits	**1,488**	**-**	**1,488**	1,640	-	1,640
MREL	**411**	**982**	**1,393**	5	403	408
Subordinated liabilities	**394**	**-**	**394**	1,507	-	1,507
	2,293	**982**	**3,275**	3,152	403	3,555
Total funding	**79,739**	**2,067**	**81,806**	87,243	604	87,847
Of which: available in resolution (2)			***1,787***			*1,915*

(1) Amounts due to holding companies and fellow subsidiaries relating to non-financial instruments of £302 million (2022 - £355 million) have been excluded from the table.
(2) 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 December 2021 (updating June 2018).

Contractual maturity (audited)

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. Mandatory fair value through profit or loss (MFVTPL) assets and held-for-trading (HFT) liabilities have been excluded from the maturity analysis and are shown in total in the table below.

	Banking activities										
2023	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	MFVTPL and HFT £m	Total £m
Cash and balances at central banks	**23,984**	**-**	**-**	**-**	**23,984**	**-**	**-**	**-**	**23,984**	**-**	**23,984**
Derivatives	**-**	**(7)**	**31**	**26**	**50**	**232**	**199**	**95**	**576**	**47**	**623**
Loans to banks - amortised cost	**796**	**12**	**251**	**-**	**1,059**	**-**	**-**	**-**	**1,059**	**-**	**1,059**
Loans to customers - amortised cost (1)	**5,350**	**2,019**	**1,439**	**2,103**	**10,911**	**6,164**	**4,896**	**13,443**	**35,414**	**-**	**35,414**
Personal	**527**	**316**	**401**	**749**	**1,993**	**2,533**	**1,964**	**8,342**	**14,832**	**-**	**14,832**
Corporate	**4,303**	**1,700**	**1,035**	**1,348**	**8,386**	**3,573**	**2,900**	**5,088**	**19,947**	**-**	**19,947**
Non-bank financial institutions	**520**	**3**	**3**	**6**	**532**	**58**	**32**	**13**	**635**	**-**	**635**
Other assets (2)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**1**	**182**	**183**
Total financial assets	**30,130**	**2,024**	**1,721**	**2,129**	**36,004**	**6,396**	**5,095**	**13,539**	**61,034**	**229**	**61,263**
2022											
Total financial assets	40,762	2,394	1,819	2,398	47,373	7,289	4,881	14,614	74,157	85	74,242
2023											
Bank deposits	**949**	**78**	**-**	**-**	**1,027**	**-**	**-**	**-**	**1,027**	**-**	**1,027**
Customer deposits	**69,981**	**3,035**	**1,375**	**2,028**	**76,419**	**1,081**	**-**	**4**	**77,504**	**-**	**77,504**
Personal	**31,952**	**145**	**541**	**1,615**	**34,253**	**1,081**	**-**	**-**	**35,334**	**-**	**35,334**
Corporate	**28,041**	**2,698**	**772**	**385**	**31,896**	**-**	**-**	**4**	**31,900**	**-**	**31,900**
Non-bank financial institutions	**9,988**	**192**	**62**	**28**	**10,270**	**-**	**-**	**-**	**10,270**	**-**	**10,270**
Derivatives	**59**	**119**	**221**	**329**	**728**	**703**	**106**	**79**	**1,616**	**316**	**1,932**
Notes in circulation	**2,430**	**-**	**-**	**-**	**2,430**	**-**	**-**	**-**	**2,430**	**-**	**2,430**
Lease liabilities	**1**	**1**	**2**	**3**	**7**	**11**	**10**	**32**	**60**	**-**	**60**
Total financial liabilities	**73,420**	**3,233**	**1,598**	**2,360**	**80,611**	**1,795**	**116**	**115**	**82,637**	**316**	**82,953**
2022											
Total financial liabilities	84,364	1,510	642	763	87,279	1,484	379	190	89,332	159	89,491

(1) Loans to customers excludes £609 million (2022 - £615 million) of ECL provisions.
(2) Other assets relating to non-financial instruments of £1,238 million (2022 - £1,314 million) have been excluded from the table.

Non-traded market risk

Definition (audited)

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 (audited)

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 10 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 values for each year are calculated based on one-day values for each of the 12 month-end reporting dates.

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 market risk VaR metrics, refer to the non-traded market risk section of the NatWest Group Annual Report and Accounts.

	2023				2022			
	Average £m	Maximum £m	Minimum £m	Period-end £m	Average £m	Maximum £m	Minimum £m	Period-end £m
Interest rate	2.9	4.4	0.6	3.8	1.1	2.4	0.5	1.0
Credit spread	-	-	-	-	-	-	-	-
Structural foreign exchange rate	2.2	3.2	1.8	1.8	2.3	2.7	2.0	2.6
Equity	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Pipeline risk (1)	0.4	0.8	0.2	0.8	0.4	0.7	0.1	0.3
Diversification (2)	(2.3)			(3.6)	(1.1)			(1.3)
Total	3.3	4.1	2.5	2.9	2.8	3.8	2.1	2.7

(1) Pipeline risk is the risk of loss arising from personal customers owning an option to draw down a loan – typically a mortgage – at a committed rate, where interest rate changes may result in greater or fewer customers than anticipated taking up the committed offer.
(2) 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.

- There were no material movements in non-traded market risk VaR year-on-year.

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 current accounts and savings, in addition to its equity and reserves.

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 2023, RBS plc's structural hedge had a notional of £39 billion (2022 – £45 billion) with an average life of 2.5 to 3 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, which will incorporate expected changes in central bank policy rates such as the Bank of England base rate. A simple scenario is shown that projects forward earnings over a 12-month period based on the 31 December 2023 balance sheet. An earnings projection is derived from the market-implied rate curve, which is then subject to interest rate shocks. The difference between the market implied projection 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 basis points and 100 basis points to all interest rates.

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			
2023	+25 basis points £m	-25 basis points £m	+100 basis points £m	-100 basis points £m
12-month interest earnings sensitivity	**24**	**(26)**	**82**	**(109)**
2022				
12-month interest earnings sensitivity	26	(32)	106	(135)

(1) Earnings sensitivity considers only the main drivers, namely structural hedging and margin management.

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. 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.

2023	+25 basis points £m	-25 basis points £m	+100 basis points £m	-100 basis points £m
Cash flow hedge reserves	**(160)**	**162**	**(628)**	**657**
2022				
Cash flow hedge reserves	(177)	179	(696)	727

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.

Compliance and conduct risk

Definition

Compliance risk is the risk that RBS plc fails to observe the letter and spirit of all relevant laws, codes, rules, regulations and standards of good market practice.

Conduct risk is the risk of inappropriate behaviour towards customers, or in the markets in which RBS plc operates, which leads to poor or inappropriate customer outcomes.

The consequences of failing to meet compliance and/or conduct responsibilities can be significant and could result, for example, in legal action, regulatory enforcement, material financial loss and/or reputational damage.

Sources of risk

Compliance and conduct risks exist across all stages of RBS plc'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 inside information.

As set out in Note 20 to the financial statements, members of NatWest Group are party to legal proceedings and are subject to investigation and other regulatory action in the UK, the US and other jurisdictions.

Key developments in 2023

- Further progress was made on the compliance agenda during 2023. Significant enhancements were made to the compliance and conduct framework with the introduction of numerous new tools to manage the risk profile. These include a compliance and conduct risk directory, new risk standards and toolkits which support RBS plc to measure and manage compliance accurately and efficiently, and a regulatory compliance operational policy framework to ensure key regulatory requirements are captured. These new tools align with the existing enterprise-wide risk management framework.
- From a conduct risk perspective, the NatWest Group-wide programme made significant progress on implementation of the Consumer Duty requirements by the first regulatory milestone of 31 July 2023. The focus is now on closed book products and services, which is expected to conclude before the end of July 2024.
- The focus on consumer protection and supporting customers with their financial needs continues, given the ongoing cost-of-living challenges and their impact on customers in vulnerable situations. For example, NatWest was the first high street bank to offer customers additional support through the Mortgage Charter from July 2023. Vulnerable customer outcomes are also an integral part of our enhanced 'Good Customer Outcome' reporting which was introduced through the Consumer Duty programme.

Governance

RBS plc defines appropriate standards of compliance and conduct and ensures adherence to those standards through its risk management framework. To support ongoing oversight of the management of the compliance and conduct risk profile there are a number of committees in place. These include a NatWest Group Consumer Duty Executive Steering Group and conflicts of interest fora across both the first and second line of defence. Relevant compliance and conduct matters are escalated through the Executive Risk Committee and Board Risk Committee.

Risk appetite

The Risk appetite statement and associated measures for compliance and conduct risks are approved at least annually by the Board on the Board Risk Committee's recommendation to ensure they remain appropriate and aligned to strategy. 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 are operated to ensure the business delivers good customer outcomes and are conducted in accordance with legal and regulatory requirements. A suite of risk policies, risk standards and regulatory compliance operational policies addressing compliance and conduct risks set appropriate standards across RBS plc. Examples of these include those relating to product mis-selling, customers in vulnerable situations, complaints management, cross-border activities and market abuse. Continuous monitoring and targeted assurance are carried out as appropriate.

Monitoring and measurement

Compliance and conduct risks are measured and managed through continuous assessment and regular reporting to RBS plc'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 RBS plc's strategic planning cycle.

Mitigation

Activity to mitigate the most material compliance and conduct risks is carried out across RBS plc with specific areas of focus in the customer-facing businesses and legal entities. Examples of mitigation include the consideration of customer needs in business and product planning, targeted training, conflicts of interest management, market conduct surveillance, complaints management, mapping of priority regulatory requirements and independent monitoring activity. Internal policies help support a strong customer focus across RBS plc.

Financial crime risk

Definition

Financial crime risk is the risk that RBS plc's products, services, employees and/or third parties are intentionally or unintentionally used to facilitate financial crime in the form of money laundering, terrorist financing, bribery and corruption, sanctions and tax evasion, as well as external or internal fraud.

Sources of risk

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

Key developments in 2023

- Significant investment continued to be made to support delivery of the multi-year transformation plan across financial crime risk management.
- Enhancements were made to technology, data quality, and data analytics to improve the effectiveness of systems used to monitor customers and transactions.
- Financial crime roadshows and events were held throughout the year to further embed financial crime risk management culture and behaviours.
- A centralised hub model and One Bank approach to financial crime risk management was embedded, with hub capabilities further deployed across NatWest Group. This has led to better outcomes, including a consistent understanding of controls and oversight across NatWest Group.
- Active participation in public-private partnerships, including the Joint Money Laundering Intelligence Taskforce.

Governance

The Financial Crime Executive Steering Group, which is jointly chaired by the NatWest Group Chief Risk Officer and the Group Chief Information, is the core governance committee for financial crime risk (excluding fraud). It oversees financial crime risk management, operational performance, and transformation matters including decision-making and escalations to the Executive Risk Committee, Board Risk Committee and NatWest Group Executive Committee.

The Fraud Executive Steering Group, which is chaired by the Chief Information Officer, is the core governance committee for fraud. It oversees fraud risk management, operational performance, and investment matters including decision-making and escalations to relevant senior committees.

Risk appetite

There is no appetite to operate in an environment where systems and controls do not enable the effective 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

RBS plc operates a framework with 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 guidance to ensure they operate effectively.

Monitoring and measurement

Financial crime risks are identified and reported through continuous risk management and regular reporting to 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.

Mitigation

Through the financial crime framework, relevant policies, systems, processes and controls are used to mitigate and manage financial crime risk. This includes the use of dedicated screening and monitoring systems and 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 risk

Definition

Climate 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.

Sources of risk

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. RBS plc could be exposed to physical risks directly by the effects on its property portfolio and, indirectly, by the impacts on the wider economy as well as on the property and business interests of its customers.

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. RBS plc could be exposed to transition risks directly through the costs of adaptation within economic sectors and markets as well as supply chain disruption leading to financial impacts on it and its customers. Potential indirect effects include the erosion of RBS plc's competitiveness, profitability, reputational damage and liability risk.

Key developments in 2023

- NatWest Group continued to enhance its in-house climate risk modelling capabilities, supporting the integration of climate risk within its capital adequacy (ICAAP); impairment (IFRS 9); and risk management processes.
- An end-to-end test of NatWest Group's in-house first-generation corporate transition risk model was completed.
- In parallel with the full roll out of first-generation qualitative climate risk scorecards for the Commercial & Institutional segment, NatWest Group began development of the second-generation of climate risk scorecards. This involved the expansion of the scorecard methodology to capture quantitative considerations, with initial roll-out scheduled for 2024 on a test-and-learn basis. These scorecards do not drive credit risk decision making as yet.
- NatWest Group improved the oversight of climate-related risk through regular reporting and review of climate risk appetite and associated operational measures, and improved calibration of existing limits to inform monthly risk committee updates.

Climate risk continued

- An assessment of potential greenwashing risks was undertaken, driven by a hypothetical risk scenario where increased competition in the green finance market led to less efficient product designs and diminished robustness of governance.
- Recognising the inextricable link between climate risk and nature degradation, NatWest Group added nature risk to its climate risk considerations within the risk directory and policy, for consideration from 2024.

Governance

The NatWest Group Board is responsible for monitoring and overseeing climate-related risk within NatWest Group's overall business strategy and risk appetite. The potential impact, likelihood and preparedness of climate-related risk are reported regularly to the NatWest Group Board Risk Committee and the NatWest Group Board.

The NatWest Group Chief Risk Officer shares accountability with the NatWest Group Chief Executive Officer under the Senior Managers and Certification Regime for identifying and managing the financial risks arising from climate change. This includes ensuring that the financial risks from climate change are adequately reflected in risk management frameworks, and that NatWest Group can identify, measure, monitor, manage and report on its exposure to these risks.

The Climate Change Executive Steering Group is responsible for overseeing the direction of and progress against NatWest Group's climate-related commitments. During 2023, the Executive Steering Group provided oversight of the second iteration of NatWest Group's Climate transition plan, progression in establishing partnerships and opportunities including oversight of progress against the NatWest Group climate and sustainable funding and financing target and ensuring the effective management of climate-related risks. The Executive Steering Group will continue to supervise strategic implementation and delivery, supported by the Climate Centre of Excellence.

Risk appetite

NatWest Group's ambition is to be a leading bank in the UK, helping to address the climate challenge. This ambition is underpinned by activity to at least halve the climate impact of NatWest Group's financing activity by 2030 (against a 2019 baseline) and to achieve net zero by 2050.

Work continued in 2023 to mature NatWest Group's climate-related risk capabilities. Throughout 2023, the Board Risk Committee monitored Board approved quantitative climate risk appetite measures in line with the enterprise-wide risk management framework. These measures provided a heightened focus on balance sheet exposure to financed emissions.

Risk appetite statements and associated measures are reviewed at least annually by the relevant legal entity board on the relevant board risk committee's recommendation to ensure they remain appropriate and aligned to strategy.

The overall suite of metrics is used to inform climate risk reporting to senior risk management forums, linking risk management to NatWest Group's strategic priorities.

Mitigation

NatWest Group focused on continuing to develop the capabilities to use scenario analysis to identify the most material climate risks and opportunities for its customers, seeking to harness insights to inform risk management practices, maximise the opportunities arising from a transition to a low-carbon economy and support decision making.

Scenario analysis allows NatWest Group to test a range of possible future climate pathways and understand the nature and magnitude of the risks they present. The purpose of scenario analysis is not to forecast the future but to understand and prepare to manage risks that could arise.

NatWest Group recognises a number of potential key use cases for climate scenario analysis, including, but not restricted to, the following:

- Regulatory stress testing requirements.
- Heightened climate risk sector classifications.
- Sector/sub-sector risk appetite.
- Portfolio management.
- Strategic decision-making, capital adequacy and provisioning.

There are a number of challenges with climate scenario analysis, for example, in relation to the immaturity of modelling techniques and data on climate-related risks, as well as the significant uncertainty as to how the climate will evolve over time, how and when governments, regulators, businesses, investors and customers respond and how those responses impact the economy, asset valuations, economic systems, policy and wider society. These risks and uncertainties, coupled with significantly long timeframes make the outputs of climate-related risk modelling with respect to the potential use cases identified inherently more uncertain than outputs modelled for traditional financial planning cycles based on historical financial information. NatWest Group continued to develop its specialist climate data capabilities, including bringing in new datasets to increase the granularity for which climate risks are assessed, such as enhanced UK flood risk data and a more comprehensive set of EPC data for residential properties.

NatWest Group continues to participate in a number of industry forums to help shape the financial service industry's response to the challenges posed by climate risk, including scenario analysis. An example is the Climate Financial Risk Forum, established by the PRA and FCA.

NatWest Group also continues to engage actively with academia to ensure best practice and the latest thinking on climate risks is considered within NatWest Group's work. For example, around the appropriate assessment of physical risks, both short and longer term, are a particular focus for 2024.

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, processes, 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. Systems failure, theft of RBS plc property, information loss and the impact of natural, or man-made, disasters as well as the threat of cyber-attacks are sources of operational risk. Operational risk can also arise from a failure to account for changes in law or regulations or to take appropriate measures to protect assets.

Operational risk continued

Key developments in 2023

- A review of the NatWest Group Risk Directory was completed and benchmarked against industry standard, to ensure comprehensive coverage of all operational risks.
- The operational risk policy was reviewed and refreshed and supported by the development of a suite of new risk standards, operational guidance and risk toolkits to enable effective policy application.
- The enhanced risk and control self-assessment approach continued to be rolled out and embedded with a focus on material operational risks across key end-to-end processes.
- Given the risk associated with the processing of payments, a NatWest Group-wide programme on the movement of funds was mobilised, which focused on enhancing payment related controls.

Governance

The risk governance arrangements in place for operational risk are aligned to the requirements set out in the NatWest Board approved enterprise-wide risk management framework and are consistent with achieving safety, soundness and sustainable risk outcomes.

Aligned to this, 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 risk appetite is vital for stability and reputational integrity.

To support ongoing oversight of the management of the operational risk profile an Operational Risk Executive Steering Committee is in place. This forum ensures all material operational risks are monitored and managed within risk appetite. The NatWest Group Board Risk Committee and NatWest Group Board receives regular updates on the outputs of the Operational Risk Executive Steering Committee.

Risk appetite

Operational risk appetite supports effective management of all operational risks. It expresses the level and types of operational risk NatWest Group is willing to accept to achieve its strategic objectives and business plans. NatWest Group's operational risk appetite quantitative and qualitative statements encompass the full range of operational risks faced by its legal entities, businesses, and functions. The Risk appetite statement and associated measures are reviewed and approved at least annually by the relevant legal entity board on the relevant board risk committee's recommendation to ensure they remain appropriate and aligned to strategy.

Mitigation

Risks are mitigated by applying key preventative and detective controls. This is an integral step in the risk self-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. All residual risks that exceed the target appetite position are subject to action plans to bring them within appetite.

The Control Environment Certification (CEC) process is a half-yearly self-assessment by the CEOs of NatWest Group's customer-facing business areas, as well as the heads of its support functions. NatWest Group uses this process as an effective means to provide 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 NatWest 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, and certain requirements of the UK Corporate Governance Code.

Monitoring and measurement

Operational risk is measured and managed through continuous assessment and regular reporting to NatWest Group's senior risk committees and at Board-level. Risk and control self-assessments are used across business areas and support functions to identify and assess material non-financial risk (including operational risks, conduct risks) and key controls. All risks and controls are mapped to NatWest Group's Risk Directory. Risk assessments are refreshed at least annually and in response to internal and external events to ensure they remain relevant and that they capture any emerging risks.

The process is designed to confirm that risks are effectively managed in line with risk appetite. Key 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 and security

RBS plc manages and monitors operational resilience through its enhanced risk and control self-assessment methodology. This is underpinned by setting and monitoring of forward-looking risk indicators and performance metrics for the operational resilience of important business services. Progress continues on meeting regulatory expectations for operational resilience, with involvement in a number of industry-wide operational resilience forums. This enables a cross-sector view of the operational resilience risk profile and the pace of ongoing innovation and change, both internally and externally.

NatWest Group operates layered security controls and its network architecture is designed to provide inherent protection against threats. This approach avoids reliance on any one type or method of security control. Minimum security control requirements are set out in Key Risk Policies[1], standards, processes and procedures. Through 2024, NatWest Group will monitor and manage the threat landscape focusing on:

(1) Risk policies are in place for each principal risk and define, at a high level, the cascade of qualitative expectations, guidance and standards that stipulate the nature and extent of permissible risk taking. They are consistently applied across NatWest Group and subsidiary legal entities and form part of the qualitative expression of risk appetite for each principal risk.

Operational risk continued

- Attack surface vulnerabilities – such as the rising number of zero-days and code vulnerabilities impacting organisations.
- Initial access brokers and nation states – increasingly sophisticated attacks from ransomware gangs and ongoing challenges following Russia's invasion of Ukraine which has raised international tensions increasing the likelihood of disruptive cyber-attacks.
- Developments in innovation and technology, assessing the inherent risk and developing appropriate response to mitigate associated risks, for example large language models, artificial intelligence and cloud adoption.

As cyberattacks evolve and become more sophisticated, NatWest Group continues to invest in additional capability designed to defend against emerging threats.

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 an early event escalation process. RBS plc has not experienced a cyber security breach or associated material loss in the last three years.

All financial impacts and recoveries associated with an operational risk event are reported against the date they were recorded in NatWest Group'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 2023 may relate to events that occurred, or were identified in, prior years. NatWest Group purchases insurance, against specific losses, including cyber-attacks, and to comply with statutory or contractual requirements.

Model risk

Definition

Model risk is the potential for adverse consequences from model errors or the inappropriate use of modelled outputs to inform business decisions. A model is defined 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 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), calculating regulatory capital and liquidity requirements and automation of operational processes.

Model applications may give rise to different risks depending on the business segment in which they are used. Model risk is therefore assessed separately for each business segment in addition to the overall assessment made for NWH Group.

Key developments in 2023

- Following extensive model remediation work, NWH Group returned to model risk appetite in January 2023. Ongoing remediation work continues to be a key focus to further strengthen the model risk appetite position and is closely monitored.
- RBS plc's model risk management practices continued to evolve, supported by a dedicated model risk management enhancement programme, set up in response to the PRA's Supervisory Statement 1/23. An updated Group model risk policy was approved by the NatWest Group Board Risk Committee.
- Implementation of model risk procedures, aligned to the delivery and embedding of the enterprise-wide risk management framework, continued. This was supported by significant model inventory design enhancements and a bank-wide model risk data remediation exercise. This activity improved the quality and completeness of model risk data held within the model inventory system and enabled enhanced insights and reporting capabilities.

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 validation leads. Model risk owners are responsible for model approval and ongoing performance monitoring. Model validation leads, 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.

Business and function model management committees are used to escalate model risk matters to senior management where required.

The NatWest Group Model Risk Oversight Committee further enhances model risk governance by providing a platform for executive level discussion on emerging model risks, identification of systemic risks and the evolution of model risk management practices. RBS plc is considered in scope of the NatWest Group Model Risk Oversight 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. The model risk appetite statement and associated measures are approved by the relevant legal entity board on the relevant board risk committee's recommendation at least annually to ensure they remain appropriate and aligned to strategy. Business areas are responsible for monitoring performance against appetite and remediating models outside appetite.

Monitoring and measurement

Model risk is measured and managed through continuous assessment and regular reporting to NatWest Group's senior risk committees and at Board level.

Policies, toolkits and model standards related to the development, validation, approval, implementation, use and ongoing monitoring of models are in place to ensure adequate control across the lifecycle of an individual model.

Model risk continued

Validation of material models is conducted by an independent risk function comprising of skilled, well-informed subject matter experts. This is completed for new models or material 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.

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.

Ongoing performance monitoring is conducted by model owners and overseen by the model validators 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.

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

The three primary drivers of reputational risk are: failure in internal risk management systems, processes or culture; RBS plc's actions materially conflicting with stakeholder expectations; and contagion (when RBS plc's reputation is damaged by failures in key sectors including the Group's supply chain or other partnerships).

Key developments in 2023

- Reputational risks were elevated in relation to the departure of Alison Rose as NatWest Group Chief Executive Officer and issues that had arisen in connection with account closure decisions that attracted significant public and media attention. Relevant updates to the Reputational Risk Framework are being implemented following an independent legal review of customer account closures and internal reviews.
- Reputational risk registers are in place across all relevant business areas.
- New environmental, social and ethical (ESE) risk acceptance criteria were created to support the management of human rights risk and will be implemented in 2024.
- All climate focused ESE risk acceptance criteria (mining and metals, power generation and oil and gas) underwent a review to ensure they reflect the current risk landscape.

Governance

A reputational risk policy supports reputational risk management across RBS plc. Reputational risk registers are used to manage reputational risks identified within relevant business areas. These are reported to the relevant business risk committee.

Material reputational risks to RBS plc are escalated via the NatWest Group reputational risk register which is reported at every meeting of the NatWest Group Reputational Risk Committee. The NatWest Group Reputational Risk Committee also opines on matters that represent material reputational risks. The NatWest Group Executive and Board Risk Committees oversee the identification and reporting of reputational risk via the NatWest Group Risk Report.

Risk appetite

RBS plc manages and articulates its appetite for reputational risk through a qualitative reputational risk appetite statement and associated quantitative measures which are set at NatWest Group level.

RBS plc seeks to identify, measure and manage risk aligned to stakeholder trust. However, reputational risk is inherent in RBS plc's operating environment and public trust is a specific factor in setting reputational risk appetite.

Monitoring and measurement

Relevant internal and external factors are monitored through regular reporting via reputational risk registers at business or legal entity level. They are escalated, where appropriate, to the relevant executive committee and where material, to the NatWest Group Reputational Risk Committee.

Additional principal risk indicators for material risks being monitored are also reported to Group Reputational Risk Committee and to the Executive and Board Risk Committees via the NatWest Group Risk Report.

Mitigation

Standards of conduct are in place across 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.

External events that could cause reputational damage are identified and mitigated through NatWest Group's top and emerging threats process (where sufficiently material) as well as through the NatWest Group and business level reputational risk registers.

Report of the directors

The directors present their report together with the audited accounts for the year ended 31 December 2023.

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

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 29 to the accounts.

The financial statements of NatWest Group plc can be obtained from Legal, Governance and Regulatory Affairs, Gogarburn, Edinburgh, EH12 1HQ, the Registrar of Companies or at 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 2023 amounted to £1,352 million compared with a profit of £1,122 million for the year ended 31 December 2022, as set out in the income statement on page 89.

No ordinary shares were issued in 2023 or 2022.

In 2023 RBS plc paid an ordinary dividend of £1.1 billion to NWH Ltd (2022 - £0.85 billion).

Employees

At 31 December 2023, RBS plc employed 1,000 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 to the accounts.

References to 'colleagues' in this report mean all permanent employees and, in some instances, members of the wider workforce e.g. temporary employees and agency workers.

Corporate governance statement

For the financial year ended 31 December 2023 RBS plc has again chosen to report against the Wates Corporate Governance Principles for Large Private Companies (the Wates Principles), published by the Financial Reporting Council (FRC) in December 2018 and available on the FRC website. The disclosures below explain how RBS plc has applied the Wates Principles in the context of its corporate governance arrangements.

1. Purpose and leadership

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 strategy can be found in the NatWest Group plc 2023 Annual Report and Accounts.

In December 2021 the Board approved NatWest Group's refreshed values (Inclusive, Curious, Robust, Sustainable and Ambitious), ahead of their launch in February 2022. During 2023 the Board received regular updates on how our values are embedding within the organisation through Our View colleague opinion survey results and culture measurement reports.

Colleague sentiment towards the values was also observed via the Colleague Advisory Panel meetings, which are chaired by Roisin Donnelly who reports on each meeting to the Board.

Further information on NatWest Group's values can be found in the NatWest Group plc 2023 Annual Report and Accounts on page 37.

The Board assesses and monitors culture in several ways, as described below.

- Colleague Advisory Panel reports which provided feedback on discussions from meetings held in May and November. Topics included executive remuneration and the wider workforce, environmental, social and governance topics, Consumer Duty and human rights.
- Our View colleague survey results which provided insights from the colleague opinion surveys conducted in April and September. Colleagues responded to questions across the whole colleague experience including wellbeing, building capability and leadership. The key areas identified for focus related to leadership and ensuring consistency across NatWest Group.
- Culture measurement reports which used an integrated suite of qualitative, quantitative, internal and external data sources to support NatWest Group in assessing the effectiveness and impact of its culture journey.
- One Bank Culture updates. In October, the NatWest Group Sustainable Banking Committee (SBC) considered an update on progress of the One Bank Culture Plan, noting our One Bank Culture journey to date and plans to grow leadership capability, scale and build confidence in experimentation and sharpen our focus through the transformation of performance management.
- SBC considered how business ethics is monitored and reported through the NatWest Group Culture Measurement Framework.
- Board business insights packs which included metrics to demonstrate how NatWest Group is delivering for colleagues (including building capability, diversity and inclusion and learning).

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 13 directors comprising the Chairman, two executive directors and 10 independent non-executive directors, one of whom is the Senior Independent Director.

The names of the current directors and secretary are shown on page 3. Their biographies are available at natwestgroup.com (NatWest Holdings Limited section).

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

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.

Balance and diversity

The Board operates a boardroom inclusion policy which reflects NatWest Group's values, its inclusion principles and relevant legal or voluntary code requirements. The boardroom inclusion policy aims to promote diversity and inclusion in the composition of the Boards of directors of NatWest Group plc, NWH Ltd, NWB Plc and RBS plc and in the nominations and appointments process. A copy of the policy is available at natwestgroup.com.

The boardroom inclusion policy's objectives ensure that the Board, and any committee to which it delegates nomination responsibilities, follows an inclusive process when making nomination decisions. That includes ensuring that the nomination process is based on the principles of fairness, respect and inclusion, that all nominations and appointments are made on the basis of individual competence, skills and expertise measured against identified objective criteria and that searches for Board candidates are conducted with due regard to the benefits of diversity and inclusion.

The policy includes targets which aspire to meet those set out in the UK Listing Rules along with the recommendations of the FTSE Women Leaders Review and the Parker Review.

As at 31 December 2023:

- RBS plc exceeded the FTSE Women Leaders Review voluntary target of 40% women's representation on boards by the end of 2025, with 42% of the Board being women;
- with a woman as CFO, RBS plc met the FTSE Women Leaders Review recommendation that companies should have at least one woman in the Chair or Senior Independent Director roles on the board and/or one woman in the Chief Executive Officer or Finance Director role by the end of 2025; and
- the company met the recommendation of the Parker Review with at least one member of the Board being from an ethnic minority background and it intends to continue to meet that recommendation.

Changes since 1 January 2024: Rick Haythornthwaite joined the Board as an independent non-executive director on 8 January 2024. This appointment to the Board means women's representation will be 38% between 8 January and 15 April 2024. Rick will succeed Howard Davies as Chair on 15 April 2024 (at which point Howard Davies will step down as a director). After Howard steps down, women's representation on the Board will revert to 42%, assuming no other changes to Board composition. In addition, Geeta Gopalan will join the NatWest Group and NWH Sub Group Boards on 1 July 2024 as an independent non-executive director.

The boardroom inclusion policy also acknowledges NatWest Group's ambition to have gender balance in the global top three levels (CEO-3 and above) by 2030, and progress against this ambition is set out on pages 38 to 39 of the NatWest Group plc 2023 Annual Report and Accounts (Strategic report).

Size and structure

NWH Ltd is the holding company for NatWest Group's ring-fenced operations, which include the Retail and Private Banking businesses and certain aspects of the Commercial & Institutional businesses. A common board structure is operated such that directors of NWH Ltd are also directors of RBS plc and NWB Plc. Known collectively as the NWH Sub Group, the boards of these three 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. They are Francesca Barnes, Ian Cormack and Mark Rennison. On 31 August 2023, Graham Beale stood down as NWH Senior Independent Director and a DINED. On 1 September 2023 Ian Cormack assumed the SID role and Mark Rennison joined the NWH Sub Group boards as a DINED.

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. They attend NatWest Group plc Board and relevant Board committee meetings as observers. 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.

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, knowledge and diversity, as well as independence. Given the nature of NWH Group's businesses, experience of banking and financial services is clearly of benefit, and the Board has a number of directors with substantial experience in those areas.

In December 2023 the Nominations Committee, in conjunction with the NatWest Group Nominations & Governance Committee, reviewed, and the Boards approved, an updated version of the NatWest Group plc and NWH Sub Group Board skills matrix. A summary view of the NatWest Group plc Board skills matrix is available on page 91 of the NatWest Group plc 2023 Annual Report and Accounts.

The Board skills matrix reflects directors' self-assessment of the skills and experience they bring to Board discussions, in line with pre-determined criteria aligned to current and future strategic priorities.

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

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

Along with the Chairman and executive directors, the non-executive directors are responsible for ensuring the Board fulfils its responsibilities under its terms of reference.

The independent non-executive directors combine broad business and commercial experience with independent and objective judgement. They provide constructive challenge, strategic guidance, and specialist advice to the executive directors and the executive management team and hold management to account. The balance between non-executive and executive directors enables the Board to provide clear and effective leadership across NWH Group's business activities and ensures no one individual or small group of individuals dominates the Board's decision-making.

The Board monitors the commitments 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.

Each new director receives a formal induction programme 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.

Mark Rennison joined the Board on 1 September 2023 and the Chief Governance Officer and Company Secretary worked closely with Mr Rennison to devise a comprehensive induction programme which was tailored to his needs and flexible to respond to areas of focus which emerged as the programme progressed. Priorities included early engagement with key stakeholders, and developing an understanding of NatWest Group's structure and business operations, and its strategic priorities.

Stuart Lewis joined the Board on 1 April 2023 and Rick Haythornthwaite joined the Board on 8 January 2024. Further information on their inductions can be found in the NatWest Group plc accounts.

All new directors receive a copy of the non-executive 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 and Certification Regime. The handbook forms part of a wider library of reference materials available via an online 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.

Evaluation

A review of the effectiveness of the Board, including the Chairman, individual directors and Board committees, is usually conducted annually.

Progress following the 2022 evaluation

An internal evaluation was conducted in 2022 by the Chief Governance Officer and Company Secretary A number of actions were progressed during 2023 in response to the findings of the 2022 external evaluation.

In December 2023 the directors reviewed the progress achieved against the actions agreed following the 2022 evaluation of the effectiveness of the Board and its committees. It was agreed that all actions had been successfully completed, with improvements including a refreshed format for the strategy session, enhanced focus of Board meetings and increased opportunities for engagement with the executive talent pipeline.

Deferral of 2023 evaluation

In September 2023, the Group Nominations & Governance Committee and the NWH Ltd Nominations Committee agreed that it would be appropriate to defer the internal evaluation of the NatWest Group and NWH Sub Group Boards and committees effectiveness due in Q4 2023 until 2024, given the July 2023 change in Group CEO and upcoming Chair succession. The Board confirmed its support for this approach. Accordingly, the next Board and committee evaluation will be conducted in 2024 by an external facilitator, in accordance with the Code requirement for an externally facilitated process every three years.

Year end reviews of the Chairman's and non-executive directors' performances were undertaken in Q4 2023, in line with our normal evaluation timetable.

Directors' training and development is co-ordinated by the Chief Governance Officer and Company Secretary. Directors have access to a wide range of briefing and training sessions and other professional development opportunities.

Internal training relevant to the business of NatWest Group is also provided and during 2023 the Board undertook a comprehensive programme of training sessions on a variety of topics. Some of these were determined at the start of the year and others arranged in response to events or Board discussions. Training was delivered by both members of management and external parties.

Topics covered included financial crime; recovery and resolution planning; digital assets; nature and biodiversity (delivered by Worldwide Fund for Nature); legal privilege; Consumer Duty (delivered by Oxera); capital management and deposits. The training sessions enabled the directors to deepen their understanding on these topics and informed their decision making.

A number of directors also accepted an invitation to the full Board to join meetings of the Group Sustainable Banking Committee which covered areas of broader interest, including Artificial Intelligence.

The Board also held a training session to consider top and emerging threats. Discussions covered the current and potential geo-political landscape, macro-economic and regulatory trends and the impact of emerging technologies on the risk environment.

Directors undertake the training they consider necessary to assist them in carrying out their duties and responsibilities.

The non-executive directors discuss their training and professional development with the Chairman at least annually.

3. Director responsibilities

Accountability

All directors receive guidance on their statutory duties under the Companies Act 2006 and are supported in the discharge of their duties by the Chief Governance Officer and Company Secretary.

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.

Each director is required to notify the Board of any actual or potential situational or transactional conflict of interest and to update the Board with any changes to the facts and circumstances surrounding such conflicts.

Situational conflicts can be authorised by the Board in accordance with the Companies Act 2006 and the company's Articles of Association.

The Board considers each request for authorisation on a case by case basis and has the power to impose conditions or limitations on any authorisation granted as part of the process.

Details of all directors' conflicts of interest are recorded in a register which is maintained by the Chief Governance Officer and Company Secretary and reviewed annually by the Board.

The Board

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 and NWH Group, with particular focus on customers and employees. It sets and oversees the strategic direction of the NWH Group. It reviews and approves the RBS plc risk management framework (including NatWest Group's risk appetite framework as a component thereof ('Risk Appetite Framework')) and risk appetite for key risks in accordance with the Risk Appetite Framework; and it monitors performance against risk appetite for RBS plc. It considers any material risks and approves, as appropriate, recommended actions escalated by the NatWest Holdings Board Risk Committee. 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. An internal review confirmed the Board had fulfilled its remit as set out in its terms of reference during 2023.

There were eight scheduled Board meetings during 2023. As well as scheduled meetings, additional ad hoc meetings of the Board and some of its committees were held throughout the year to receive updates and deal with time-critical matters. There was also one strategy session with executive management in 2023.

When directors are unable to attend meetings convened at short notice, they receive the papers and have the opportunity to provide their feedback in advance.

At each scheduled Board meeting the directors receive reports from the Chairman, Board committee Chairs, CEO, CFO, Chief Risk Officer and other members of the executive management team, as appropriate. Business reviews from the CEOs of the Retail Banking, Private Banking and Commercial & Institutional businesses included updates on progress against strategy and spotlights on current topics including the cost of living, personalisation of services, business strategies and deposit plans.

In addition to the business CEOs, a number of 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 supported succession planning.

The Board also welcomed external presenters and advisers to Board meetings, who provided useful insights and perspectives. The Board and Group Executive Committee (ExCo) operating rhythm continues to support a proactive and transparent agenda planning and paper preparation process. This process includes the following elements:

- A pre-Board meeting with the Chairman, CEO, CFO and Chief Governance Officer and Company Secretary to ensure the Board and executive management are aligned on Board agendas.
- A post-Board meeting with the Chairman, CEO and Chief Governance Officer and Company Secretary to discuss what went well or could be improved after each meeting.
- A look ahead paper at each ExCo and Board meeting setting out key items that will be discussed at the next meeting.

Board Committees

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

The Audit Committee comprises at least three independent non-executive directors, one of whom is the Board Risk Committee Chair and 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, non-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, and the approval and effectiveness 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, two of whom are DINEDs. It assists the NatWest Group plc 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.

Executive Committee

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

Integrity of information

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

4. Opportunity and risk

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

The Board held one strategy session with the executive management team in 2023. 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 the effectiveness of the risk management and internal control systems – including the nature and extent of the risks taken in pursuit of strategic objectives. The Board also reviews and approves risk appetite for RBS plc's principal 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 the principal risks it takes in carrying out business activities as well as the risks and uncertainties arising from the external economic, political and regulatory environments.

RBS plc operates within NatWest Group's integrated enterprise-wide risk management framework. This is centred around the embedding of a strong risk culture and is designed to ensure the tools and capability are in place to facilitate sound risk management and decision-making. As part of the enterprise-wide framework RBS plc complies with NatWest Group's risk appetite framework, which is approved annually by the NatWest Group plc Board. NatWest Group's risk appetite is set in line with overall strategy. RBS plc also complies with the NatWest Group policy framework. The purpose of the policy framework is to ensure that NatWest Group establishes and maintains policies that adequately address the risks inherent in its business activities.

Further information on NatWest Group's integrated enterprise-wide risk management framework including risk culture, risk appetite, risk identification, risk measurement and risk mitigation, as well as RBS plc risk governance, can be found in the risk and capital management section of this report (pages 6 to 68).

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.

The 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 on how their contribution links to NatWest Group's purpose and colleagues are set goals across a balanced scorecard of measures. NatWest Group continues to pay colleagues fairly for the work they do, supported by simple and transparent pay structures in line with industry best practices. NatWest Group keeps policies and processes under review to ensure it does so.

This clarity and certainty on how pay is delivered helps to improve colleagues' financial wellbeing, which is a core priority in NatWest Group's wellbeing plans. Following on from the extensive support provided in 2022 to help our colleagues with the cost of living, NatWest Group continued targeted action in 2023 to help those colleagues most likely to be affected by the sudden spike in inflation. As a responsible employer we believe it is important that what we pay our employees meets the true cost of living, and we are proud to be accredited as a Living Wage Employer in the UK since 2014. Our rates of pay continue to exceed the real living wage (RLW) rates as set by the Living Wage Foundation. In 2023, we extended this commitment to our global operations by achieving accreditation as a Regional Living Wage Employer by the Fair Wage Network, recognising that our rates of pay for our colleagues outside the UK are at or above the living wage threshold as defined by the Fair Wage Network.

NatWest Group helps colleagues to have an 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 2023 Annual Report and Accounts. Gender and Ethnicity Pay Gap information can be found in the Strategic report section of the NatWest Group plc 2023 Annual Report and Accounts and at natwestgroup.com, along with the steps being taken to build an inclusive and engaged workforce.

6. Stakeholder relationships and engagement

In February 2023 the Board approved its annual objectives and confirmed the Board's key stakeholder groups –investors, customers, colleagues, regulators, communities and suppliers. 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 information on stakeholder engagement activities undertaken within NatWest Group which impacted NWH Group, refer to page 24 to 29 and pages 101 to 102 of the NatWest Group plc 2023 Annual Report and Accounts, and below under Additional colleague-related disclosures (workforce engagement including the Colleague Advisory Panel).

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, refer to page 2 of the Strategic report which includes a section 172(1) statement and signposts to further information contained in the NatWest Group plc 2023 Annual Report and Accounts.

Additional colleague-related disclosures

Informing and consulting colleagues

NatWest Group listens to our colleagues and uses this insight to attract, engage and retain the best talent for the future. Our colleague listening strategy contributes to our deeper understanding of colleague sentiment and includes: our colleague opinion surveys including pulse surveys; a Colleague Advisory Panel (CAP) that connects colleagues directly with our Board; the Colleague Experience Squad, a group of colleagues who volunteer to provide feedback on colleague products and services; and Engage, our social media platform. We also track metrics and key performance indicators which we can benchmark with sector and high-performing comparisons.

Over 51,000 colleagues (84%) across all countries and levels participated in our September 2023 Our View survey. At 84%, this is our highest ever participation rate. Despite tough economic conditions and the events of the summer, our results remain strong showing an average +1 percentage point improvement across the survey compared to September 2022. While purposeful leadership fell marginally, our culture and purpose measures have improved, exceeding NatWest Group targets. Across all comparable categories, NatWest Group sits an average of eight percentage points above the Global Financial Services norm (GFSN) and three percentage points above the Global High Performing Norm (GHPN).

Regular interactions with employee representatives such as trade unions, elected employee bodies and works councils are a vital means of transparency and engagement for NatWest Group. These sessions are frequently used to discuss developments and updates on the progress of strategic priorities. NatWest Group is also committed to respecting employees' rights of freedom of association across all of its business.

In addition, through the CAP established in 2018, colleagues can engage directly with senior management and the Board on topics which are important to them, thereby strengthening the voice of colleagues in the Boardroom. The CAP is made up of 28 colleagues who are self-nominated and are representative of the bank's population e.g., business area, level, location, working pattern and employee-led networks. In April 2023 Roisin Donnelly succeeded Mike Rogers as CAP Chair when Mike Rogers stepped down as a director. New members received training on the role of the CAP and their responsibilities as members.

The CAP met with representatives from the Board twice in 2023, in May and November. Panel members and directors shared views on executive remuneration and the wider workforce, environmental social and governance topics, Consumer Duty and human rights. The Board discusses colleague feedback received from the CAP and the CAP Chair provides feedback on this discussion to the Panel to ensure a continuous feedback loop.

The CAP continues to be highly regarded by those who attend and has proven to be an effective way of establishing two-way dialogue between colleagues and Board members.

Disability Smart

NatWest Group makes workplace adjustments to support colleagues with a disability, health or mental health condition and/or a neurodivergence to succeed. If a colleague develops a disability, health or mental health condition and/or a neurodivergence NatWest Group will, wherever possible, make adjustments to support them in their existing job or re-deploy them to a more suitable alternative job.

The NatWest Group Careers site gives comprehensive insights into NatWest Group jobs, culture, locations and application processes. It also hosts a variety of blog content to portray stories of what it is like to work at NatWest Group. The company also makes sure that candidates can easily request reasonable adjustments to support at any stage of the recruitment process.

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 2023 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 2023 are shown in the Corporate governance, Annual report on remuneration section of the NatWest Group 2023 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 2023 to 15 February 2024.

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 Financial review. RBS plc's regulatory capital resources and significant developments in 2023 , and anticipated future developments are detailed in the Capital, liquidity and funding section on pages 54 to 59. This section also describes RBS plc's funding and liquidity profile, including changes in key metrics and the build up of liquidity reserves.

The directors have prepared the financial statements on a going concern basis after assessing the principal risks, forecasts, projections and other relevant evidence over the twelve months from the date the financial statements are approved.

Political donations

During 2023, 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
Chief Governance Officer and Company Secretary
15 February 2024

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 77 to 86.

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 financial statements, for each financial year in accordance with UK adopted International Accounting Standards. They are responsible for preparing financial statements that present fairly the financial position, financial performance and cash flows of the Bank. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business.

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.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic report and Directors' report, that comply with that law and those regulations. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website.

The directors confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with UK adopted International Accounting 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

John-Paul Thwaite
Chief Executive Officer

Katie Murray
Chief Financial Officer

15 February 2024

Board of directors

Chairman
Howard Davies

Executive directors
John-Paul Thwaite
Katie Murray

Non-executive directors
Francesca Barnes
Ian Cormack
Roisin Donnelly
Patrick Flynn
Rick Haythornthwaite
Yasmin Jetha
Stuart Lewis
Mark Seligman
Mark Rennison
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 2023 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 the related Notes 1 to 29, and the Risk and capital management section of the Strategic report identified as 'audited'. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards (IAS).

In our opinion, the financial statements:

- give a true and fair view of the Bank's affairs as at 31 December 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with UK adopted IAS; 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 engaged with management early to ensure all key factors were considered in their assessment;
- We evaluated management's going concern assessment which included assessing their evaluation of long-term business and strategic plans, capital adequacy, liquidity, and funding positions. Management 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, climate risk and operational risk;
- With the involvement of specialists, we evaluated management's assessment by considering the Bank's ability to continue in operation and meets its liabilities under different scenarios including the impact of the Bank's strategic plans and the current uncertain geopolitical and economic outlook;
- Considered the results of the Bank's stress testing; and
- We reviewed the Bank's going concern disclosures included in the annual report for 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 over the twelve months from the date 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.

The scoping for the current year is as follows:

Component	Scope	Key locations
Retail Banking	Full	United Kingdom
Commercial & Institutional	Full	United Kingdom
Private Banking	Specific	United Kingdom

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	100%	0%	0%	100%
Total equity	93%	7%	0%	100%
Total income	100%	0%	0%	100%

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

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 that has been designed to ensure that the Senior Statutory Auditor, or another audit partner, has ongoing interactions with all in scope locations. 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 Bank level, gave us appropriate evidence for our opinion on the financial statements.

Climate change

Stakeholders are increasingly interested in how climate change will impact the Bank. The Bank has determined that the most significant future impacts from climate change on its operations will be from credit risk, operational risk and reputational risk. These are explained in the Climate Risk section within the Risk and Capital Management, which forms part of the 'Other information', rather than the audited financial statements. Our procedures on these unaudited disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated, in line with our responsibilities on 'Other information'.

In planning and performing our audit we assessed the potential impacts of climate change on the Bank's business and any consequential material impact on its financial statements.

The Bank has explained in the Accounting Policy note how they have reflected the impact of climate change in their financial statements, and the significant judgements and estimates relating to climate change. The Bank notes that many of the impacts will be longer term in nature, with an inherent level of uncertainty, and have limited effect on accounting judgements and estimates for the current period under the requirements of UK adopted international accounting standards.

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating the Bank's assessment of the impact of climate risk, their climate commitments and the significant judgements and estimates disclosed in the Accounting Policies, and whether these have been appropriately reflected in the asset values where these are impacted by future cash flows, and in the timing and nature of liabilities recognised following the requirements of UK adopted international accounting standards. As part of this evaluation, we performed our own risk assessment, supported by our climate change and economic specialists, to determine the risk of material misstatement in the financial statements from climate change which needed to be considered in our audit. We also evaluated the Directors' considerations of climate change risks in their assessment of going concern and associated disclosures.

Based on our work, whilst we have not identified the impact of climate change on the financial statements to be a standalone key audit matter, we have considered the impact within the key audit matter for Expected Credit Loss provisions and Recognition of deferred tax assets. Details of our procedures and findings are included in our explanation of key audit matters below.

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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 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 2023 the Bank reported total gross loans-amortised cost of FVOCI of £65.0 billion (2022 - £61.2 billion) and £653 million of expected credit losses (ECL) (2022 - £664 million). Management's judgements and estimates are especially subjective due to significant uncertainty associated with the assumptions used. These include the impacts of continuing uncertain geopolitical and economic outlook, higher for longer interest rate environment, a protracted period of inflation that is above the policy target, refinance risks, stresses on recoverable values, and potential impacts of climate change, which were all considered in our risk assessment. Aspects with increased complexity and judgements in respect of the timing and measurement of ECL include: – **Staging** – Timely allocation of assets to stage 1, 2, or 3 using criteria in accordance with IFRS 9. – **Models and Model assumptions-** Accounting interpretations, modelling assumptions and data used to build and run the models that calculate the ECL. There is also increasing complexity in assessing the adequacy of model performance in the protracted period of inflation and elevated interest rates, since the historic data used to build these models is not reflective of the economic environment in 2023. – **Economic scenarios** - Inputs, assumptions and weightings used to estimate the impact of multiple economic scenarios particularly those influenced by the continuing uncertain geopolitical and economic outlook, higher for longer interest rates and protracted peak of inflation, including any changes to scenarios required through 31 December 2023. – **Post-model adjustments** - Appropriateness, completeness and valuation of post-model adjustments which represent approximately 10% of total ECL (2022 - 10%), including adjustments required to address the limitation of models to adequately incorporate the risks of inflation, elevated interest rates, and other geopolitical and economic uncertainties, and the identification of vulnerable customers with higher risks of defaults than currently reflected; and – **Individual provisions** - Measurement of individual provisions including the assessment of multiple scenarios and probability weights, the impact of the current uncertain geopolitical and economic outlook on exit or recovery strategies, collateral valuations and time to collect.	**Controls testing** - We evaluated the design and operating effectiveness of controls over the ECL process, including those over management's judgements and estimates. These controls, among others, covered: – the staging of assets per the management's criteria, and their monitoring of stage effectiveness – model governance including monitoring and model validation – data accuracy and completeness – credit monitoring – multiple economic scenarios – the governance and management review of post-model adjustments; and – individual provisions. 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. **Overall assessment** - We performed an overall assessment of the ECL provision levels by stage to determine if they were reasonable by considering the credit quality and composition of the Bank's portfolios, risk profile, impact of the current uncertain geopolitical and economic outlook and climate change on the Bank's customers. We performed peer benchmarking where available to assess overall staging and provision coverage levels. We also performed sensitivity analysis to assess the impact of changing selected key assumptions on the ECL provision. **Staging** - We evaluated the criteria used to allocate a financial asset to stage 1, 2 or 3 in accordance with IFRS 9. We recalculated the staging of the complete population of assets based on management's criteria, and performed sensitivity analysis to assess the impact of different criteria on the ECL and considered the impact of performing collective staging downgrades to industries, geographic regions and high risk populations particularly impacted by recent economic conditions and climate change. 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, such as commercial real estate, automotive, retail and leisure. **Models and Model assumptions**- We selected a sample of models based on both quantitative and qualitative factors. We involved EY modelling specialists to test the assumptions, inputs, methodology and model build. This included a combination of assessing model design and formulae, alternative modelling techniques, recalculating the PD, LGD and EAD, and implementation of new models during the year. We also considered the results of the Bank's internal model monitoring and validation results. We performed an assessment of the extent to which model methodologies developed using historic experience were able to respond to the current economic conditions, and where we identified model limitations, we tested the extent to which these effects have been appropriately captured in Post Model Adjustments. To evaluate data quality, we agreed a sample of data points to source systems, including 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. **Economic scenarios** - We involved EY economic specialists to assist us in evaluating the base case and alternative economic scenarios, including evaluating probability weights. This assessment included the impacts of the current geopolitical and economic environment, as well as the impacts of climate change on the economic variables. We assessed whether forecasted macroeconomic variables such as GDP, unemployment rate, Consumer Price Index, UK Stock Price Index, Bank of England base rates and the House Price Index were appropriate. With the support of our credit modelling specialists, we evaluated the correlation and translation of the macroeconomic factors, including the impacts of alternative paths or weights to ECL.

Risk	Our response to the risk
Expected credit loss provisions continued	
	Post-Model Adjustments - We have evaluated and tested the appropriateness, adequacy and completeness of the Post Model Adjustments (PMAs) held at year end. This included challenging management's identification of retail customers vulnerable to price and rate increases, commercial sub-sectors susceptible to inflation and liquidity challenges, loss given default assumptions, and time to collect. We have also challenged the appropriateness of PMAs remaining from previous years related to matters such as COVID-19, by checking the latest default trends in those cohorts. We also assessed all the PMAs against the risk of double counting of either certain portfolios/customers or identified risks. With our modelling and economic specialists, we assessed the risk of bias and the completeness of these adjustments by considering the data, judgements, methodology, sensitivities, and governance of these adjustments as well as considering model shortcomings. **Individual provisions** - We recalculated and challenged the scenarios, assumptions, and cash flows for a sample of individual provisions including the alternative scenarios and evaluating probability weights assigned, involving EY valuation specialists where appropriate. The samples considered higher risk sectors identified with reference to external sources, such as commercial real estate, manufacturing, automotive, health, retail, and leisure. We considered the impact of the current geopolitical and economic outlook and climate change had on collateral valuations and time to collect as well as whether planned exit and work out strategies remained viable.

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 that contributed to our overall conclusion:

- Effectiveness of the overall control environment, including the compensating controls identified by management, where deficiencies were identified.
- Results of our testing of models and model assumptions, including the reasonableness of the macroeconomic variables used.
- The accuracy of staging, including considering management override, and our independent sensitivity analysis on the staging criteria to assess appropriateness.
- Reasonableness and adequacy of the post-model adjustments recorded to reflect risk in the portfolios.
- For individually assessed impairments, the overall reasonableness of the provisions, including assumptions applied.

Relevant references in the Annual Report and Accounts

Credit Risk section of the Risk and capital management section
Accounting policies
Note 12 to the financial statements

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

<table>
<tr><th>Risk</th><th>Our response to the risk</th></tr>
<tr><td colspan="2">Future profitability estimates impacting the recognition of Deferred tax</td></tr>
<tr><td>At 31 December 2023, the Bank had a net deferred tax asset balance of £0.9 billion (2022 - £1.0 billion).

Management have assessed whether sufficient taxable profits will be generated in future years to recover any deferred tax assets recognised and concluded that net deferred tax assets recognised on the balance sheet are recoverable.

These estimates are based on the five-year revenue and cost forecasts, which are more susceptible to management override due to the following inherent uncertainties involved determining the forecast:

– Profitability estimates, including costs, ECL and the impact of climate within business planning;
– Macro-economic assumptions; and
– Capital forecasts.</td><td>Controls testing: We evaluated the design and operating effectiveness of controls over the key judgemental inputs (macro-economic assumptions including interest rates, business forecasts and capital). In addition, we have assessed the controls over the methodology, models and methods utilised in deferred tax assets assessment.

We have also performed test of details to evaluate the recoverability of DTA through:

Assumption and model testing:
– Tested mathematical accuracy of the models and calculations utilised in DTA processes.
– Challenged the reasonableness and achievability of management forecasts from a combination of historical performance, benchmarking with external data and evaluating underlying business strategies.
– Engaged specialists to evaluate the appropriateness of significant assumptions (macroeconomic and modelling assumptions).
– Engaged taxation specialists to assess the deferred tax model including an assessment of the time horizon used for the recoverability of losses and other temporary differences.

Disclosure:
– We challenged and verified the adequacy of the information disclosed in the financial statements.</td></tr>
<tr><td colspan="2">Key observations communicated to the NWH Group Audit Committee</td></tr>
<tr><td colspan="2">We are satisfied that the carrying value of deferred tax assets, were reasonable and recognised in accordance with IFRS. We highlighted the following matters to the NWH Group Audit Committee that contributed to our overall conclusion:

– Effectiveness of the overall control environment, including management's identification of compensating controls where deficiencies were identified;
– Reasonableness of the methodologies, judgements and assumptions used by management to conclude upon the recognition of the related balances; and
– Appropriateness of the disclosures in relation to deferred tax assets.</td></tr>
<tr><td colspan="2">Relevant references in the Annual Report and Accounts</td></tr>
<tr><td colspan="2">Note 7 to the financial statements</td></tr>
</table>

Risk	Our response to the risk
IT access management	
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, with extensive reliance on automated 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 growing 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. The Bank has implemented user access management controls across IT applications, databases and operating systems. We have identified user access-related deficiencies in the past and similar thematic issues have been noted in the current year, and thus the risk of inappropriate access remains.	We evaluated the design and operating effectiveness of IT general controls over the applications, operating systems and databases that are relevant to financial reporting. We tested user access by assessing the controls in place for in-scope applications, in particular testing the addition and periodic recertification of users' access. We continue to focus on key controls enforced by the Bank's user access management tools, including ensuring the completeness of user data, automated identification of movers and leavers and the adequacy of the overall control environment in addressing access-related IT risks to financial reporting. There have been no significant changes in the suite of access management controls operated by the Bank in the current year. For systems outsourced to third party service providers, we tested IT general controls through evaluating the relevant Service Organisation Controls ("SOC") reports (where available). This included assessing the timing of the reporting, the controls tested by the service auditor and whether they addressed relevant IT risks. 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 risks to financial reporting. Several systems have been migrated to a cloud-hosted infrastructure model, however access management processes and controls remained in-house, and they formed part of our testing. Where control deficiencies were identified, we tested remediation activities performed by management and/or compensating controls in place and assessed the impact, of any residual risk over financial statement reporting. We also performed a further aggregation analysis of access management deficiencies identified by EY, management, and Internal Audit to consider the pervasiveness of findings identified, and the impact on our overall approach to access management testing. We noted that no further changes to our approach were required.

Key observations communicated to the NWH Group Audit Committee

Based on our testing procedures, including validating management's remediation activities, and testing of compensating controls, we are satisfied that reliance can be placed upon IT controls impacting material financial reporting systems. The following matters were reported to the NWH Group Audit Committee:

- IT control deficiencies were identified in relation to privileged access management. These deficiencies in the audit period resulted in an increased risk in relation to data, reports and automated system functionality within the impacted systems.
- However, overall, in combination with compensating controls, we are satisfied that the Group's overall IT control environment appropriately supports the financial reporting process.
- While improvements have been made to further standardise IT access management processes and controls, there are still IT applications relevant to financial reporting which make use of bespoke tools and/or processes to perform access-related controls. Control deficiencies continued to be observed in these areas, which led to an increase in the overall number of reported IT control deficiencies requiring remediation by management.
-

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 £74 million (2022: £57 million), which is 5% (2022: 5%) of the profit before tax of the Bank of £1,588 million (2022: £1,159 million) adjusted for non-recurring conduct and litigation costs. We believe removing these non-recurring charges 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 75% (2022: 75%) of our planning materiality, namely £56 million (2022: £43 million). We have based the percentage of performance materiality from the prior year considering on a number of considerations, including the number and amount of identified misstatements, the effectiveness of the control environment and other factors affecting the entity and its financial reporting.

Audit work at 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 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 £31 million and £49 million (2022: £8 million to £23 million).

Reporting threshold

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

We agreed with the NWH Group Audit Committee that we would report to them all uncorrected audit differences in excess of £4 million (2022: £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 this gives rise to a material misstatement in the financial statements themselves or a material misstatement of the other information. 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.

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 banking regulatory bodies in relevant jurisdictions; reviewed minutes of the Board and Risk Committees; and gained an understanding of the Bank's governance framework.
- Conducted a review of correspondence with and reports from the banking regulators in relevant jurisdictions, including the PRA and the FCA.
- Carried out an assessment of matters reported on the group's whistleblowing programmes where these related to the financial statements.
- 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 assessed the risks of fraud in our key audit matters. Our procedures over our key audit matters and other significant accounting estimates included challenging management on the assumptions and judgements made in determining these estimates.
- We designed our audit procedures to identify non-compliance with 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.
- Identified and tested journal entries, including those posted with certain descriptions or unusual characteristics, backdated journals or posted by infrequent and unexpected users.
- 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 NWH Group 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 8 years, covering the periods from our appointment through 31 December 2023.
- 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 NWH Group 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.

Micha Missakian (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London, United Kingdom
15 February 2024

Income statement

For the year ended 31 December 2023

	Note	2023 £m	2022 £m
Interest receivable		**3,324**	2,036
Interest payable		**(1,231)**	(254)
Net interest income	1	**2,093**	1,782
Fees and commissions receivable		**440**	455
Fees and commissions payable		**(93)**	(107)
Other operating income		**93**	(59)
Non-interest income	2	**440**	289
Total income		**2,533**	2,071
Staff costs		**(54)**	(58)
Premises and equipment		**1**	1
Other administrative expenses		**(835)**	(814)
Depreciation and amortisation		**(13)**	(21)
Operating expenses	3	**(901)**	(892)
Profit before impairment losses		**1,632**	1,179
Impairment losses	12	**(44)**	(20)
Operating profit before tax		**1,588**	1,159
Tax (charge)/credit	7	**(189)**	17
Profit for the year		**1,399**	1,176
Attributable to:			
Ordinary shareholders		**1,352**	1,122
Paid-in equity holders		**47**	54
		1,399	1,176

Statement of comprehensive income

For the year ended 31 December 2023

	2023 £m	2022 £m
Profit for the year	**1,399**	1,176
Items that do not qualify for reclassification		
Tax	**(1)**	-
	(1)	-
Items that do qualify for reclassification		
FVOCI financial assets	**(1)**	-
Cash flow hedges (1)	**1,030**	(1,803)
Currency translation	**(1)**	2
Tax	**(288)**	492
	740	(1,309)
Other comprehensive income/(loss) after tax	**739**	(1,309)
Total comprehensive income/(loss) for the year	**2,138**	(133)
Attributable to:		
Ordinary shareholders	**2,091**	(187)
Paid-in equity holders	**47**	54
	2,138	(133)

(1) Refer to footnotes 2 and 3 of the statement of changes in equity.

The accompanying notes on pages 95 to 121, the accounting policies on pages 91 to 94 and the audited sections of the Financial review and Risk and capital management on pages 4 to 67 form an integral part of these financial statements.

Balance sheet

As at 31 December 2023

	Note	2023 £m	2022 £m
Assets			
Cash and balances at central banks	8	**23,984**	34,323
Derivatives	11	**623**	498
Loans to banks - amortised cost	8	**1,059**	1,071
Loans to customers - amortised cost	8	**34,805**	37,667
Amounts due from holding companies and fellow subsidiaries	8	**28,497**	21,722
Other assets	13	**1,421**	1,382
Total assets		**90,389**	96,663
Liabilities			
Bank deposits	8	**1,027**	986
Customer deposits	8	**77,504**	83,306
Amounts due to holding companies and fellow subsidiaries	8	**3,577**	3,910
Derivatives	11	**1,932**	2,683
Notes in circulation		**2,430**	2,409
Other liabilities	16	**816**	708
Total liabilities		**87,286**	94,002
Total equity		**3,103**	2,661
Total liabilities and equity		**90,389**	96,663

The accompanying notes on pages 95 to 121, the accounting policies on pages 91 to 94 and the audited sections of the Financial review and Risk and capital management on pages 4 to 67 form an integral part of these financial statements.

The accounts were approved by the Board of directors on 15 February 2024 and signed on its behalf by:

Howard Davies Chairman	John-Paul Thwaite 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 2023

	Note	2023 £m	2022 £m
Called-up share capital - at 1 January and 31 December	17	**20**	20
Paid-in equity - at 1 January		**970**	969
Redeemed		**(470)**	(499)
Issued		**-**	500
At 31 December	17	**500**	970
FVOCI reserve - at 1 January		**(3)**	(3)
Unrealised losses		**(1)**	-
Realised losses		**5**	-
Tax		**(1)**	-
At 31 December		**-**	(3)
Cash flow hedging reserve - at 1 January		**(1,479)**	(168)
Amount recognised in equity (2)		**72**	(1,952)
Amount transferred from equity to earnings (3)		**958**	149
Tax		**(288)**	492
At 31 December		**(737)**	(1,479)
Foreign exchange reserve - at 1 January		**-**	(2)
Retranslation of net assets		**(1)**	2
At 31 December		**(1)**	-
Retained earnings - at 1 January		**3,153**	2,931
Profit attributable to ordinary shareholders and other equity owners		**1,399**	1,176
Paid-in equity dividends paid		**(47)**	(54)
Ordinary dividends paid		**(1,136)**	(850)
Redemption of paid-in equity			
- gross		**(43)**	(41)
- tax		**-**	(9)
Realised losses in period on FVOCI equity shares			
- gross		**(5)**	-
At 31 December		**3,321**	3,153
Total equity at 31 December		**3,103**	2,661
Attributable to:			
Ordinary shareholders		**2,603**	1,691
Paid-in equity holders		**500**	970
		3,103	2,661

(1) The total distributable reserves for RBS plc is £2,583 million (2022 – £1,671 million).
(2) The change in the cash flow hedging reserve is driven by realised accrued interest transferred into the income statement and a decrease in swap rates compared to previous periods. The portfolio of hedging instruments is predominantly receive fixed swaps.
(3) As referred to in Note 11, the amount transferred from equity to the income statement is mostly recorded as net interest income mainly on loans to customers-amortised cost, balances at central banks and loans to banks – amortised cost, and customer deposits as referred to in Note 1.

The accompanying notes on pages 95 to 121, the accounting policies on pages 91 to 94 and the audited sections of the Financial review and Risk and capital management on pages 4 to 67 form an integral part of these financial statements.

Cash flow statement

For the year ended 31 December 2023

	Note	2023 £m	2022 £m
Cash flows from operating activities			
Operating profit before tax		**1,588**	1,159
Adjustments for:			
Non-cash and other items	21	**1,255**	(138)
Changes in operating assets and liabilities	21	**(7,837)**	(7,146)
Income taxes paid		**(263)**	(228)
Net cash flows from operating activities (1,2)		**(5,257)**	(6,353)
Cash flows from investing activities			
Sale of property, plant and equipment		**43**	8
Purchase of property, plant and equipment		**(18)**	(21)
Disposal of net assets and liabilities		**-**	270
Dividends received from subsidiaries		**5**	8
Net cash flows from investing activities		**30**	265
Cash flows from financing activities			
Issue of paid-in equity		**-**	500
Redemption of paid-in equity		**(513)**	(540)
Issue of MRELs		**991**	-
Interest paid on MRELs		**(32)**	(16)
Redemption of subordinated liabilities		**(1,059)**	-
Interest paid on subordinated liabilities		**(77)**	(78)
Dividends paid		**(1,183)**	(904)
Net cash flows from financing activities	22	**(1,873)**	(1,038)
Effects of exchange rate changes on cash and cash equivalents		**(198)**	547
Net decrease in cash and cash equivalents		**(7,298)**	(6,579)
Cash and cash equivalents at 1 January		**53,629**	60,208
Cash and cash equivalents at 31 December	23	**46,331**	53,629

(1) Includes interest received of £3,297 million (2022 - £2,058 million) and interest paid of £1,099 million (2022 - £215 million).
(2) The total cash outflow for leases is £8 million (2022 - £12 million), including payment of principal amounts of £7 million (2022 - £9 million) which are included in the operating activities in the cash flow statement.

The accompanying notes on pages 95 to 121, the accounting policies on pages 91 to 94 and the audited sections of the Financial review and Risk and capital management on pages 4 to 67 form an integral part of these financial statements.

Accounting policies

1. Presentation of financial statements

The financial statements contain information about RBS plc as an individual company and do not contain consolidated financial information as the parent of a group. RBS plc is exempt under IFRS 10 Consolidated Financial Statements and section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as in accordance with IFRS 10. RBS plc and its subsidiaries are included by full consolidation in the IFRS consolidated financial statements of NWH Ltd and NatWest Group plc.

The Royal Bank of Scotland plc (RBS plc) is incorporated in the UK and registered in Scotland. The financial statements are presented in the functional currency, pounds sterling.

The audited financial statements include audited sections of the Risk and capital management section. The directors have prepared the financial statements on a going concern basis after assessing the principal risks, forecasts, projections and other relevant evidence over the twelve months from the date the financial statements are approved (refer to the Report of the directors) and in accordance with UK adopted International Accounting Standards (IAS), and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The critical and material accounting policies and related judgements are set out below.

The financial statements are presented on a historical cost basis except for certain financial instruments which are stated at fair value.

The effect of the amendments to IFRS effective from 1 January 2023 on our financial statements was immaterial.

We have applied the exception issued by the IASB in May 2023 from the accounting requirements for deferred taxes in IAS 12 Income taxes in respect of Pillar Two income taxes. Accordingly, we have not recognised or disclosed information about deferred tax assets and liabilities related to Pillar Two income taxes.

How Climate risk affects our accounting judgements and estimates

We make use of reasonable and supportable information to make accounting judgements and estimates. This includes information about the observable effects of the physical and transition risks of climate change on the current creditworthiness of borrowers, asset values and market indicators. It also includes the effect on our competitiveness and profitability. Many of the effects arising from climate change will be longer term in nature, with an inherent level of uncertainty, and have limited effect on accounting judgements and estimates for the current period. Some physical and transition risks can manifest in the shorter term. The following items represent the most significant effects:

- The classification of financial instruments linked to climate, or other sustainability indicators: consideration is given to whether the effect of climate related terms prevent the instrument cashflows being solely payments of principal and interest.
- The measurement of expected credit loss considers the ability of borrowers to make payments as they fall due. Future cashflows are discounted, so long dated cashflows are less likely to affect current expectations on credit loss. Our assessment of sector specific risks, and whether additional adjustments are required, include expectations of the ability of those sectors to meet their financing needs in the market. Changes in credit stewardship and credit risk appetite that stem from climate considerations, such as oil and gas, will directly affect our positions.
- The assessment of deferred tax is based upon value in use. This represents the value of future cashflows and uses our five-year revenue and cost forecasts and the expectation of long term economic growth beyond this period. The five-year forecast takes account of management's current expectations on competitiveness and profitability. The long term growth rate reflects external indicators which will include market expectations of climate risk. We do not consider any additional adjustments to this indicator.
- The use of market indicators as inputs to fair value is assumed to include current information and knowledge regarding the effect of climate risk.

2. Critical accounting policies

The judgements and assumptions involved in our accounting policies that are considered by the Board to be the most important to the portrayal of our financial condition are noted below. The use of estimates, assumptions or models that differ from those adopted by us would affect our reported results. Management's consideration of uncertainty is outlined in the relevant sections, including the ECL estimate in the Risk and capital management section.

Information used for significant estimate

Policy	Judgement	Estimate	Further information
Deferred tax	Determination of whether sufficient sustainable taxable profits will be generated in future years to recover the deferred tax asset.	Our estimates are based on the five-year revenue and cost forecasts (which include inherent uncertainties) and the expectation of long term economic growth beyond this period.	Note 7
Loan impairment provisions	Definition of default against which to apply PD, LGD and EAD models. Selection of multiple economic scenarios. Criteria for a significant increase in credit risk. Identification of risks not captured by the models.	ECL estimates contain a number of measurement uncertainties (such as the weighting of multiple economic scenarios) and disclosures include sensitivities to show impact on other reasonably possible scenarios.	Note 12
Provisions for liabilities and charges	Determination of whether a present obligation exists in respect of customer redress, litigation and other regulatory, property and other provisions. Legal proceedings often require a high degree of judgement and these are likely to change as the matter progresses.	Provisions remain sensitive to the assumptions used in the estimate. We consider a wide range of possible outcomes. It is often not practical to meaningfully quantify ranges of possible outcomes, given the uncertainties involved.	Note 16

Changes in judgements and assumptions could result in a material adjustment to those estimates in future reporting periods.

2. Critical accounting policies continued

2.1. Deferred tax

Deferred tax is the estimated 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 in the future. 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 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 asset recoverability is based on the level of supporting offsetable deferred tax liabilities we have and of our future taxable profits. These future taxable profits are based on our five-year revenue and cost forecasts and the expectation of long term economic growth beyond this period. The five-year forecast takes account of management's current expectations on competitiveness and profitability. The long term growth rate reflects external indicators which will include market expectations on climate risk. We do not consider any additional adjustments to this indicator.

2.2. Loan impairment provisions: expected credit losses (ECL)

At each balance sheet date each financial asset or portfolio of financial assets measured at amortised cost or at fair value through other comprehensive income, issued financial guarantee and loan commitment (other than those classified as held for trading) is assessed for impairment. Any change in impairment is reported 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. Following a significant increase in credit risk, ECL are adjusted from 12 months to lifetime. This will lead to a higher impairment charge.

The measurement of expected credit loss considers the ability of borrowers to make payments as they fall due. Future cashflows are discounted, so long dated cashflows are less likely to affect current expectations on credit loss. Our assessment of sector specific risks, and whether additional adjustments are required, include expectations of the ability of those sectors to meet their financing needs in the market. Changes in credit risk appetite and how we manage credit risk positions that stem from climate considerations, such as oil and gas, will directly affect our positions.

Judgement is exercised as follows:

- Models – in certain low default portfolios, Basel parameter estimates are also applied for IFRS 9.
- Non-modelled portfolios – use 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 where a financial asset is not derecognised, 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. Where our acquired interest is in equity shares, relevant polices for control, associates and joint ventures apply.

Impaired financial assets are written off and therefore derecognised from the balance sheet when we conclude that there is no longer any realistic prospect of recovery of part, or all, of the loan. For financial assets that are individually assessed for impairment, the timing of the write-off is determined on a case-by-case basis. Such financial assets are reviewed regularly and write-off will be prompted by bankruptcy, insolvency, re-negotiation, and similar events.

The typical time frames from initial impairment to write-off for our 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.

2.3. Provisions

We recognise a provision for a present obligation resulting from a past event when it is more likely than not that we will be required to pay 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 we have a constructive obligation. An obligation exists when we have a detailed formal plan for the restructuring and have raised a valid expectation in those affected either by starting to implement the plan or by announcing its main features.

2. Critical accounting policies continued

We recognise any onerous cost of the present obligation under a contract as a provision. An onerous cost is the unavoidable cost of meeting our contractual obligations that exceed the expected economic benefits. When we intend to vacate a leasehold property or right of use asset, the asset would be tested for impairment and a provision may be recognised for the ancillary contractual occupancy costs.

3. Material accounting polices

3.1. Revenue recognition

Interest receivable and payable are recognised in the income statement using the effective interest rate method for: all financial instruments measured at amortised cost; debt instruments measured as fair value through other comprehensive income; and the effective part of any related accounting hedging instruments.

Other interest relating to financial instruments measured at fair value is recognised as part of the movement in fair value and is reported in other operating income. 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.

3.2. Staff costs

Employee costs, such as salaries, paid absences, and other benefits are recognised over the period in which the employees provide the related services to us. Employees may receive variable compensation in cash, in deferred cash or debt instruments of NatWest Group or in ordinary shares of NatWest Group plc subject to deferral, and clawback forfeiture criteria. We operate a number of share-based compensation schemes under which we grant awards of NatWest Group plc shares and share options to our employees. Such awards are subject to vesting conditions.

Defined contribution pension scheme

A scheme where we pay fixed contributions and there is no legal or constructive obligation to pay further contributions or benefits. Contributions are recognised in the income statement as employee service costs accrue.

3.3. Tax

Tax encompassing current tax and deferred tax is recognised in the income statement except when taxable items are recognised in other comprehensive income or equity. Tax consequences arising from servicing financial instruments classified as equity are recognised in the income statement.

Accounting for taxes is judgemental and carries a degree of uncertainty because tax law is subject to interpretation, which might be questioned by the relevant tax authority. We recognise the most likely current and deferred tax liability or asset, assessed for uncertainty using consistent judgements 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.

3.4. Financial instruments

Financial instruments are measured at fair value on initial recognition on the balance sheet.

Monetary financial assets are classified into one of the following subsequent measurement categories (subject to business model assessment and review of contractual cash flow for the purposes of sole payments of principal and interest where applicable):

- amortised cost measured at cost using the effective interest rate method, less any impairment allowance;
- fair value through other comprehensive income (FVOCI) measured at fair value, using the effective interest rate method and changes in fair value through other comprehensive income;
- mandatory fair value through profit or loss (MFVTPL) measured at fair value and changes in fair value reported in the income statement; or
- designated at fair value through profit or loss (DFV) measured at fair value and changes in fair value reported in the income statement.

Classification by business model reflects how we manage our financial assets to generate cash flows. A business model assessment helps to ascertain the measurement approach depending on whether cash flows result from holding financial assets to collect the contractual cash flows, from selling those financial assets, or both.

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 for the portfolio, its risk management, manager's remuneration and the ability to monitor sales of assets from a portfolio. When a significant change to our business is communicated to external parties, we reassess our business model for managing those financial assets. We reclassify financial assets if we have a significant change to the business model. A reclassification is applied prospectively from the reclassification date.

The contractual terms of a financial asset; any leverage features; prepayment and extension terms; and discounts or penalties to interest rates that are part of meeting environmental, social and governance targets as well as other contingent and leverage features, non-recourse arrangements and features that could modify the timing and/or amount of the contractual cash flows that might reset the effective rate of interest; are considered in determining whether cash flows are solely payments of principal and interest.

Certain financial assets may be designated at fair value through profit or loss (DFV) upon initial recognition if such designation eliminates, or significantly reduces, accounting mismatch.

Equity shares are measured at fair value through profit or loss unless specifically elected as at fair value through other comprehensive income (FVOCI).

3. Material accounting polices continued

Upon disposal, the cumulative gains or losses in fair value through other comprehensive income reserve are recycled to the income statement for monetary assets and for non-monetary assets the cumulative gains or losses are transferred directly to retained earnings.

Regular way purchases and sales 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.

Financial liabilities are classified into one of following measurement categories:

- **amortised cost** measured at cost using the effective interest rate method;
- **held for trading** measured at fair value and changes in fair value reported in income statement; or
- **designated at fair value through profit or loss** measured at fair value and changes in fair value reported in the income statement except changes in fair value attributable to the credit risk component recognised in other comprehensive income when no accounting mismatch occurs.

3.5. Capital instruments

We classify a financial instrument that we issue 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 we evidence a residual interest in our assets after the deduction of liabilities. Incremental costs and related tax that are directly attributable to an equity transaction are deducted from equity.

3.6. Derivatives and hedging

Derivatives are reported on the balance sheet at fair value.

We use derivatives to manage our own risk such as interest rate. Not all derivatives used to manage risk are in hedge accounting relationships (an IFRS method to reduce accounting mismatch from changes in the fair value of the derivatives reported in the income statement).

Gains and losses arising from changes in the fair value of derivatives that are not in hedge relationships and derivatives that are managed together with financial instruments designated at fair value are included in Other operating income.

Hedge accounting

Hedge accounting relationships are 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.

When designating a hedging relationship, we consider: the economic relationship between the hedged item (including the risk being hedged) and the hedging instrument; the nature of the risk; the risk management objective and strategy for undertaking the hedge; and the appropriateness of the method that will be used to assess hedge effectiveness.

Designated hedging relationships must be expected to be highly effective both on a prospective and retrospective basis. This is assessed using regression techniques which model the degree of offsetting between the changes in fair value or cash flows attributable to the hedged risk and the changes in fair value of the designated hedging derivatives. Ineffectiveness is measured based on actual levels of offsetting and recognised in the income statement.

We enter into two types of hedge accounting relationships.

Fair value hedge - the gain or loss on the hedging instrument and the hedged item attributable to the hedged risk is recognised in the income statement. Where the hedged item is measured at amortised cost, the balance sheet amount of the hedged item is also adjusted.

Cash flow hedge - the effective portion of the designated hedge relationship is recognised in other comprehensive income and the ineffective portion in the income statement. When the hedged item (forecasted cash flows) results in the recognition of a financial asset or financial liability, the cumulative gain or loss is reclassified from equity to the income statement in the same periods in which the hedged forecasted cash flows affect the income statement.

Discontinuation of hedge accounting

Hedge accounting is discontinued if the hedge no longer meets the criteria for hedge accounting i.e. the hedge is not highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk, consistent with the documented risk management strategy; the hedging instrument expires or is sold, terminated or exercised; or if hedge designation is revoked.

For fair value hedging any cumulative adjustment is amortised to the income statement over the life of the hedged item. Where the hedge item is no longer on the balance sheet the adjustment to the hedged item is reported in the income statement.

For cash flow hedging the cumulative unrealised gain or loss is reclassified from equity to the income statement 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 the income statement. Where a forecast transaction is no longer expected to occur, the cumulative unrealised gain or loss is reclassified from equity to the income statement immediately.

4. Future accounting developments

International Financial Reporting Standards

Effective 1 January 2024

- Classification of Liabilities as Current or Non-current (Amendments to IAS 1)
- Non-current Liabilities with Covenants (Amendments to IAS 1)
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)
- Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)

Effective 1 January 2025

- Lack of Exchangeability (Amendments to IAS 21)

We are assessing the effect of adopting these amendments on our financial statements but do not expect the effect to be material.

Notes to the financial statements

1 Net interest income

	2023 £m	2022 £m
Balances at central banks and loans to banks - amortised cost	**467**	411
Loans to customers - amortised cost	**1,680**	1,305
Amounts due from holding company and fellow subsidiaries	**1,177**	320
Interest receivable	**3,324**	2,036
Balances with banks	**4**	2
Customer deposits	**999**	142
Amounts due to holding company and fellow subsidiaries	**226**	107
Other financial liabilities	**2**	3
Interest payable	**1,231**	254
Net interest income	**2,093**	1,782

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.

For accounting policy information refer to Accounting policy 3.1.

2 Non-interest income

	2023 £m	2022 £m
Net fees and commissions (1)	**347**	348
Other operating income		
Hedge ineffectiveness	**7**	(10)
Net income/(loss) from economic hedging	**47**	(20)
Loss on disposal of amortised cost assets and liabilities (2)	**-**	(23)
Profit/(loss) on sale of property, plant and equipment	**27**	(1)
Dividend income	**5**	8
Other income	**7**	(13)
	93	(59)
Non-interest income	**440**	289

(1) Refer to Note 4 for further analysis.
(2) 2022 includes £23 million loss on transfer of Adam & Company's remaining business to Coutts.

For accounting policy information refer to Accounting policy 3.1.

3 Operating expenses

	2023 £m	2022 £m
Wages, salaries and other staff costs	**43**	44
Social security costs	**4**	5
Pension costs	**7**	9
- defined benefit schemes (Note 5)	**5**	7
- defined contribution schemes	**2**	2
Staff costs	**54**	58
Premises and equipment (1)	**(1)**	(1)
Other administrative expenses (2,3)	**835**	814
Depreciation and amortisation	**13**	21
Administrative expenses	**847**	834
	901	892

(1) Includes release of property provisions due to lease exits and change in economic assumptions.
(2) Includes £740 million (2022 - £759 million) of recharges from other NatWest Group entities, mainly NWB Plc which provides the majority of shared services (including technology) and operational processes to RBS plc.
(3) Includes litigation costs. Further details are provided in Note 16.

For accounting policy information refer to Accounting policy 3.2.

1,000 front office customer-facing staff (2022 – 1,200) are contractually employed by NWB Plc with all related staff costs paid by RBS plc.

4 Segmental analysis

Reportable operating segments

The business is organised into the following reportable segments: Retail Banking, Private Banking, Commercial & Institutional and Central items & other.

Retail Banking serves personal customers in the UK.

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

Commercial & Institutional consists of customer businesses reported under Business Banking, Commercial Mid-market and Corporate & Institutions to support our domestic customers across the full non-personal customer lifecycle.

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

2023	Retail Banking £m	Private Banking £m	Commercial & Institutional £m	Central items & other £m	Total £m
Net interest income	**945**	**(1)**	**903**	**246**	**2,093**
Net fees and commissions	**100**	**5**	**242**	**-**	**347**
Other operating income	**1**	**-**	**12**	**80**	**93**
Total income	**1,046**	**4**	**1,157**	**326**	**2,533**
Depreciation and amortisation	**(7)**	**-**	**(6)**	**-**	**(13)**
Other operating expenses	**(480)**	**-**	**(408)**	**-**	**(888)**
Impairment (losses)/releases	**(55)**	**-**	**9**	**2**	**(44)**
Operating profit	**504**	**4**	**752**	**328**	**1,588**

2022	Retail Banking £m	Private Banking £m	Commercial & Institutional £m	Central items & other £m	Total £m
Net interest income	877	23	886	(4)	1,782
Net fees and commissions	88	6	254	-	348
Other operating income	-	(23)	(2)	(34)	(59)
Total income	965	6	1,138	(38)	2,071
Depreciation and amortisation	(11)	(2)	(8)	-	(21)
Other operating expenses	(420)	(69)	(382)	-	(871)
Impairment (losses)/releases	(11)	-	14	(23)	(20)
Operating profit/(loss)	523	(65)	762	(61)	1,159

Total revenue (1)

2023	Retail Banking £m	Private Banking £m	Commercial & Institutional £m	Central items & other £m	Total £m
External	**904**	**5**	**1,399**	**1,549**	**3,857**
Inter-segment (2)	**(43)**	**(2)**	**(308)**	**353**	**-**
Total	**861**	**3**	**1,091**	**1,902**	**3,857**

2022	Retail Banking £m	Private Banking £m	Commercial & Institutional £m	Central items & other £m	Total £m
External	800	6	963	663	2,432
Inter-segment (2)	32	3	(76)	41	-
Total	832	9	887	704	2,432

Total income

2023	Retail Banking £m	Private Banking £m	Commercial & Institutional £m	Central items & other £m	Total £m
External	**381**	**4**	**728**	**1,420**	**2,533**
Inter-segment (2)	**665**	**-**	**429**	**(1,094)**	**-**
Total	**1,046**	**4**	**1,157**	**326**	**2,533**

2022	Retail Banking £m	Private Banking £m	Commercial & Institutional £m	Central items & other £m	Total £m
External	669	3	807	592	2,071
Inter-segment (2)	296	3	331	(630)	-
Total	965	6	1,138	(38)	2,071

(1) Total revenue comprises interest receivable, fees and commissions receivable and other operating income.
(2) Revenue and income from transactions between segments are now reported as inter-segment in both the current and comparative information.

4 Segmental analysis continued

Analysis of net fees and commissions

2023	Retail Banking £m	Private Banking £m	Commercial & Institutional £m	Central items & other £m	Total £m
Fees and commissions receivable					
- Payment services	**61**	**-**	**132**	**-**	**193**
- Credit and debit card fees	**77**	**-**	**56**	**-**	**133**
- Lending and financing	**2**	**-**	**72**	**-**	**74**
- Other	**8**	**5**	**27**	**-**	**40**
Total	**148**	**5**	**287**	**-**	**440**
Fees and commissions payable	**(48)**	**-**	**(45)**	**-**	**(93)**
Net fees and commissions	**100**	**5**	**242**	**-**	**347**
2022					
Fees and commissions receivable					
- Payment services	59	1	132	-	192
- Credit and debit card fees	78	-	51	-	129
- Lending and financing	2	-	82	-	84
- Other	9	5	36	-	50
Total	148	6	301	-	455
Fees and commissions payable	(60)	-	(47)	-	(107)
Net fees and commissions	88	6	254	-	348

2023	Retail Banking £m	Private Banking £m	Commercial & Institutional £m	Central items & other £m	Total £m
Assets	**17,923**	**12**	**20,881**	**51,573**	**90,389**
Liabilities	**37,944**	**10**	**44,069**	**5,263**	**87,286**
2022					
Assets	19,548	2	22,321	54,792	96,663
Liabilities	39,084	21	48,878	6,019	94,002

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 NatWest Group Retirement Savings Plan, a defined contribution pension scheme. Further information about the NatWest Group pension schemes is disclosed in the NatWest Group 2023 Annual Report and Accounts.

For accounting policy information refer to Accounting policy 3.2.

6 Auditor's remuneration

Amounts payable to RBS plc's auditor for statutory audit and other services are set out below:

	2023 £m	2022 £m
Fees payable for:		
- the audit of RBS plc's annual accounts	**3.8**	4.2
- audit-related assurance services	**0.4**	-
Total audit and audit-related assurance service fees	**4.2**	4.2

Fees payable to the auditor for non-audit services are disclosed in the consolidated financial statements of NatWest Group plc.

7 Tax

	2023 £m	2022 £m
Current tax		
Charge for the year	**(340)**	(252)
Over provision in respect of prior years	**6**	2
	(334)	(250)
Deferred tax		
Charge for the year	**(94)**	(61)
UK tax rate change impact	**-**	(3)
Increase in the carrying value of deferred tax assets in respect of UK losses	**237**	331
Under provision in respect of prior years	**2**	-
Tax (charge)/credit for the year	**(189)**	17

Current tax for the year ended 31 December 2023 is based on blended rates of 23.5% for the standard rate of UK corporation tax and 4.25% for the UK banking surcharge.

The actual tax charge differs from the expected tax charge, computed by applying the standard rate of UK corporation tax of 23.5% (2022 – 19%), as follows:

	2023 £m	2022 £m
Expected tax charge	**(373)**	(220)
Items not allowed for tax:		
- losses on disposals and write downs	**(7)**	(6)
- UK bank levy	**(4)**	(2)
- regulatory and legal actions	**(1)**	-
- other disallowable items	**(1)**	(6)
Non-taxable items	**5**	2
Increase in the carrying value of deferred tax assets in respect of:		
- UK losses	**237**	331
Banking surcharge	**(64)**	(91)
Tax on paid-in equity dividends	**11**	10
UK tax rate change impact	**-**	(3)
Adjustments in respect of prior years (1)	**8**	2
Actual tax (charge)/credit	**(189)**	17

(1) Prior year tax adjustments incorporate refinements to tax computations made on submission and agreement with the tax authorities.

On 11 July 2023 the government of the UK, where the parent company is incorporated, enacted the Pillar 2 income taxes legislation effective for the Entity's financial year beginning 1 January 2024. Under the legislation, NatWest Group plc will be required to pay, in the UK, top-up tax on profits of its subsidiaries that are taxed at a Pillar 2 effective tax rate of less than 15%. This legislation is expected to have no material impact for RBS plc.

For accounting policy information refer to Accounting policy 3.3.

7 Tax continued

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 £901 million were recognised as at 31 December 2023 (2022 - £1,048 million).

	2023 £m	2022 £m
Deferred tax liability	**-**	-
Deferred tax asset	**(901)**	(1,048)
Net deferred tax asset	**(901)**	(1,048)

Net deferred tax asset comprised:

	Accelerated capital allowances £m	Expense provisions £m	Financial instruments (1) £m	Tax losses carried forward £m	Other £m	Total £m
At 1 January 2022	(31)	(7)	(67)	(176)	(8)	(289)
Charge/(credit) to income statement	9	4	(5)	(276)	1	(267)
Credit to other comprehensive income	-	-	(492)	-	-	(492)
At 31 December 2022	(22)	(3)	(564)	(452)	(7)	(1,048)
Charge/(credit) to income statement	**3**	**-**	**(3)**	**(145)**	**-**	**(145)**
Charge to other comprehensive income	**-**	**-**	**290**	**-**	**-**	**290**
Currency translation and other adjustments	**1**	**-**	**1**	**-**	**-**	**2**
At 31 December 2023	**(18)**	**(3)**	**(276)**	**(597)**	**(7)**	**(901)**

(1) The in-year movement predominantly relates to cash flow hedges.

Critical accounting policy: Deferred tax

The deferred tax assets of £901 million as at 31 December 2023 (2022 - £1,048 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.

The main UK corporation tax increased from 19% to 25%, and the UK banking surcharge decreased from 8% to 3%, from 1 April 2023. RBS plc's closing deferred tax assets and liabilities are therefore recognised based on these rates.

Judgement – RBS plc has considered the carrying value of deferred tax assets and concluded that, based on management's estimates, sufficient sustainable 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.

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 rate introduced by The Finance (No. 2) Act 2015.

RBS plc – A deferred tax asset of £597 million (2022 - £452 million) has been recognised in respect of losses of £2,388 million of total losses of £3,297 million carried forward at 31 December 2023. The losses were transferred from NatWest Markets Plc as a consequence of the ring fencing regulations. Based on a 7 year recovery period, RBS plc expects the deferred tax asset to be utilised against future taxable profits by the end of 2030.

Deferred tax assets of £227 million (2022 - £468 million) have not been recognised in respect of tax losses carried forward of £909 million (2022 - £1,871 million). The tax losses can be carried forward indefinitely.

8 Financial instruments - classification

Judgement: 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 solely payments of principal and interest (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, including contingent and leverage features, non-recourse arrangements and features that could modify the time value of money.

For accounting policy information refer to Accounting policies 3.4 and 3.6.

The following tables analyse RBS plc's financial assets and liabilities in accordance with the categories of financial instruments in IFRS 9.

Assets	MFVTPL (1) £m	FVOCI (1) £m	Amortised cost £m	Other assets £m	Total £m
Cash and balances at central banks			**23,984**		**23,984**
Derivatives (2)	**623**				**623**
Loans to banks - amortised cost (3)			**1,059**		**1,059**
Loans to customers - amortised cost			**34,805**		**34,805**
Amounts due from holding companies and fellow subsidiaries	**-**	**-**	**28,429**	**68**	**28,497**
Other assets	**182**	**1**	**-**	**1,238**	**1,421**
31 December 2023	**805**	**1**	**88,277**	**1,306**	**90,389**
Cash and balances at central banks			34,323		34,323
Derivatives (2)	498				498
Loans to banks - amortised cost (3)			1,071		1,071
Loans to customers - amortised cost			37,667		37,667
Amounts due from holding companies and fellow subsidiaries	-	-	21,610	112	21,722
Other assets	67	1	-	1,314	1,382
31 December 2022	565	1	94,671	1,426	96,663

Liabilities	Held-for-trading (4) £m	Amortised cost £m	Other liabilities £m	Total £m
Bank deposits (5)		**1,027**		**1,027**
Customer deposits		**77,504**		**77,504**
Amounts due to holding companies and fellow subsidiaries	**-**	**3,275**	**302**	**3,577**
Derivatives (2)	**1,932**			**1,932**
Notes in circulation		**2,430**		**2,430**
Other liabilities (6)		**74**	**742**	**816**
31 December 2023	**1,932**	**84,310**	**1,044**	**87,286**
Bank deposits (5)		986		986
Customer deposits		83,306		83,306
Amounts due to holding companies and fellow subsidiaries	-	3,555	355	3,910
Derivatives (2)	2,683			2,683
Notes in circulation		2,409		2,409
Other liabilities (6)		126	582	708
31 December 2022	2,683	90,382	937	94,002

(1) Includes instruments of £679 million (2022 - £564 million) held in level 2 and £127 million (2022 - £2 million) held in level 3 of the fair value hierarchy.
(2) Includes hedging derivative assets of £577 million (2022 - £480 million) and hedging derivative liabilities of £1,617 million (2022 - £2,523 million).
(3) Includes items in the course of collection from other banks of £133 million (2022 - £59 million).
(4) Includes instruments of £1,932 million (2022 - £2,683 million) held in level 3 of the fair value hierarchy.
(5) Includes items in the course of transmission to other banks of £10 million (2022 - £8 million).
(6) Includes lease liabilities of £61 million (2022 - £107 million), held at amortised cost.

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.

	Carrying value	Fair value	Fair value hierarchy level		Items where fair value approximates carrying value
2023	£m	£m	Level 2 £m	Level 3 £m	£m
Financial assets					
Cash and balances at central banks	**23,984**	**23,984**	**-**	**-**	**23,984**
Loans to banks	**1,059**	**1,059**	**231**	**170**	**658**
Loans to customers	**34,805**	**34,276**	**-**	**34,276**	**-**
Amounts due from holding companies and fellow subsidiaries	**28,429**	**28,429**	**-**	**28,429**	**-**
2022					
Financial assets					
Cash and balances at central banks	34,323	34,323	-	-	34,323
Loans to banks	1,071	1,071	976	95	-
Loans to customers	37,667	36,752	-	36,752	-
Amounts due from holding companies and fellow subsidiaries	21,610	21,610	-	21,610	-
2023					
Financial liabilities					
Bank deposits	**1,027**	**1,028**	**-**	**89**	**939**
Customer deposits	**77,504**	**77,505**	**3,444**	**4,162**	**69,899**
Amounts due to holding companies and fellow subsidiaries	**3,275**	**3,239**	**1,751**	**907**	**581**
Notes in circulation	**2,430**	**2,430**	**-**	**-**	**2,430**
2022					
Financial liabilities					
Bank deposits	986	979	-	89	890
Customer deposits	83,306	83,311	574	2,736	80,001
Amounts due to holding companies and fellow subsidiaries	3,555	3,548	1,908	729	911
Notes in circulation	2,409	2,409	-	-	2,409

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 deemed 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. This method is used for portfolios where counterparties have external ratings, such as institutional and corporate lending.

(b) Expected cash flows (unadjusted for credit losses) are discounted at the current offer rate for the same or similar products. The current methodology caps all loan values at par rather than modelling clients' option to repay loans early. This approach is adopted for lending portfolios in Retail Banking, Commercial & Institutional (SME loans) and Private Banking in order to reflect the homogeneous nature of these portfolios.

Bank and customer deposits

Fair values of deposits are estimated using discounted cash flow valuation techniques. Where required, methodologies can be revised as additional information and valuation inputs become available.

For accounting policy information refer to Accounting policy 3.4 and 3.6.

10 Financial instruments - maturity analysis

Remaining maturity

The following table shows the residual maturity of financial instruments, based on contractual date of maturity.

	2023			2022		
	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	**23,984**	**-**	**23,984**	34,323	-	34,323
Derivatives	**5**	**618**	**623**	43	455	498
Loans to banks - amortised cost	**1,059**	**-**	**1,059**	1,071	-	1,071
Loans to customers - amortised cost	**10,301**	**24,504**	**34,805**	11,260	26,407	37,667
Amounts due from holding companies and fellow subsidiaries (1)	**28,429**	**-**	**28,429**	21,610	-	21,610
Other assets (2)	**30**	**153**	**183**	3	65	68
Liabilities						
Bank deposits	**1,027**	**-**	**1,027**	986	-	986
Customer deposits	**76,419**	**1,085**	**77,504**	83,104	202	83,306
Amounts due to holding companies and fellow subsidiaries (3)	**2,293**	**982**	**3,275**	3,152	403	3,555
Derivatives	**215**	**1,717**	**1,932**	140	2,543	2,683
Notes in circulation	**2,430**	**-**	**2,430**	2,409	-	2,409
Lease liabilities	**7**	**53**	**60**	9	98	107

(1) Excludes non-financial instruments of £68 million (2022 – £112 million).
(2) Excludes non-financial instruments of £1,238 million (2022 - £1,314 million).
(3) Excludes non-financial instruments of £302 million (2022 – £355 million).

Liabilities by contractual cash flow maturity with a maturity of 20 years or less

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.

Held for trading liabilities of £315 million (2022 - £160 million) have been excluded from the tables.

10 Financial instruments - maturity analysis continued

2023	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 up to 20 years						
Bank deposits	**1,027**	**-**	**-**	**-**	**-**	**-**
Customer deposits	**73,027**	**3,403**	**1,081**	**-**	**4**	**-**
Amounts due to holding companies and fellow subsidiaries	**1,919**	**445**	**114**	**1,094**	**-**	**-**
Derivatives	**179**	**568**	**756**	**122**	**90**	**9**
Notes in circulation	**2,430**	**-**	**-**	**-**	**-**	**-**
Lease liabilities	**2**	**5**	**12**	**11**	**22**	**16**
	78,584	**4,421**	**1,963**	**1,227**	**116**	**25**
Guarantees and commitments notional amount						
Guarantees (1)	**338**	**-**	**-**	**-**	**-**	**-**
Commitments (2)	**15,718**	**-**	**-**	**-**	**-**	**-**
	16,056	**-**	**-**	**-**	**-**	**-**
2022						
Liabilities by contractual maturity up to 20 years						
Bank deposits	897	-	-	-	89	-
Customer deposits	82,308	799	200	-	-	-
Amounts due to holding companies and fellow subsidiaries	1,651	1,625	424	-	-	-
Derivatives	162	629	1,381	429	137	14
Notes in circulation	2,409	-	-	-	-	-
Lease liabilities	3	7	17	14	29	34
	87,430	3,060	2,022	443	255	48
Guarantees and commitments notional amount						
Guarantees (1)	367	-	-	-	-	-
Commitments (2)	17,125	-	-	-	-	-
	17,492	-	-	-	-	-

(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.

11 Derivatives

RBS plc uses derivatives to manage its own risk such as foreign exchange risk and interest rate risk.

	2023			2022		
	Notional	Assets	Liabilities	Notional	Assets	Liabilities
	£m	£m	£m	£m	£m	£m
Exchange rate contracts	11	-	-	8	-	-
Interest rate contracts	45,619	623	1,932	43,140	498	2,683
Total	45,630	623	1,932	43,148	498	2,683

Hedge accounting using derivatives

For accounting policy information refer to Accounting policies 3.4 and 3.6.

Refer to Note 26 for amounts due from/to fellow NatWest Group subsidiaries.

RBS plc applies hedge accounting to reduce the accounting mismatch caused in the income statement by using derivatives to hedge the following risks: interest rate and foreign exchange risk.

RBS plc's interest rate hedging relates 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 on its financial instruments. RBS plc manages this risk within approved limits. Residual risk positions are hedged with derivatives, principally interest rate swaps.

Cash flow hedges of interest rate risk relate to exposures to the variability in future interest payments and receipts due to the movement of interest rates on forecast transactions and on financial assets and financial liabilities. This variability in cash flows is hedged by interest rate swaps, which convert variable cash flows into fixed. 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 interest rates, most notably SOFR, EURIBOR, SONIA and the Bank of England Official Bank Rate. The variability in cash flows due to movements in the relevant interest rate is hedged; this risk component is identified using the risk management systems of RBS plc and encompasses the majority of cash flow variability risk.

Suitable larger fixed rate financial instruments are subject to fair value hedging in line with documented risk management strategies.

Fair value hedges of interest rate risk involve interest rate swaps transforming the fixed interest rate risk in financial assets and financial liabilities to floating. The hedged risk is the risk of changes in the hedged item's fair value attributable to changes in the interest rate risk component of the hedged item.

The significant interest rates identified as risk components are SOFR, EURIBOR and SONIA. These risk components are identified using the risk management systems of RBS plc and encompass the majority of the hedged item's fair value risk.

For all cash flow hedging and fair value hedge relationships, RBS plc determines that there is an economic relationship 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 instrument. The method used for comparing movements is either regression testing, or the dollar offset method. The method for testing effectiveness and the period over which the test is performed depends on the applicable risk management strategy and is applied consistently to each risk management strategy. Hedge effectiveness is assessed on a cumulative basis and the determination of effectiveness is in line with the requirements of IAS 39.

RBS plc uses either the actual ratio between the hedged item and hedging instrument(s) or one that minimises hedge ineffectiveness to establish the hedge ratio for hedge accounting. Hedge ineffectiveness is measured in line with the requirements of IAS 39 and recognised in the income statement as it arises.

11 Derivatives continued

Derivatives in hedge accounting relationships

Included in the table above are derivatives held for hedging purposes as follows.

	2023				2022			
	Notional £m	Assets £m	Liabilities £m	Changes in fair value used for hedge ineffectiveness (1) £m	Notional £m	Assets £m	Liabilities £m	Changes in fair value used for hedge ineffectiveness (1) £m
Fair value hedging								
Interest rate contracts	3,607	147	76	(39)	3,985	190	109	332
Cash flow hedging								
Interest rate contracts	31,548	430	1,541	913	34,947	290	2,414	(1,814)
Total	35,155	577	1,617	874	38,932	480	2,523	(1,482)

(1) The change in fair value used for hedge ineffectiveness includes instruments that were derecognised in the year.

Hedge ineffectiveness

Hedge ineffectiveness recognised in other operating income comprised.

	2023 £m	2022 £m
Fair value hedging		
Gain/(loss) on hedged items attributable to the hedged risk	40	(324)
(Loss)/gain on the hedging instruments	(39)	332
Fair value hedging ineffectiveness	1	8
Cash flow hedging		
Interest rate risk	6	(18)
Cash flow hedging ineffectiveness	6	(18)
Total	7	(10)

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).

11 Derivatives continued

Maturity of notional hedging contracts

The following table shows the period in which the notional of hedging contract ends.

2023	0-3 months £m	3-12 months £m	1-3 years £m	3-5 years £m	5-10 years £m	Over 10 years £m	Total £m
Fair value hedging							
Interest rate risk							
Hedging assets	11	27	208	184	428	984	1,842
Hedging liabilities	392	-	-	1,373	-	-	1,765
2022							
Fair value hedging							
Interest rate risk							
Hedging assets	7	58	250	208	481	1,029	2,033
Hedging liabilities	-	1,537	415	-	-	-	1,952
2023							
Cash flow hedging							
Interest rate risk							
Hedging assets	-	389	12,667	12,248	1,523	-	26,827
Hedging liabilities	-	-	3,102	767	852	-	4,721
2022							
Cash flow hedging							
Interest rate risk							
Hedging assets	525	4,393	12,704	12,461	1,748	-	31,831
Hedging liabilities	233	1,500	49	468	866	-	3,116

Average fixed interest rates

Average fixed rate for cash flow hedges, interest rate risk.

2023	0-3 months %	3-12 months %	1-3 years %	3-5 years %	5-10 years %	Over 10 years %	Total %
Average fixed interest rate							
Hedging assets	-	4.74	0.88	3.43	1.34	-	2.13
Hedging liabilities	-	-	5.03	0.91	1.92	-	3.80
2022							
Average fixed interest rate							
Hedging assets	1.16	0.98	0.84	1.91	0.80	-	1.28
Hedging liabilities	0.38	1.00	0.82	0.79	0.78	-	0.86

11 Derivatives continued

Analysis of hedged items and related hedging derivatives

The table below analyses assets and liabilities, including intercompany subject to hedging derivatives.

2023	Carrying value of hedged assets and liabilities £m	Impact on hedged items included in carrying value £m	Changes in fair value used as a basis to determine ineffectiveness (1) £m
Fair value hedging - interest rate			
Loans to banks and customers - amortised cost (2)	**1,710**	**(140)**	**62**
Other financial liabilities - debt securities in issue	**1,393**	**(1)**	**(10)**
Subordinated liabilities	**394**	**1**	**(12)**
Total	**1,787**	**-**	**(22)**

2022			
Fair value hedging - interest rate			
Loans to banks and customers - amortised cost (2)	1,831	(216)	(437)
Other financial liabilities - debt securities in issue	408	(12)	25
Subordinated liabilities	1,507	(32)	88
Total	1,915	(44)	113

2023			
Cash flow hedging - interest rate			
Loans to banks and customers - amortised cost (3)	**26,827**		**(1,083)**
Bank and customer deposits	**4,721**		**176**

2022			
Cash flow hedging - interest rate			
Loans to banks and customers - amortised cost (3)	31,831		2,006
Bank and customer deposits	3,116		(210)

(1) The change in fair value used for hedge ineffectiveness includes instruments that were derecognised in the year.
(2) Carrying values include £10 million (2022 - £11 million) adjustment for discontinued fair value hedges.
(3) Includes cash and balances at central banks.

11 Derivatives continued

The following shows analysis of the pre-tax cash flow hedge reserve.

	Cash flow hedge reserve	
	2023	2022
	£m	£m
Continuing		
Interest rate risk	**(845)**	(2,058)
De-designated		
Interest rate risk	**(179)**	4
Total	**(1,024)**	(2,054)

	Cash flow hedge reserve	
	2023	2022
	£m	£m
Amount recognised in equity		
Interest rate risk	**72**	(1,952)
Amount transferred from equity to earnings		
Interest rate risk to net interest income	**951**	135
Interest rate risk to non interest income (1)	**7**	14
Total	**958**	149

(1) There was £7 million (2022 - £14 million) reclassified with the cash flow reserve to earnings due to forecasted cash flows that are no longer expected to occur.

12 Loan impairment provisions

Loan exposure and impairment metrics

The table below summarises loan and related credit impairment measures within the scope of ECL framework.

	2023 £m	2022 £m
Loans - amortised cost		
Stage 1	**30,556**	30,433
Stage 2	**4,967**	8,094
Stage 3	**993**	1,009
Inter-group	**28,455**	21,638
	64,971	61,174
ECL provisions (2)		
Stage 1	**93**	88
Stage 2	**159**	177
Stage 3	**375**	372
Inter-group	**26**	27
	653	664
ECL provision coverage (1)		
Stage 1 (%)	**0.30**	0.29
Stage 2 (%)	**3.20**	2.19
Stage 3 (%)	**37.76**	36.87
Inter-group (%)	**0.09**	0.12
	1.72	1.61
Impairment (releases)/losses		
ECL (release)/charge		
Stage 1	**(80)**	(57)
Stage 2	**95**	23
Stage 3	**31**	30
Inter-group	**(2)**	24
	44	20
Amounts written off	**69**	78

(1) ECL provisions coverage is calculated as ECL provisions divided by third party loans – amortised cost and FVOCI. It is calculated on loans and total ECL provisions, including ECL for other (non-loan) assets and unutilised exposure. Some segments with a high proportion of debt securities or unutilised exposure may result in a not meaningful coverage ratio.
(2) The table shows gross loans only and excludes amounts that are outside the scope of the ECL framework. Refer to page 30 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 £23.4 billion (2022 – £33.7 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

Accounting policy 2.2 sets out how the expected loss approach is applied. At 31 December 2023, customer loan impairment provisions amounted to £653 million (2022 - £664 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 judgements 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

Refer to Credit risk – IFRS 9 ECL model design principles section for further details.

Approach for multiple economic scenarios (MES)

The base scenario plays a greater part in the calculation of ECL than the approach to MES. Refer to Credit risk – Economic loss drivers – Probability weightings of scenarios section for further details.

13 Other assets

	2023 £m	2022 £m
Other financial assets	**183**	68
Investments in Group undertakings (Note 14)	**9**	6
Property, plant and equipment	**108**	120
Accrued income	**31**	42
Deferred tax (Note 7)	**901**	1,048
Acceptances	**168**	85
Other assets	**21**	13
Total	**1,421**	1,382

14 Investments in Group undertakings

Investments in Group undertakings are carried at cost less impairment losses as follows.

	2023 £m	2022 £m
At 1 January	**6**	6
Disposals	**-**	-
Net reversal of impairments of investments	**3**	-
At 31 December	**9**	6

The reversal of impairment in 2023 is related to RBS plc's investment in The One Account.

The sole subsidiary undertaking of RBS plc is owned directly and has an accounting reference date of 31 December. Refer to Note 29 for details of all related undertakings.

15 Subordinated liabilities

The following table analyses intercompany subordinated liabilities. These balances are included in amounts due to holding companies and fellow subsidiaries on the balance sheet.

Dated loan capital		First call date	Maturity date	Capital treatment	2023 £m	2022 £m
$1,850 million	5.182% notes	Dec-23	Dec-28	Tier 2	**394**	1,507

16 Other liabilities

	2023 £m	2022 £m
Lease liabilities	60	107
Provisions for liabilities and charges	123	127
Accruals	74	57
Deferred income	48	45
Current tax	337	265
Acceptances	168	85
Other liabilities	6	22
Total	816	708

Provisions for liabilities and charges	Redress and other Litigation £m	Property £m	Financial commitments and guarantees £m	Other £m	Total £m
At 1 January 2023	84	23	18	2	127
Expected credit losses impairment release	-	-	(5)	-	(5)
Charge to income statement	45	7	-	2	54
Releases to income statement	(9)	(12)	-	(1)	(22)
Provisions utilised	(24)	(5)	-	(2)	(31)
At 31 December 2023	96	13	13	1	123

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.

For accounting policy information refer to Accounting policy 2.3.

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.

- Customer redress and litigation: Provisions reflect the estimated cost of redress attributable to claims where it is determined that a present obligation exists.
- Property: This includes provision for contractual costs associated with vacant properties.
- 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 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.

17 Share capital and reserves

	2023	2022	Number of shares 2023	Number of shares 2022
Allotted, called up and fully paid	£m	£m	000s	000s
Ordinary shares of £1	**20**	20	**19,500**	19,500

Ordinary shares

No ordinary shares were issued during 2023 or 2022.

In 2023, RBS plc paid an ordinary dividend of £1.14 billion to NWH Ltd (2022 - £0.85 billion).

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.

	2023	2022
	£m	£m
Additional Tier 1 instruments		
US$1,350 million 3.9683% instruments callable August 2023(1)	-	470
GBP£500 million 6.8543% instruments callable May 2027	500	500
	500	970

(1) Coupon reset on 15 August 2022 from 6.49% to 3.9683%. Instrument was partially redeemed in 2022 for £540 million. The remainder of the Instrument was redeemed in 2023 for £513 million.

Capital recognised for regulatory purposes cannot be redeemed without Prudential Regulation Authority consent. This includes ordinary shares and additional Tier 1 instruments.

For accounting policy information refer to Accounting policy 3.5.

18 Unconsolidated structured entities

RBS plc has lending to unconsolidated structured entities of £112 million (2022 - £122 million) and loan commitments of £33 million (2022 – £46 million).

19 Capital resources

Regulatory capital is assessed against minimum requirements that are set out under the UK 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 for RBS plc are set out below.

	2023 £m	2022 £m
Shareholders' equity (excluding non-controlling interests)		
Shareholders' equity	**3,103**	2,661
Other equity instruments	**(500)**	(970)
	2,603	1,691
Regulatory adjustments and deductions		
Cash flow hedging reserve	**737**	1,479
Deferred tax assets	**(587)**	(439)
Prudential valuation adjustments	**(3)**	(2)
Adjustment under IFRS 9 transitional arrangements	**40**	71
Foreseeable dividends	**(748)**	(650)
Insufficient coverage for non-performing exposures	**-**	(1)
	(561)	458
CET1 capital	**2,042**	2,149
Additional Tier 1 (AT1) capital		
Qualifying instruments and related share premium	**500**	970
	500	970
Tier 1 capital	**2,542**	3,119
Qualifying Tier 2 capital		
Qualifying instruments and related share premium	**390**	1,537
Other regulatory adjustments	**66**	59
Tier 2 capital	**456**	1,596
Total regulatory capital	**2,998**	4,715

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.

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 2023. 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.

For accounting policy information refer to Accounting policy 2.3.

	2023 £m	2022 £m
Contingent liabilities and commitments		
Guarantees	**338**	367
Other contingent liabilities	**315**	441
Standby facilities, credit lines and other commitments	**15,778**	17,202
Total	**16,431**	18,010

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.

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 £5 million (2022 - £5 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 various legal proceedings and are involved in, or subject to, various 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 the 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 the probability of a liability, if any, arising can reasonably be estimated in respect of any Matter. 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 Matters that are at an early stage in their development or where claimants seek substantial or indeterminate damages.

20 Memorandum items continued

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 or contesting Matters, even for those for which NatWest Group believes it has credible defences and should prevail on the merits. The uncertainties inherent in all Matters affect the amount and timing of any potential economic outflows for both Matters with respect to which provisions have been established and other contingent liabilities in respect of any such Matter.

It is not practicable to provide an aggregate estimate of potential liability for our Matters as a class of contingent liabilities.

The future economic outflow in respect of any Matter may ultimately prove to be substantially greater than, or less than, the aggregate provision, if any, that NatWest Group has recognised in respect of such Matter. Where a reliable estimate of the economic outflow cannot be reasonably made, no provision has been recognised. NatWest Group expects that in future periods, additional provisions and economic outflows relating to Matters that may or may not be currently known by NatWest Group will be necessary, in amounts that are expected to be substantial in some instances. Refer to Note 16 for information on material provisions.

Matters which are, or could be material, either individually or in aggregate, having regard to NatWest Group considered as a whole, in which RBS plc is currently involved are set out below. We have provided information on the procedural history of certain Matters, where we believe appropriate, to aid the understanding of the Matter.

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.

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

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. NatWest Group expects government and regulatory intervention in financial services to be high for the foreseeable future, including increased scrutiny from competition and other regulators in the retail and SME business sectors.

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.

Investment advice review

In 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. The Skilled Person's review has concluded and, after discussion with the FCA, NatWest Group is undertaking additional review / remediation work.

Reviews into customer account closures

In July 2023, NatWest Group plc commissioned an independent review by the law firm Travers Smith LLP into issues that had arisen from treatment of a customer in connection with an account closure decision that attracted significant public attention and certain related interactions with the media. NatWest Group plc has received reports in connection with that review (and in October and December 2023 published summaries of the key findings and recommendations).

In addition, NatWest Group plc is conducting internal reviews with respect to certain governance processes, policies, systems and controls of NatWest Group entities, including with respect to customer account closures.

The FCA is conducting supervisory work into how the governance, systems and controls of NatWest Group and Coutts & Company are working, to identify and address any significant shortcomings.

21 Non-cash and other items

This note shows non-cash items adjusted for in the cash flow statement and movement in operating assets and liabilities.

	2023 £m	2022 £m
Impairment losses	**44**	20
Depreciation and amortisation	**13**	21
Net reversal of impairments of investments in group undertakings	**(3)**	-
Change in fair value taken to profit or loss on other liabilities and subordinated liabilities	**43**	(110)
Elimination of foreign exchange differences	**79**	(336)
Other non-cash items	**950**	158
Dividends receivable from subsidiaries	**(5)**	(8)
Loss on sale of net assets and liabilities	**-**	24
(Profit)/loss on sale of property, plant and equipment	**(27)**	1
Interest payable on MRELs and subordinated liabilities	**124**	95
Charges and releases on provisions	**32**	(10)
Defined benefit pension schemes	**5**	7
Non-cash and other items	**1,255**	(138)
Change in operating assets assets and liabilities		
Change in derivative assets	**(53)**	(2,230)
Change in loans to banks	**48**	(5)
Change in loans to customers	**2,809**	3,750
Change in amounts due from holding companies and fellow subsidiaries	**(3,768)**	(2,862)
Change in other assets	**(192)**	88
Change in bank deposits	**41**	(131)
Change in customer deposits	**(5,802)**	(6,599)
Change in amounts due to holding companies and fellow subsidiaries	**(205)**	(1,073)
Change in derivative liabilities	**(751)**	1,856
Change in notes in circulation	**21**	265
Change in other liabilities	**15**	(205)
Change in operating assets and liabilities	**(7,837)**	(7,146)

22 Analysis of changes in financing during the year

	Share capital, share premium, and paid-in equity		Subordinated liabilities (1)		MRELs (2)	
	2023	2022	2023	2022	2023	2022
	£m	£m	£m	£m	£m	£m
At 1 January	**990**	989	**1,507**	1,427	**408**	387
Issue of paid-in equity	**-**	500				
Redemption of paid-in equity	**(513)**	(540)				
Redemption and maturity of subordinated liabilities			**(1,059)**	-		
Interest paid on subordinated liabilities			**(77)**	(78)		
Issue of MRELs					**991**	-
Interest paid on MRELs					**(32)**	(16)
Net cash flows from financing activities	**(513)**	(40)	**(1,136)**	(78)	**959**	(16)
Effects of foreign exchange	**-**	-	**(85)**	165	**(33)**	45
Changes in fair value of subordinated liabilities and MRELs			**33**	(85)	**10**	(25)
Interest payable on subordinated liabilities and MRELs			**75**	78	**49**	17
Other	**43**	41	**-**	-	**-**	-
At 31 December	**520**	990	**394**	1,507	**1,393**	408

(1) Subordinated liabilities are included within amounts due to holding companies and fellow subsidiaries.
(2) MREL balances are included in amounts due to holding companies and fellow subsidiaries.

23 Analysis of cash and cash equivalents

In the cash flow statement, cash and cash equivalents comprises cash and loans to banks with an original maturity of less than three months that are readily convertible to known amounts of cash and subject to insignificant risk of change in value.

	2023	2022
	£m	£m
Cash and balances at central banks	**23,984**	34,323
Loans to banks including intragroup balances	**22,347**	19,306
Cash and cash equivalents	**46,331**	53,629

24 Directors' and key management remuneration

The composition of RBS plc's board of directors is aligned to that of 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	2023 £000	2022 £000
Non-executive directors emoluments	**1,852**	1,950
Chairman and executive directors emoluments	**6,408**	5,804
	8,260	7,754
Amounts receivable under long-term incentive and share option plans	**2,708**	542
	10,968	8,296

The total emoluments and amounts receivable under long-term incentive plans and share option plans of the highest paid director were £2,930,000 (2022 - £3,497,000).

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 2023 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:

	2023 £000	2022 £000
Short-term benefits	**17,244**	18,390
Post-employment benefits	**601**	594
Share-based payments	**6,104**	1,823
	23,949	20,807

(1) Key management comprises members of the NWH Ltd Executive Committee.

Short term benefits include benefits expected to be settled wholly within twelve months of the balance sheet date. Post-employment benefits include defined benefit contributions for active members and pension funding to support contributions to the defined contribution schemes. Share-based payments include awards vesting under rewards schemes.

25 Transactions with directors and key management

For the purposes of IAS 24 Related party disclosures, key management comprises directors of RBS plc and members of RBS plc's Executive Committee. 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.

Amounts in the table below are attributed to each person at their highest level of NatWest Group key management and relate to those who were key management at any time during the financial period.

	At 31 December	
	2023 £000	2022 £000
Loans to customers - amortised cost	**10,579**	11,172
Customer deposits	**48,595**	42,932

At 31 December 2023, amounts outstanding in relation to transactions, arrangements and agreements entered into by RBS plc, as defined in UK legislation, were £8,408,984 in respect of loans to eleven persons who were directors of RBS plc at any time during the financial period (2022 - £9,636,586).

26 Related parties

UK Government

UK Government through HM Treasury is the controlling shareholder of NatWest Group plc as per UK Listing rules. The UK Government's shareholding is managed by UK Government Investments Limited, a company wholly owned by the UK Government. At 31 December 2023, HM Treasury's holding in NatWest Group's ordinary shares was 37.97%. As a result, the UK Government and UK Government controlled bodies are related parties of the Group.

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 0.382% 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. To further strategic partnerships, RBS plc may seek to invest in third parties or allow third parties to hold a minority interest in a subsidiary of NatWest Group. We disclose as related parties for associates and joint ventures and where equity interest are over 10%. Ongoing business transactions with these entities are on normal commercial terms.

At 31 December 2023 RBS plc held equity interests over 10% amounting to £1 million (2022- nil). At 31 December 2023 there were balances within Loans to customers- amortised cost of £11 million (2022 - nil) and customer deposits of £10 million (2022 - £4 million) relating to equity interests over 10%.

Post employment benefits

NatWest Group recharges NatWest Group Pension Fund with the cost of pension management services incurred by it.

26 Related parties continued

Holding companies and fellow subsidiaries

Transactions RBS plc enters with its holding companies and fellow subsidiaries also meet definition of related party transactions. The table below discloses transactions between RBS plc and fellow subsidiaries of NatWest Group.

	2023			2022		
	Holding company £m	Fellow subsidiaries £m	Total £m	Holding company £m	Fellow subsidiaries £m	Total £m
Interest receivable	-	1,177	1,177	-	320	320
Interest payable	(113)	(113)	(226)	(95)	(12)	(107)
Fees and commissions receivable	-	27	27	-	36	36
Fees and commissions payable	-	(21)	(21)	-	(27)	(27)
Other administration expenses (1)	-	(740)	(740)	-	(759)	(759)
Impairment (losses)/releases	2	-	2	(23)	-	(23)
	(111)	330	219	(118)	(442)	(560)

(1) Internal service recharges of £740 million (2022 - £759 million).

The below table discloses amounts due from or to holding companies and fellow subsidiaries.

	2023			2022		
	Holding companies £m	Fellow subsidiaries £m	Total £m	Holding companies £m	Fellow subsidiaries £m	Total £m
Assets						
Loans to banks - amortised cost	-	21,516	21,516	-	18,511	18,511
Loans to customers - amortised cost	-	6,913	6,913	-	3,099	3,099
Other assets	-	68	68	-	112	112
Amounts due from holding companies and fellow subsidiaries	-	28,497	28,497	-	21,722	21,722
Derivatives (1)	-	623	623	-	498	498
Liabilities						
Bank deposits - amortised cost	-	1,153	1,153	-	1,016	1,016
Customer deposits - amortised cost	-	335	335	-	624	624
Other financial liabilities - subordinated liabilities (2)	394	-	394	1,507	-	1,507
MREL instruments issued to NatWest Holdings Limited	1,393	-	1,393	408	-	408
Other liabilities	9	293	302	15	340	355
Amounts due to holding companies and fellow subsidiaries	1,796	1,781	3,577	1,930	1,980	3,910
Derivatives (1)	-	1,932	1,932	-	2,681	2,681

(1) Intercompany derivatives are included within the derivative classification on the balance sheet.
(2) $1,850 million fixed rate subordinated notes. Refer Note 15.

There was £1.0 billion (2022 - £1.0 billion) of RBS plc commitments and guarantees related to transactions with fellow group companies outstanding at the balance sheet date.

27 Ultimate holding company

RBS plc's ultimate holding company is NatWest Group plc and its intermediate parent company is NatWest Holdings Ltd ('NWH Ltd' or 'the intermediate holding company').

NatWest Group plc is incorporated in the United Kingdom registered in Scotland and NWH Ltd is registered in England. As at 31 December 2023, NatWest Group plc heads the largest group in which RBS plc is consolidated (through NWH Ltd). Copies of the consolidated accounts may be obtained from Legal, Governance & Regulatory Affairs, NatWest Group plc, Gogarburn, PO Box 1000, Edinburgh EH12 1HQ, the Registrar of Companies or at natwestgroup.com.

Following placing and open offers by NatWest Group plc in December 2008 and April 2009, the UK Government, through HM Treasury, held 37.97% (at 31 December 2023) of the issued ordinary share capital of the ultimate holding company and is therefore RBS plc's ultimate controlling party.

28 Post balance sheet events

There have been no other significant events between 31 December 2023 and the date of approval of these accounts which would require a change to or additional disclosure in the accounts.

29 Related undertakings

Legal entities and activities at 31 December 2023

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 V) and the definitions in Article 4 of the UK Capital Requirements Regulation.

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	Entity Name	Activity	Regulatory treatment	Group %	Notes
The One Account Ltd	BF	FC	1	Oaxaca	OTH	IA	0	2

Key:
Activity
BF Banking and financial institution
Regulatory treatment
FC Full consolidation

	Registered addresses	Country of incorporation
1	250 Bishopsgate, London, EC2M 4AA, England	UK
2	5 Little Portland Street, London, W1W 7JD, England	UK