NatWest Group

2021 Annual Report and Accounts

The Royal Bank of Scotland plc

Strategic report

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 subsidiary and associated undertakings.

RBS plc publishes its financial statements in pounds sterling ('£' or 'sterling'). The abbreviations '£m' and '£bn' represent millions and thousands of millions of pounds sterling ('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 principal entities under NWH Ltd are National Westminster Bank Plc (which wholly owns Coutts & Company and Ulster Bank Limited), The Royal Bank of Scotland plc and Ulster Bank Ireland DAC (UBIDAC).

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

Central items & other comprises corporate treasury activity on behalf of RBS plc and it's fellow subsidiaries and RBS plc's corporate service and functions activities.

Performance overview

Profit for 2021 was £776 million, compared with £366 million in 2020, reflecting a net impairment release of £360 million, due to continued low levels of realised losses to date.

Total income in 2021 was £1,775 million, compared with £1,932 million in 2020, impacted by the continued run-off of mortgage portfolios in Retail Banking, with intermediary new lending being originated through the NatWest Bank business.

Operating expenses in 2021 were £1,114 million, compared with £874 million in 2020, primarily due to an £85 million goodwill impairment and £105 million PPI conduct provision release in 2020.

The net impairment release of £360 million for 2021, compared with a £690 million loss in 2020, principally reflects releases in non-default portfolios and the low level of realised losses.

An operating profit before tax of £1,021 million was mainly driven by £139 million in Retail Banking, £743 million profit in Commercial Banking and £120 million relating to Central items & other.

The CET1 capital ratio decreased in 2021 to 13.7% from 17.6% reflecting a decrease in CET1 capital, predominantly due to dividends paid and a £5.5 billion decrease in RWAs.

RWAs decreased to £19.6 billion, reflecting a £4.7 billion decrease in credit risk RWAs as well as a £0.8 billion decrease in operational risk RWAs following the annual recalculation in the first quarter of 2021. The decrease in credit risk RWAs was largely attributed to repayments and expired facilities in Commercial Banking.

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 2021, they remained customers, colleagues, communities, investors, regulators and suppliers. 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 75 (corporate governance statement).

Supporting effective Board discussions and decision-making

NatWest Group's purpose – *championing potential, helping people, families and businesses to thrive* - continues to influence Board discussions and decision-making.

Board and Committee terms of reference reinforce the importance of considering both NatWest Group's purpose and the matters set out in section 172. The Board and Committee paper template includes a section for authors to explain how the proposal or update aligns with NatWest Group's purpose and a separate section for them to include an assessment of the relevant stakeholder impacts for the directors to consider.

Directors are mindful that it is not always possible to achieve an outcome which meets the requirements, needs and/or expectations of all stakeholders who are, or may be, impacted. For decisions which are particularly challenging or complex, an additional page was introduced to the Board and Committee paper template in 2021 which provides directors with further information to support purposeful decision-making. This additional page uses Blueprint for Better Business as a base and is aligned to NatWest Group's broader purpose framework.

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 describes an example of a principal decision taken by the Board during 2021. Further information on the Board's principal activities can be found in the corporate governance statement on pages 71 to 76.

Key

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 – Approving capital distributions

Factors considered: A C

What was the decision-making process?

During 2021, the Board approved two interim dividends. The Board received comprehensive papers from management and its decisions were informed by 2021 capital plans as well as regular updates on the financial and capital positions of RBS plc.

The Board Risk Committee also reviewed all capital distribution proposals in advance of Board consideration and recommended them to the Board for approval.

How did the directors fulfil their duties under section 172(1)? How were stakeholder interests considered?

In taking decisions, the directors were mindful of their duties under section 172(1). Each dividend proposal included a stakeholder overview which set out relevant stakeholder impacts and considerations.

How was NatWest Group's purpose considered as part of the decision?

The Board is aware that in taking decisions on capital distributions, it also needs to consider the financial implications of those decisions in terms of continuing to support customers and maintaining financial stability.

Actions and outcomes

The Board approved an interim dividend of £1 billion which was paid on 27 May 2021 and an interim dividend of £1.1 billion which was paid on 30 July 2021 with both interim dividends payable to NWH Ltd as the sole shareholder.

Further details on how NatWest Group engages with its stakeholders can be found in the NatWest Group 2021 Annual Report and Accounts and at natwestgroup.com.

Board of directors and secretary

Approval of Strategic report

The Strategic report for the year ended 31 December 2021 set out on pages 1 to 70 was approved by the Board of directors on 17 February 2022.

By order of the Board
Jan Cargill
Chief Governance Officer and Company Secretary
17 February 2022

Chairman
Howard Davies

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

Non-executive directors

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

Board and committees

Chairman
Howard Davies
Nominations (Chairman)

Executive directors
Alison Rose
Katie Murray

Independent non-executive directors
Francesca Barnes

Graham Beale
Senior Independent Director
Audit, Nominations, Risk

Ian Cormack
Audit, Remuneration, Risk

Patrick Flynn
Audit (Chairman), Nominations, Risk

Morten Friis
Risk (Chairman), Audit, Nominations

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

Yasmin Jetha

Mike Rogers
Remuneration

Mark Seligman
Audit, Nominations, Remuneration

Lena Wilson
Remuneration, Risk

Chief Governance Officer and Company Secretary
Jan Cargill

Auditor
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Edinburgh EH2 1AF

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

Key:

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

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

Financial review

Financial summary

Summary income statement for the year ended 31 December 2021

	Retail Banking £m	Private Banking £m	Commercial Banking £m	Central items & other £m	31 December 2021 £m	31 December 2020 £m	Variance £m	Variance %
Net interest income	**637**	**27**	**642**	**36**	**1,342**	1,529	*(187)*	*(12)*
Non-interest income	**74**	**74**	**207**	**78**	**433**	403	*30*	*7*
Total income	**711**	**101**	**849**	**114**	**1,775**	1,932	*(157)*	*(8)*
Operating expenses	**(587)**	**(85)**	**(442)**	**—**	**(1,114)**	(874)	*(240)*	*27*
Profit/(loss) before impairment releases/(losses)	**124**	**16**	**407**	**114**	**661**	1,058	*(397)*	*(38)*
Impairment releases/(losses)	**15**	**3**	**336**	**6**	**360**	(690)	*1,050*	*(152)*
Operating profit/(loss)	**139**	**19**	**743**	**120**	**1,021**	368	*653*	*177*
Tax charge					**(245)**	(2)	*(243)*	*12,150*
Profit for the year					**776**	366	*410*	*112*

Key metrics and ratios		
Cost:income ratio (%)	**62.8**	45.2
Loan impairment rate (bps) (1)	**(0.84)**	1.38
CET1 ratio (%)	**13.7**	17.6
Leverage ratio (%)	**4.1**	6.3
Risk weighted assets (£bn)	**19.6**	25.1
Loan:deposit ratio (%)	**46**	58

(1) Loan impairment rate is the loan impairment charge divided by gross customer loans.

RBS plc reported a profit of £776 million, compared with £366 million in 2020, driven by a net impairment release of £360 million, reflecting the continued low levels of realised losses.

Net interest income decreased by £187 million to £1,342 million compared with £1,529 million in 2020, due to continued reduction in lending assets and lower yield curve.

Non-interest income increased by £30 million to £433 million compared with £403 million in 2020.

Net fees and commissions decreased by £54 million, or 16%, to £278 million driven primarily by one-off intra-group fees incurred and reduced net fees and commissions income in Commercial Banking and Retail Banking.

Other operating income increased by £84 million to £155 million compared with £71 million in 2020, primarily reflecting:

- £54 million consideration on the sale of Adam & Company's investment management business on 1 October 2021; and
- £28 million higher income from hedging activities and fair value movements, reflecting interest rate volatility.

Operating expenses increased by £240 million to £1,114 million compared with £874 million in 2020, predominantly reflecting one-off items:

- £85 million goodwill impairment; and
- £105 million comparative impact from PPI provision releases in 2020.

Operating expenses, excluding strategic and one-off costs, reduced by £40 million primarily reflecting cost efficiencies and headcount reduction.

Net impairment release of £360 million, compared with a £690 million loss in 2020, principally reflecting releases in non-default portfolios and the low level of realised losses. Total impairment provisions on loans reduced by £652 million to £707 million in the year, which resulted in a reduction in the ECL provision coverage ratio from 2.66% as at 31 December 2020 to 1.61%.

Operating profit before tax of £1,021 million included £139 million relating to Retail Banking, which decreased by £234 million compared to 2020 due to the continued run-off of mortgage portfolios.

Operating profit before tax in Commercial Banking increased by £795 million to £743 million, primarily due to net impairment releases of £336 million in 2021 reflecting impairment provision releases in non-default portfolios and impairment losses of £549 million in 2020.

Operating profit before tax of £120 million in Central items & other primarily reflects income from hedging activities and fair value movements.

Financial summary
Summary balance sheet as at 31 December 2021

	2021	2020	Variance	
	£m	£m	£m	%
Assets				
Cash and balances at central banks	**38,014**	26,927	*11,087*	*41*
Derivatives	**220**	745	*(525)*	*(70)*
Loans to banks - amortised cost	**1,147**	1,184	*(37)*	*(3)*
Loans to customers - amortised cost	**42,035**	48,781	*(6,746)*	*(14)*
Amounts due from holding companies and fellow subsidiaries	**23,941**	20,873	*3,068*	*15*
Other assets	**738**	732	*6*	*1*
Total assets	**106,095**	99,242	*6,853*	*7*
Liabilities				
Bank deposits	**1,117**	1,152	*(35)*	*(3)*
Customer deposits	**92,144**	84,628	*7,516*	*9*
Amounts due to holding companies and fellow subsidiaries	**5,216**	4,521	*695*	*15*
Derivatives	**827**	788	*39*	*5*
Notes in circulation	**2,144**	1,643	*501*	*30*
Other liabilities	**900**	840	*60*	*7*
Total liabilities	**102,348**	93,572	*8,776*	*9*
Total equity	**3,747**	5,670	*(1,923)*	*(34)*
Total liabilities and equity	**106,095**	99,242	*6,853*	*7*

Total assets increased by £6.9 billion to £106.1 billion at 31 December 2021, compared with £99.2 billion at 31 December 2020, primarily due to an increase in cash and other liquidity assets of £14.1 billion. This was partially offset by reduction of lending assets due to the continued run-off of mortgage portfolios and contraction of Commercial Banking lending.

Cash and balances at central banks of £38.0 billion represent placement of surplus funds with the Bank of England of £34.9 billion, £2.5 billion of cash with the central bank backing the RBS plc bank note issuance and £0.5 billion of cash held at branches and cash machines.

Loans to customers – amortised cost decreased by £6.8 billion to £42.0 billion, compared with £48.8 billion as at 31 December 2020, driven by:
- a £2.0 billion decrease in Retail Banking due to the continued run-off of mortgage portfolio; and
- a £4.4 billion decrease in Commercial banking due to loan and revolving credit facility repayments and continued customer-level transfers to NatWest Bank Plc.

Amounts due from holding companies and fellow subsidiaries of £24.0 billion reflects surplus funds placed on a short-term basis with NatWest Bank Plc and its subsidiaries. The increase of £3.1 billion from £20.9 billion in 2020 was driven by cash inflows from growth in customer deposits and reduced lending.

Customer deposits increased by £7.5 billion to £92.1 billion, primarily due to increases in demand interest-bearing and savings deposits, as customers continued to build and retain liquidity in light of economic uncertainty.

Amounts due to holding companies and fellow subsidiaries of £5.2 billion includes short term deposits from other entities in NatWest Group and Tier 2 issuances to NWH Ltd of £1.4 billion.

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

Notes in circulation of £2.1 billion represent the value of the RBS plc banknotes in issue.

Total equity decreased by £1.9 billion to £3.8 billion, compared with £5.7 billion as at 31 December 2020. The decrease primarily reflecting a £2.1 billion payment of ordinary dividends.

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 70) is within the scope of the Independent auditor's report. Risk and capital management is generally conducted on an overall basis within NatWest Group such that common policies, procedures, frameworks and models apply across NatWest Group. Therefore, for the most part, discussion on these qualitative aspects reflects those in NatWest Group as relevant for the businesses and operations in RBS plc.

Update on COVID-19
While the immediate disruption diminished during the year, the ongoing impacts of the global pandemic remained a significant focus for risk management in 2021 and uncertainty in the operating environment continued. RBS plc remained committed to supporting its customers while operating safely and soundly in line with its strategic objectives.

Against the backdrop of a slowly-recovering economy, the credit risk profile remains heightened and there is an expectation that the impacts of the pandemic will continue to be seen in the performance of RBS plc's portfolios for some time. RBS plc anticipates increased default levels in 2022 as a result.

While the direct impact on RBS plc's operational risk profile reduced, RBS plc continued to closely monitor the second-order impacts on its transformation agenda, with a significant focus on managing resource to protect key regulatory deliveries. The continued evolution of RBS plc's ways of working – to include large-scale working from home – also required significant operational risk focus, particularly in terms of business resilience.

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

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

The framework ensures that RBS plc's principal risks – which are detailed in this section – are appropriately controlled and managed. 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 risks, which are those that could have a significant negative impact on RBS plc's ability to meet its strategic objectives. A complementary process operates to identify emerging risks. Both top and emerging risks 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

Risk culture is at the heart of RBS plc's risk management framework and its risk management practice. The risk culture target is to make risk part of the way employees work and think.

A focus on leaders as role models and action to build clarity, develop capability and motivate employees to reach the required standards of behaviour are key to achieving the risk culture target. Colleagues are expected to:

- Take personal responsibility for understanding and proactively managing the risks associated with individual roles.
- Respect risk management and the part it plays in daily work.
- Understand the risks associated with individual roles.
- Align decision-making to RBS plc's risk appetite.
- Consider risk in all actions and decisions.
- Escalate risks and issues early; taking action to mitigate risks and learning from mistakes and near-misses.
- Challenge others' attitudes, ideas and actions.
- Report and communicate risks transparently.

The target risk culture behaviours are embedded in NatWest Group's Critical People Capabilities and are clearly aligned to the core values of "serving customers", "working together", "doing the right thing" and "thinking long term". These 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 can 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 risk committee structure in 2021 and the main purposes of each committee.

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

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

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

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

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

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

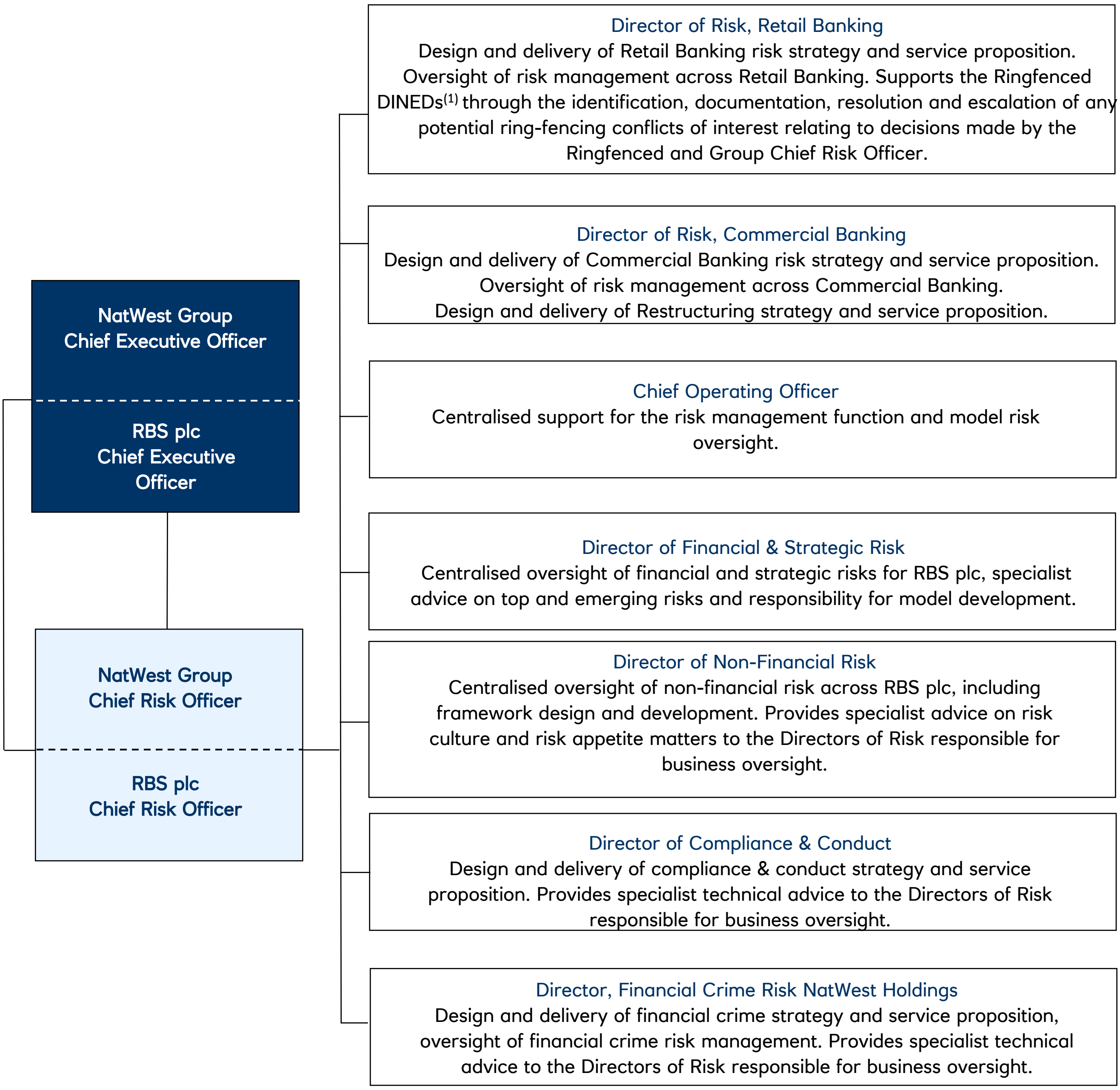
Business and function risk committees
Risk committees review and monitor all risks, providing guidance, recommendations and decisions on risks affecting the businesses and functions.

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

Risk management framework continued

Risk management structure

The diagram shows RBS plc's risk management structure in 2021 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 franchises and support functions. Its structure is divided into three parts (Directors of Risk, Specialist Risk Directors and Chief Operating Officer) to facilitate effective management of the risks facing RBS plc. Risk committees in the customer businesses and key functional risk committees oversee risk exposures arising from management and business activities and focus on ensuring that these are adequately monitored and controlled. The directors of Risk (Retail Banking; Commercial Banking; Financial & Strategic Risk; Non-Financial Risk and Compliance & Conduct) as well as the Director, Financial Crime Risk NatWest Holdings and the Chief Operating Officer report to the RBS plc Chief Risk Officer.

Risk 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 franchises, Technology and Services as well as support functions such as Human Resources, Legal and Finance.

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

The first line of defence is responsible for managing its direct risks. With the support of specialist functions such as Legal, Human Resources and Technology, it is also responsible for managing its consequential risks by identifying, assessing, mitigating, monitoring and reporting risks.

Second line of defence

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

The second line of defence is empowered to design and maintain the risk management framework and its components. It undertakes proactive risk oversight and continuous monitoring activities to confirm that NatWest Group engages in permissible and sustainable risk-taking activities.

The second line of defence advises on, monitors, challenges, approves, escalates and reports on the risk-taking activities of the first line, ensuring that these are within the constraints of the risk management framework and policies as well as the risk appetite statements set by NatWest Group and measures set by the Board.

Third line of defence

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

The third line of defence is responsible for providing independent and objective assurance to the Board, its subsidiary legal entity boards and executive management on the adequacy and effectiveness of key internal controls, governance and the risk management in place to monitor, manage and mitigate the key risks to NatWest Group and its subsidiary companies achieving their objectives.

The third line of defence executes its duties freely and objectively in accordance with the Chartered Institute of Internal Auditors' Code of Ethics and International Standards.

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 risks 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 annual review of the framework is carried out. The review includes:
- Assessing the adequacy of the framework when 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.

The Board approves the risk appetite framework annually.

Establishing risk appetite

In line with NatWest Group's 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 annual 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.

RBS plc's risk profile is frequently reviewed and monitored. Management focus is concentrated on all principal risks as well as the top and emerging risk issues which 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 comprise:

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

The financial and non-financial risks that RBS plc faces are detailed in its Risk Directory. This provides a common risk language to ensure consistent terminology is used across RBS plc. The Risk Directory is subject to annual review 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 risks 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

Targeted risk processes and controls – including controls within the scope of Section 404 of the Sarbanes-Oxley Act 2002 – are subject to independent testing and monitoring.

This activity is carried out to confirm to both internal and external stakeholders – including the Board, senior management, the customer-facing franchises, Internal Audit and RBS plc's regulators – that such processes and controls are being correctly implemented and operate adequately and effectively. A consistent testing and monitoring methodology is in place across RBS plc.

Testing and monitoring activity focuses on processes and controls relating to credit risk, financial crime risk, operational resilience, and compliance and conduct risk. However, a range of controls and processes relating to other risk types is also subject to testing and monitoring activity as deemed appropriate within the context of a robust 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. Key risk mitigating actions are documented in NatWest Group's recovery plan.

Capital sufficiency – going concern forward-looking view

Going concern capital requirements are examined on a forward-looking basis – including as part of the annual budgeting process – by assessing the resilience of capital adequacy and leverage ratios under hypothetical future states. These assessments include assumptions about regulatory and accounting factors (such as IFRS 9). They 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 risks on the balance sheet. Limit frameworks are in place to control the level of liquidity risk, asset and liability mismatches and funding concentrations. Liquidity risks are reviewed at significant legal entity and business levels daily, with performance reported to the Asset & Liability Management Committee on a regular basis. Liquidity Condition Indicators are monitored daily. This ensures any build-up of stress is detected early and the response escalated appropriately through recovery planning.

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 updated annually. The plan is reviewed and approved by the Board prior to submission to the PRA each year. Individual recovery plans are also prepared for NatWest Holdings Limited, NatWest Markets Plc, RBS International (Holdings) Limited, Ulster Bank Ireland DAC and NatWest Markets N.V.. These plans detail the recovery options, recovery indicators and escalation routes for each entity.

Fire drill simulations of possible recovery events are used to test the effectiveness of NatWest Group and individual legal entity recovery plans. The fire drills are designed to replicate possible financial stress conditions and allow senior management to rehearse the responses and decisions that may be required in an actual stress 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). A multi-year programme is in place to further develop resolution capability 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

During 2021, NatWest Group continuously refined and reviewed a series of internal scenarios – benchmarked against the Bank of England's illustrative scenario – as the impact of COVID-19 evolved, including actual and potential effects on economic fundamentals. These scenarios included:

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

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

Internal scenarios were also used to assess the potential impacts of severe weather events on NatWest Group's operations in the UK and India.

Regulatory stress testing

In 2021, NatWest Group participated in the regulatory stress tests conducted by the Bank of England following their suspension in 2020 as a result of COVID-19. The scenario was hypothetical in nature and does not represent a forecast of NatWest Group's future business or profitability. The results of regulatory stress tests are carefully assessed and form part of the wider risk management of NatWest Group. Following the UK's exit from the European Union on 31 December 2020, only relevant European subsidiaries of NatWest Group will take part in the European Banking Authority stress tests going forward. NatWest Group itself will not participate.

NatWest Group also took part in the Bank of England's Climate Biennial Exploratory Scenario (CBES). This exercise was designed to assess the resilience of the largest UK banks and insurers to the physical and transition risks associated with climate change. The CBES used three 30-year scenarios to explore the risks – Early Action (in which the transition to a net-zero emissions economy gets underway with carbon taxes and associated policies intensifying gradually), Late Action (in which the transition is delayed until 2031, with a sudden increase in the intensity of carbon taxes and climate policy leading to a recession) and No Additional Action (in which no new climate policies are introduced and the physical impacts of climate change are most severe). The Bank of England is expected to publish aggregate findings in 2022 though, given the exploratory nature of the exercise, it will not use CBES to set capital requirements.

Credit risk

Definition (audited)

Credit risk is the risk that customers and counterparties fail to meet their 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 credit risk appetite measures for the management of concentration risk and credit policy to establish the key causes of risk in the process of providing credit and the controls that must be in place to mitigate them.
- Approving and monitoring operational limits for business segments and credit limits for customers.
- Oversight of the first line of defence to ensure that credit risk remains within the appetite set by the Board and that controls are being operated adequately and effectively.
- Assessing the adequacy of expected credit loss (ECL) provisions including approving 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.

Risk appetite

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

Personal

The Personal credit risk appetite framework sets limits that 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.

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

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

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

Identification and measurement

Credit stewardship (audited)

Risks are identified through relationship management and credit stewardship of customers and portfolios. Credit risk stewardship takes place throughout the customer relationship, beginning with the initial approval. It includes the application of credit assessment standards, credit risk mitigation and collateral, ensuring that credit documentation is complete and appropriate, carrying out regular portfolio or customer reviews and problem debt identification and management.

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

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

Residential mortgages – RBS plc takes collateral in the form of residential property to mitigate the credit risk arising from mortgages. RBS plc values residential property 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 residential property values quarterly using the Office for National Statistics House Price Index.

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

Credit risk continued

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 typically contracted through a service agreement to ensure consistency of quality and advice. Valuations are generally commissioned when an asset is taken as security; a material increase in a facility is requested; or a default event is anticipated or has occurred. In the UK, an independent third-party market indexation is applied to update external valuations once they are more than a year old and every three years, a formal independent valuation review is commissioned.

Assessment and monitoring

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

Personal

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

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 grouped by industry sectors and geography as well as by product/asset class and are managed on an individual basis. Customers are aggregated as a single risk when sufficiently interconnected.

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

In response to COVID-19, a new framework was introduced to categorise clients in a consistent manner across the Wholesale portfolio, based on the effect of COVID-19 on their financial position and outlook in relation to the sector risk appetite. This framework has been retained and updated to consider viability impacts beyond those directly related to COVID-19 and classification via the framework is now mandatory and must be refreshed annually. The framework extends to all Wholesale borrowing customers and supplements the Risk of Credit Loss framework in assessing whether customers exhibit a SICR, if support is considered to be granting forbearance and the time it would take for customers to return to operating within transactional acceptance standards. Tailored approaches were also introduced for business banking, commercial real estate and financial institution customers.

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

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

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

Credit grades 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 which may then require intervention from the Collections and Recoveries teams.

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

Credit risk continued

Collections

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

Recoveries

The Recoveries team will issue a notice of intention to default to the customer and, if appropriate, a formal demand, while also registering the account with credit reference agencies where appropriate. Following this, the customer's debt may then be placed with a third-party debt collection agency, or alternatively a solicitor, in order to agree an affordable repayment plan with the customer. An option that may also be considered, is the sale of unsecured debt. Exposures subject to formal debt recovery are defaulted and, under IFRS 9, categorised as Stage 3.

Wholesale

Early problem identification

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

Risk of Credit Loss framework

The framework focuses on Wholesale customers whose credit profiles have deteriorated materially since origination. Expert judgment 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 – Heightened Monitoring and Risk of Credit Loss. For the purposes of provisioning, all exposures subject to the framework are categorised as Stage 2 and subject to a lifetime loss assessment. The framework also applies to those customers that have met RBS plc's default criteria (AQ10 exposures). Defaulted exposures are categorised as Stage 3 impaired for provisioning purposes.

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

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

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

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 (refer to Heightened Monitoring characteristics). Corrective actions may include granting a customer various types of concessions. Any decision to approve a concession will be a function of specific appetite, the credit quality of the customer, the market environment and the loan structure and security. All customers granted forbearance are classified Heightened Monitoring as a minimum.

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

Credit risk continued

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

Restructuring

Where customers are categorised as Risk of Credit Loss 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 the customer return to financial health and restoring a normal banking relationship is always the preferred outcome, however, where a solvent outcome is not possible, insolvency may be considered as a last resort.

Restructuring will always aim to recover capital fairly and efficiently. Throughout Restructuring's involvement, the mainstream relationship manager will remain an integral part of the customer relationship. Restructuring's work helps RBS plc remain safe and sustainable, contributing to its ability to champion potential.

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 and loan rescheduling (including extensions in contractual maturity) and capitalisation of arrears. Forbearance support is provided for both mortgages and unsecured lending.

Wholesale

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

Monitoring of forbearance

Personal

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

Wholesale

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

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

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

Five key areas may materially influence the measurement of credit impairment under IFRS 9 – two of these relate to model build and three relate to model application:
- Model build:
  - The determination of economic indicators that have most influence on credit loss for each portfolio and the severity of impact (this leverages existing stress testing models which are reviewed annually).
  - The build of term structures to extend the determination of the risk of loss beyond 12 months that will influence the impact of lifetime loss for 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.

Refer to Accounting policies 7 for further details.

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 counterparts in the following aspects:

- Unbiased – material regulatory conservatism has been removed from IFRS 9 parameters to produce unbiased estimates.
- Point-in-time – IFRS 9 parameters reflect actual economic conditions at the reporting date instead of long-run average or downturn conditions.
- Forward-looking – IFRS 9 PD estimates and, where appropriate, EAD and LGD estimates reflect forward-looking economic conditions.
- 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 use the Exogenous, Maturity and Vintage (EMV) approach to model default rates. The EMV approach separates portfolio default risk trends into three components: vintage effects (quality of new business over time), maturity effects (changes in risk relating to time on book) and exogenous effects (changes in risk relating to changes in macro-economic conditions). The EMV methodology has been widely adopted across the industry because it enables forward-looking economic information to be systematically incorporated into PD estimates.

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 Basel LGD models with bespoke adjustments to ensure estimates are unbiased and, where relevant, forward-looking.

Personal

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

Wholesale

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

EAD estimates

Personal

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

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

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

Wholesale

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

Credit risk continued

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 formal approval through provisioning governance, and were categorised as follows (business level commentary is provided below):

- Deferred model calibrations – ECL adjustments where PD model monitoring indicated that actual defaults were below estimated levels but where it was judged that an implied ECL release was not supportable due to the influence of government support schemes. As a consequence, any potential ECL release was deferred and retained on the balance sheet.
- Economic uncertainty – ECL adjustments primarily arising from uncertainties associated with multiple economic scenarios (also for 2020) and credit outcomes as a result of the effect of COVID-19 and the consequences of government support schemes. In both cases, management judged that additional ECL was required until further credit performance data became available on the behavioural and loss consequences of COVID-19.
- Other adjustments – ECL adjustments where it was judged that the modelled ECL required to be amended.

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, particularly with more observable outcomes from the unwinding of COVID-19 support schemes. A key part of the assessment is also understanding the current levels of ECL coverage (portfolio by portfolio) against pre-COVID-19 levels, recognising changes in franchise portfolio/sector mix.

ECL post model adjustments

The table below shows ECL post model adjustments.

	Retail Banking		Wholesale		
	Mortgages	Other	Commercial	Other	Total
2021	£m	£m		£m	£m
Deferred model calibrations	**11**	**17**	**11**	**—**	**39**
Economic uncertainty	**14**	**18**	**88**	**—**	**120**
Other adjustments	**10**	**—**	**—**	**—**	**10**
Total	**35**	**35**	**99**	**—**	**169**
Of which:					
- Stage 1	***2***	***—***	***3***	***—***	***5***
- Stage 2	***26***	***30***	***96***	***—***	***152***
- Stage 3	***7***	***5***	***—***	***—***	***12***
2020					
Deferred model calibrations	5	2	2	—	9
Economic uncertainty	18	14	139	—	171
Other adjustments	7	—	4	—	11
Total	30	16	145	—	191
Of which:					
- Stage 1	*3*	*2*	*9*	—	***14***
- Stage 2	*23*	*14*	*136*	—	***173***
- Stage 3	*4*	—	—	—	***4***

Credit risk continued

- While in aggregate the post model adjustments have seen a modest decrease since 31 December 2020, the shifts across and within categories are more notable. These reflect:
  - A modest reduction in the judgmental uncertainty post model adjustments in the Wholesale portfolios, which was directionally in line with the portfolio quality and some reduction in uncertainty about recovery in affected sectors in the economy.
  - In the Retail Banking portfolio, to reflect a risk that default levels were being unsustainably suppressed due to the various temporary government led support schemes (with the sustainability requiring further outcome data), management effected a hold back of further modelled releases judgmentally through the deferred model calibrations category.
- Retail Banking – The post model adjustment for deferred model calibrations increased to £28 million from £7 million at 31 December 2020. This reflected management's continued judgment that the implied ECL decreases that continued to manifest themselves through the standard PD model monitoring process during the year, were not fully supportable. Management retained this view on the basis that underlying portfolio performance is believed to be underpinned by government support schemes and further outcome data is required on the level of default suppression.
- The post model adjustment for economic uncertainty remained elevated at £32 million. The total included an ECL uplift of £5 million on a subset of customers who had accessed payment holiday support where their risk profile was identified as relatively high risk. In addition, RBS plc continued to retain a holdback of a modelled ECL release of £11 million, again due to the delayed default emergence reflective of the various customer support schemes (£3 million related to mortgages and £8 million related to unsecured lending). The year-end overlay position also included an ECL uplift on buy-to-let mortgages of £2 million to mitigate the risk of a disproportionate credit deterioration in challenging economic circumstances.
- Other judgmental overlays increased due to the introduction of a new post model adjustment of £2 million to capture the impact of potential cladding risk in the portfolio.
- Commercial Banking – The post model adjustment for economic uncertainty reduced from £139 million to £88 million during the year. It included an overlay of £76 million reflecting continued concern that the unprecedented nature of COVID-19 might indicate that default level may be higher in future periods above that currently expected. In addition, it reflected a risk that government support schemes during COVID-19 could have suppressed defaults that may materialise in future periods above expected default levels. The reduction during the year was mainly due to a sustained improvement in underlying credit metrics which resulted in a decrease in Stage 2 assets and reduced levels of uncertainty around economic outcome.
- The post model adjustment for deferred model calibrations on the business banking portfolio increased by £9 million during the year. This reflected management's judgment that the continued beneficial modelling impact, and implied ECL decrease, remained unsupportable while portfolio performance was being underpinned by the various support schemes.

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	>=4.306%	1.7 x 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. Where a Personal customer was granted a payment holiday (also referred to as a payment deferral) in response to COVID-19, they were not automatically transferred into Stage 2. However, a subset of Personal customers who had accessed payment holiday support, and where their risk profile was identified as relatively high risk, were collectively migrated to Stage 2 (if not in Stage 2 already). Any support provided beyond completion of the second payment holiday was considered forbearance.
- Persistence (Personal and business banking customers only) – the persistence rule ensures that accounts which have met the criteria for PD driven deterioration are still considered to be significantly deteriorated for three months thereafter. This additional rule enhances the timeliness of capture in Stage 2. The persistence rule is applied to PD driven deterioration only.

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

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

Provisioning for forbearance (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.

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

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

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

Wholesale

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

Wholesale loans granted forbearance are individually 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.

Credit risk continued

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

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

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

Asset lifetimes (audited)

The choice of initial recognition and asset duration is another critical judgment 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 judgment 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 £10 million (2020 – £25 million). However, credit card balances originated under the 0% balance transfer product, and representing approximately 10% 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 follow closely the approach used in stress testing. To enable robust modelling the forecasting models for each portfolio segment (defined by product or asset class and where relevant, industry sector and region) are based on a selected, small number of economic factors, (typically three to four) that best explain the temporal variations in portfolio loss rates. The process to select economic loss drivers involves empirical analysis and expert judgment.

The most material economic loss drivers are shown in the table below.

Portfolio	Economic loss drivers
UK retail mortgages	UK unemployment rate, sterling swap rate, UK house price index, UK household debt to income
UK retail unsecured	UK unemployment rate, sterling swap rate, UK household debt to income
UK large corporates	World GDP, UK unemployment rate, sterling swap rate, stock price index
UK commercial	UK GDP, UK unemployment rate, sterling swap rate
UK commercial real estate	UK GDP, UK commercial property price index, sterling swap rate, stock price index

(1) This is not an exhaustive list of economic loss drivers but shows the most material drivers for the most significant portfolios.

Economic scenarios

At 31 December 2021, 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 a range of outcomes for the path of COVID-19 as well as recovery, and the associated effects on labour and asset markets.

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

Upside – This scenario assumes a very strong recovery through 2022 as consumers dip into excess savings built up over the last two years. The labour market remains resilient, with the unemployment rate falling below pre-COVID-19 levels. Inflation is higher than the base case but eventually comes back close to the target. The strong economic recovery enables tightening to be quicker than the base case. The housing market continues its recent strong performance.

Base case – COVID-19 related risks remain contained. After a strong recovery in 2021, the growth moderates in 2022. Most of the furloughed workers can go back to their existing job or find a new job very quickly, with the unemployment rate reaching 4.1% by the end of 2022. Inflation initially increases but retreats over 2022. Interest rates are raised, starting in early 2022. There is a gradual cool down in the housing market but activity is still at healthy levels.

Credit risk continued

Downside – This scenario assumes a reversal in recovery as inflation build up leads to a lessening of expectations. Interest rates are raised aggressively to counter the inflation risks. However, starting in 2023, the interest hikes are reversed to assist the recovery. Unemployment is higher than the base case and there is a modest decline in house prices.

Extreme downside – This scenario assumes a resurgence of COVID-19 related risks. There is a renewed downturn with declines in consumer spending and business investment. Interest rates are reduced into negative territory to -0.5%. There is wide-spread job shedding in the labour market while asset prices see deep corrections, with housing market falls higher than those seen during previous episodes. The recovery is tepid throughout the five-year period, meaning only a gradual decline in joblessness.

The approach of using four scenarios is similar to that as at 31 December 2020. Previously, RBS plc used five discrete scenarios to characterise the distribution of risks in the economic outlook. For 2021, 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 falls and the degree of permanent damage to the economy, around which there remains pronounced levels of uncertainty.

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

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

Credit risk continued

Economic loss drivers (audited)

Main macroeconomic variables

Five-year summary	2021 Upside %	2021 Base case %	2021 Downside %	2021 Extreme downside %	2020 Upside %	2020 Base case %	2020 Downside %	2020 Extreme downside %
UK								
GDP - CAGR	**2.4**	**1.7**	**1.4**	**0.6**	3.6	3.1	2.8	1.3
Unemployment - average	**3.5**	**4.2**	**4.8**	**6.7**	4.4	5.7	7.1	9.7
House price index - total change	**22.7**	**12.1**	**4.3**	**(5.3)**	12.5	7.6	4.4	(19.0)
Bank of England base rate - average	**1.5**	**0.8**	**0.7**	**(0.5)**	0.2	—	(0.1)	(0.5)
Commercial real estate price - total change	**18.2**	**7.2**	**5.5**	**(6.4)**	4.3	0.7	(12.0)	(31.5)
World GDP - CAGR	**3.5**	**3.2**	**2.6**	**0.6**	3.5	3.4	2.9	2.8
Probability weight	**30.0**	**45.0**	**20.0**	**5.0**	20.0	40.0	30.0	10.0

(1) The five year period starts after Q3 2021 for 2021 and Q3 2020 for 2020.

Probability weightings of scenarios

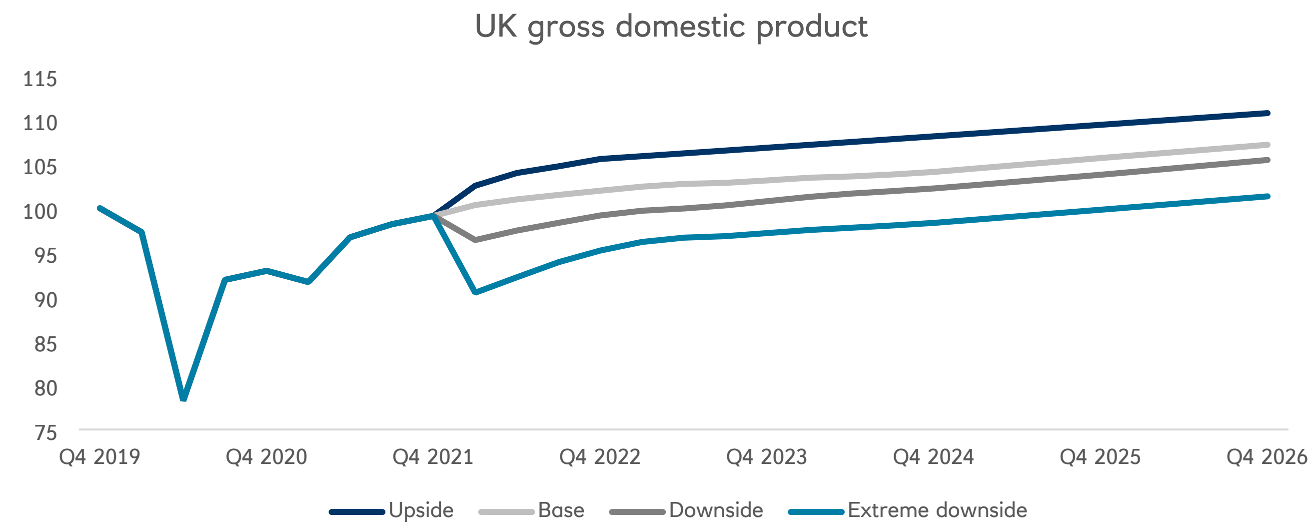
RBS plc's approach to IFRS 9 multiple economic scenarios (MES) involves selecting a suitable set of discrete scenarios to characterise the distribution of risks in the economic outlook and assigning appropriate probability weights. The scale of the economic impact of COVID-19 and the range of recovery paths necessitates a change of approach to assigning probability weights from that used in recent updates. Prior to 2020, GDP paths for RBS plc's scenarios were compared against a set of 1,000 model runs, following which a percentile in the distribution was established that most closely corresponded to the scenario.

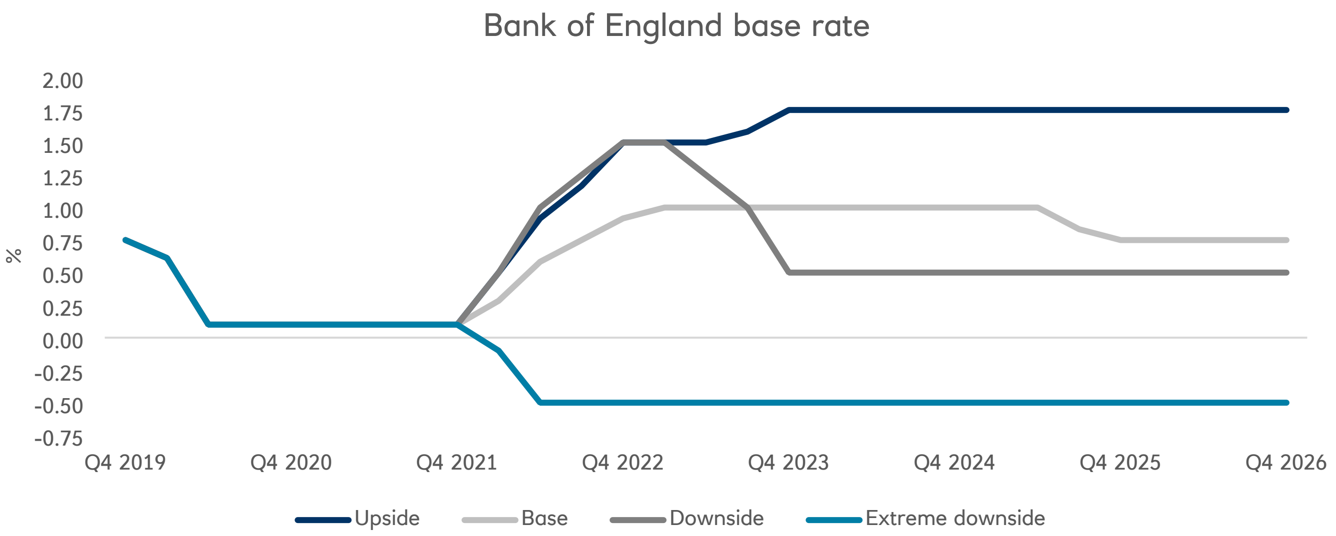
Instead, RBS plc has subjectively applied probability weights, reflecting expert views within RBS plc. The probability weight assignment was judged to present good coverage to the central scenarios and the potential for a robust recovery on the upside and exceptionally challenging outcomes on the downside. A 30% weighting was applied to the upside scenario, a 45% weighting applied to the base case scenario, a 20% weighting applied to the downside scenario and a 5% weighting applied to the extreme downside scenario. RBS plc assessed the downside risk posed by COVID-19 to be diminishing over the course of 2021, with the vaccination roll-out and positive economic data being observed since the gradual relaxing of lockdown restrictions. RBS plc therefore judged it was appropriate to apply a higher probability to upside-biased scenarios than at 31 December 2020. However, compared to 31 December 2020, the base case has a higher weight reflecting reduction in uncertainty as the path of economy recovery became clearer.

The 25% weighting to the two downside scenarios gives appropriate consideration to the threats posed to the recovery, including inflation, supply and COVID-19-related risks. Balanced against that is the adaptability of the UK economy to successive waves of COVID-19, and the resilience of labour and asset markets. The potential for further better than expected outcomes is reflected in the 30% probability weighting applied to the upside scenario.

Credit risk continued

Economic loss drivers





Credit risk continued

Annual figures (audited)

GDP - annual growth	Upside %	Base case %	Downside %	Extreme downside %
2021	7.0	7.0	7.0	7.0
2022	8.1	5.0	1.5	(3.6)
2023	2.1	1.6	2.4	4.1
2024	1.2	0.9	1.6	1.2
2025	1.2	1.3	1.4	1.4
2026	1.2	1.5	1.6	1.5

Unemployment rate - annual average	Upside %	Base case %	Downside %	Extreme downside %
2021	4.6	4.6	4.6	4.6
2022	3.5	4.1	5.1	8.3
2023	3.3	4.0	5.2	8.8
2024	3.4	4.1	4.7	6.6
2025	3.4	4.2	4.5	5.2
2026	3.6	4.2	4.5	4.9

House price index - four quarter growth	Upside %	Base case %	Downside %	Extreme downside %
2021	6.9	6.9	6.9	6.9
2022	7.9	1.6	(2.9)	(20.4)
2023	4.2	1.6	(0.2)	(2.6)
2024	3.1	2.9	1.7	13.0
2025	3.0	2.7	3.0	4.7
2026	3.0	2.7	3.0	3.6

Commercial real estate price - four quarter growth	Upside %	Base case %	Downside %	Extreme downside %
2021	8.4	8.4	8.4	8.4
2022	10.2	4.4	(2.7)	(29.8)
2023	3.4	1.9	4.2	17.2
2024	1.7	0.2	1.7	5.2
2025	0.6	(0.8)	0.3	3.5
2026	(0.8)	(0.8)	(0.2)	3.2

Bank of England base rate - annual average	Upside %	Base case %	Downside %	Extreme downside %
2021	0.10	0.10	0.10	0.10
2022	1.02	0.63	1.06	(0.40)
2023	1.58	1.00	1.06	(0.50)
2024	1.75	1.00	0.50	(0.50)
2025	1.75	0.90	0.50	(0.50)
2026	1.75	0.75	0.50	(0.50)

Worst points

	31 December 2021				31 December 2020			
	Downside %	Quarter	Extreme downside %	Quarter	Downside %	Quarter	Extreme downside %	Quarter
GDP	(1.8)	Q1 2022	(7.9)	Q1 2022	(5.1)	Q1 2021	(10.4)	Q1 2021
Unemployment rate (peak)	5.4	Q1 2023	9.4	Q4 2022	9.4	Q4 2021	13.9	Q3 2021
House price index	(3.0)	Q3 2023	(26.0)	Q2 2023	(11.2)	Q2 2021	(32.0)	Q4 2021
Commercial real estate price	(2.5)	Q1 2022	(29.8)	Q3 2022	(28.9)	Q2 2021	(40.4)	Q2 2021
Bank of England base rate	1.5	Q4 2022	(0.5)	Q2 2022	(0.1)	Q3 2021	(0.5)	Q1 2021

(1) For the unemployment rate, the figures show the peak levels. For the Bank of England base rate, the figures show highest or lowest levels. For other parameters, the figures show falls relative to the starting period. The calculations are performed over five years, with a starting point of Q3 2021 for 31 December 2021 scenarios.

Credit risk continued

Economic loss drivers (audited)

Use of the scenarios in Personal lending
Personal lending follows a discrete scenario approach. The PD and LGD values for each discrete scenario are calculated using product specific econometric models. Each account has a PD and LGD calculated as probability weighted averages across the suite of economic scenarios.

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

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

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

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

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

UK economic uncertainty

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

For Wholesale customers, RBS plc continues to provide support, where appropriate, to existing customers. Those who are deemed either (a) to require a prolonged timescale to return to within RBS plc's risk appetite, (b) not to have been viable pre-COVID-19, or (c) not to be able to sustain their debt once COVID-19 is over, will trigger a SICR and, if concessions are sought, be categorised as forborne, in line with regulatory guidance. Payment holiday extensions beyond an aggregate of 12 months in an 18 month period to cover continuing COVID-19 business interruption are categorised as forbearance, including for customers where no other SICR triggers are present.

In February 2021, the British Business Bank announced details of Pay As You Grow (PAYG) options for borrowers of BBLS. The scheme options include the extension of lending terms, periods of reduced repayments and six month payment holidays. PAYG options are a feature of BBLS rather than a concession granted by RBS plc. It is therefore not automatically considered significant credit deterioration and a Stage 2 trigger. RBS plc relies on both customer attestations and existing credit monitoring procedures to identify significant financial difficulty. Should signs of financial stress be identified, a review is performed. If credit deterioration is confirmed, existing problem debt management journeys are followed and forbearance (if a concession is granted) is marked in line with existing processes. This will result in Stage 2 transfer.

Model monitoring and enhancement
The severe economic impact from COVID-19 and the ensuing government support schemes have disrupted the normal relationships between key economic loss drivers and credit outcomes. While most government support schemes have now been phased out and economic conditions are normalising, the effect of this disruption is still evident in model monitoring and accounted for in judgments applied to the use and recalibrations of models.

Credit risk continued

Most significantly, latest PD model monitoring shows general overprediction across all key portfolios, i.e., observed default rates still at or even below pre-COVID-19 levels despite increased PD estimates from a deterioration in several key economic variables. Model recalibrations to adjust for this overprediction have been deferred based on the judgment that default rate actuals are distorted due to government support.

In addition, to account for residual model uncertainty and the risk of eventual default emergence hitherto supressed by government support, lag assumptions of up to 12 months are applied in the models. These assumptions are consistent with and unchanged from previous disclosures in 2021, although their effective impact gradually reduces over time.

Industry sector detail – Wholesale only

The economic impact of COVID-19 is highly differentiated by industry sector, with hospitality and other contact-based leisure, service, travel and passenger transport activities significantly more affected than the overall economy. On the other hand, the corporate and commercial econometric forecasting models used in Wholesale are sector agnostic. Sector performance was monitored throughout the year and additional post model adjustments were recognised where a risk of higher than expected future default levels, including their timing and value, was identified.

Scenario sensitivity – Personal only

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

Additionally, post model ECL adjustments were made in Personal to account for known model weaknesses pre-dating COVID-19, pending the systematic re-development of the underlying models.

Government guarantees

In April 2021, the UK government launched the Recovery Loan Scheme, replacing previous support schemes which are now closed. Consistent with CBILS and the Coronavirus Large Business Interruption Loan Scheme (CLBILS), the government guarantee is 80%. RBS plc recognises lower LGDs for these lending products as a result, with 0% applied to the government-guaranteed part of the exposure. RBS plc does not directly adjust the measurement of PD due to the government guarantee and continues to move exposures into Stage 2 and Stage 3 where a significant deterioration in credit risk or a default is identified.

Measurement uncertainty and ECL sensitivity analysis (audited)

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

The focus of the simulations is on ECL provisioning requirements on performing exposures in Stage 1 and Stage 2. The simulations are run on a stand-alone basis and are independent of each other; the potential ECL impacts reflect the simulated impact at 31 December 2021. Scenario impacts on SICR should be considered when evaluating the ECL movements of Stage 1 and Stage 2. In all scenarios the total exposure was the same but exposure by stage varied in each scenario.

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

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

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

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

Credit risk continued

Measurement uncertainty and ECL sensitivity analysis (audited)

2021	Actual	Base case	Upside	Downside	Extreme downside
Stage 1 modelled exposure (£m)					
Retail Banking - mortgages	13,498	13,551	13,769	13,041	11,451
Retail Banking - unsecured	1,556	1,566	1,623	1,472	1,236
Wholesale - property	8,249	8,289	8,300	8,241	7,885
Wholesale - non-property	11,943	12,010	12,056	11,961	10,642
Stage 1 modelled ECL (£m)					
Retail Banking - mortgages	2	2	2	2	3
Retail Banking - unsecured	20	19	18	21	19
Wholesale - property	5	5	5	5	4
Wholesale - non-property	17	18	18	17	15
Stage 2 modelled exposure (£m)					
Retail Banking - mortgages	2,052	1,999	1,781	2,509	4,099
Retail Banking - unsecured	589	579	522	673	909
Wholesale - property	797	758	746	805	1,161
Wholesale - non-property	3,139	3,071	3,026	3,121	4,440
Stage 2 modelled ECL (£m)					
Retail Banking - mortgages	33	32	29	35	55
Retail Banking - unsecured	79	79	74	87	107
Wholesale - property	22	20	20	21	40
Wholesale - non-property	148	143	142	145	196
Stage 1 and Stage 2 modelled exposure (£m)					
Retail Banking - mortgages	15,550	15,550	15,550	15,550	15,550
Retail Banking - unsecured	2,145	2,145	2,145	2,145	2,145
Wholesale - property	9,046	9,047	9,046	9,046	9,046
Wholesale - non-property	15,082	15,081	15,082	15,082	15,082
Stage 1 and Stage 2 modelled ECL (£m)					
Retail Banking - mortgages	35	34	31	37	58
Retail Banking - unsecured	99	98	92	108	126
Wholesale - property	27	25	25	26	44
Wholesale - non-property	165	161	160	162	211
Stage 1 and Stage 2 coverage (%)					
Retail Banking - mortgages	0.23%	0.22%	0.20%	0.24%	0.37%
Retail Banking - unsecured	4.62%	4.57%	4.29%	5.03%	5.87%
Wholesale - property	0.30%	0.28%	0.28%	0.29%	0.49%
Wholesale - non-property	1.09%	1.07%	1.06%	1.07%	1.40%
Reconciliation to Stage 1 and Stage 2 ECL (£m)					
ECL on modelled exposures	326	318	308	333	439
ECL on non-modelled exposures	3	3	3	3	3
Total Stage 1 and Stage 2 ECL	329	321	311	336	442
Variance – (lower)/higher to actual total Stage 1 and Stage 2 ECL		(8)	(18)	7	113

(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 2021 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 2021. 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 2020 Annual Report and Accounts for 2020 comparatives.

- During 2021, both the Stage 2 size and overall modelled ECL reduced as a result of the improved economic outlook and scenario weightings, together with stable portfolio performance. Judgmental ECL post model adjustments, although reduced, continued to reflect residual economic uncertainty with the expectation of increased defaults later in 2022 and beyond, now representing 24% of total ECL (2020 – 14%). These combined factors, in conjunction with a less severe suite of economics in the 2021 extreme downside scenario, contributed to a smaller range of ECL sensitivities at 31 December 2021 compared to the 2020 year end.
- If the economics were as negative as observed in the extreme downside, total Stage 1 and Stage 2 ECL was simulated to increase by £0.1 billion (approximately 34%). 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 portfolios, the outcome range of scenarios, except for the extreme downside, was relatively narrow. This was due to the combined effect of the assumption that government support schemes will delay defaults, mean reversion of CCIs and that only in the extreme downside CCIs do deteriorate beyond their year-end starting point.

Credit risk continued

Single factor sensitivity

In addition to scenario sensitivity, RBS plc uses single factor analysis to support its evaluation and governance. This covers changes such as the variation of an individual input parameter (economic or credit) or a change of scenario weightings. The application of single factor analysis recognises the limitation that it is not normal for one single factor to vary in isolation, but can help identify possible risks in the credit portfolios.

At 31 December 2021, RBS plc considered the effect of moving the unemployment peak in the base case from 4.1% to 7.5% in 2022 but without changing expectations in subsequent years. This had the effect of increasing ECL requirement by approximately 4.5% and 2.5% for the UK Retail and Wholesale portfolios respectively. The lower effect on Wholesale portfolio reflected that unemployment is not a significant loss driver for property exposures nor some of RBS plc's specialised lending areas.

Measurement uncertainty and ECL adequacy

The improvement in the economic outlook and scenarios used in the IFRS 9 MES framework in 2021 resulted in a release of modelled ECL. Given that continued uncertainty remains due to COVID-19 despite the improved economic outlook, RBS plc utilised a framework of quantitative and qualitative measures to support the directional change and levels of ECL coverage, including economic data, credit performance insights and problem debt trends. This was particularly important for consideration of post model adjustments.

As government support schemes continued to conclude during 2021, RBS plc anticipates further credit deterioration in the portfolios. However, the income statement effect of this will be mitigated by the forward-looking provisions retained on the balance sheet at 31 December 2021.

There are a number of key factors that could drive further downside to impairments, through deteriorating economic and credit metrics and increased stage migration as credit risk increases for more customers.

A key factor would be a more adverse deterioration in GDP and unemployment in the economies in which RBS plc operates, but also, among others:

- The ongoing trajectory of lockdown restrictions within the UK and any future repeated lockdown requirements.
- The progress of the COVID-19 vaccination roll-out and its effectiveness against new variants.
- The long-term efficacy of the various government support schemes in terms of their ability to defray customer defaults is yet to be proven over an extended period.
- The impact on customer affordability in the event of sustained inflationary pressures.
- The level of revenues lost by corporate clients and pace of recovery of those revenues may affect RBS plc's clients' ability to service their borrowing, especially in those sectors most exposed to the effects of COVID-19.

Credit risk – Banking activities

Introduction

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

Refer to Accounting policies 7 and Note 12 to the financial statements for policies and critical judgments 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 2021			31 December 2020		
	Gross £bn	ECL £bn	Net £bn	Gross £bn	ECL £bn	Net £bn
Balance sheet total gross amortised cost and FVOCI	81.9			78.2		
In scope of IFRS 9 ECL framework	81.1			77.1		
% in scope	99%			99%		
Loans to customers - in scope - amortised cost	42.5	0.7	41.8	49.4	1.3	48.1
Loans to customers - in scope - FVOCI	—	—	—	—	—	—
Loans to banks - in scope - amortised cost	1.1	—	1.1	1.2		1.2
Total loans - in scope	43.6	0.7	42.9	50.6	1.3	49.3
Stage 1	36.1	—	36.1	35.2	0.1	35.1
Stage 2	6.5	0.3	6.2	13.9	0.6	13.3
Stage 3	1.0	0.4	0.6	1.5	0.6	0.9
Other financial assets - in scope - amortised cost	37.5	—	37.5	26.5	—	26.5
Other financial assets - in scope - FVOCI	—	—	—	—	—	—
Total other financial assets - in scope	37.5	—	37.5	26.5	—	26.5
Stage 1	37.5	—	37.5	26.5	—	26.5
Stage 2	—	—	—	—	—	—
Stage 3	—	—	—	—	—	—
Out of scope of IFRS 9 ECL framework	0.8	na	0.8	1.1	na	1.1
Loans to customers - out of scope - amortised cost	0.3	na	0.3	0.6	na	0.6
Loans to banks - out of scope - amortised cost	—	na	—	—	na	—
Other financial assets - out of scope - amortised cost	0.5	na	0.5	0.5	na	0.5
Other financial assets - out of scope - FVOCI	—	na	—	—	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 £0.6 billion (2020 – £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 £0.2 billion (2020 – £0.4 billion).

In scope assets also include an additional £23.8 billion (2020 – £20.9 billion) of inter-Group assets not shown in table above.

Contingent liabilities and commitments

In addition to contingent liabilities and commitments disclosed in Note 20 to the financial statements, reputationally-committed limits are also included in the scope of the IFRS 9 ECL framework. These were offset by nil (2020 – £0.1 billion) out of scope balances primarily related to facilities that, if drawn, would not be classified as amortised cost or FVOCI, or undrawn limits relating to financial assets exclusions. Total contingent liabilities (including financial guarantees) and commitments within IFRS 9 ECL scope of £20.7 billion (2020 – £25.4 billion) comprised Stage 1 £19.0 billion (2020 – £19.9 billion); Stage 2 £1.6 billion (2020 – £5.3 billion); and Stage 3 £0.1 billion (2020 – £0.2 billion).

The ECL relating to off balance sheet exposures was nil (2020 - nil). The total ECL in the remainder of the credit risk section of £0.7 billion included ECL for both on and off balance sheet exposures.

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.

2021	Retail Banking £m	Private Banking £m	Commercial Banking £m	Central items & other £m	Total £m
Loans - amortised cost and FVOCI					
Stage 1	14,862	631	19,531	1,073	36,097
Stage 2	2,575	25	3,901	—	6,501
Stage 3	499	7	483	—	989
Inter-Group				23,821	23,821
	17,936	663	23,915	24,894	67,408
ECL provisions					
Stage 1	22	1	20	4	47
Stage 2	111	—	171	—	282
Stage 3	210	1	162	—	373
Inter-Group				5	5
	343	2	353	9	707
ECL provisions coverage (1)					
Stage 1 (%)	0.14	0.16	0.10	0.37	0.13
Stage 2 (%)	4.33	—	4.37	—	4.34
Stage 3 (%)	42.08	14.29	33.54	—	37.71
Inter-Group (%)				0.02	0.02
	1.91	0.30	1.48	0.37	1.61
Impairment (releases)/losses					
ECL (release)/charge					
Stage 1	(60)	(2)	(199)	3	(258)
Stage 2	13	(1)	(110)	—	(98)
Stage 3	32	—	(27)	—	5
Inter-Group				(9)	(9)
	(15)	(3)	(336)	(6)	(360)
Amounts written-off	49	—	256	—	305

Credit risk – Banking activities continued

Segment analysis – portfolio summary (audited)

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

(1) ECL provisions coverage is calculated as ECL provisions divided by loans - amortised cost and FVOCI. It is calculated on third party loans and total ECL provisions.
(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 £37.5 billion (2020 – £26.5 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.

- Stage 1 and Stage 2 ECL reduced significantly during 2021, with sustained improvement in underlying risk metrics mainly due to the improved economic outlook and underpinned by various government support schemes.
- The Stage 2 population reduced reflecting lower underlying PDs, resulting in migration of cases back into Stage 1. However, the Stage 2 population remained above pre-COVID-19 levels.
- Stage 3 loans and ECL balances reduced, mainly due to write-off and repayment of defaulted debt and a portfolio sale of non-performing assets. To date, the various COVID-19 related government support schemes have mitigated new flows into default. It is expected that defaults will increase as the effect of the various government support schemes unwinds.

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)					
2021	Stage 1 £m	Not past due £m	1-30 DPD £m	>30 DPD £m	Total £m	Stage 3 £m	Total £m	Stage 1 £m	Not past due £m	1-30 DPD £m	>30 DPD £m	Total £m	Stage 3 £m	Total £m
Retail Banking	14,862	2,308	172	95	2,575	499	17,936	22	98	7	6	111	210	343
Private Banking	631	22	1	2	25	7	663	1	—	—	—	—	1	2
Personal	*597*	*1*	*1*	*—*	*2*	*7*	*606*	*1*	*—*	*—*	*—*	*—*	*1*	*2*
Wholesale	*34*	*21*	*—*	*2*	*23*	*—*	*57*	*—*	*—*	*—*	*—*	*—*	*—*	*—*
Commercial Banking	19,531	3,776	53	72	3,901	483	23,915	20	166	4	1	171	162	353
Central items & other	1,073	—	—	—	—	—	1,073	4	—	—	—	—	—	4
Total loans	36,097	6,106	226	169	6,501	989	43,587	47	264	11	7	282	373	702
Of which:														
Personal	*15,459*	*2,309*	*173*	*95*	*2,577*	*506*	*18,542*	*23*	*98*	*7*	*6*	*111*	*211*	*345*
Wholesale	*20,638*	*3,797*	*53*	*74*	*3,924*	*483*	*25,045*	*24*	*166*	*4*	*1*	*171*	*162*	*357*
2020														
Retail Banking	15,062	4,178	236	140	4,554	555	20,171	23	138	15	13	166	210	399
Private Banking	639	57	—	2	59	13	711	1	2	—	—	2	1	4
Personal	*623*	*3*	*—*	*—*	*3*	*13*	*639*	*1*	*1*	*—*	*—*	*1*	*1*	*3*
Wholesale	*16*	*54*	*—*	*2*	*56*	*—*	*72*	*—*	*1*	*—*	*—*	*1*	*—*	*1*
Commercial Banking	18,365	9,176	95	58	9,329	918	28,612	57	451	9	5	465	417	939
Central items & other	1,132	—	—	—	—	—	1,132	3	—	—	—	—	—	3
Total loans	35,198	13,411	331	200	13,942	1,486	50,626	84	591	24	18	633	628	1,345
Of which:														
Personal	*15,685*	*4,181*	*236*	*140*	*4,557*	*568*	*20,810*	*24*	*139*	*15*	*13*	*167*	*211*	*402*
Wholesale	*19,513*	*9,230*	*95*	*60*	*9,385*	*918*	*29,816*	*60*	*452*	*9*	*5*	*466*	*417*	*943*

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	
		Not past						(release) /	Amounts
	Stage 1	due	1-30 DPD	>30 DPD	Total	Stage 3	Total	charge	written-off
2021	%	%	%	%	%	%	%	£m	£m
Retail Banking	**0.14**	**4.25**	**4.07**	**6.32**	**4.33**	**42.08**	**1.91**	**(15)**	**49**
Private Banking	**0.16**	**—**	**—**	**—**	**—**	**14.29**	**0.30**	**(3)**	**—**
Personal	***0.17***	**—**	**—**	**—**	**—**	***14.29***	***0.33***	***(2)***	**—**
Wholesale	**—**	**—**	**—**	**—**	**—**	**—**	**—**	***(1)***	**—**
Commercial Banking	**0.10**	**4.38**	**7.55**	**1.39**	**4.37**	**33.54**	**1.48**	**(336)**	**256**
Central items & other	**0.37**	**—**	**—**	**—**	**—**	**—**	**0.37**	**3**	**—**
Total loans	**0.13**	**4.32**	**4.87**	**4.14**	**4.34**	**37.71**	**1.61**	**(351)**	**305**
Of which:									
Personal	***0.15***	***4.24***	***4.05***	***6.32***	***4.31***	***41.70***	***1.86***	***(17)***	***49***
Wholesale	***0.12***	***4.36***	***7.55***	***1.35***	***4.36***	***33.54***	***1.43***	***(334)***	***256***
2020									
Retail Banking	0.15	3.30	6.36	9.29	3.65	37.84	1.98	126	91
Private Banking	0.16	3.51	—	—	3.39	7.69	0.56	2	1
Personal	*0.16*	*33.33*	—	—	*33.33*	*7.69*	*0.47*	—	*1*
Wholesale	—	*1.85*	—	—	*1.79*	—	*1.39*	*2*	—
Commercial Banking	0.31	4.91	9.47	8.62	4.98	45.42	3.28	549	90
Central items & other	0.27	—	—	—	—	—	0.27	—	—
Total loans	0.24	4.41	7.25	9.00	4.54	42.26	2.66	677	182
Of which:									
Personal	*0.15*	*3.32*	*6.36*	*9.29*	*3.66*	*37.15*	*1.93*	*126*	*92*
Wholesale	*0.31*	*4.90*	*9.47*	*8.33*	*4.97*	*45.42*	*3.16*	*551*	*90*

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

- Retail Banking – The improved economic outlook captured in the updated MES scenarios, including a more positive forecast on unemployment levels, resulted in reduced account level PDs. Unsecured lending balances decreased as customer spend and demand for borrowing were subdued as a result of COVID-19 restrictions, particularly in the first quarter of 2021. Lending criteria were cautiously relaxed during 2021 to support growing demand as lockdown restrictions eased.
- Portfolio performance remained stable, for further details refer to the Personal portfolio section. Arrears levels in both the mortgage and unsecured portfolios remained low overall. However, a small number of customers who utilised their full payment holiday, did migrate into late arrears during the second half of the year. With COVID-19 payment holidays complete, this trend stabilised by the year end and new inflows to arrears were below pre-COVID-19 levels.
- ECL in Stage 2 decreased due to migrations back into Stage 1, following the effects of improving economic scenarios during 2021 and continued stable portfolio performance supporting improved risk metrics. However, the ECL coverage on remaining Stage 2 exposures increased simply due to the relative underlying risk profile of the remaining Stage 2 exposures. The various COVID-19 related customer support schemes (for example, loan repayment holidays, government job retention scheme) mitigated actual portfolio deterioration in the short-term, with the arrears levels and flows into Stage 3 yet to be materially affected. Total ECL coverage reduced further in the fourth quarter of 2021, overall mirroring the positive trajectory of the COVID-19 vaccinations, labour market trends and portfolio performance, whilst maintaining coverage for the key portfolios above pre-COVID-19 levels given the persisting sources of uncertainty, including the Omicron variant and inflationary pressures on customers.
- Commercial Banking – Balance sheet reduction was mainly as a result of repayments of both COVID-19 government lending schemes and conventional borrowing where demand was lower, particularly in the second half of the year. Strategic reduction was achieved in high risk sectors.
- The improved economic outlook, including significant increases in GDP and commercial real estate valuations, resulted in lower IFRS 9 PDs. Consequently, compared to 2020, a smaller proportion of the exposures exhibited a SICR, which resulted in a migration of assets from Stage 2 into Stage 1. As a result, the ECL requirement reduced.
- Reflecting the continued level of uncertainty caused by COVID-19, management judged that certain ECL post model adjustments remained necessary, refer to the Governance and post model adjustments section for further details.
- The various COVID-19 related customer support schemes and economic recovery continued to mitigate against flows into default. The reduction in coverage in Stage 1 and Stage 2 was mainly due to the decrease in ECL during 2021, primarily as a result of the improved economic outlook. There was a reduction in Stage 3 coverage as balances reduced and were not replaced by new flows, write-offs of existing debt were also higher in the year. Coverage remained above pre-COVID-19 levels. The loss rate was significantly lower than in the prior year.
- Other – The reasons for the increased ECL requirement were similar to those described above.

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
2021	Mortgages (1) £m	Credit cards £m	Other personal £m	Total £m	Property £m	Corporate £m	FI £m	Sovereign £m	Total £m	£m
Loans by geography	16,260	861	1,421	18,542	9,009	13,798	1,404	834	25,045	43,587
- UK	16,260	861	1,421	18,542	8,909	12,310	558	686	22,463	41,005
- RoI	—	—	—	—	—	37	—	—	37	37
- Other Europe	—	—	—	—	79	743	5	64	891	891
- RoW	—	—	—	—	21	708	841	84	1,654	1,654
Loans by stage and asset quality (2)	16,260	861	1,421	18,542	9,009	13,798	1,404	834	25,045	43,587
Stage 1	13,871	651	937	15,459	8,018	10,535	1,339	746	20,638	36,097
- AQ1	293	—	5	298	332	33	341	276	982	1,280
- AQ2	39	—	—	39	1,460	129	—	—	1,589	1,628
- AQ3	9	—	—	9	1,679	2,302	43	438	4,462	4,471
- AQ4	8,424	7	38	8,469	1,358	2,645	845	29	4,877	13,346
- AQ5	4,661	188	367	5,216	1,913	3,355	61	1	5,330	10,546
- AQ6	318	202	327	847	963	1,211	16	—	2,190	3,037
- AQ7	85	223	138	446	298	829	32	2	1,161	1,607
- AQ8	31	30	57	118	12	27	1	—	40	158
- AQ9	11	1	5	17	3	4	—	—	7	24
Stage 2	2,024	188	365	2,577	782	3,012	47	83	3,924	6,501
- AQ1	11	—	—	11	—	—	—	—	—	11
- AQ2	—	—	—	—	—	15	—	—	15	15
- AQ3	2	—	—	2	—	37	—	—	37	39
- AQ4	584	—	9	593	13	106	—	—	119	712
- AQ5	703	12	76	791	223	908	3	—	1,134	1,925
- AQ6	171	38	127	336	100	648	16	83	847	1,183
- AQ7	124	103	65	292	377	855	24	—	1,256	1,548
- AQ8	345	27	69	441	41	356	4	—	401	842
- AQ9	84	8	19	111	28	87	—	—	115	226
Stage 3	365	22	119	506	209	251	18	5	483	989
- AQ10	365	22	119	506	209	251	18	5	483	989
Loans - past due analysis (3,4)	16,260	861	1,421	18,542	9,009	13,798	1,404	834	25,045	43,587
- Not past due	15,711	835	1,275	17,821	8,795	13,189	1,393	834	24,211	42,032
- Past due 1-30 days	212	6	20	238	91	415	7	—	513	751
- Past due 31-89 days	111	6	12	129	28	52	1	—	81	210
- Past due 90-180 days	49	5	10	64	19	32	1	—	52	116
- Past due >180 days	177	9	104	290	76	110	2	—	188	478
Loans - Stage 2	2,024	188	365	2,577	782	3,012	47	83	3,924	6,501
- Not past due	1,791	180	338	2,309	742	2,927	45	83	3,797	6,106
- Past due 1-30 days	153	4	16	173	12	40	1	—	53	226
- Past due 31-89 days	80	4	11	95	28	45	1	—	74	169

For the notes to this table refer to page 40.

Credit risk – Banking activities continued

Sector analysis – portfolio summary (audited)

	Personal				Wholesale					Total
2021	Mortgages (1) £m	Credit cards £m	Other personal £m	Total £m	Property £m	Corporate £m	FI £m	Sovereign £m	Total £m	£m
Weighted average life*										
- ECL measurement (years)	8	2	5	5	6	6	5	1	6	5
Weighted average 12 months PDs*										
- IFRS 9 (%)	0.26	3.99	2.63	0.61	0.53	1.50	0.37	0.23	1.04	0.86
- Basel (%)	0.91	3.47	3.06	1.18	0.85	1.34	0.33	0.24	1.07	1.12
ECL provisions by geography	127	53	165	345	93	256	4	4	357	702
- UK	*127*	*53*	*165*	*345*	*89*	*249*	*4*	*4*	*346*	*691*
- RoI	—	—	—	—	—	—	—	—	—	—
- Other Europe	—	—	—	—	—	*4*	—	—	*4*	*4*
- RoW	—	—	—	—	*4*	*3*	—	—	*7*	*7*
ECL provisions by stage	127	53	165	345	93	256	4	4	357	702
- Stage 1	*2*	*11*	*10*	*23*	*5*	*15*	—	*4*	*24*	*47*
- Stage 2	*33*	*27*	*51*	*111*	*22*	*147*	*2*	—	*171*	*282*
- Stage 3	*92*	*15*	*104*	*211*	*66*	*94*	*2*	—	*162*	*373*
ECL provisions coverage (%)	0.78	6.16	11.61	1.86	1.03	1.86	0.28	0.48	1.43	1.61
- Stage 1 (%)	*0.01*	*1.69*	*1.07*	*0.15*	*0.06*	*0.14*	—	*0.54*	*0.12*	*0.13*
- Stage 2 (%)	*1.63*	*14.36*	*13.97*	*4.31*	*2.81*	*4.88*	*4.26*	—	*4.36*	*4.34*
- Stage 3 (%)	*25.21*	*68.18*	*87.39*	*41.70*	*31.58*	*37.45*	*11.11*	—	*33.54*	*37.71*
ECL (release)/charge - Third party	(11)	(6)	—	(17)	(152)	(178)	(5)	1	(334)	(351)
Amounts written-off	5	19	25	49	132	124	—	—	256	305
Other financial assets by asset quality (2)	—	—	—	—	—	—	—	37,472	37,472	37,472
- AQ1-AQ4	—	—	—	—	—	—	—	*37,472*	*37,472*	*37,472*
Off-balance sheet	3,103	3,278	1,195	7,576	4,570	7,857	567	94	13,088	20,664
- Loan commitments	*3,103*	*3,278*	*1,191*	*7,572*	*4,440*	*7,107*	*507*	*94*	*12,148*	*19,720*
- Financial guarantees	—	—	*4*	*4*	*130*	*750*	*60*	—	*940*	*944*
Off-balance sheet by asset quality (2)	3,103	3,278	1,195	7,576	4,570	7,857	567	94	13,088	20,664
- AQ1-AQ4	*2,564*	*41*	*1,058*	*3,663*	*3,998*	*4,125*	*461*	*94*	*8,678*	*12,341*
- AQ5-AQ8	*535*	*3,179*	*135*	*3,849*	*568*	*3,658*	*106*	—	*4,332*	*8,181*
- AQ9	—	*1*	—	*1*	*1*	*1*	—	—	*2*	*3*
- AQ10	*4*	*57*	*2*	*63*	*3*	*73*	—	—	*76*	*139*

*Not within audit scope.

For the notes to this table refer to page 40.

Credit risk – Banking activities continued

Sector analysis – portfolio summary (audited)

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

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

Credit risk – Banking activities continued

Sector analysis – portfolio summary (audited)

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

*Not within audit scope.

(1) Includes a portion of Private Banking lending secured against residential real estate, in line with ECL calculation methodology. Private Banking mortgages are reported in UK, reflecting the country of lending origination.

(2) AQ bandings are based on Basel PDs and mapping is as follows:

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

£0.1 billion (2020 – £0.1 billion) AQ10 Personal balances primarily relate to loan commitments, the drawdown of which is effectively prohibited.

(3) 30 DPD – 30 days past due, the mandatory 30 days past due backstop prescribed by IFRS 9 for a SICR.

(4) Days past due – Personal products: at a high level, for amortising products, the number of days past due is derived from the arrears amount outstanding and the monthly repayment instalment. For credit cards, it is based on payments missed, and for current accounts the number of continual days in excess of borrowing limit. Wholesale products: the number of days past due for all products is the number of continual days in excess of borrowing limit.

Credit risk – Banking activities continued

Sector analysis – portfolio summary (audited)

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

	Loans - amortised cost and FVOCI				Off-balance sheet		ECL provisions			
	Stage 1	Stage 2	Stage 3	Total	Loan commitments	Contingent liabilities	Stage 1	Stage 2	Stage 3	Total
2021	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Personal	**15,459**	**2,577**	**506**	**18,542**	**7,572**	**4**	**23**	**111**	**211**	**345**
Mortgages	**13,871**	**2,024**	**365**	**16,260**	**3,103**	**—**	**2**	**33**	**92**	**127**
Credit cards	**651**	**188**	**22**	**861**	**3,278**	**—**	**11**	**27**	**15**	**53**
Other personal	**937**	**365**	**119**	**1,421**	**1,191**	**4**	**10**	**51**	**104**	**165**
Wholesale	**20,638**	**3,924**	**483**	**25,045**	**12,148**	**940**	**24**	**171**	**162**	**357**
Property	**8,018**	**782**	**209**	**9,009**	**4,440**	**130**	**5**	**22**	**66**	**93**
Financial institutions	**1,339**	**47**	**18**	**1,404**	**507**	**60**	**—**	**2**	**2**	**4**
Sovereign	**746**	**83**	**5**	**834**	**94**	**—**	**4**	**—**	**—**	**4**
Corporate	**10,535**	**3,012**	**251**	**13,798**	**7,107**	**750**	**15**	**147**	**94**	**256**
Of which:										
Airlines and aerospace	***154***	***197***	***—***	***351***	***248***	***120***	***—***	***10***	***—***	***10***
Automotive	***476***	***54***	***6***	***536***	***188***	***11***	***—***	***2***	***2***	***4***
Health	***1,264***	***356***	***44***	***1,664***	***186***	***2***	***2***	***18***	***20***	***40***
Land transport and logistics	***450***	***166***	***4***	***620***	***438***	***121***	***—***	***11***	***1***	***12***
Leisure	***927***	***859***	***74***	***1,860***	***339***	***58***	***2***	***63***	***27***	***92***
Oil and gas	***314***	***31***	***1***	***346***	***473***	***30***	***1***	***6***	***1***	***8***
Retail	***1,595***	***229***	***27***	***1,851***	***836***	***74***	***1***	***4***	***8***	***13***
Total	**36,097**	**6,501**	**989**	**43,587**	**19,720**	**944**	**47**	**282**	**373**	**702**
2020										
Personal	15,685	4,557	568	20,810	7,993	4	24	167	211	402
Mortgages	14,358	3,614	417	18,389	3,401	—	2	46	93	141
Credit cards	576	303	29	908	3,337	—	11	43	20	74
Other personal	751	640	122	1,513	1,255	4	11	78	98	187
Wholesale	19,513	9,385	918	29,816	16,276	1,140	60	466	417	943
Property	7,051	3,697	570	11,318	5,431	208	25	128	232	385
Financial institutions	1,487	178	6	1,671	568	56	1	5	3	9
Sovereign	667	90	2	759	220	—	3	—	—	3
Corporate	10,308	5,420	340	16,068	10,057	876	31	333	182	546
Of which:										
Airlines and aerospace	*234*	*270*	*—*	*504*	*336*	*115*	*—*	*17*	*—*	*17*
Automotive	*521*	*67*	*5*	*593*	*277*	*38*	*1*	*7*	*2*	*10*
Health	*886*	*963*	*46*	*1,895*	*179*	*2*	*3*	*54*	*15*	*72*
Land transport and logistics	*498*	*292*	*4*	*794*	*828*	*102*	*2*	*13*	*2*	*17*
Leisure	*787*	*1,273*	*154*	*2,214*	*561*	*67*	*5*	*93*	*97*	*195*
Oil and gas	*242*	*212*	*1*	*455*	*756*	*86*	*2*	*14*	*1*	*17*
Retail	*1,833*	*302*	*22*	*2,157*	*1,133*	*69*	*3*	*16*	*8*	*27*
Total	35,198	13,942	1,486	50,626	24,269	1,144	84	633	628	1,345

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

	Property	FI	Other corporate	Total
2021	£m	£m	£m	£m
Forbearance (flow)	**274**	**1**	**859**	**1,134**
Forbearance (stock)	**317**	**2**	**1,112**	**1,431**
Heightened Monitoring and Risk of Credit Loss	**377**	**2**	**904**	**1,283**
2020				
Forbearance (flow)	698	21	743	1,462
Forbearance (stock)	731	21	1,223	1,975
Heightened Monitoring and Risk of Credit Loss	546	24	1,161	1,731

Credit risk – Banking activities continued

Sector analysis – Portfolio summary (audited)

- Loans by geography – In Personal, exposures continued to be concentrated in the UK and heavily weighted to mortgages. Drawn balances decreased during the year reflecting the pay down of existing borrowing and reduced demand for unsecured lending. In Wholesale, exposures were mainly in the UK. Balance sheet reduction was primarily due to repayments of both COVID-19 government lending schemes and conventional borrowing where demand was lower. Strategic reduction was achieved in high risk sectors.
- Loans by asset quality (based on Basel II PD) – In the Personal portfolio, the majority of exposures were in AQ4 and AQ5 within mortgages. Overall, Personal asset quality improved slightly, with migration in assets from AQ4 to AQ5 in mortgages offset by migration from AQ9 into better quality bands. As expected, mortgage exposures had a higher proportion in AQ1-AQ4 than unsecured borrowing. In other Personal, the relatively high level of exposures in AQ10 reflected that impaired assets can be held on the balance sheet, with commensurate ECL provision, for up to six years after default. Across the Wholesale portfolio, the asset quality band distribution differed, reflecting the diverse nature of the sectors. Asset quality improvement was observed across most sectors as the economy recovered from the effects of COVID-19. The reduction in AQ10 exposure in property was largely due to a portfolio sale of commercial real estate exposure.
- Loans by stage – In both Wholesale and Personal, the improved economic outlook resulted in reduced IFRS 9 PDs compared to 2020. This, alongside continued benign credit performance of the portfolio, resulted in a smaller proportion of accounts exhibiting a SICR and thereby an associated migration of exposures from Stage 2 into Stage 1. In the absence of any other forbearance or SICR triggers, customers granted COVID-19 related payment holidays were not considered forborne and did not result in an automatic trigger into Stage 2. However, a subset of Personal customers who had accessed payment holiday support, and where their risk profile was identified as relatively high, continued to be collectively migrated into Stage 2. In Wholesale, BBLS customers granted PAYG options, including the extension of lending terms, periods of reduced repayments and six month payment holidays, were not automatically considered significantly credit deteriorated. PAYG options are a feature of BBLS rather than a concession granted by RBS plc.
- Loans – Past due analysis – The various COVID-19 related customer support schemes (capital repayment holidays, government job retention scheme, government supported lending schemes) are mitigating actual portfolio deterioration in the short-term, although there have been some small increases in past due exposures.
- Weighted average 12 months PDs – In Personal, the Basel II point-in-time PDs improved slightly during 2021. The forward-looking IFRS 9 PDs reduced significantly during 2021 reflecting the improved economics. PD reductions were most evident in Personal mortgages due to benign arrears performance (catalysed by COVID-19 support schemes) combined with the improved economic outlook, which is connected to the need for collective SICR migration and judgmental post model adjustments. In Wholesale, the Basel II PDs were based on a through-the-cycle approach and decreased less than the forward-looking IFRS 9 PDs which reduced, reflecting the improved economic outlook.
- ECL provision by geography – In line with the point relating to loans by geography above, the vast majority of ECL related to exposures in the UK.
- ECL provisions by stage – Stage 1 and Stage 2 provisions reduced reflecting the improved economic outlook. As outlined above, Stage 3 provisions have yet to be materially affected, underpinned by the various customer support schemes noted previously.
- ECL provisions coverage – Overall provisions coverage reduced, mainly due to the improvement in economic outlook and scenario weightings. The base economic scenario improved reflecting the faster than expected vaccination roll-out, better than expected actual economic data and strong government support. Stage 2 coverage increased during the period for some portfolios and notably on certain Wholesale sectors due to the inclusion of the recovery risk overlay and lower Stage 2 balances.
- The ECL charge and loss rate – Reflecting the improved economic outlook, the impairment charge was significantly lower, with a material reduction in the annualised loss rate.
- Loans by residual maturity – In mortgages, as expected, the vast majority of exposures were greater than five years. In unsecured lending – cards and other – exposures were concentrated in less than five years. In Wholesale, with the exception of financial institutions where lending was concentrated in less than one year, the majority of lending was for residual maturity of one to five years, with some greater than five years in line with lending under the government support schemes.
- Other financial assets by asset quality – Consisting almost entirely of cash and balances at central banks, held in the course of treasury related management activities, these assets were mainly within the AQ1-AQ4 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 increased 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. In Wholesale, undrawn exposures declined in line with muted credit demand, with customers repaying revolving credit and working capital facilities to optimise liquidity. In addition, sector appetite adjustments in high risk sectors reduced off-balance sheet exposures to these sectors.
- Wholesale forbearance – Customers seeking COVID-19 related support, including payment holidays, who were not subject to any wider SICR triggers and who were assessed as having the ability in the medium term post-COVID-19 to be viable and meet credit appetite metrics, were not considered to have been granted forbearance. Customers seeking a payment holiday extension beyond an aggregate of 12 months in an 18 month period were considered to have been granted forbearance and were classed as heightened monitoring. This classification did not apply to customers with BBLS taking a PAYG payment holiday option. For Wholesale, forbearance flow decreased in the second half of 2021 following the lifting of most COVID-19 restrictions. The leisure sector represented the largest share of forbearance flow throughout 2021 due to disruption caused by the periodic presence of COVID-19 restrictions and resultant consumer uncertainty. Payment holidays and covenant waivers were the most common forms of forbearance granted.
- Heightened Monitoring and Risk of Credit Loss – Inflows decreased during 2021 compared to 2020. The reduction in value was mainly due to the lower number of inflows as well as a small number of high value customers who moved out of the framework as economic conditions improved. The sector breakdown of exposures remained consistent with prior periods.

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
2021	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Financial assets											
Cash and balances at central banks	**37.5**	**—**	**37.5**	**—**	**—**	**—**	**—**	**—**	**—**	**37.5**	**—**
Loans - amortised cost (3)	**43.5**	**0.7**	**42.8**	**0.6**	**2.4**	**27.3**	**4.4**	**34.1**	**0.6**	**8.7**	**—**
Personal (4)	***18.5***	***0.3***	***18.2***	***0.3***	**—**	***16.2***	**—**	***16.2***	***0.3***	***2.0***	**—**
Wholesale (5)	***25.0***	***0.4***	***24.6***	***0.3***	***2.4***	***11.1***	***4.4***	***17.9***	***0.3***	***6.7***	**—**
Total financial assets	**81.0**	**0.7**	**80.3**	**0.6**	**2.4**	**27.3**	**4.4**	**34.1**	**0.6**	**46.2**	**—**
Contingent liabilities and commitments											
Personal (6,7)	**7.6**	**—**	**7.6**	**—**	**—**	**2.8**	**—**	**2.8**	**—**	**4.8**	**—**
Wholesale	**13.1**	**—**	**13.1**	**0.1**	**0.2**	**2.9**	**0.7**	**3.8**	**—**	**9.3**	**0.1**
Total off-balance sheet	**20.7**	**—**	**20.7**	**0.1**	**0.2**	**5.7**	**0.7**	**6.6**	**—**	**14.1**	**0.1**
Total exposure	**101.7**	**0.7**	**101.0**	**0.7**	**2.6**	**33.0**	**5.1**	**40.7**	**0.6**	**60.3**	**0.1**
2020											
Financial assets											
Cash and balances at central banks	26.5	—	26.5	—	—	—	—	—	—	26.5	—
Loans - amortised cost (3)	50.6	1.3	49.3	0.9	2.3	31.0	4.8	38.1	0.7	11.2	0.2
Personal (4)	*20.8*	*0.4*	*20.4*	*0.4*	—	*18.2*	—	*18.2*	*0.3*	*2.2*	*0.1*
Wholesale (5)	*29.8*	*0.9*	*28.9*	*0.5*	*2.3*	*12.8*	*4.8*	*19.9*	*0.4*	*9.0*	*0.1*
Total financial assets	77.1	1.3	75.8	0.9	2.3	31.0	4.8	38.1	0.7	37.7	0.2
Contingent liabilities and commitments											
Personal (6,7)	8.0	—	8.0	0.1	—	3.1	—	3.1	—	4.9	0.1
Wholesale	17.4	—	17.4	0.1	0.2	3.1	0.7	4.0	—	13.4	0.1
Total off-balance sheet	25.4	—	25.4	0.2	0.2	6.2	0.7	7.1	—	18.3	0.2
Total exposure	102.5	1.3	101.2	1.1	2.5	37.2	5.5	45.2	0.7	56.0	0.4

(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 £0.3 billion (2020 – £0.3 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).

	2021			2020		
Personal lending	Retail Banking £m	Private Banking £m	Total £m	Retail Banking £m	Private Banking £m	Total £m
Mortgages	15,680	571	16,251	17,832	565	18,397
Of which:						
Owner occupied	14,090	507	14,597	16,050	509	16,559
Buy-to-let	1,590	64	1,654	1,782	56	1,838
Interest only - variable	1,921	174	2,095	2,320	172	2,492
Interest only - fixed	1,784	250	2,034	1,896	250	2,146
Mixed (1)	1,169	1	1,170	1,342	1	1,343
Impairment provisions (2)	126	—	126	140	1	141
Other personal lending (3)	2,245	37	2,282	2,505	68	2,573
Impairment provisions (2)	213	2	215	257	2	259
Total personal lending	17,925	608	18,533	20,337	633	20,970
Mortgage LTV ratios						
- Total portfolio	44%	58%	44%	48%	57%	48%
- Stage 1	*43%*	*58%*	*44%*	*46%*	*57%*	*46%*
- Stage 2	*46%*	*57%*	*46%*	*55%*	*38%*	*55%*
- Stage 3	*46%*	*54%*	*46%*	*51%*	*67%*	*51%*
- Buy-to-let	45%	58%	45%	50%	55%	50%
- Stage 1	*45%*	*58%*	*45%*	*48%*	*54%*	*48%*
- Stage 2	*49%*	*0%*	*49%*	*57%*	*0%*	*57%*
- Stage 3	*49%*	*70%*	*50%*	*55%*	*85%*	*56%*
Gross new mortgage lending (4)	1,129	85	1,214	817	70	887
Of which:						
Owner occupied	1,075	74	1,149	781	62	843
Weighted average LTV	60%	67%	60%	66%	61%	65%
Buy-to-let	54	11	65	36	8	44
Weighted average LTV	57%	70%	59%	60%	67%	61%
Interest only variable rate	13	21	34	12	29	41
Interest only fixed rate	104	31	135	62	20	82
Mixed (1)	70	—	70	30	—	30
Mortgage forbearance						
Forbearance flow	87	3	90	157	4	161
Forbearance stock	367	—	367	418	3	421
Current	*231*	—	*231*	*226*	—	*226*
1-3 months in arrears	*36*	—	*36*	*83*	*3*	*86*
>3 months in arrears	*100*	—	*100*	*109*	—	*109*

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

- Total mortgage lending reduced during the year as redemptions and repayments exceeded new business.
- LTV ratios improved as high demand increased house prices during the year.
- The existing mortgage stock and new business were closely monitored against agreed risk appetite parameters. These included LTV ratios, buy-to-let concentrations, new-build concentrations and credit quality. Lending criteria were cautiously relaxed during the year as demand returned and economic conditions improved.
- Forbearance flows and arrears levels remained low relative to historic norms, with customers able to utilise payment holidays during the first half of the year.
- Unsecured lending overall reduced during the year as demand was subdued with lower levels of consumer spending.
- As noted previously, the improved economic outlook including a more positive forecast on unemployment and house prices, resulted in reduced ECL.

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 (2)			
2021	Stage 1 £m	Stage 2 £m	Stage 3 £m	Not within IFRS 9 ECL scope £m	Total £m	Of which: gross new lending £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total (1) £m	Stage 1 %	Stage 2 %	Stage 3 %	Total %
≤50%	**8,416**	**1,158**	**224**	**12**	**9,810**	**324**	**1**	**17**	**54**	**72**	**—**	**1.5**	**24.7**	**0.8**
>50% and ≤70%	**3,909**	**755**	**130**	**2**	**4,796**	**373**	**1**	**13**	**29**	**43**	**—**	**1.7**	**22.3**	**1.0**
>70% and ≤80%	**745**	**89**	**20**	**—**	**854**	**249**	**—**	**2**	**5**	**7**	**—**	**2.0**	**23.0**	**1.1**
>80% and ≤90%	**160**	**14**	**5**	**—**	**179**	**139**	**—**	**—**	**2**	**2**	**—**	**2.6**	**28.9**	**4.3**
>90% and ≤100%	**45**	**3**	**2**	**—**	**50**	**44**	**—**	**—**	**1**	**1**	**—**	**6.2**	**36.9**	**13.2**
>100%	**1**	**1**	**1**	**—**	**3**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total with LTVs	**13,276**	**2,020**	**382**	**14**	**15,692**	**1,129**	**2**	**32**	**91**	**125**	**—**	**1.6**	**23.9**	**0.8**
Other	**2**	**—**	**—**	**—**	**2**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total	**13,278**	**2,020**	**382**	**14**	**15,694**	**1,129**	**2**	**32**	**91**	**125**	**—**	**1.6**	**23.9**	**0.8**
2020														
≤50%	7,977	1,425	206	11	9,619	182	1	14	44	59	—	1.0	21.4	0.6
>50% and ≤70%	4,410	1,313	154	4	5,881	238	1	17	31	49	—	1.3	20.1	0.8
>70% and ≤80%	1,014	633	41	1	1,689	225	—	9	10	19	—	1.3	24.7	1.1
>80% and ≤90%	360	227	16	—	603	138	—	5	4	9	—	2.3	24.3	1.5
>90% and ≤100%	5	15	5	—	25	32	—	1	1	2	0.2	3.7	31.8	7.2
>100%	1	7	3	—	11	——	—	—	1	1—	—	—	33.3	9.1
Total with LTVs	13,767	3,620	425	16	17,828	815	2	46	91	139	—	1.3	21.6	0.8
Other	3	1	—	—	4	2	—	—	1	1	0.3	12.4	—	13.5
Total	13,770	3,621	425	16	17,832	817	2	46	92	140	—	1.3	21.7	0.8

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

- ECL coverage rates increased through the LTV bands with Retail Banking having only limited exposures in the highest LTV bands. The relatively high coverage level in the lowest LTV band for Retail Banking included the effect of time-discounting on expected recoveries and reflects a modelling approach that captures losses expected from both repossession and also other recovery action.
- The improved economic outlook resulted in decreased account level IFRS 9 PDs. Consequently, compared to the 2020 year end, a lower proportion of accounts exhibited a SICR with an associated migration of exposures from Stage 2 into Stage 1.

Credit risk – Banking activities continued

Commercial real estate (CRE)

The CRE portfolio comprises exposures to entities involved in the development of, or investment in, commercial and residential properties (including house builders but excluding housing associations, construction and the building materials sub-sector). The sector is reviewed regularly by senior executive committees. Reviews include portfolio credit quality, capital consumption and control frameworks.

By sub-sector	2021 £m	2020 £m
Investment		
Residential (1)	**1,264**	1,390
Office (2)	**970**	1,066
Retail (3)	**1,134**	1,961
Industrial (4)	**489**	742
Mixed/other (5)	**136**	365
	3,993	5,524
Development		
Residential (1)	**425**	824
Office (2)	**11**	38
Retail (3)	**22**	23
Industrial (4)	**20**	40
Mixed/other (5)	**5**	4
	483	929
Total (6)	**4,476**	6,453

(1) Properties including houses, flats and student accommodation.
(2) Properties including offices in central business districts, regional headquarters and business parks.
(3) Properties including high street retail, shopping centres, restaurants, bars and gyms.
(4) Properties including distribution centres, manufacturing and warehouses.
(5) Properties that do not fall within the other categories. Mixed generally relates to a mixture of retail/office with residential.
(6) 100% (2020 – 98%) of the total exposure relates to the UK.

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.

	Current exposure (gross of provisions) (1,2)					ECL provisions				ECL provisions coverage (4)			
2021	Stage 1 £m	Stage 2 £m	Stage 3 £m	Not within IFRS 9 ECL scope (3) £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total (1) £m	Stage 1 %	Stage 2 %	Stage 3 %	Total %
≤50%	**1,758**	**123**	**18**	**—**	**1,899**	**1**	**3**	**5**	**9**	**0.1**	**2.4**	**27.8**	**0.5**
>50% and ≤70%	**1,071**	**247**	**16**	**—**	**1,334**	**1**	**4**	**2**	**7**	**0.1**	**1.6**	**12.5**	**0.5**
>70% and ≤100%	**25**	**78**	**48**	**—**	**151**	**—**	**1**	**8**	**9**	**—**	**1.3**	**16.7**	**6.0**
>100%	**9**	**3**	**15**	**—**	**27**	**—**	**—**	**12**	**12**	**—**	**—**	**80.0**	**44.4**
Total with LTVs	**2,863**	**451**	**97**	**—**	**3,411**	**2**	**8**	**27**	**37**	**0.1**	**1.8**	**27.8**	**1.1**
Total portfolio average LTV (%)	**45%**	**58%**	**85%**	**—**	**48%**								
Other (5)	**484**	**87**	**11**	**—**	**582**	**1**	**2**	**5**	**8**	**0.2**	**2.3**	**45.5**	**1.4**
Development (6)	**377**	**91**	**15**	**—**	**483**	**—**	**3**	**6**	**9**	**—**	**3.3**	**40.0**	**1.9**
Total	**3,724**	**629**	**123**	**—**	**4,476**	**3**	**13**	**38**	**54**	**0.1**	**2.1**	**30.9**	**1.2**
2020													
≤50%	1,281	1,238	116	—	2,635	13	36	17	66	1.0	2.9	14.7	2.5
>50% and ≤70%	582	1,431	79	—	2,092	5	50	15	70	0.9	3.5	19.0	3.3
>70% and ≤100%	8	47	65	—	120	—	3	24	27	—	6.4	36.9	22.5
>100%	7	17	115	—	139	—	1	58	59	—	5.9	50.4	42.4
Total with LTVs	1,878	2,733	375	—	4,986	18	90	114	222	1.0	3.3	30.4	4.5
Total portfolio average LTV (%)	42%	48%	87%	39%	49%	—	—	—	—	—	—	—	—
Other (5)	359	70	105	4	538	1	5	52	58	0.3	7.1	49.5	10.9
Development (6)	452	446	31	—	929	2	13	15	30	0.4	2.9	48.4	3.2
Total	2,689	3,249	511	4	6,453	21	108	181	310	0.8	3.3	35.4	4.8

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

- Overall – The majority of the CRE portfolio was located and managed in the UK. Business appetite and strategy was aligned across RBS plc.
- 2021 trends – The continued reduction in the real estate exposure was a consequence of active portfolio management to rebalance the size and composition of the CRE portfolio. In addition, customer appetite to borrow was muted, particularly amongst larger customers. At a sub-sector level, the residential market had a positive out-turn over the year; the retail sector exhibited mixed performance in line with changing consumer habits; the industrial market performed very strongly; with uncertainty continuing in the office sub-sector as occupiers moved to a more flexible way of working.
- Credit quality – RBS plc entered the COVID-19 period with a conservatively positioned CRE portfolio, which helped to mitigate the effect of COVID-19. The majority of the defaults during 2021 were in the retail sector, particularly in the fashion-led shopping centre sub-sector. RBS plc completed a strategic sale of a portfolio of these loans during 2021. Customers experienced reduced rent collections during COVID-19 albeit rental payments have now normalised. Outside of retail, there was limited distress as noted, uncertainty still remains, particularly in relation to the office sub-sector and the portfolio continues to be actively reviewed and managed.
- Risk appetite – Lending appetite was gradually and selectively increased by sub-sector, particularly towards the end of 2021, albeit these remain below pre-COVID-19 levels.

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 2021	58,821	84	14,192	633	1,616	628	74,629	1,345
Currency translation and other adjustments	(73)	(1)	(11)	—	22	(6)	(62)	(7)
Inter-Group transfers	—	—	—	—	—	—	—	—
Transfers from Stage 1 to Stage 2	(5,155)	(28)	5,155	28	—	—	—	—
Transfers from Stage 2 to Stage 1	9,211	247	(9,211)	(247)	—	—	—	—
Transfers to Stage 3	(87)	—	(566)	(61)	653	61	—	—
Transfers from Stage 3	84	3	219	27	(303)	(30)	—	—
Net re-measurement of ECL on stage transfer		(206)		148		38		(20)
Changes in risk parameters		(61)		(113)		63		(111)
Other changes in net exposure	7,689	9	(3,198)	(133)	(612)	(57)	3,879	(181)
Other (P&L only items)		—		—		(39)		(39)
Income statement (releases)/charges		(258)		(98)		5		(351)
Amounts written-off	—	—	—	—	(305)	(305)	(305)	(305)
Unwinding of discount		—		—		(19)		(19)
At 31 December 2021	70,490	47	6,580	282	1,071	373	78,141	702
Net carrying amount	70,443		6,298		698		77,439	
At 1 January 2020	70,409	58	6,176	171	1,583	594	78,168	823
2020 movements	(11,588)	26	8,016	462	33	34	(3,539)	522
At 31 December 2020	58,821	84	14,192	633	1,616	628	74,629	1,345
Net carrying amount	58,737		13,559		988		73,284	

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 2021	**13,900**	**2**	**3,664**	**47**	**442**	**92**	**18,006**	**141**
Currency translation and other adjustments	**—**	**—**	**—**	**—**	**2**	**2**	**2**	**2**
Transfers from Stage 1 to Stage 2	**(1,295)**	**—**	**1,295**	**—**	**—**	**—**	**—**	**—**
Transfers from Stage 2 to Stage 1	**2,405**	**19**	**(2,405)**	**(19)**	**—**	**—**	**—**	**—**
Transfers to Stage 3	**(2)**	**—**	**(120)**	**(4)**	**122**	**4**	**—**	**—**
Transfers from Stage 3	**1**	**—**	**95**	**8**	**(96)**	**(8)**	**—**	**—**
Net re-measurement of ECL on stage transfer		**(18)**		**13**		**2**		**(3)**
Changes in risk parameters		**—**		**(6)**		**20**		**14**
Other changes in net exposure	**(1,493)**	**—**	**(473)**	**(6)**	**(74)**	**(5)**	**(2,040)**	**(11)**
Other (P&L only items)		**—**		**—**		**(9)**		**(9)**
Income statement (releases)/charges		**(18)**		**1**		**8**		**(9)**
Amounts written-off	**—**	**—**	**—**	**—**	**(5)**	**(5)**	**(5)**	**(5)**
Unwinding of discount		**—**		**—**		**(10)**		**(10)**
At 31 December 2021	**13,516**	**3**	**2,056**	**33**	**391**	**92**	**15,963**	**128**
Net carrying amount	**13,513**		**2,023**		**299**		**15,835**	
At 1 January 2020	17,326	2	2,586	27	473	88	20,385	117
2020 movements	(3,426)	—	1,078	20	(31)	4	(2,379)	24
At 31 December 2020	13,900	2	3,664	47	442	92	18,006	141
Net carrying amount	13,898		3,617		350		17,865	

- Mortgage balances reduced during 2021 due to redemptions and repayments exceeding new lending. The decrease in ECL was primarily a result of reduced PDs and LGDs reflecting the improved economic outlook and stable portfolio performance. This resulted in lower levels of SICR identification and ECL requirement.
- More specifically, the reduced PDs alongside muted portfolio deterioration resulted in a net migration of assets from Stage 2 into Stage 1, with an associated decrease from lifetime ECL to a 12 month ECL.
- With various customer support schemes available and the revised economic outlook, Stage 3 ECL remained stable as new inflows remaining subdued. 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. Given the moratorium on repossession activity until later in 2021, write-offs remained at a subdued level.

Credit risk – Banking activities continued

Flow statements (audited)

Retail Banking - other personal unsecured	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 2021	**717**	**10**	**685**	**77**	**117**	**98**	**1,519**	**185**
Currency translation and other adjustments	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Transfers from Stage 1 to Stage 2	**(338)**	**(6)**	**338**	**6**	**—**	**—**	**—**	**—**
Transfers from Stage 2 to Stage 1	**394**	**26**	**(394)**	**(26)**	**—**	**—**	**—**	**—**
Transfers to Stage 3	**(3)**	**—**	**(60)**	**(20)**	**63**	**20**	**—**	**—**
Transfers from Stage 3	**2**	**2**	**18**	**11**	**(20)**	**(13)**	**—**	**—**
Net re-measurement of ECL on stage transfer		**(22)**		**27**		**21**		**26**
Changes in risk parameters		**(3)**		**(7)**		**10**		**—**
Other changes in net exposure	**140**	**2**	**(194)**	**(16)**	**(15)**	**(4)**	**(69)**	**(18)**
Other (P&L only items)		**(1)**		**—**		**(6)**		**(7)**
Income statement (releases)/charges		**(24)**		**4**		**21**		**1**
Amounts written-off	**—**	**—**	**—**	**—**	**(26)**	**(26)**	**(26)**	**(26)**
Unwinding of discount		**—**		**—**		**(3)**		**(3)**
At 31 December 2021	**912**	**9**	**393**	**52**	**119**	**103**	**1,424**	**164**
Net carrying amount	**903**		**341**		**16**		**1,260**	
At 1 January 2020	1,121	11	458	46	132	113	1,711	170
2020 movements	(404)	(1)	227	31	(15)	(15)	(192)	15
At 31 December 2020	717	10	685	77	117	98	1,519	185
Net carrying amount	707		608		19		1,334	

- The overall decrease in ECL was mainly due to the reduction in Stage 2 ECL reflecting the improved economic outlook and stable portfolio performance, causing PDs to decrease. This resulted in reduced levels of SICR identification and ECL requirement.
- More specifically, the reduced PDs alongside muted portfolio deterioration resulted in a net migration of assets from Stage 2 into Stage 1, with an associated decrease from lifetime ECL to a 12 month ECL.
- In line with industry trends in the UK, unsecured balances reduced, amplifying the ECL reductions within the portfolio. This has stabilised as UK lockdown restrictions have eased and borrowing demand increased.
- With various customer support schemes available and the improved economic outlook, Stage 3 inflows remained subdued and therefore Stage 3 ECL movement was minimal.
- 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)

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 2021	574	11	313	42	31	20	918	73
Currency translation and other adjustments	—	—	—	—	—	—	—	—
Transfers from Stage 1 to Stage 2	(204)	(8)	204	8	—	—	—	—
Transfers from Stage 2 to Stage 1	253	26	(253)	(26)	—	—	—	—
Transfers to Stage 3	(4)	—	(20)	(7)	24	7	—	—
Transfers from Stage 3	—	—	3	1	(3)	(1)	—	—
Net re-measurement of ECL on stage transfer		(15)		32		8		25
Changes in risk parameters		(3)		(11)		1		(13)
Other changes in net exposure	25	(1)	(51)	(12)	(11)	(1)	(37)	(14)
Other (P&L only items)		1		(1)		(4)		(4)
Income statement (releases)/charges		(18)		8		4		(6)
Amounts written-off	—	—	—	—	(19)	(19)	(19)	(19)
Unwinding of discount		—		—		(1)		(1)
At 31 December 2021	644	10	196	27	22	14	862	51
Net carrying amount	634		169		8		811	
At 1 January 2020	697	7	339	32	37	24	1,073	63
2020 movements	(123)	4	(26)	10	(6)	(4)	(155)	10
At 31 December 2020	574	11	313	42	31	20	918	73
Net carrying amount	563		271		11		845	

- The overall decrease in ECL was mainly due to the reduction in Stage 2 ECL reflecting the improved economic outlook and stable portfolio performance, causing PDs to decrease. This resulted in reduced levels of SICR identification and ECL requirement.
- More specifically, the reduced PDs alongside muted portfolio deterioration resulted in a net migration of assets from Stage 2 into Stage 1, with an associated decrease from lifetime ECL to a 12 month ECL.
- Cards balances remained broadly consistent with the 2020 year end. In line with industry trends in the UK, credit card balances decreased during the first half of the year but then increased as lockdown restrictions eased and borrowing demand increased.
- With various customer support schemes available and the improved economic outlook, Stage 3 inflows remained subdued and therefore Stage 3 ECL movement was minimal.
- 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
Commercial Banking - commercial real estate	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2021	6,594	24	3,660	123	620	230	10,874	377
Currency translation and other adjustments	(5)	—	(1)	—	(1)	(16)	(7)	(16)
Inter-group transfers	—	—	—	—	—	—	—	—
Transfers from Stage 1 to Stage 2	(758)	(5)	758	5	—	—	—	—
Transfers from Stage 2 to Stage 1	2,879	75	(2,879)	(75)	—	—	—	—
Transfers to Stage 3	(41)	—	(90)	(4)	131	4	—	—
Transfers from Stage 3	56	—	19	1	(75)	(1)	—	—
Net re-measurement of ECL on stage transfer		(61)		13		3		(45)
Changes in risk parameters		(31)		(16)		19		(28)
Other changes in net exposure	(930)	1	(820)	(31)	(348)	(50)	(2,098)	(80)
Other (P&L only items)		—		—		(1)		(1)
Income statement (releases)/charges		(91)		(34)		(29)		(154)
Amounts written-off	—	—	—	—	(129)	(129)	(129)	(129)
Unwinding of discount		—		—		(2)		(2)
At 31 December 2021	7,795	3	647	16	198	58	8,640	77
Net carrying amount	7,792		631		140		8,563	
At 1 January 2020	10,841	12	761	11	492	148	12,094	171
2020 movements	(4,247)	12	2,899	112	128	86	(1,220)	210
At 31 December 2020	6,594	24	3,660	123	620	234	10,874	381
Net carrying amount	6,570		3,537		386		10,493	

- Stage 1 and Stage 2 ECL reduced significantly due to the improvement in the economic outlook, causing both PDs and LGDs to decrease.
- The updated economics also resulted in a migration of assets from Stage 2 into Stage 1 as improved underlying PDs meant assets no longer met Stage 2 criteria.
- Flows into Stage 3 remained low as government support schemes combined with the economic recovery, suppressed a higher level of flows into Stage 3.
- The reduction in Stage 3 balances was largely a result of a portfolio sale of non-performing exposure.
- Performing exposure reduced due to repayments of existing borrowing with limited appetite for new lending to replace it.

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 Banking - business banking	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2021	**1,958**	**7**	**420**	**24**	**62**	**41**	**2,440**	**72**
Currency translation and other adjustments	**—**	**—**	**—**	**—**	**(7)**	**(6)**	**(7)**	**(6)**
Transfers from Stage 1 to Stage 2	**(785)**	**(2)**	**785**	**2**	**—**	**—**	**—**	**—**
Transfers from Stage 2 to Stage 1	**480**	**23**	**(480)**	**(23)**	**—**	**—**	**—**	**—**
Transfers to Stage 3	**(12)**	**—**	**(68)**	**(4)**	**80**	**4**	**—**	**—**
Transfers from Stage 3	**2**	**1**	**10**	**2**	**(12)**	**(3)**	**—**	**—**
Net re-measurement of ECL on stage transfer		**(22)**		**31**		**6**		**15**
Changes in risk parameters		**(2)**		**(4)**		**3**		**(3)**
Other changes in net exposure	**327**	**—**	**(115)**	**(5)**	**(7)**	**(1)**	**205**	**(6)**
Other (P&L only items)		**1**		**—**		**(6)**		**(5)**
Income statement (releases)/charges		**(23)**		**22**		**2**		**1**
Amounts written-off	**—**	**—**	**—**	**—**	**(10)**	**(10)**	**(10)**	**(10)**
Unwinding of discount		**—**		**—**		**(2)**		**(2)**
At 31 December 2021	**1,970**	**5**	**552**	**23**	**106**	**32**	**2,628**	**60**
Net carrying amount	**1,965**		**529**		**74**		**2,568**	
At 1 January 2020	1,217	5	143	8	69	52	1,429	65
2020 movements	741	2	277	16	(7)	(11)	1,011	7
At 31 December 2020	1,958	7	420	24	62	41	2,440	72
Net carrying amount	1,951		396		21		2,368	

- The updated economics resulted in an improvement in underlying credit metrics resulting in migration of exposure from Stage 2 into Stage 1 with a consequential reduction from lifetime ECL to a 12 month ECL calculation. However, the transfer of exposure from Stage 1 into Stage 2 outweighed the positive migration and was largely related to customers with government scheme borrowing.

- Flows of defaulted exposure into Stage 3, were mainly a result of government scheme lending rather than conventional debt. This was reflected in the lower ECL associated with the Stage 3 transfers.
- The portfolio continued to benefit from cash recoveries post write-off, which are reported as other (P&L only items). Write-off occurs once recovery activity with the customer has been concluded or there are no further recoveries expected, but no later than five years after default.

Credit risk – Banking activities continued
Flow statements (audited)

Commercial Banking - other	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 2021	8,897	26	5,405	318	331	146	14,633	490
Currency translation and other adjustments	(41)	—	(11)	—	16	14	(36)	14
Inter-group transfers	—	—	—	—	—	—	—	—
Transfers from Stage 1 to Stage 2	(1,761)	(6)	1,761	6	—	—	—	—
Transfers from Stage 2 to Stage 1	2,761	77	(2,761)	(77)	—	—	—	—
Transfers to Stage 3	(4)	—	(207)	(22)	211	22	—	—
Transfers from Stage 3	3	—	60	4	(63)	(4)	—	—
Net re-measurement of ECL on stage transfer		(67)		32		(1)		(36)
Changes in risk parameters		(22)		(68)		9		(81)
Other changes in net exposure	(464)	4	(1,524)	(62)	(165)	5	(2,153)	(53)
Other (P&L only items)		—		1		(14)		(13)
Income statement (releases)/charges		(85)		(97)		(1)		(183)
Amounts written-off	—	—	—	—	(117)	(117)	(117)	(117)
Unwinding of discount		—		—		(1)		(1)
At 31 December 2021	9,391	12	2,723	131	213	73	12,327	216
Net carrying amount	9,379		2,592		140		12,111	
At 1 January 2020	13,886	20	1,862	48	353	165	16,101	233
2020 movements	(4,989)	6	3,543	270	(22)	(23)	(1,468)	253
At 31 December 2020	8,897	26	5,405	318	331	142	14,633	486
Net carrying amount	8,871		5,087		189		14,147	

- The decrease in ECL across Stage 1 and Stage 2 was primarily due to improvement in the economic outlook, causing both PDs and LGDs to reduce.
- The updated economics also resulted in the migration of assets from Stage 2 into Stage 1 with a consequential decrease from a lifetime ECL to a 12 month ECL calculation.
- For flows into Stage 3, defaults remained suppressed, reflecting both the effect of increased liquidity from government customer support schemes and the improving economic environment.
- Other changes in net exposure decreased following the commencement of repayments of government scheme debt and strategic reduction in high risk sectors.

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	
2021	£m	%	£m	%	£m	%	£m	%
Personal								
Currently >30 DPD	73	2	2	1	7	3	82	6
Currently <=30 DPD	1,951	31	186	26	358	48	2,495	105
- PD deterioration	*640*	*14*	*110*	*19*	*179*	*29*	*929*	*62*
- PD persistence	*612*	*8*	*52*	*4*	*149*	*16*	*813*	*28*
- Other driver (adverse credit, forbearance etc)	*699*	*9*	*24*	*3*	*30*	*3*	*753*	*15*
Total Stage 2	2,024	33	188	27	365	51	2,577	111
2020								
Personal								
Currently >30 DPD	101	5	3	1	12	4	116	10
Currently <=30 DPD	3,513	41	300	42	628	74	4,441	157
- PD deterioration	*1,970*	*35*	*208*	*33*	*420*	*62*	*2,598*	*130*
- PD persistence	*871*	*2*	*67*	*5*	*185*	*9*	*1,123*	*16*
- Other driver (adverse credit, forbearance etc)	*672*	*4*	*25*	*4*	*23*	*3*	*720*	*11*
Total Stage 2	3,614	46	303	43	640	78	4,557	167

- The improved economic outlook, including forecast increases in unemployment, resulted in decreased account level IFRS 9 PDs during the year. Consequently, compared to 2020, a smaller proportion of accounts exhibited significant PD deterioration causing Stage 2 exposures to decrease significantly and increase the proportion of cases in Stage 2 for other reasons.
- During the year, a subset of customers who had accessed payment holiday support and where their risk profile was identified as relatively high risk, were collectively migrated into Stage 2. For mortgages, in Retail Banking, approximately £0.1 billion of exposures were collectively migrated from Stage 1 into Stage 2. The impact of collective migrations on unsecured lending was much more limited.

	Property		Corporate		FI		Other		Total	
2021	£m	%	£m	%	£m	%	£m	%	£m	%
Wholesale										
Currently >30 DPD	25	—	41	1	—	—	—	—	66	1
Currently <=30 DPD	757	22	2,971	146	47	2	83	—	3,858	170
- PD deterioration	*209*	*13*	*1,782*	*117*	*39*	*2*	*82*	—	*2,112*	*132*
- PD persistence	*31*	*1*	*114*	*5*	*1*	—	—	—	*146*	*6*
- Other driver (forbearance, RoCL etc)	*517*	*8*	*1,075*	*24*	*7*	—	*1*	—	*1,600*	*32*
Total Stage 2	782	22	3,012	147	47	2	83	—	3,924	171
2020										
Wholesale										
Currently >30 DPD	9	1	36	6	—	—	—	—	45	7
Currently <=30 DPD	3,688	127	5,384	327	178	5	90	—	9,340	459
- PD deterioration	*3,529*	*122*	*4,755*	*292*	*174*	*5*	*90*	—	*8,548*	*419*
- PD persistence	*30*	*1*	*114*	*3*	*1*	—	—	—	*145*	*4*
- Other driver (forbearance, RoCL etc)	*129*	*4*	*515*	*32*	*3*	—	—	—	*647*	*36*
Total Stage 2	3,697	128	5,420	333	178	5	90	—	9,385	466

- The improved economic outlook, including upgrades in GDP and commercial real estate valuations, resulted in a reduction of IFRS 9 PDs. Consequently, compared to 2020, 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, although there was also an increase in arrears and other drivers.
- The increase in arrears greater than 30 days was partially a result of the commencement of payments on government scheme debt.

Credit risk – Banking activities continued
Stage 2 decomposition by a significant increase in credit risk trigger

2021	UK mortgages £m	UK mortgages %	Credit cards £m	Credit cards %	Other £m	Other %	Total £m	Total %
Personal trigger (1)								
PD movement	**698**	**34.6**	**111**	**59.1**	**186**	**51.0**	**995**	**38.7**
PD persistence	**616**	**30.4**	**52**	**27.7**	**149**	**40.8**	**817**	**31.7**
Adverse credit bureau recorded with credit reference agency	**533**	**26.3**	**16**	**8.5**	**14**	**3.8**	**563**	**21.8**
Forbearance support provided	**39**	**1.9**	**1**	**0.5**	**5**	**1.4**	**45**	**1.7**
Customers in collections	**15**	**0.7**	**1**	**0.5**	**2**	**0.5**	**18**	**0.7**
Collective SICR and other reasons (2)	**117**	**5.8**	**7**	**3.7**	**9**	**2.5**	**133**	**5.2**
Days past due >30	**6**	**0.3**	**—**	**—**	**—**	**—**	**6**	**0.2**
	2,024	**100**	**188**	**100**	**365**	**100**	**2,577**	**100**

2020	UK mortgages £m	UK mortgages %	Credit cards £m	Credit cards %	Other £m	Other %	Total £m	Total %
Personal trigger (1)								
PD movement	2,064	57.1	211	69.7	432	67.5	2,707	59.4
PD persistence	871	24.1	68	22.4	185	28.9	1,124	24.7
Adverse credit bureau recorded with credit reference agency	516	14.3	14	4.6	9	1.4	539	11.8
Forbearance support provided	35	1.0	—	—	2	0.3	37	0.8
Customers in collections	17	0.5	—	—	2	0.3	19	0.4
Collective SICR and other reasons (2)	106	2.9	10	3.3	10	1.6	126	2.8
Days past due >30	5	0.1	—	—	—	—	5	0.1
	3,614	100	303	100	640	100	4,557	100

- The improved economic outlook, including a more optimistic forecast for unemployment, resulted in decreased account level IFRS 9 PDs. Consequently, compared to 2020, a smaller proportion of accounts exhibited significant PD deterioration at 31 December 2021.
- Since the 2020 year end, large populations of Stage 2 were migrated into Stage 1 reflecting continued reductions in PDs as a result of the improved economic outlook alongside stable portfolio performance during the year.
- However, a subset of customers who had accessed payment holiday support, and where their risk profile was identified as relatively high risk, were collectively migrated into Stage 2. In Retail Banking (primarily mortgages), approximately £0.1 billion of exposures were collectively migrated from Stage 1 into Stage 2. The effect of collective migrations on unsecured lending was much more limited. PD movement made up a smaller proportion of Stage 2 for UK mortgages than at the 2020 year end, supporting the use of the collective SICR migration approach described above.

2021	Property £m	Property %	Corporate £m	Corporate %	FI £m	FI %	Other £m	Other %	Total £m	Total %
Wholesale trigger (1)										
PD movement	**217**	**27.7**	**1,816**	**60.3**	**39**	**83.0**	**83**	**100.0**	**2,155**	**55.0**
PD persistence	**31**	**4.0**	**115**	**3.8**	**1**	**2.1**	**—**	**—**	**147**	**3.7**
Risk of Credit Loss	**361**	**46.1**	**618**	**20.5**	**3**	**6.4**	**—**	**—**	**982**	**25.0**
Forbearance support provided	**31**	**4.0**	**130**	**4.3**	**—**	**—**	**—**	**—**	**161**	**4.1**
Customers in collections	**6**	**0.8**	**19**	**0.6**	**—**	**—**	**—**	**—**	**25**	**0.6**
Collective SICR and other reasons (2)	**121**	**15.5**	**309**	**10.3**	**4**	**8.5**	**—**	**—**	**434**	**11.1**
Days past due >30	**15**	**1.9**	**5**	**0.2**	**—**	**—**	**—**	**—**	**20**	**0.5**
	782	**100**	**3,012**	**100**	**47**	**100**	**83**	**100**	**3,924**	**100**

2020	Property £m	Property %	Corporate £m	Corporate %	FI £m	FI %	Other £m	Other %	Total £m	Total %
Wholesale trigger (1)										
PD movement	3,535	95.7	4,782	88.3	175	98.3	90	100.0	8,582	91.5
PD persistence	30	0.8	115	2.1	1	0.6	—	—	146	1.6
Risk of Credit Loss	38	1.0	321	5.9	—	—	—	—	359	3.8
Forbearance support provided	49	1.3	39	0.7	—	—	—	—	88	0.9
Customers in collections	5	0.1	18	0.3	—	—	—	—	23	0.2
Collective SICR and other reasons (2)	38	1.0	138	2.6	2	1.1	—	—	178	1.9
Days past due >30	2	0.1	7	0.1	—	—	—	—	9	0.1
	3,697	100	5,420	100	178	100	90	100	9,385	100

(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 during 2021, there was a reduction in cases triggered into Stage 2 exposure.
- Moving exposures on to the Risk of Credit Loss framework remained an important backstop indicator of a SICR.
- There was a decrease in flows on to the Risk of Credit Loss framework. However, the exposures classified under Stage 2 Risk of Credit Loss increased over the period as less exposures were captured under the Stage 2 PD deterioration. At a total level, exposure on the Risk of Credit Loss framework remained above pre-COVID-19 levels.
- PD persistence related to the business banking portfolio only.

Capital, liquidity and funding risk

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

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

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

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

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

Sources of risk (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 issued by RBS plc, may be used to cover certain gone concern capital requirements which, is referred to as MREL. Gone concern refers to the situation in which resources must be available to enable an orderly resolution, in the event that the Bank of England (BoE) deems that RBS plc has failed or is likely to fail.

Liquidity

Liquidity risk within RBS plc is managed as part of the UK Domestic Liquidity Sub-Group (UK DoLSub), which is regulated by the PRA and comprises NWH Group's four licensed deposit taking UK banks: The Royal Bank of Scotland plc, National Westminster Bank Plc, Coutts & Company and Ulster Bank Limited. On 3 May 2021, the Ulster Bank Limited business transferred to National Westminster Bank Plc. Ulster Bank Limited was removed from the UK DoLSub effective 1 January 2022. The planned removal of the Ulster Bank Limited license remains subject to regulatory applications and approvals.

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

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

Funding

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

Managing capital requirements: regulated entities

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

Capital management

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

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

Capital, liquidity and funding risk continued

This is summarised below. Other elements of capital management, including risk appetite and stress testing, are set out on pages 10 and 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 buy backs, redemptions, dividends and new issuance to external investors or via internal transactions. – Decisions on capital actions will be influenced by strategic and regulatory requirements, risk appetite, costs and prevailing market conditions. – As part of capital planning, RBS plc will monitor its portfolio of issued capital securities and assess the optimal blend and most cost effective means of financing.

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

Liquidity risk management

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

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

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

Funding risk management

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

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

Capital, liquidity and funding risk continued
Key points

CET1 ratio

2021	13.7%
2020	17.6%

The CET1 ratio decreased 390 basis points over the period due to a £1.7 billion decrease in CET1 capital and a £5.5 billion decrease in RWAs. The CET1 decrease reflects the attributable profit in the period of £0.7 billion, offset by the following items:
- dividends paid of £2.1 billion;
- foreseeable charges of £0.2 billion; and
- a £0.3 billion decrease in the IFRS 9 transitional adjustment on expected credit losses.

RWA

2021	£19.6bn
2020	£25.1bn

Total RWAs decreased by £5.5 billion driven by a £4.7 billion decrease in credit risk and a £0.8 billion reduction in operational risk RWAs following the annual recalculation in Q1 2021. The decrease in credit risk RWAs was largely attributed to repayments and expired facilities in Commercial Banking.

Leverage

2021	4.1%
2020	6.3%

CRR leverage ratio decreased by 220 basis points driven by a £2.8 billion increase in the leverage exposure driven by cash and balances at central banks in addition to a £1.7 billion decrease in Tier 1 capital.

Liquidity portfolio

2021	£42.9bn
2020	£34.5bn

The liquidity portfolio increased by £8.4 billion to £42.9 billion with primary liquidity increasing by £10.6 billion to £35.2 billion. The increase in primary liquidity was mainly driven by customer deposits and cash proceeds from new issuances. This is offset by the buy back of shares owned by the UK Government, pension fund contributions, liability management exercise, increase in lending and the purchase of additional mortgages. Secondary liquidity is lower due to monthly repayments on underlying assets.

Liquidity coverage ratio

2021	169%
2020	152%

The DoLSub Liquidity Coverage Ratio (LCR) increased during the year to 169% driven by an increase in the liquidity portfolio offset with a lower level of increased net outflows. The increased liquidity portfolio was primarily driven by significant growth in customer deposits which outstripped growth in customer lending during the year.

NSFR

2021	151%
2020	144%

The net stable funding ratio (NSFR) for FY 2021 was 151% compared to 144% in prior year. The increase is mainly due to deposits growth.

Capital, liquidity and funding risk continued

Minimum requirements

Capital adequacy ratios

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

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

(1) In response to COVID-19, many countries reduced their CCyB rates. In December 2021, the Financial Policy Committee announced an increase in the UK CCyB rate from 0% to 1%. This rate will come into effect from December 2022 in line with the 12 month implementation period. The CBI continues to maintain the rate at 0% with an announcement of a gradual increase of the CCyB expected in 2022.
(2) The minimum requirements do not include any capital that the bank entities may be required to hold as a result of the Pillar 2 assessment.

Leverage ratio

Following the publication of the new UK leverage ratio framework on 8 October 2021 certain NatWest Group legal entities that are not currently in scope of the minimum leverage ratio capital requirements will be expected to manage their leverage ratio at the same level as firms in scope from 1 January 2022 and will be subject to the minimum requirement from 1 January 2023. There is also an expectation that non-scope firms, which includes RBS plc, should manage their leverage ratio in line with the minimum requirement from 1 January 2022.

Liquidity and funding ratios

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

Type	
Liquidity coverage ratio (LCR)	100%
Net stable funding ratio (NSFR) (1)	—

(1) Net Stable Funding Ratio (NSFR) reported in line with CRR2 regulations finalised in June 2019. Following the publication of PS 22/21 on 14 October 2021, a binding NSFR minimum requirement of 100% will be effective from January 2022.

Capital, liquidity and funding risk continued

Measurement

Capital, RWAs and leverage

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

Capital adequacy ratios	2021 %	2020 %
CET1 (1)	**13.7**	17.6
Tier 1	**18.6**	21.5
Total	**26.1**	27.1
Capital	**£m**	£m
CET1 (1)	**2,682**	4,431
Tier 1	**3,651**	5,400
Total	**5,106**	6,815
RWAs		
Credit risk	**15,634**	20,341
Counterparty credit risk	**—**	—
Market risk	**7**	14
Operational risk	**3,951**	4,778
Total RWAs	**19,592**	25,133
Leverage		
Tier 1 capital (£m)	**3,651**	5,400
Leverage exposure (£m) (2)	**88,670**	85,867
Leverage ratio (%) (1)	**4.1**	6.3

(1) Includes an IFRS 9 transitional adjustment of £126 million (2020 - £380 million). Excluding this adjustment, the CET1 ratio would be 13.1% (2020 – 16.1%) and the leverage ratio would be 4.0% (2020 – 5.9%).
(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.

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.

2021	UK DoLSub
Liquidity coverage ratio (1)	**169%**
Stressed outflow coverage (2)	**195%**
Net stable funding ratio (3)	**151%**

2020	
Liquidity coverage ratio (1)	152%
Stressed outflow coverage (2)	168%
Net stable funding ratio (3)	144%

(1) The published LCR excludes Pillar 2 add-ons. NatWest Group calculates the LCR using its own interpretations of the EU LCR Delegated Act, which may change over time and may not be fully comparable with those of other financial institutions.
(2) Stressed outflow coverage (SOC) is an internal measure calculated by reference to liquid assets as a percentage of net stressed contractual and behavioural outflows over three months under the worst of three severe stress scenarios of a market-wide stress, an idiosyncratic stress and a combination of both as per ILAAP. This assessment is performed in accordance with PRA guidance.
(3) Following the publication of PS 22/21 on 14 October 2021, a binding Net Stable Funding Ratio (NSFR) minimum requirement of 100% will be effective from 1 January 2022.

Capital, liquidity and funding risk continued

Leverage exposure

The leverage exposure is based on the CRR Delegated Act.

Leverage	2021 £m	2020 £m
Cash and balances at central banks	38,014	26,927
Derivatives	220	745
Financial assets	67,123	70,838
Other assets	738	732
Total assets	106,095	99,242
Derivatives		
- netting and variation margin	—	—
- potential future exposures	218	194
Securities financing transactions gross up	—	—
Undrawn commitments	8,982	11,183
Regulatory deductions and other adjustments	129	(270)
Exclusion of core UK-group exposures	(26,754)	(24,482)
Leverage exposure	88,670	85,867

Liquidity portfolio (audited)

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

	2021		2020	
	UK DoLSub (1) £m	RBS plc £m	UK DoLSub £m	RBS plc £m
Cash and balances at central banks	136,154	35,220	86,575	24,631
AAA to AA- rated governments	21,123	—	35,875	—
A+ and lower rated governments	—	—	—	—
Government guaranteed issuers, PSEs and GSEs	174	—	141	—
International organisations and MDBs	1,466	—	2,154	—
Level 1 bonds	22,763	—	38,170	—
LCR level 1 eligible assets	158,917	35,220	124,745	24,631
LCR level 2 eligible assets	—	—	—	—
Non-LCR eligible assets	—	—	—	—
Primary liquidity	158,917	35,220	124,745	24,631
Secondary liquidity (2)	76,573	7,634	88,774	9,858
Total liquidity value	235,490	42,854	213,519	34,489

(1) UK DoLSub comprises NatWest Group's four licensed deposit-taking UK banks: NWB Plc, RBS plc, Coutts and Company and Ulster Bank Limited. Ulster Bank Limited was removed from the UK DoLSub effective 1 January 2022.

(2) Comprises assets eligible for discounting at the Bank of England and other central banks.

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.

	2021			2020		
	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	1,117	—	1,117	1,152	—	1,152
Customer deposits						
Personal	38,190	145	38,335	34,101	220	34,321
Corporate	39,556	2	39,558	37,609	4	37,613
Non-bank financial institutions (NBFI)	14,251	—	14,251	12,693	1	12,694
	91,997	147	92,144	84,403	225	84,628
Amounts due to holding company and fellow subsidiaries (1)						
Bank and customer deposits	2,856	248	3,104	2,386	274	2,660
CRR-compliant internal MREL	4	383	387	4	393	397
Subordinated liabilities	2	1,425	1,427	2	1,462	1,464
	2,862	2,056	4,918	2,392	2,129	4,521
Total funding	95,976	2,203	98,179	87,947	2,354	90,301
Of which: available in resolution (2)			*1,815*			*1,860*

(1) Amounts due to holding companies and fellow subsidiaries relating to non-financial instruments of £298 million (2020 - nil) 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 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 due to their short-term nature and are shown in total in the table below.

	Banking activities										
2021	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	38,014	—	—	—	38,014	—	—	—	38,014	—	38,014
Derivatives	—	13	34	28	75	59	19	18	171	49	220
Loans to banks - amortised cost	871	—	276	—	1,147	—	—	—	1,147	—	1,147
Loans to customers - amortised cost (1)	7,382	3,494	1,649	2,525	15,050	6,992	4,742	15,926	42,710	—	42,710
Personal	568	368	492	933	2,361	3,043	2,484	10,729	18,617	—	18,617
Corporate	6,417	3,091	1,151	1,582	12,241	3,914	2,238	4,950	23,343	—	23,343
NBFI	397	35	6	10	448	35	20	247	750	—	750
Other assets (2)	1	—	—	—	1	—	—	—	1	84	85
Total financial assets	46,268	3,507	1,959	2,553	54,287	7,051	4,761	15,944	82,043	133	82,176
2020											
Total financial assets	34,855	2,005	1,905	3,517	42,282	10,651	6,336	19,651	78,920	115	79,035
2021											
Bank deposits	1,023	94	—	—	1,117	—	—	—	1,117	—	1,117
Customer deposits	90,122	1,446	192	237	91,997	145	—	2	92,144	—	92,144
Personal	37,633	160	167	230	38,190	145	—	—	38,335	—	38,335
Corporate	38,756	772	22	6	39,556	—	—	2	39,558	—	39,558
NBFI	13,733	514	3	1	14,251	—	—	—	14,251	—	14,251
Derivatives	3	10	14	35	62	302	155	182	701	126	827
Notes in circulation	2,144	—	—	—	2,144	—	—	—	2,144	—	2,144
Lease liabilities	1	2	3	6	12	19	15	87	133	—	133
Total financial liabilities	93,293	1,552	209	278	95,332	466	170	271	96,239	126	96,365
2020											
Total financial liabilities	85,495	535	978	289	87,297	381	129	365	88,172	189	88,361

(1) Loans to customers excludes £675 million (2020 - £1,292 million) of ECL provisions.
(2) Other assets relating to non-financial instruments of £653 million (2020 - £626 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)

Following the disposals of structured loans to local authorities (LOBOs) during 2020, 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 8 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%) (audited)

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

	2021				2020			
	Average £m	Maximum £m	Minimum £m	Period-end £m	Average £m	Maximum £m	Minimum £m	Period-end £m
Interest rate	0.7	1.3	0.2	0.6	1.1	1.8	0.5	0.7
Credit spread	—	—	—	—	—	—	—	—
Structural foreign exchange rate	2.8	2.9	2.7	2.7	—	—	—	—
Equity	0.1	0.1	—	0.1	—	—	—	—
Pipeline risk (1)	0.3	0.7	0.1	1.1	0.1	0.2	—	0.1
Diversification (2)	(2.8)			(0.6)	(0.1)			(0.1)
Total	1.1	3.0	0.3	2.9	1.1	1.8	0.5	0.7

(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.

- The year-on-year increase in non-traded VaR mainly reflects the inclusion of structural foreign exchange risk in the calculation of VaR.
- Period-end VaR reflects the completion of the transition from LIBOR to risk-free benchmarks.

Non-traded market risk continued

Interest rate risk

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

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

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

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

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

Structural hedging

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

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

At 31 December 2021, RBS plc's structural hedge had a notional of £40 billion (2020 – £33 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 2021 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 an upward change of 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		
2021	+25 basis points £m	-25 basis points (1) £m	+100 basis points £m
12-month interest earnings sensitivity	**53**	**(51)**	**195**
2020			
12-month interest earnings sensitivity	93	(28)	291

(1) At 31 December 2021, the downward sensitivities are not floored. At 31 December 2020, they are floored at 0%.

Sensitivity of cash flow hedging reserves to interest rate movements

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

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

2021	+25 basis points £m	-25 basis points £m	+100 basis points £m	-100 basis points £m
Cash flow hedge reserves	**(171)**	**173**	**(672)**	**707**
2020				
Cash flow hedge reserves	(162)	164	(635)	670

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 & conduct risk

Definition

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

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

Sources of risk

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

Key developments in 2021

- Risk appetite statements and measures were updated with an enhanced focus to provide better visibility of key risks across NatWest Group.
- Delivered a digital platform to facilitate risk-based rules mapping to regulatory obligations. This will enable more efficient management of regulatory compliance matters and support intelligent risk taking.
- Continued collaboration across NatWest Group to deliver good customer outcomes with a focus on enhancing forbearance strategies.
- Oversight and management of major compliance programmes including work to upgrade NatWest Group's internal ratings based approach for credit risk in order to build better outcomes for customers.

Governance

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

Risk appetite

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

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

Monitoring and measurement

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

Mitigation

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

Financial crime risk

Definition

Financial crime risk is presented by criminal activity in the form of money laundering, terrorist financing, bribery and corruption, sanctions and tax evasion, as well as fraud risk management.

Sources of risk

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

Key developments in 2021

- 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 and data analytics to improve the effectiveness of systems used to monitor customers and transactions.
- A new financial crime and fraud goal was introduced for NatWest Group's most senior 150 employees to further embed financial crime risk management culture, behaviours, and accountabilities.

Governance

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

Financial crime risk continued

Risk appetite

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

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

Monitoring and measurement

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

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, or reputation damage.

Key developments in 2021

- A principles-based climate risk policy was approved by the NatWest Group Board Risk Committee and introduced in April 2021.
- In December 2021, the NatWest Group Board approved a number of first-generation quantitative climate risk appetite measures. These will enable reporting of climate risk appetite and link business-as-usual risk management to NatWest Group's strategic goals and priorities.
- NatWest Group participated in the Bank of England's Climate Biennial Exploratory Scenario (CBES) exercise. In doing so, NatWest Group's capabilities regarding climate scenario analysis were strengthened in 2021 with increased coverage across the balance sheet.
- A new Climate Centre of Excellence was established to provide strategic horizon scanning, guidance and specialist climate expertise across NatWest Group.
- Wholesale credit risk: qualitative assessment of climate risk was made mandatory for the majority of the Wholesale portfolio. This was supported by enhancements to Transaction Acceptance Standards (TAS) criteria, with the inclusion of sector-specific climate considerations for the heightened risk sectors and generic climate considerations for all other TAS documents.
- Personal credit risk: operational measures were developed. These will help to monitor the performance of the Personal mortgage portfolio.

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 is 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 CEO 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 2021, the Executive Steering Group focused on overseeing the NatWest Group Climate Change Programme (GCCP), which was tasked with continuing to deliver both NatWest Group's climate strategy and the climate-related mandatory change agenda. The GCCP will close and transition activity into business-as-usual operations across NatWest Group's franchises and functions. 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 in helping to address climate change. The climate ambition is underpinned by activity to reduce the climate impact of financing activity by at least 50% by 2030 and to do what is necessary to achieve alignment with the 2015 Paris Agreement.

Work continued in 2021 to integrate climate-related risk into the risk management framework, including the development of appropriate risk appetite metrics. In December 2021, the NatWest Group Board approved the adoption of three first-generation climate risk appetite measures into the enterprise-wide risk management framework, for integration into business-as-usual risk management.

Climate risk continued

Combined with franchise specific operational limits, this suite of metrics will enable reporting of climate risk appetite to senior risk management forums and links risk management to NatWest Group's strategic goals and priorities.

Monitoring and measurement

NatWest Group has focused on developing 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 and maximise the opportunities arising from a transition to a low carbon economy.

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.

In 2021, activity was dominated by the Bank of England's CBES exercise. NatWest Group applied three climate scenarios to quantify climate risk across its balance sheet, including the full portfolio of wholesale customers and its entire UK commercial real estate and residential (retail) mortgage portfolio.

NatWest Group regularly considers existing and emerging regulatory requirements related to climate change. It continues to participate in several industry-wide initiatives to develop consistent risk measurement methodologies. NatWest Group is a founding signatory of the United Nations Environment Programme Finance Initiative Principles for Responsible Banking, which aims to promote sustainable finance around the globe. In addition, NatWest Group is also represented on the Climate Financial Risk Forum established by the PRA and FCA to shape the financial service industry's response to the challenges posed by climate risk.

Operational risk

Definition

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

Sources of risk

Operational risk may arise from a failure to manage operations, systems, transactions and assets appropriately. This can take the form of human error, an inability to deliver change adequately or on time, the non-availability of technology services, or the loss of customer data. 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.

Key developments in 2021

- Aligned to the implementation of the enterprise-wide risk management framework, a new operational risk policy was approved in April 2021. The new policy sets out the qualitative expectations, guidance and standards that stipulate the nature and extent of permissible risk-taking for operational risk.
- Operational risk appetite was enhanced using a quantitative modelling approach to determine a meaningful quantitative expression of the maximum level of operational risk RBS plc is willing to accept.
- Oversight of RBS plc's transformation agenda – particularly in relation to the second-order impacts of COVID-19 – remained a significant area of focus with activity being closely monitored and managed to protect key regulatory deliveries.
- There was also a continued focus on operational resilience to ensure planning, controls and operational activities remained robust and appropriate, with continuing attention on the potential operational risks arising from changes in working practices.
- The security threat and the potential for cyber-attacks on RBS plc and its supply chain continue to be closely monitored. During 2021, there was further investment in RBS plc's defences in response to the evolving threat. There was also continuing focus on assuring the security of the supply chain.
- There was sustained focus on reducing the risks associated with data use, particularly in terms of assuring data quality. This was aligned to the RBS plc data strategy, designed to identify and implement enhancements to the effective use of data across RBS plc.

Governance

The risk governance arrangements in place for operational risk are aligned to the requirements set out in the 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 appetite is vital for stability and reputational integrity.

Risk appetite

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

Mitigation

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

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

Operational risk continued

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.

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

Monitoring and measurement

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

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

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

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

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

Operational resilience

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

Event and loss data management

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

All financial impacts associated with an operational risk event are reported against the date they were recorded in RBS plc's financial accounts. A single event can result in multiple losses (or recoveries) that may take time to crystallise. Losses and recoveries with a financial accounting date in 2021 may relate to events that occurred, or were identified in, prior years. RBS plc purchases insurance against specific losses and to comply with statutory or contractual requirements.

Model risk

Definition

Model risk is the potential for adverse consequences arising from inaccurate financial assessments or decisions made as a result of incorrect or misused model outputs and reports. RBS plc defines a model as a quantitative method, system, or approach that applies statistical, economic, financial, accounting, mathematical or data science theories, techniques and assumptions to process input data into quantitative estimates.

Sources of risk

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

Key developments in 2021

- Improvements to models were made in 2021 resulting in a reduction of out-of-appetite models across RBS plc. Enhancements to models will continue in 2022.
- Embedding and enhancement of the Model Risk frameworks.

Governance

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

The NatWest Group Model Risk Oversight Committee provides a direct escalation route to the NatWest Group Executive Risk Committee and, where applicable, onwards to the NatWest Group Board Risk Committee.

Risk appetite

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

Model risk continued

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

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

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

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

Reputational risk

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

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

Key developments in 2021
- Reputation risk registers were introduced at NatWest Group level in order to enhance monitoring of the most material reputational risks.
- An updated reputational risk appetite statement was introduced with a specific focus on public trust.
- The correlation between reputational risk and climate change issues remained a significant area of focus during 2021. Enhancements were made to the Environmental, Social & Ethical risk management framework to mitigate reputational risk arising from exposure to carbon-intensive sectors and to support the transition to a lower carbon economy.

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

Risk appetite
RBS plc manages and articulates its appetite for reputational risk through a qualitative reputational risk appetite statement and quantitative measures. RBS plc seeks to identify, measure and manage risk exposures arising from internal actions and external events. This is designed to ensure that stakeholder trust is retained. 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 to the RBS plc reputational risk committees and escalated, where appropriate, to the NatWest Group Reputational Risk Committee, NatWest Group Board Risk Committee or the NatWest Group Sustainable Banking Committee.

Mitigation
Standards of conduct are in place across NatWest Group 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 risks process as well as through the NatWest Group and franchise-level risk registers.

NatWest Group has in recent years been the subject of investigations and reviews by a number of regulators and governmental authorities, some of which have resulted in past fines, settlements and public censure. Refer to the Litigation and regulatory matters section of Note 20 to the consolidated financial statements for details of material matters currently affecting NatWest Group.

Report of the directors

The directors present their report together with the audited accounts for the year ended 31 December 2021.

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 28 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 2021 amounted to £722 million compared with a profit of £297 million for the year ended 31 December 2020, as set out in the income statement on page 88.

No ordinary shares were issued in 2021 or 2020.

In 2021, RBS plc paid an ordinary dividend of £2.1 billion to NWH Ltd (2020 - £0.8 billion).

Employees

At 31 December 2021, RBS plc employed 1,600 people (excluding temporary staff). National Westminster Bank Plc (NWB Plc) provides the majority of shared services (including technology) and operational processes under intra-group agreements. Details of related costs are included in Note 3 on the accounts.

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

Corporate Governance statement

For the financial year ended 31 December 2021 RBS plc has again chosen to report against the Wates Corporate Governance Principles for Large Private Companies, published by the Financial Reporting Council (FRC) in December 2018 and available on the FRC website (the Wates Principles). The disclosures below explain how RBS plc has applied the Wates Principles in the context of its corporate governance arrangements.

1. Purpose and leadership

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

NatWest Group's purpose is 'we champion potential, helping people, families and businesses to thrive'. It has continued to inform and drive NatWest Group's response to the COVID-19 pandemic, acting as an important point of reference during Board discussions, debate and decision-making.

The Board received its annual purpose update in December 2021 which summarised progress in becoming a purpose-led bank against the three purpose focus areas of Enterprise, Learning and Climate. It highlighted the progress to date on embedding purpose and delivering against public commitments and the key areas of focus for 2022 as well as an update on stakeholders' perception of NatWest Group and its purpose aligned to the A Blueprint for Better Business framework.

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

Further information on NatWest Group's progress against its purpose and strategy can be found in the NatWest Group 2021 Annual Report and Accounts.

The Board assesses and monitors culture in several ways. During 2021 it received:

- a presentation on the Banking Standards Board (now the Financial Services Culture Board) 2020 Survey Annual Report and its review of the embedding of purpose in NatWest Group;
- Colleague Advisory Panel reports which provided feedback on topics discussed in meetings. These included wellbeing support for colleagues, Retail Banking strategy, purpose, remuneration and the wider workforce, climate and ways of working;
- One bank transformation programme spotlights on organisation, skills & culture which covered new ways of working, colleague journeys, colleague experience, career development, skills and capability, learning, wellbeing and inclusion;
- Insights from the colleague opinion surveys conducted in April and September 2021. Key measures included culture, purpose, building capability, inclusion, engagement and leadership;
- a Culture Spotlight which provided an update on work to refresh the NatWest Group's values as well as an overview of cultural strengths, behavioural weaknesses, operating model and future culture;
- Culture measurement reports which included insights and metrics to allow the Board to assess culture and understand future priorities. The reports used the A Blueprint for Better Business framework to report progress highlighting both positive trends and areas for improvement; and
- Board Business insights packs which included metrics on culture, purpose and inclusion.

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.

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.

The Board operates a Boardroom Inclusion Policy which reflects the most recent industry targets and is aligned to the Inclusion Policy and Principles applying to the wider NatWest Group. The Boardroom Inclusion policy currently applies to the Boards of NatWest Group plc, NWH Ltd, RBS plc and NWB Plc. A copy of the Boardroom Inclusion 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.

Throughout 2021 the Board met the recommendation of the Parker Review with at least one member of the Board being of Black, Asian or Minority Ethnic background and it intends to continue to meet that recommendation.

At the end of 2021 the Board exceeded the recommendation of the FTSE Women Leaders Review (formerly the Hampton-Alexander Review) of 33% female representation on the boards, with 38% of the Board being female.

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

All directors receive accurate, timely and clear information on 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.

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

NWH Limited is the holding company for NatWest Group's ring-fenced operations, which include the retail, commercial and private banking 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. The common board structure also applied to Ulster Bank Limited (UBL) until 29 July 2021 when a change in governance arrangements was implemented following a transfer of UBL's business to NWB Plc. The Chairman, CEO and CFO remain directors of UBL to facilitate certain transitional arrangements.

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, Graham Beale, and Ian Cormack.

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

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

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

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

The Board is structured to ensure that the directors provide RBS plc with the appropriate balance of skills, experience, 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 the Nominations Committee reviewed, and the Board approved, a refreshed version of the NatWest Group plc and NWH Sub Group Board skills matrix.

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, including CEO/senior executive management; CFO/accountancy; Retail, Commercial and Private Banking; Financial Markets and Investment Banking; Environmental, Social and Governance (including climate); Customer Experience; Technology (infrastructure, cyber); Digital and Innovation; Transformation; Government / regulatory / public sector; Risk Management and Broad Financial Services. The Board skills matrix will continue to be considered by the Nominations Committee and the Board, at least once a year.

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

The independent non-executive directors combine broad business and commercial experience with independent and objective judgment. 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. No new directors were appointed during 2021.

All new directors receive a copy of the 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 a resources portal.

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

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

Progress following the 2020 evaluation
A number of actions were progressed during 2021 in response to the findings of the 2020 internal performance evaluation.

In December 2021 the directors noted the progress made against the 2020 evaluation actions, which were consistent across the NatWest Group plc and NWH Sub Group Boards and are described in more detail on page 110 of the NatWest Group 2021 Annual Report and Accounts.

2021 Performance evaluation
In 2021, the Board and Committee evaluation was externally facilitated by Independent Board Evaluation (IBE).

Key findings, recommendations and actions were aligned across NatWest Group plc and the NWH Sub Group and a summary of the outcomes and actions arising from the 2021 evaluation can be found on page 111 of the NatWest Group 2021 Annual Report and Accounts.

Implementation of the 2021 Board evaluation actions will be overseen by the Nominations Committee during 2022.

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

Separately, the Senior Independent Director sought feedback on the Chairman's performance from the non-executive directors, executive directors and other key internal and external stakeholders and discussed it with the Chairman. This included peer feedback provided to IBE by directors as part of the evaluation process.

Directors have access to a wide range of briefing and training sessions and other professional development opportunities. Directors undertake the training they consider necessary to assist them in carrying out their duties and responsibilities. The non-executive directors discuss professional development annually with the Chairman and they participate in scheduled Board training sessions and other external sessions, as appropriate. During 2021 the Board training programme included dedicated sessions on operational resilience, consumer protection, directors' duties in resolution, cyber security, financial crime and climate.

3. Director responsibilities
All directors receive guidance on their statutory duties under the Companies Act and are supported in the discharge of their duties by the 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.

RBS plc maintains a register of directors' interests and appointments, which is reviewed annually by the Board, and there is discussion of directors' conflicts in Board meetings, as required.

The Board

The Board is the main decision-making forum for RBS plc. The Board is collectively responsible for the long-term success of RBS plc and the delivery of sustainable value to its shareholders. The Board's role is to provide leadership of RBS plc. It monitors and maintains the consistency of RBS plc's activities within the strategic direction of NatWest Group; it reviews and approves risk appetite measures (including limits and triggers) in accordance with the Risk Appetite Framework and it monitors performance against risk appetite for RBS plc. It approves RBS plc's key financial objectives and keeps the capital and liquidity positions of RBS plc under review. The Board's terms of reference include a formal schedule of matters specifically reserved for the Board's decision and are reviewed at least annually. An internal review confirmed the Board had fulfilled its remit as set out in its terms of reference during 2021.

The Board held eight scheduled meetings and continued to meet largely virtually during 2021. A hybrid meeting was held in July and in September the full Board was able to meet in person for the first time since the start of the pandemic.

At each scheduled Board meeting the directors receive reports from the Chairman, Board Committee Chairmen, CEO, CFO, Chief Risk Officer and other members of the executive management team, as appropriate. Other senior executives attended Board meetings throughout the year to present reports to the Board. This provided the Board with an opportunity to engage directly with management on key issues and supports succession planning.

The Board and Committee paper template includes a section for authors to explain how the proposal or update aligns with NatWest Group's purpose and a separate section for them to include an assessment of the relevant stakeholder impacts for the directors to consider.

Directors are mindful that it is not always possible to achieve an outcome which meets the requirements, needs and/or expectations of all stakeholders who are, or may be, impacted. For decisions which are particularly challenging or complex, an additional page was introduced to the Board and Committee paper template in 2021 which provides directors with further information to support purposeful decision making. This additional page uses Blueprint for Better Business as a base and is aligned to NatWest Group's broader purpose framework.

Board priorities in 2021 included oversight of strategy and transformation, customer experience, capital management, financial crime and brand strategy. COVID-19 also remained a key area of focus for the Board, particularly the support being provided to customers and colleagues.

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. These Board Committees also held delegated authorities for UBL until 29 July 2021 when a change in governance arrangements was implemented following a transfer of UBL's assets to NWB Plc. On that date each Committee's authority for UBL was revoked.

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

The Board Risk Committee comprises at least four independent non-executive directors, one of whom is the Chairman of the Audit Committee and two of whom are DINEDs. It provides oversight and advice to the Board in relation to current and potential future risk exposures, future risk profile, 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, one of whom is a DINED. It assists the NatWest Group plc Group Performance and Remuneration Committee with the oversight and implementation of NatWest Group's remuneration policy and also considers and makes recommendations on remuneration arrangements for senior executives of RBS plc.

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

Executive Committee

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

4. Opportunity and risk

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

The Board held a strategy session with the executive management team in June 2021. 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 complies with NatWest Group's risk appetite framework, which is approved annually by the NatWest Group plc Board. NatWest Group risk appetite is set in line with overall strategy.

RBS plc operates within NatWest Group's integrated 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.

During 2021, ongoing work to enhance the enterprise-wide risk management framework continued. The increasing significance of climate risk, which is categorised as a principal risk, remained a critical area of focus. Alignment with climate change regulation is also reported to the NatWest Group Executive Risk Committee and the NatWest Group Board Risk Committee.

RBS plc also complies with the NatWest Group policy framework. The purpose of 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 the RBS plc risk management framework including risk culture, risk governance, risk appetite, risk controls and limits, and risk identification and measurement can be found in the risk and capital management section of this report (pages 6 to 70).

5. Remuneration

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

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

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

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

This clarity and certainty on how pay is delivered is also helping to improve colleagues' financial wellbeing, which is a core priority in NatWest Group's wellbeing plans. In the UK, NatWest Group's rates of pay continue to exceed the Living Wage Foundation benchmarks and NatWest Group ensures employees performing the same role are paid fairly.

NatWest Group ensures that colleagues 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 2021 Annual Report and Accounts. Gender and Ethnicity Pay Gap information can be found in the Strategic report section of the NatWest Group 2021 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 2021 the Board approved its annual objectives and confirmed the Board's key stakeholder groups – customers, colleagues, communities, investors, regulators 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, see pages 14 to 17 and pages 52 to 63 of the NatWest Group 2021 Annual Report and Accounts .

Engagement with Colleagues, Suppliers, Customers and Others

For further details on the Board's engagement with colleagues, customers, suppliers and others, and how these stakeholders' interests have influenced Board discussions and principal decisions, see page 2 of the Strategic report which includes a section 172(1) statement and signposts to further information contained in the NatWest Group 2021 Annual Report and Accounts.

Additional colleague-related disclosures

Informing and consulting colleagues

The pandemic has drastically altered the working landscape for everyone, accelerating the evolving relationship between colleagues and employers. It is now more important than ever that NatWest Group listens to colleagues and uses this insight to attract, engage and retain the talent it needs for the future. The 'Colleague Listening Strategy' – which includes colleague opinion surveys; a Colleague Advisory Panel that connects colleagues directly with the Board; the 'Colleague Experience Squad', a group of colleagues who volunteer to provide feedback on colleague products and services; and 'Workplace', NatWest Group's social media platform – contributes to a deeper understanding of colleague sentiment. NatWest Group also tracks metrics and key performance indicators which can be benchmarked with sector and high-performing comparisons.

A total of 46,700 colleagues (81%) participated in the September 2021 'Our View' survey. The results show that colleague sentiment remains strong, despite the pandemic. Lead measures in culture, purpose, inclusion and building capability showed continued and sustained year-on-year improvement (+1 percentage point each). Across all 15 measured categories, NatWest Group sits an average of 11 percentage points above the Global Financial Services Norm (GFSN) and five percentage points above the Global High Performance 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: in 2021, for example, topics included 'ways of working' and 'health and safety in the context of the pandemic'. NatWest Group is also committed to respecting employees' rights of freedom of association across all of its business.

In addition, through the Colleague Advisory Panel (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 represent employee-led networks, talent programmes, employee representative bodies or are self-nominated. In this way NatWest Group ensures the panel is diverse, inclusive and representative of the workforce.

The CAP met with representatives from the Board three times in 2021 to discuss issues such as wellbeing, remuneration (including executives and the wider workforce), climate, retail banking strategy, sustainability and purpose. 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. In 2022 the Board intends to review its approach to how the Board engages with the workforce.

Disability Smart

NatWest Group makes workplace adjustments to support colleagues with disabilities to succeed. If a colleague becomes disabled NatWest Group will, wherever possible, make adjustments to support them in their existing role or re-deploy them to a more suitable alternative role.

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 adjustments or help to complete their application or assessment.

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 2021 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 2021 are shown in the Corporate governance, Annual report on remuneration section of the NatWest Group 2021 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 2021 to 17 February 2022.

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 2021, and anticipated future developments are detailed in the Capital, liquidity and funding section on pages 57 to 63. This section also describes RBS plc's funding and liquidity profile, including changes in key metrics and the build up of liquidity reserves.

Having reviewed RBS plc's principal risks, forecasts, projections, the potential impact of COVID-19 and other relevant evidence, the directors have a reasonable expectation that RSB plc will continue in operational existence for a period of 12 months from the date of this report. Accordingly, the financial statements of RBS plc have been prepared on a going concern basis.

Political donations

During 2021, 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
17 February 2022

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 79 to 87.

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 judgments 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

Alison Rose-Slade
Chief Executive Officer

Katie Murray
Chief Financial Officer

17 February 2022

Board of directors

Chairman
Howard Davies

Executive directors
Alison Rose-Slade
Katie Murray

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

Financial Statements

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

Opinion

We have audited the financial statements of The Royal Bank of Scotland plc (the Bank) for the year ended 31 December 2021 which comprise the Income statement, the Statement of comprehensive income, the Balance Sheet, the Statement of changes in equity, the Cash flow statement, the Accounting policies and the related notes 1 to 28, and the Risk and capital management section of the Strategic report identified as 'audited'. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards.

In our opinion, the financial statements:
- give a true and fair view of the Bank's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Bank's ability to continue to adopt the going concern basis of accounting included:
- In conjunction with our walkthrough of the Bank's financial close process, we confirmed our understanding of management's Going Concern assessment process and also engaged with management early to ensure all key factors were considered in their assessment;
- We evaluated management's going concern assessment which included reviewing their evaluation of long-term business and strategic plans, capital adequacy, liquidity and funding positions. It also assessed these positions considering internal stress tests which included consideration of principal and emerging risks. The Bank's risk profile and risk management practices were considered including credit risk, market risk, compliance and conduct risk, climate risk and operational risk;
- 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 continued economic impact of COVID-19. We used economic specialists in assessing the macroeconomic assumptions in the forecast through benchmarking to institutional forecasts, HMT consensus and peer comparative economic forecasts;
- Considered the results of the Bank's stress testing and Bank of England 2021 solvency stress test, as well as the Bank's results in the Bank of England Climate Biennial Exploratory Scenario (CBES); and
- We reviewed the Bank's going concern disclosures included in the annual report in order to assess that the disclosures were appropriate and in conformity with the reporting standards.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Bank's ability to continue as a going concern 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 Banking	Full	United Kingdom
Central items and other (including Services, and Treasury)	Full	United Kingdom, India

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

	Full scope (1)	Specific scope (2)	Other procedures (3)	Total
Total assets	97%	-	3%	100%
Total equity	97%	-	3%	100%
Total income	94%	-	6%	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.

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

Involvement with component teams

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

Climate change

There has been increasing interest from stakeholders as to how climate change will impact companies. The Bank has determined that the most significant future impacts from climate change on its operations will be from credit risk, operational risk, reputational risk, conduct risk and regulatory compliance risk. These are explained in the required Task Force for Climate related Financial Disclosures in the Strategic Report, and in the Climate Risk section within the Risk and capital management section, which form part of the "Other information". Our procedures on these disclosures 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.

As explained in the Accounting Policy note, the Bank makes use of reasonable and supportable information to make accounting judgments and estimates, including the observable effect of the physical and transition risks of climate change on the current creditworthiness of borrowers, asset values and market indicators, as well as their effect on the Bank's competitiveness and profitability. Many of the impacts arising will be longer term in nature, with an inherent level of uncertainty, and have limited effect on accounting judgments and estimates for the current period under the requirements of UK adopted international accounting standards. In the Accounting Policy note, explanation of the impact of certain transition and physical risks were provided for the key assumptions and significant judgments and estimates.

Our audit effort in considering climate change was focused on ensuring that the effects of material climate risks as disclosed in the Accounting Policy note have been appropriately reflected in the asset and liability valuations and the nature and timing of future cash flows. Details of our procedures and results on expected credit loss provisions and impairment of goodwill are included in our key audit matters below. We also challenged the Directors' considerations of climate change in their assessment of going concern and viability and associated disclosures.

Whilst the Bank has stated its commitment to the aspirations of the Paris Agreement to achieve net zero emissions by 2050, as stated above the impacts arising will be longer term in nature, and there is an inherent level of uncertainty in determining the full future economic impact on their business model, operational plans and customers.

Key audit matters

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

Risk	Our response to the risk
Expected Credit Loss Provisions	
At 31 December 2021 the Bank reported total gross loans of £67 billion (2020: £72 billion) and £0.7 billion of expected credit losses (ECL) (2020: £1.4 billion). Management's judgments and estimates are especially subjective due to significant uncertainty associated with the assumptions used. Uncertainty related with the path to recovery from COVID-19 and the impact of climate change was considered in our risk assessment. Aspects with increased complexity in respect of the timing and measurement of ECL include: · Staging - Allocation of assets to stage 1, 2, or 3 on a timely basis using criteria in accordance with IFRS 9; · Model estimations - Accounting interpretations, modelling assumptions and data used to build and run the Probability of Default ('PD'), Loss Given Default ('LGD') and Exposure at Default ('EAD') models that calculate the ECL; · Economic scenarios - Inputs, assumptions and weightings used to estimate the impact of multiple economic scenarios particularly those influenced by COVID-19 including any changes to scenarios required through 31 December 2021; · Adjustments - Appropriateness, completeness and valuation of model adjustments which represent approximately 24% of total ECL including any COVID-19 specific adjustments due to the ongoing uncertainty which increases the risk of management override; and · Individual provisions - Measurement of individual provisions including the assessment of multiple scenarios considering the impact of COVID-19 on exit strategies, collateral valuations and time to collect.	Controls testing - We evaluated the design and operating effectiveness of controls across the processes relevant to ECL, including the judgments and estimates noted. These controls, among others, included those over: – the allocation of assets into stages including management's monitoring of stage effectiveness; – model governance including monitoring and model validation; – data accuracy and completeness; – credit monitoring; – multiple economic scenarios; – the governance and review of post-model adjustments; – individual provisions; and – production of journal entries and disclosures. In evaluating the governance process, we observed the executive finance and risk committee meetings where the inputs, assumptions and adjustments to the ECL were discussed and approved, among other procedures. Overall assessment - We performed an overall assessment of the ECL provision levels by stage to determine if they were reasonable by considering the overall credit quality of the Bank's portfolios, risk profile, impact of COVID-19, government support measures and climate change on the Bank's customers. We also considered the appropriateness of provisions applied to government supported lending such as bounce back loans and CBILs which included assessing the compliance with the eligibility criteria with the involvement of our EY legal specialists. We performed peer benchmarking where available to assess overall staging and provision coverage levels. For a higher risk industry, we also assessed the ECL against an independently developed methodology estimating unsustainable debt levels. Based on our assessment of the key judgments we used EY specialists to support the audit team in the areas of economics, modelling and collateral and business valuations. Staging - We evaluated the criteria used to allocate a financial asset to stage 1, 2 or 3 in accordance with IFRS 9; this included peer benchmarking to assess staging levels. We recalculated the assets in stage 1, 2 and 3 to assess if they were allocated to the appropriate stage and performed sensitivity analysis to assess the impact of different criteria on the ECL and also considered the impact of performing collective staging downgrades to industries and geographic regions particularly impacted by 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. We also assessed the timing of the annual review performed by management on each wholesale loan exposure to evaluate whether it appropriately considered risk factors by considering independent publicly available information. Model estimations - We performed a risk assessment on all models involved in the ECL calculation to select a sample of models to test. We involved EY modelling specialists to assist us to test this sample of ECL models by testing the assumptions, inputs and formulae used. This included a combination of assessing model design and formulae, alternative modelling techniques, recalculating the PD, LGD and EAD, and model implementation. We also considered the results of the Bank's internal model validation results. To evaluate data quality, we agreed a sample of ECL calculation data points to source systems, including balance sheet date 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.

Risk	Our response to the risk
Expected Credit Loss Provisions continued	
	Economic scenarios - We involved EY economic specialists to assist us in evaluating the base case and alternative economic scenarios, including evaluating probability weights and considering contrary evidence by comparing these to other scenarios from a variety of external sources. This assessment included the latest developments related to COVID-19 at 31 December 2021. We assessed whether forecasted macroeconomic variables were complete and appropriate, such as GDP, unemployment rate, interest rates and the House Price Index. With the support of our modelling specialists we evaluated the correlation and translation of the macroeconomic factors to the ECL. Adjustments - We tested material post-model adjustments including those which continued to be applied as a result of COVID-19 uncertainty. With our modelling specialists, we assessed the risk of bias and the completeness of these adjustments by considering the data, judgments, 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 sample was based on a number of factors, including higher risk sectors such as commercial real estate, agriculture, oil and gas, mining, retail, leisure and aviation, and materiality. We considered the impact COVID-19 and climate change had on collateral valuations and time to collect as well as whether planned exit strategies remained viable. Disclosure - We tested the data flows used to populate the disclosures and assessed the adequacy of disclosures for compliance with the accounting standards and regulatory considerations.

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

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

- Overall provision levels were reasonable which also considered available peer information and our understanding of the credit environment;
- Our testing of models and model assumptions identified some instances of over and under estimation. We aggregated these differences and were satisfied that the overall estimate recorded was reasonable;
- The post-model adjustments recorded were within a reasonable range to reflect risk in the portfolios;
- We recalculated the staging of retail and wholesale exposures in material portfolios and noted no material differences. We also performed sensitivity analysis on the staging criteria and noted that substantial changes would be needed to the criteria to result in a material difference;
- For individually assessed impairments, in a few instances we reported judgmental differences in respect of the extent of the impairment identified, however, none of these differences were considered material; and
- There is inherent uncertainty in predicting the longer-term impact of COVID-19, government support schemes and climate change on the Bank's borrowers, their ability to make payments as they fall due and the recoverability of loans. The Bank should continue to make use of reasonable and supportable information to consider the long and short term impacts of these matters on accounting judgments and estimates.

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.

Risk	Our response to the risk
Impairment of goodwill	
At 31 December 2021, the Bank had reported goodwill of £nil (2020: £85m) The recognition and carrying value of goodwill is based on estimates of future profitability, which require significant management judgment and include the risk of management bias. Judgments and especially challenging, complex and subjective assumptions that are difficult to audit due to the forward-looking nature and inherent uncertainties associated with such assumptions include: – Revenue forecasts including the impacts of climate change which are impacted by delivery of the Bank's Strategy; – Cost forecasts given the intention to significantly reduce costs over time; – Macroeconomic and model assumptions used in the recoverability and valuation assessments (discount rates, growth rates, macroeconomic assumptions) including assumptions regarding the economic consequences of COVID -19 and other political developments over an extended period; and – Disclosure adequacy including key assumptions, the sensitivity of changes to these assumptions as well as an explanation of the impairment testing performed.	Controls testing: We evaluated the design and operating effectiveness of controls over the preparation and review of the forecasts, and the significant assumptions (such as discount rate and long-term growth rate) inputs, calculations, methodologies and judgments used in the value-in-use model. This included testing controls over the selection of macroeconomic assumptions in addition to controls over the preparation and review of the revenue and cost projections. In evaluating the governance processes, we reviewed the Board meeting materials and minutes where forecasts were discussed and approved, and we observed the committee meetings where the value-in-use model and outcomes were discussed and approved. Macroeconomic and model assumptions: With the support of our internal economic specialists, we tested whether macroeconomic assumptions, including the continued impact of COVID-19 as at 31 December 2021, used in the Bank's forecasts were reasonable by comparing these to other scenarios from a variety of external sources. We evaluated how the discount rates and long-term growth rates used by management compared to our ranges which were developed using peer practice, external market data and calculations performed by our valuation specialists. We also assessed changes to valuation methodology and benchmarked this against industry practice with the assistance of our valuation specialists. Revenue forecasts: We evaluated the underlying business strategies, comparing to expected market trends and considering anticipated balance sheet changes. We obtained an understanding of the Bank's strategy including their consideration of the impact of climate change, and considered its expected impact on the forecasts and the extent to which decisions had been factored into the forecasts, where appropriate, in accordance with the relevant accounting standards. We also inspected the findings from the review performed by management including their own sensitivity analysis of the forecasts. Cost forecasts: We tested how previous management forecasts, including the impact of cost reduction programmes, compared to actual results to evaluate the accuracy of the forecasting process. We also tested the reasonableness of key performance indicators against peers with the help of our valuation specialists to assess the reasonableness of the Bank's cost forecast. Sensitivity analysis: We evaluated how management considered alternative assumptions and performed our own sensitivity and scenario analyses on certain assumptions such as cost and revenue forecasts, discount rate, long-term growth rate and other key performance indicators on both the detailed forecasts and on an overall basis. Disclosure: We evaluated the adequacy of disclosures in the financial statements including the appropriateness of assumptions and sensitivities disclosed. We tested the data and calculations included in the disclosures.

Key observations communicated to the NWH Group Audit Committee

We are satisfied that management methodologies, judgments and assumptions supporting the carrying value of goodwill were reasonable and in accordance with IFRS. We highlighted the following matters to the NWH Group Audit Committee:

- There is inherent uncertainty in predicting revenue and costs over the five-year forecast period, particularly with respect to the impact of COVID-19, the achievement of new strategic objectives, execution risk in the planned cost reductions, the impact of regulatory and climate change developments, and the impact of competition and disruption in banking business models over an extended period.
- We are satisfied with management's conclusion that the goodwill related to a legacy mortgage product reported under the retail CGU is impaired due to the decision to wind down the book of business.

Relevant references in the Annual Report and Accounts

Note 14 to the financial statements

Risk	Our response to the risk
Provisions for customer redress, litigation and other regulatory matters	
At 31 December 2021, the Bank has reported £0.2 billion (2020: £0.3 billion) of provisions for liabilities and charges, including £0.1 billion (2020: £0.2 billion) for customer redress, litigation and other regulatory matters as detailed in Note 15 of the financial statements. Regulatory scrutiny and the continued litigious environment give rise to a high level of management judgment in determining appropriate provisions and disclosures for specific customer redress, litigation and other regulatory matters. Management judgment is needed to determine whether a present obligation exists and a provision should be recorded at 31 December 2021 in accordance with the accounting criteria set out under IAS 37. The most significant areas of judgment are: – Judgment and risk of management bias - Auditing the adequacy of these provisions is complex because judgment is involved in the selection and use of assumptions in the estimation of material provisions and there is a risk of management bias in the determination of whether an outflow in respect of identified material customer redress, litigation and other regulatory matters is probable and can be estimated reliably; and – Disclosure - Judgment is required to assess the adequacy of disclosures of provision for contingent liabilities given the underlying estimation uncertainty in the provisions, and other uncertainties and assumptions.	Controls testing: We evaluated the design and operating effectiveness of controls over the identification, estimation, monitoring and disclosure of provisions and other uncertainties and assumptions related to customer redress, litigation and other regulatory matters considering the potential for management override of controls. The controls tested, among others, included those to identify and monitor claims, determine when a provision is required and to ensure the completeness and accuracy of data used to estimate provisions. Examination of regulatory correspondence: We examined the relevant regulatory and legal correspondence to assess developments in certain cases. We also considered regulatory developments to identify actual or possible non-compliance with laws and regulations that might have a material effect on the financial statements. For cases which were settled during the period, we compared the actual outflows with the provision that had been recorded, considered whether further risk existed, and evaluated the level of disclosures provided. Inquiry of legal counsel: For significant legal matters, we received confirmations from the Bank's external legal counsel to evaluate the likelihood of the obligation and management's estimate of the outflow at year-end. We also conducted inquiries with internal legal counsel over the existence of the legal obligations and related provision. We performed a test for unrecorded provisions to assess if there were cases not considered in the provision estimate by assessing against external legal confirmations and discussing with internal counsel. Testing of assumptions: Where appropriate, we involved our conduct risk and forensics specialists to assist us in evaluating the provision for specific customer redress, litigation and other regulatory matters. We tested the underlying data and assumptions used in the determination of the provisions recorded, including expected claim rates, legal costs, and the timing of settlement. We evaluated the accuracy of management's historical estimates by comparing the actual settlement to the provision and considered peer bank settlement in similar cases. We assessed the reasonableness of the assumptions used by management by comparing to the results of our independently performed benchmarking and sensitivity analysis. We also developed our own range of reasonable alternative estimates and compared them to management's provision. We tested utilisations of remaining provisions during the year and assessed the sufficiency of the remaining provisions yet to be paid for specific customer redress, litigation and other regulatory matters. Disclosure: We evaluated the disclosures provided on customer redress, litigation and other regulatory matters to assess whether they complied with accounting standards.

Key observations communicated to the NWH Group Audit Committee

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

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

Relevant references in the Annual Report and Accounts

Accounting policies
Note 15 to the financial statements

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 on a daily basis 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 greater dependency on third parties, increasing use of cloud platforms, decommissioning of legacy systems, and migration to new systems. Such controls contribute to mitigating the risk of potential fraud or errors as a result of changes to applications and data. 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 whilst the number of deficiencies has reduced year over year, 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. During our planning and test of design phases, we performed procedures to determine whether changes in restrictions in different global locations, as a result of the ongoing global COVID-19 pandemic had caused material changes in IT processes or controls and observed no such changes that would result in an increased IT risk. Controls testing We tested user access by assessing the controls in place for in-scope applications, in particular testing the addition and periodic recertification of users' access. We continue to focus on key controls enforced by the Group's user access management tools, including the completeness of user data, automated identification of movers and leavers and the adequacy of the overall control environment. Our testing included the Group's additional attestation and leaver checks enhancing its identity and access control environment. A number of systems are outsourced to third party service providers. For these systems, we tested IT general controls through evaluating the relevant Service Organisation Controls reports (where available). This included assessing the timing of the reporting, the controls tested by the service auditor and whether they address relevant IT risks. We also tested required complementary user entity controls performed by management. Where a SOC report was not available we identified and reviewed compensating business controls to address this risk. Several systems have been migrated to a cloud-hosted infrastructure model, access management processes and controls remain in-house which formed part of our testing. Where control deficiencies were identified, we tested remediation activities performed by management and compensating controls in place and assessed what additional testing procedures were necessary to mitigate any residual risk. We also performed a further analysis of access management deficiencies identified by EY, Management and Internal Audit to revalidate our overall approach to access management testing.

Key observations communicated to the NWH Group Audit Committee

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

- We have seen an overall reduction in the number of discrete IT control deficiencies identified compared to prior year.
- Improvements were made to further standardise access management processes and controls across the Bank, which was one of the drivers for the reduced number of deficiencies.
- Particular attention should continue to be paid to controls over user access management including ensuring the completeness and accuracy of the data used to perform access controls. Where issues were noted in relation to access management these were remediated by year end or mitigated by compensating controls. We performed additional testing in response to deficiencies identified, where required.

Our application of materiality

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

Materiality

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

We determined materiality for the Bank to be £35 million (2020: £35 million), which is 5% (2020: 5%) of the profit before tax of the Bank of £1,021 million (2020: £368 million) adjusted for loan impairment releases arising from COVID-19 economic recovery, normalised loan impairment charges, and non-recurring conduct and strategic costs. We believe removing items that would otherwise have a disproportionate impact on materiality reflects the most useful measure for users of the financial statements and is consistent with the prior year. The 5% basis used for Bank materiality is consistent with the wider industry and is the standard for listed and regulated entities.

Performance materiality

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

On the basis of our risk assessments, together with our assessment of the Bank's overall control environment, our judgment was that performance materiality was 75% (2020: 50%) of our planning materiality, namely £27 million (2020: £18 million). We have increased the percentage of performance materiality from the prior year considering that the number and amount of identified misstatements has decreased and to reflect the continued improvements in 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 £8 million and £27 million (2020: £9 million to £18 million).

Reporting threshold

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

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £2 million (2020: £2 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 regulatory bodies; reviewed minutes of the Board and Risk Committees; and gained an understanding of the Bank's governance framework.
- We assessed the susceptibility of the Bank's financial statements to material misstatement, including how fraud might occur by considering the controls established to address risks identified to prevent or detect fraud. We also identified the risks of fraud in our key audit matters as described above and identified areas that we considered when performing our fraud procedures, such as cybersecurity, the impact of remote working, implementation of new government supported lending products, and the appropriateness of sources used when performing confirmation testing on accounts such as cash, loans and securities.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiries of legal counsel, executive management, and internal audit. We also tested controls and performed procedures to respond to the fraud risks as identified in our key audit matters. These procedures were performed by both the primary team and component teams with oversight from the primary team.
- The Bank operates in the banking industry which is a highly regulated environment. As such, the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, involving specialists where appropriate.

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

Other matters we are required to address
- Following the recommendation from the Audit Committee we were appointed by the Bank on 4 May 2016 to audit the financial statements of the Bank for the year ending 31 December 2016 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is 6 years, covering the periods from our appointment through 31 December 2021.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Bank and we remain independent of the Bank in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee

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

Simon Michaelson (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London, United Kingdom
17 February 2022

Income statement for the year ended 31 December 2021

	Note	2021 £m	2020 £m
Interest receivable		**1,449**	1,717
Interest payable		**(107)**	(188)
Net interest income	1	**1,342**	1,529
Fees and commissions receivable		**413**	419
Fees and commissions payable		**(135)**	(87)
Other operating income		**155**	71
Non-interest income	2	**433**	403
Total income		**1,775**	1,932
Staff costs		**(120)**	(111)
Premises and equipment		**(32)**	(20)
Other administrative expenses		**(838)**	(723)
Depreciation and amortisation		**(124)**	(20)
Operating expenses	3	**(1,114)**	(874)
Profit before impairment losses		**661**	1,058
Impairment releases/(losses)	12	**360**	(690)
Operating profit before tax		**1,021**	368
Tax charge	7	**(245)**	(2)
Profit for the year		**776**	366
Attributable to:			
Ordinary shareholders		**722**	297
Paid-in equity holders		**54**	69
		776	366

Statement of comprehensive income for the year ended 31 December 2021

	2021 £m	2020 £m
Profit for the year	**776**	366
Items that do not qualify for reclassification		
Tax	**—**	2
	—	2
Items that do qualify for reclassification		
FVOCI financial assets	**1**	—
Cash flow hedges	**(766)**	275
Currency translation	**(2)**	—
Tax	**222**	(78)
	(545)	197
Other comprehensive (loss)/income after tax	**(545)**	199
Total comprehensive income for the year	**231**	565
Attributable to:		
Ordinary shareholders	**177**	496
Paid-in equity holders	**54**	69
	231	565

The accompanying notes on pages 96 to 122, the accounting policies on pages 91 to 95 and the audited sections of the Financial review and Risk and capital management on pages 91 to 95 form an integral part of these financial statements.

Balance sheet as at 31 December 2021

	Note	2021 £m	2020 £m
Assets			
Cash and balances at central banks	8	**38,014**	26,927
Derivatives	11	**220**	745
Loans to banks - amortised cost	8	**1,147**	1,184
Loans to customers - amortised cost	8	**42,035**	48,781
Amounts due from holding companies and fellow subsidiaries	8	**23,941**	20,873
Other assets	14	**738**	732
Total assets		**106,095**	99,242
Liabilities			
Bank deposits	8	**1,117**	1,152
Customer deposits	8	**92,144**	84,628
Amounts due to holding companies and fellow subsidiaries	8	**5,216**	4,521
Derivatives	11	**827**	788
Notes in circulation		**2,144**	1,643
Other liabilities	15	**900**	840
Total liabilities		**102,348**	93,572
Total equity		**3,747**	5,670
Total liabilities and equity		**106,095**	99,242

The accompanying notes on pages 96 to 122, the accounting policies on pages 91 to 95 and the audited sections of the Financial review and Risk and capital management on pages 91 to 95 form an integral part of these financial statements.

The accounts were approved by the Board of directors on 17 February 2022 and signed on its behalf by:

Howard Davies	Alison Rose-Slade	Katie Murray	The Royal Bank of Scotland plc
Chairman	Chief Executive Officer	Chief Financial Officer	Registration No. SC083026

Statement of changes in equity for the year ended 31 December 2021

	2021 £m	2020 £m
Called-up share capital - at 1 January and 31 December	**20**	20
Paid-in equity - at 1 January and 31 December	**969**	969
FVOCI reserve - at 1 January	**(4)**	—
Unrealised gains	**1**	
Realised gains	**—**	(6)
Tax	**—**	2
At 31 December	**(3)**	(4)
Cash flow hedging reserve - at 1 January	**376**	179
Amount recognised in equity	**(564)**	416
Amount transferred from equity to earnings	**(202)**	(141)
Tax	**222**	(78)
At 31 December	**(168)**	376
Foreign exchange reserve - at 1 January	**—**	—
Retranslation of net assets	**(2)**	—
At 31 December	**(2)**	—
Retained earnings - at 1 January	**4,309**	4,806
Profit attributable to ordinary shareholders and other equity owners	**776**	366
Ordinary dividends	**(2,100)**	(800)
Paid-in equity dividends paid	**(54)**	(69)
Realised gains in period on FVOCI equity shares		
- gross	**—**	6
At 31 December	**2,931**	4,309
Total equity at 31 December	**3,747**	5,670
Attributable to:		
Ordinary shareholders	**2,778**	4,701
Paid-in equity holders	**969**	969
	3,747	5,670

The accompanying notes on pages 96 to 122, the accounting policies on pages 91 to 95 and the audited sections of the Financial review and Risk and capital management on pages 91 to 95 form an integral part of these financial statements.

Cash flow statement for the year ended 31 December 2021

	Note	2021 £m	2020 £m
Cash flows from operating activities			
Operating profit before tax		**1,021**	368
Adjustments for:			
Impairment (releases)/losses		**(360)**	690
Depreciation and amortisation		**124**	20
Impairment charges of investments in Group undertakings		**3**	—
Change in fair value taken to profit or loss of other assets		**—**	(1)
Change in fair value taken to profit or loss on other liabilities and subordinated liabilities		**(67)**	55
Elimination of foreign exchange differences		**37**	(3)
Other non-cash items		**(199)**	(141)
Profit on sale of other assets		**—**	(5)
Dividends receivable from subsidiaries		**(22)**	(16)
Profit on sale of subsidiaries and associates		**(34)**	—
Profit on sale of net assets/liabilities		**(4)**	—
Profit on sale of property, plant and equipment		**(5)**	—
Interest payable on MRELs and subordinated liabilities		**86**	92
Charges and releases on provisions		**67**	(20)
Defined benefit pension schemes		**9**	11
Net cash flows from trading activities		**656**	1,050
(Increase)/decrease in derivative assets		**(39)**	37
Increase in loans to banks		**(44)**	(13)
Decrease in loans to customers		**6,928**	4,063
(Increase)/decrease in amounts due from holding companies and fellow subsidiaries		**(285)**	1,470
Decrease in other assets		**34**	53
Decrease in bank deposits		**(35)**	(54)
Increase in customers deposits		**7,516**	9,815
Increase/(decrease) in amounts due to holding companies and fellow subsidiaries		**741**	(617)
Increase in derivative liabilities		**39**	25
Increase in notes in circulation		**501**	376
Decrease in other liabilities		**(170)**	(356)
Changes in operating assets and liabilities		**15,186**	14,799
Income tax paid		**(50)**	(291)
Net cash flows from operating activities (1)		**15,792**	15,558
Cash flows from investing activities			
Sale and maturity of other assets		**—**	7
Purchase of other financial assets		**(1)**	—
Sale of property, plant and equipment		**20**	23
Purchase of property, plant and equipment		**(5)**	(10)
Net movement in business interests		**159**	7
Disposal of subsidiaries and associates		**54**	—
Dividends received from subsidiaries		**22**	16
Net cash flows from investing activities		**249**	43
Cash flows from financing activities			
Movement in MRELs		**(16)**	(17)
Movement in subordinated liabilities		**(70)**	(75)
Dividends paid		**(2,154)**	(869)
Net cash flows from financing activities		**(2,240)**	(961)
Effects of exchange rate changes on cash and cash equivalents		**(19)**	(57)
Net increase in cash and cash equivalents		**13,782**	14,583
Cash and cash equivalents at 1 January		**46,426**	31,843
Cash and cash equivalents at 31 December	22	**60,208**	46,426

(1) Includes interest received of £1,426 million (2020 - £1,719 million) and interest paid of £103 million (2020 - £208 million).

The accompanying notes on pages 96 to 122, the accounting policies on pages 91 to 95 and the audited sections of the Financial review and Risk and capital management on pages 91 to 95 form an integral part of these financial statements.

Accounting policies

1. Presentation of financial statements

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

The audited financial statements are set out on pages 88 to 122 and the audited sections of the Risk and capital management on pages 6 to 70. 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 (see the Report of the directors, page 71) and in accordance with UK adopted International Accounting Standards (IAS). The significant accounting policies and related judgments are set out below.

Except for certain financial instruments as described in Accounting notes 6 and 10 and investment property, the financial statements are presented on a historical cost basis.

Accounting policy changes effective 1 January 2021.

The IASB amended IFRS 16 Leases with COVID-19 amendments on lease modifications – Amendments to IFRS 16 – Leases (IFRS 16) The effect of the amendment on RBS plc's financial statements is immaterial.

2. Revenue recognition

Interest income and expense 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. Negative interest on financial assets is presented in interest payable and negative interest on financial liabilities is presented in interest receivable.

Other interest relating to financial instruments measured at fair value is recognised as part of the movement in fair value and is reported 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. 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 RBS plc. Employees may receive variable compensation in cash, in deferred cash or debt instruments or in ordinary shares of NatWest Group plc subject to deferral, forfeiture and clawback criteria. NatWest Group operates a number of share-based compensation schemes under which it grants awards of NatWest Group plc shares and share options to its employees. Such awards are generally subject to vesting conditions. and are operated as part of wider NWB Group share compensation schemes

Defined contribution pension scheme

A scheme where RBS plc pays 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.

4. Provisions and contingent liabilities

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

RBS plc recognises any onerous cost of the present obligation under a contract as a provision. An onerous cost is the unavoidable cost of meeting its contractual obligations that exceed the expected economic benefits. When RBS plc intends 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, such as rates.

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

5. Tax

Tax encompassing current tax and deferred tax is recognised 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 in line with IAS 12.

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

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

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

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

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

6. 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 measured at fair value and changes in fair value reported in the 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.

Classification by business model reflects how RBS plc manages its 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.

The contractual terms of a financial asset; any leverage features; prepayment and extension terms; and triggers 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).

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 non-monetary assets the cumulative gains or losses are transferred directly to retained earnings .

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

Financial liabilities are classified into one of following measurement categories:

- amortised cost measured at cost using the effective interest rate method;
- held for trading (HFT) measured at fair value and changes in fair value reported in 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 except changes in fair value attributable to the credit risk component recognised in other comprehensive income when no accounting mismatch occurs. These are not subject to recycling to income statement.

7. Impairment: 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

Judgment is exercised as follows:

- Models – in certain low default portfolios, Basel parameter estimates are also applied for IFRS 9.
- Non-modelled portfolios, mainly in Private Banking, RBS plc uses a standardised capital requirement under Basel II. Under IFRS 9, they have bespoke treatments for the identification of significant increase in credit risk. Benchmark PDs, EADs and LGDs are reviewed annually for appropriateness. The ECL calculation is based on expected future cash flows, which is typically applied at a portfolio level.
- Multiple economic scenarios (MES) – the central, or base, scenario is most critical to the ECL calculation, independent of the method used to generate a range of alternative outcomes and their probabilities.
- Significant increase in credit risk - IFRS 9 requires that at each reporting date, an entity shall assess whether the credit risk on an account has increased significantly since initial recognition. Part of this assessment requires a comparison to be made between the current lifetime PD (i.e. the current probability of default over the remaining lifetime) with the equivalent lifetime PD as determined at the date of initial recognition.

On restructuring 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 RBS plc's 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 RBS plc concludes 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 RBS plc's collectively assessed portfolios are:

- Retail mortgages: write-off usually occurs within five years, or earlier, when an account is closed, but can be longer where the customer engages constructively,
- Credit cards: the irrecoverable amount is typically written off after twelve arrears cycles or at four years post default any remaining amounts outstanding are written off,
- Overdrafts and other unsecured loans: write-off occurs within six years,
- Commercial loans: write-offs are determined in the light of individual circumstances; and Business loans are generally written off within five years.

8. Derecognition
A financial asset is derecognised (removed from the balance sheet) when the contractual right to receive cash flows from the asset has expired or when it has been transferred and the transfer qualifies for derecognition. Conversely, an asset is not derecognised in a contract under which RBS plc retains substantially all the risks and rewards of ownership.

A financial liability is removed from the balance sheet when the obligation is paid, or is cancelled, or expires. Cancellation includes the issuance of a substitute instrument on substantially different terms.

9. Capital instruments
RBS plc classifies a financial instrument that it issues as a liability if it is a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities on potentially unfavourable terms and as equity if it evidences a residual interest in the assets of RBS plc after the deduction of liabilities. Incremental costs and related tax that are directly attributable to an equity transaction are deducted from equity.

10. Derivatives and hedging
Derivatives are reported on the balance sheet at fair value

RBS plc uses derivatives to manage its 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 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
RBS plc enters into two types of hedge accounting relationships (see later). 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.

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.

11. Investment in Group undertakings
RBS plc's investments in its Group undertakings (subsidiaries) are stated at cost less any impairment.

Critical accounting policies and key sources of estimation uncertainty
The reported results of RBS plc are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. The accounting standards used in the preparation of the financial statements (see presentation of financial statements above) require the directors, in preparing RBS plc's financial statements, to select suitable accounting policies, apply them consistently and make judgments and estimates that are reasonable and prudent. In the absence of accounting guidance, standards used in the preparation of the financial statements require the directors to develop and apply an accounting policy that results in relevant and reliable information in the light of the requirements and guidance in IFRS dealing with similar and related issues and the IASB's Conceptual Framework for Financial Reporting.

The judgements and assumptions involved in RBS plc's accounting policies that are considered by the Board to be the most important to the portrayal of its financial condition are noted below. The use of estimates, assumptions or models that differ from those adopted by RBS plc would affect its reported results. Estimation uncertainty continues to be affected by the COVID-19 pandemic. The COVID-19 pandemic continued to cause significant economic and social disruption during 2021. Key financial estimates are based on management's latest five-year revenue and cost forecasts. Measurement of intangible assets and goodwill, deferred tax and expected credit losses are highly sensitive to reasonably possible changes in those anticipated conditions. Other reasonably possible assumptions about the future include a prolonged financial effect of the COVID-19 pandemic on the economy of the UK and other countries.

How Climate risk affects our accounting judgments and estimates

RBS plc makes use of reasonable and supportable information to make accounting judgments 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 RBS plc's 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 judgments 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. RBS plc's assessment of sector specific risks, and whether additional adjustments are required, include expectations on 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 use of market indicators as inputs to fair value is assumed to include current information and knowledge regarding the effect of climate risk.
- The use of market indicators as inputs to fair value is assumed to include current information and knowledge regarding the effect of climate risk.

Changes in judgments and assumptions could result in a material adjustment to those estimates in the next reporting periods. Consideration of this source of estimation uncertainty has been set out in the notes below (as applicable).

Critical accounting policy	Note
Deferred tax	7
Loan impairment provisions	12
Intangible assets and goodwill	14
Provisions for liabilities and charges	15

Future accounting developments
International Financial Reporting Standards
Effective 1 January 2022

- Onerous contracts – cost of fulfilling a contract (Amendments to IAS 37);
- Property, Plant and Equipment: proceeds before Intended use (Amendments to IAS 16);
- Reference to Conceptual Framework (Amendments to IFRS 3); and
- Fees in the "10 per cent" test for Derecognition of Financial Liabilities (Amendments to IFRS 9).

Other new standards and amendments that are effective for annual periods beginning after 1 January 2023, with earlier application permitted, are set out below.

Effective 1 January 2023

- IFRS 17 Insurance Contracts (Amendments to IFRS 17 Insurance Contracts);
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1);
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12);
- Definition of Accounting Estimates (Amendments to IAS 8) and
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2).

RBS plc is assessing the effect of adopting these standards and amendments on its financial statements but does not expect the effect to be material.

Notes to the financial statements

1 Net interest income

	2021 £m	2020 £m
Balances at central banks	**33**	46
Loans to banks - amortised cost	**89**	61
Loans to customers - amortised cost	**1,292**	1,564
Amounts due from holding company and fellow subsidiaries	**35**	46
Interest receivable	**1,449**	1,717
Balances with banks	**2**	—
Customer deposits	**42**	111
Amounts due to holding company and fellow subsidiaries	**60**	75
Other financial liabilities	**3**	2
Interest payable	**107**	188
Net interest income	**1,342**	1,529

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 see Accounting policies note 2.

2 Non-interest income

	2021 £m	2020 £m
Net fees and commissions (1)	**278**	332
Other operating income		
Profit on disposal of subsidiaries and associates	**34**	—
Hedge ineffectiveness	**(10)**	32
Net Income from economic hedging	**41**	6
Gain on disposal of amortised cost assets	**20**	5
Profit on sale of property, plant and equipment	**5**	2
Dividend income	**22**	16
Other income (2)	**43**	10
	155	71
Non-interest income	**433**	403

(1) Refer to Note 4 for further analysis.
(2) Included activities other than banking.

For accounting policy information see Accounting policies note 2.

3 Operating expenses

	2021 £m	2020 £m
Wages, salaries and other staff costs	**102**	89
Social security costs	**6**	8
Pension costs	**12**	14
- defined benefit schemes (see Note 5)	**9**	11
- defined contribution schemes	**3**	3
Staff costs	**120**	111
Premises and equipment	**32**	20
Other administrative expenses (1,2)	**838**	723
Depreciation and amortisation (3)	**124**	20
Administrative expenses	**994**	763
Operating expenses	**1,114**	874

(1) Includes recharges from other NatWest Group entities, mainly National Westminster Bank Plc which provides the majority of shared services (including technology) and operational processes.
(2) Includes litigation and conduct costs. Further details are provided in Note 15.
(3) Includes impairment of goodwill of £85 million.

For accounting policy information see Accounting policies note 3.

1,500 front office customer-facing staff (2020 – 2,000) are contractually employed by NWB Plc with all related staff costs paid by RBS plc and 100 staff (2020 – 100) contractually employed by and paid by RBS Plc.

4 Segmental analysis

Reportable operating segments

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

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.

2021	Retail Banking £m	Private Banking £m	Commercial Banking £m	Central items & other £m	Total £m
Net interest income	**637**	**27**	**642**	**36**	**1,342**
Net fees and commissions	**74**	**10**	**194**	**—**	**278**
Other operating income	**—**	**64**	**13**	**78**	**155**
Total income	**711**	**101**	**849**	**114**	**1,775**
Depreciation and amortisation	**(104)**	**(4)**	**(16)**	**—**	**(124)**
Other operating expenses	**(483)**	**(81)**	**(426)**	**—**	**(990)**
Impairment releases	**15**	**3**	**336**	**6**	**360**
Operating profit	**139**	**19**	**743**	**120**	**1,021**
2020					
Net interest income	857	21	660	(9)	1,529
Net fees and commissions	80	11	241	—	332
Other operating income	(1)	9	(18)	81	71
Total income	936	41	883	72	1,932
Depreciation and amortisation	(10)	(1)	(9)	—	(20)
Other operating expenses	(427)	(50)	(377)	—	(854)
Impairment losses	(126)	(2)	(549)	(13)	(690)
Operating profit/(loss)	373	(12)	(52)	59	368

Total revenue (1)

2021	Retail Banking £m	Private Banking £m	Commercial Banking £m	Central items & other £m	Total £m
External	**807**	**95**	**783**	**332**	**2,017**
Inter-segment	**(22)**	**9**	**42**	**(29)**	**—**
Total	**785**	**104**	**825**	**303**	**2,017**
2020					
External	935	46	840	386	2,207
Inter-segment	104	—	(69)	(35)	—
Total	1,039	46	771	351	2,207

(1) Total revenue comprises interest receivable, fees and commissions receivable and other operating income.

Total income

2021	Retail Banking £m	Private Banking £m	Commercial Banking £m	Central items & other £m	Total £m
External	**732**	**92**	**807**	**144**	**1,775**
Inter-segment	**(21)**	**9**	**42**	**(30)**	**—**
Total	**711**	**101**	**849**	**114**	**1,775**
2020					
External	832	41	952	107	1,932
Inter-segment	104	—	(69)	(35)	—
Total	936	41	883	72	1,932

4 Segmental analysis continued

Analysis of net fees and commissions

2021	Retail Banking £m	Private Banking £m	Commercial Banking £m	Central items & other £m	Total £m
Fees and commissions receivable					
- Payment services	59	2	123	—	184
- Credit and debit card fees	67	—	36	—	103
- Lending and financing	2	1	99	—	102
- Other	10	7	7	—	24
Total	138	10	265	—	413
Fees and commissions payable	(64)	—	(71)	—	(135)
Net fees and commissions	74	10	194	—	278
2020					
Fees and commissions receivable					
- Payment services	56	2	118	—	176
- Credit and debit card fees	60	—	33	—	93
- Lending and financing	8	—	123	—	131
- Other	13	9	—	(3)	19
Total	137	11	274	(3)	419
Fees and commissions payable	(57)	—	(33)	3	(87)
Net fees and commissions	80	11	241	—	332

2021	Retail Banking £m	Private Banking £m	Commercial Banking £m	Central items & other £m	Total £m
Assets	20,893	2,800	24,168	58,234	106,095
Liabilities	39,143	2,541	57,256	3,408	102,348
2020					
Assets	22,707	2,577	28,412	45,546	99,242
Liabilities	35,164	2,407	52,632	3,369	93,572

All of RBS plc's activities, by location of offices, are based in the UK.

5 Pensions

Eligible employees of RBS plc can participate in membership of the NatWest Group operated pension schemes. The principal defined benefit scheme is the NatWest Group Pension Fund (the Main section). The Main section was closed to new entrants in October 2006 and since then employees have been offered membership to the RBS Group Retirements Savings Plan, a defined contribution pension scheme. The NatWest Group pension schemes are further disclosed in the NatWest Group 2021 Annual Report and Accounts.

For accounting policy information see Accounting policies note 3.

6 Auditor's remuneration

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

	2021 £m	2020 £m
Fees payable for the audit of RBS plc's annual accounts	3.9	4.2
Fees payable to the auditor for other services to RBS plc	—	—
Total audit and audit-related assurance service fees	3.9	4.2

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

7 Tax

	2021 £m	2020 £m
Current tax		
Charge for the year	**(232)**	(50)
Over/(under) provision in respect of prior years	**12**	(10)
	(220)	(60)
Deferred tax		
(Charge)/credit for the year	**(46)**	7
UK tax rate change impact (1)	**42**	17
(Decrease)/increase in the carrying value of deferred tax assets in respect of UK losses	**(14)**	35
Under provision in respect of prior years (2)	**(7)**	(1)
Tax charge for the year	**(245)**	(2)

(1) It was announced in the UK Government's budget on 3 March 2021 that the main UK corporation tax rate will increase from 19% to 25% from 1 April 2023. This legislative change was enacted on 10 June 2021.
(2) Prior year tax adjustments incorporate refinements to tax computations made on submission and agreement with the tax authorities.

The actual tax charge differs from the expected tax charge, computed by applying the standard rate of UK corporation tax of 19% (2020 – 19%), as follows:

	2021 £m	2020 £m
Expected tax charge	**(194)**	(67)
Non-deductible goodwill impairment	**(16)**	—
Items not allowed for tax:		
- losses on disposals and write downs	**(3)**	—
- UK bank levy	**(3)**	(5)
- regulatory and legal actions	**(1)**	14
- other disallowable items	**(1)**	11
Non-taxable items	**11**	2
(Decrease)/increase in the carrying value of deferred tax assets in respect of:		
- UK losses	**(14)**	35
Banking surcharge	**(81)**	(11)
Tax on paid-in equity	**10**	13
UK tax rate change impact	**42**	17
Adjustments in respect of prior years	**5**	(11)
Actual tax charge	**(245)**	(2)

For accounting policy information see Accounting policies note 5.

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 £289 million were recognised as at 31 December 2021 (2020 - £92 million).

	2021 £m	2020 £m
Deferred tax liability	**—**	—
Deferred tax asset	**(289)**	(92)
Net deferred tax asset	**(289)**	(92)

Net deferred tax asset comprised:

	Accelerated capital allowances £m	Expense provisions £m	Financial instruments £m	Tax losses carried forward £m	Other £m	Total £m
At 1 January 2020	(29)	(4)	79	(150)	(7)	(111)
(Credit)/charge to income statement	(10)	3	(1)	(50)	—	(58)
Charge to other comprehensive income	—	—	77	—	—	77
At 31 December 2020	(39)	(1)	155	(200)	(7)	(92)
Charge/(credit) to income statement	**8**	**(6)**	**—**	**24**	**(1)**	**25**
Credit to other comprehensive income	**—**	**—**	**(222)**	**—**	**—**	**(222)**
At 31 December 2021	**(31)**	**(7)**	**(67)**	**(176)**	**(8)**	**(289)**

7 Tax continued

Critical accounting policy: Deferred tax

The deferred tax assets of £289 million as at 31 December 2021 (2020 - £92 million) principally comprises losses which arose in the UK, and temporary differences. These deferred tax assets are recognised to the extent that it is probable that there will be future taxable profits to recover them.

Judgment – RBS plc has considered the carrying value of deferred tax assets and concluded that, based on management's estimates, sufficient taxable profits will be generated in future years to recover recognised deferred tax assets.

Estimate - These estimates are partly based on forecast performance beyond the horizon for management's detailed plans. They have regard to inherent uncertainties, such as climate change and the impact of COVID.

UK tax losses - Under UK tax rules, tax losses can be carried forward indefinitely. As the recognised tax losses arose prior to 1 April 2015, credit in future periods is given against 25% of profits at the main rate of UK corporation tax, excluding the Banking Surcharge 8% rate introduced by The Finance (No. 2) Act 2015.

It was announced in the UK Government's budget on 3 March 2021 that the main UK corporation tax rate will increase from 19% to 25% from 1 April 2023. This legislative change was enacted on 10 June 2021. RBS plc's closing deferred tax assets and liabilities have therefore been recalculated taking into account this change of rate and the applicable period the deferred tax assets and liabilities are expected to crystallise. As a result, the net deferred tax asset position in RBS plc has increased by £57 million, with a £42 million credit included in the income statement (refer to reconciling item above), and a £15 million credit included in other comprehensive income.

It was subsequently announced in the UK Government's budget on 27 October 2021 that the UK banking surcharge will decrease from 8% to 3% from 1 April 2023. This legislative change was substantively enacted on 2 February 2022. Had this rate reduction been substantively enacted as at the balance sheet date, the estimated rate change impact would not have been material.

RBS plc – A deferred tax asset of £176 million (2020 - £200 million) has been recognised in respect of losses of £722 million of total losses of £3,979 million carried forward at 31 December 2021. The losses were transferred from NatWest Markets Plc as a consequence of the ring fencing regulations. RBS plc expects the deferred tax asset to be utilised against future taxable profits by the end of 2027.

Deferred tax assets of £814 million (2020 - £606 million) have not been recognised in respect of tax losses carried forward of £3,257 million (2020 - £3,189 million). The tax losses can be carried forward indefinitely.

8 Financial instruments - classification

The following tables analyse financial assets and liabilities in accordance with the categories of financial instruments on an IFRS 9 basis.

Assets	MFVTPL (1) £m	FVOCI (1) £m	Amortised cost £m	Other assets £m	Total £m
Cash and balances at central banks			**38,014**		**38,014**
Derivatives (2)	**220**				**220**
Loans to banks - amortised cost (3)			**1,147**		**1,147**
Loans to customers - amortised cost (4)			**42,035**		**42,035**
Amounts due from holding companies and fellow subsidiaries	**—**	**—**	**23,815**	**126**	**23,941**
Other assets	**84**	**1**	**1**	**652**	**738**
31 December 2021	**304**	**1**	**105,012**	**778**	**106,095**
Cash and balances at central banks			26,927		26,927
Derivatives (2)	745				745
Loans to banks - amortised cost (3)			1,184		1,184
Loans to customers - amortised cost (4)			48,781		48,781
Amounts due from holding companies and fellow subsidiaries	—	—	20,873	—	20,873
Other assets	105		1	626	732
31 December 2020	850	—	97,766	626	99,242

Liabilities	Held-for-trading (1) £m	Amortised cost £m	Other liabilities £m	Total £m
Bank deposits (5)		**1,117**		**1,117**
Customer deposits		**92,144**		**92,144**
Amounts due to holding companies and fellow subsidiaries	**—**	**4,918**	**298**	**5,216**
Derivatives (2)	**827**			**827**
Notes in circulation		**2,144**		**2,144**
Other liabilities (6)		**158**	**742**	**900**
31 December 2021	**827**	**100,481**	**1,040**	**102,348**
Bank deposits (5)		1,152		1,152
Customer deposits		84,628		84,628
Amounts due to holding companies and fellow subsidiaries	—	4,521	—	4,521
Derivatives (2)	788			788
Notes in circulation		1,643		1,643
Other liabilities (6)		199	641	840
31 December 2020	788	92,143	641	93,572

(1) Includes instruments predominantly held in level 2 of the fair value hierarchy.
(2) Includes hedging derivative assets of £171 million (2020 - £735 million) and hedging derivative liabilities of £701 million (2020 - £599 million).
(3) Includes items in the course of collection from other banks of £14 million (2020 - £11 million).
(4) Includes finance lease receivables of £5 million (2020 - £44 million).
(5) Includes items in the course of transmission to other banks of £8 million (2020 - £1 million).
(6) Includes lease liabilities of £133 million (2020 - £150 million) held at amortised cost.

8 Financial instruments – classification continued

Judgment: classification of financial assets

Classification of financial assets between amortised cost and fair value through other comprehensive income requires a degree of judgment in respect of business models and contractual cashflows.

- The business model criteria is assessed at a portfolio level to determine whether assets are classified as held to collect or held to collect and sell. Information that is considered in determining the applicable business model includes the portfolio's policies and objectives, how the performance and risks of the portfolio are managed, evaluated and reported to management; and the frequency, volume and timing of sales in prior periods, sales expectation for future periods, and the reasons for sales.
- The contractual cash flow characteristics of financial assets are assessed with reference to whether the cash flows represent SPPI. A level of judgment 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 see Accounting policies notes 6, 8 and 10.

The below tables include amounts due from/to holding companies and fellow subsidiaries:

	2021			2020		
	Holding companies £m	**Fellow subsidiaries £m**	**Total £m**	Holding companies £m	Fellow subsidiaries £m	Total £m
Assets						
Loans to banks - amortised cost	—	21,322	21,322	—	19,023	19,023
Loans to customers - amortised cost	—	2,493	2,493	—	1,850	1,850
Other assets	—	126	126	—	—	—
Amounts due from holding companies and fellow subsidiaries	—	23,941	23,941	—	20,873	20,873
Derivatives (1)	—	220	220	—	745	745
Liabilities						
Bank deposits - amortised cost	—	2,391	2,391	—	2,146	2,146
Customer deposits - amortised cost	—	713	713	—	514	514
Other financial liabilities - subordinated liabilities (2)	1,427	—	1,427	1,464	—	1,464
MREL instruments issued to NatWest Group plc	387	—	387	397	—	397
Other liabilities	—	298	298	—	—	—
Amounts due to holding companies and fellow subsidiaries	1,814	3,402	5,216	1,861	2,660	4,521
Derivatives (1)	—	826	826	—	788	788

(1) Intercompany derivatives are included within the derivative classification on the balance sheet.
(2) USD $1,850 million fixed rate subordinated notes 2023, dated loan capital (tier 2).

8 Financial instruments - classification

Interest rate benchmark reform

The Natwest Group IBOR program successfully delivered the conversion of the vast majority of the IBOR exposures to risk free rates in advance of the cessation date. This encompasses loans, deposits, capital instruments and derivatives, which have been converted using fallback provisions, switch provisions or as part of market-wide conversion events in the case of derivatives subject to clearing. These instruments will convert at the first repricing date post cessation.

The exposure for RBS plc at 31 December 2021 subject to above conversion provisions is £5,556 million of assets, £3,586 million of loan commitments and £11.5 billion of derivative notionals.

Despite the significant conversion levels achieved, certain instruments remain in discussion with customers and counterparties to achieve consensual conversion. If consensual conversion is not achieved these instruments will default to synthetic LIBOR in line with relevant legislation.

The level of exposures without explicit or agreed conversion provisions as of 31 December 2021 is as follows:

	Rates subject to IBOR reform			
	GBP LIBOR	USD IBOR (1)	Other IBOR (2)	Total
2021	£m	£m	£m	£m
Loans to customers - amortised cost	**484**	**447**	**1**	**932**
Amounts due to holding companies and fellow subsidiaries	**—**	**387**	**—**	**387**
Loan commitments (3)	**62**	**538**	**—**	**600**
Derivatives notional (£bn)	**—**	**1.9**	**—**	**1.9**

	Rates subject to IBOR reform				
	GBP LIBOR	USD IBOR (1)	EURIBOR (2)	Other IBOR	Total
2020	£m	£m	£m	£m	£m
Loans to banks - amortised cost	11	—	—	—	11
Loans to customers - amortised cost	10,435	1,018	12	—	11,465
Amounts due to holding companies and fellow subsidiaries	—	397	—	—	397
Loan commitments (3)	7,237	2,164	172	112	9,685
Derivatives notional (£bn)	24.6	2.2	0.6	—	27.4

(1) In 2021 the FCA declared that USD IBOR will be non-representative post 30 June 2023; at the time of preparing the 2020 disclosures this date was expected to be 31 December 2021.
(2) In 2021 management concluded that EURIBOR is not expected to be significantly reformed further and therefore any uncertainty due to interest benchmark rate reform for EURIBOR has ended. 31 December 2020 data includes EURIBOR exposure as subject to reform
(3) Certain loan commitments are multi-currency facilities. Where these are fully undrawn, they are allocated to the principal currency of the facility. Where the facilities are partly drawn, the remaining loan commitment is allocated to the currency with the largest drawn amount.

AT1 issuances

RBS plc has issued certain capital instruments (AT1) under which reset clauses are linked to IBOR rates subject to reform. Where under the contractual terms of the instrument the coupon resets to an IBOR rate or to a rate which has IBOR as a specified component of its pricing structure these are subject to IBOR reform and are shown in Note 16.

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.

	Items where fair value approximates carrying value	Carrying value	Fair value	Fair value hierarchy level	
				Level 2	Level 3
2021	£m	£m	£m	£m	£m
Financial assets					
Cash and balances at central banks	**38,014**				
Loans to banks	**—**	**1,147**	**1,147**	**1,073**	**74**
Loans to customers		**42,035**	**41,471**	**—**	**41,471**
Amounts due from holding companies and fellow subsidiaries		**23,815**	**23,816**	**—**	**23,816**
Other assets	**1**				
2020					
Financial assets					
Cash and balances at central banks	26,927				
Loans to banks	12	1,172	1,172	1,132	40
Loans to customers		48,781	48,382	—	48,382
Amounts due from holding companies and fellow subsidiaries		20,873	20,874	—	20,874
Other assets	1				

2021					
Financial liabilities					
Bank deposits	**1,023**	**94**	**94**	**—**	**94**
Customer deposits	**89,787**	**2,357**	**2,334**	**654**	**1,680**
Amounts due to holding companies and fellow subsidiaries	**568**	**4,350**	**4,397**	**1,862**	**2,535**
Notes in circulation	**2,144**				
Other liabilities	**1**				
2020					
Financial liabilities					
Deposits by banks	1,057	95	95	—	95
Customer deposits	75,962	8,666	8,673	928	7,745
Amounts due to holding companies and fellow subsidiaries	1,821	2,700	2,746	1,907	839
Notes in circulation	1,643				
Other liabilities	—				

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 Banking (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 see Accounting policies note 6.

10 Financial instruments - maturity analysis

Remaining maturity

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

	2021			2020		
	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	38,014	—	38,014	26,927	—	26,927
Derivatives	32	188	220	30	715	745
Loans to banks - amortised cost	1,147	—	1,147	1,184	—	1,184
Loans to customers - amortised cost	14,375	27,660	42,035	12,599	36,182	48,781
Amounts due from holding companies and fellow subsidiaries (1)	23,290	525	23,815	20,472	401	20,873
Other assets (2)	7	78	85	9	97	106
Liabilities						
Bank deposits	1,117	—	1,117	1,152	—	1,152
Customer deposits	91,997	147	92,144	84,403	225	84,628
Amounts due to holding companies and fellow subsidiaries (3)	2,862	2,056	4,918	2,392	2,129	4,521
Derivatives	4	823	827	18	770	788
Notes in circulation	2,144	—	2,144	1,643	—	1,643
Lease liabilities	12	121	133	12	138	150

(1) Excludes non-financial instruments of £126 million (2020 - nil).
(2) Excludes non-financial instruments of £653 million (2020 - £626 million).
(3) Excludes non-financial instruments of £298 million (2020 - nil).

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.

HFT liabilities of £126 million (2020 - £189 million) have been excluded from the tables.

10 Financial instruments - maturity analysis continued

2021	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	1,117	—	—	—	—	—
Customer deposits	91,569	428	145	—	2	—
Amounts due to holding companies and fellow subsidiaries	2,803	141	1,960	77	53	—
Derivatives	12	50	308	161	136	62
Notes in circulation	2,144	—	—	—	—	—
Lease liabilities	3	8	19	15	27	32
	97,648	627	2,432	253	218	94
Guarantees and commitments notional amount						
Guarantees (1)	283	—	—	—	—	—
Commitments (2)	22,331	—	—	—	—	—
	22,614	—	—	—	—	—
2020						
Liabilities by contractual maturity up to 20 years						
Bank deposits	1,152	—	—	—	—	—
Customer deposits	83,207	1,196	220	—	6	—
Amounts due to holding companies and fellow subsidiaries	2,365	110	1,660	457	63	—
Derivatives	24	64	140	112	174	86
Notes in circulation	1,643	—	—	—	—	—
Lease liabilities	3	9	21	17	31	69
	88,394	1,379	2,041	586	274	155
Guarantees and commitments notional amount						
Guarantees (1)	409	—	—	—	—	—
Commitments (2)	25,516	—	—	—	—	—
	25,925	—	—	—	—	—

(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 interest rate.

	2021			2020		
	Notional £m	**Assets £m**	**Liabilities £m**	Notional £m	Assets £m	Liabilities £m
Interest rate contracts	**41,023**	**220**	**827**	32,358	745	788
		220	**827**		745	788

For accounting policy information see Accounting policies notes 6 and 10.

RBS plc applies hedge accounting to reduce the accounting mismatch caused in the income statement by using derivatives to hedge interest rate 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.

Suitable larger fixed rate financial instruments are subject to fair value hedging; the remaining exposure, where possible, is hedged by derivatives designated as cash flow hedges.

Cash flow hedges of interest rate risk relate to exposures to the variability in future interest payments and receipts due to the movement of benchmark interest rates on forecast transactions and on 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 benchmark rates, most notably USD/GBP LIBOR, EURIBOR, SONIA and the Bank of England Official Bank Rate. The variability in cash flows due to movements in the relevant benchmark rate is hedged; this risk component is identified using the risk management systems of RBS plc and encompasses the majority of cash flow variability risk.

Fair value hedges of interest rate risk involve interest rate swaps transforming the fixed interest rate risk in 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 benchmark interest rate risk component of the hedged item. The significant benchmarks identified as risk components are USD/GBP LIBOR, 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 adequate level of offsetting between the hedged item and hedging instrument at inception and on an ongoing basis. This is achieved by comparing movements in the fair value of the expected highly probable forecast interest cash flows/fair value of the hedged item attributable to the hedged risk with movements in the fair value of the expected changes in cash flows from the hedging interest rate swap. Hedge effectiveness is assessed on a cumulative basis over a time period management determines to be appropriate. RBS plc uses either the actual ratio between the hedged item and hedging instrument(s) or one that minimises hedge ineffectiveness to establish the hedge ratio for hedge accounting. Hedge ineffectiveness is measured and recognised in the income statement as it arises.

IBOR reform – In the year RBS plc continued to apply, for relationships directly affected by interest rate benchmark reform, Interest Rate Benchmark Reform Amendments to IAS 39 and IFRS 7 issued September 2019 ("Phase 1 relief") and Interest Rate Benchmark Reform – Phase 2 Amendments to IAS 39 and IFRS 7 issued August 2020 ("Phase 2 relief").

Significant transitions in the year were the GBP, JPY and CHF derivatives subject to cash flow and fair value hedging transitioned as part of the liquidity clearing house 'big bang' conversion in December 2021. The swaps were restructured to reprice off the appropriate risk free rate from the next repricing date post 31 December 2021 plus a spread adjustment. All impacted hedge accounting relationships had their designations updated to reflect this transition.

The following significant cash flow and fair value hedge relationships continue to be directly affected by interest rate benchmark reform:

- USD cash flow and fair value hedges of interest rate risk that mature post 30 June 2023.
- GBP LIBOR re-pricing hedged items in cash flow hedges of interest rate risk will transition to risk free rates in 2022.

11 Derivatives continued

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

	2021				2020			
	Notional £m	Assets £m	Liabilities £m	Change in fair value used for hedge ineffectiveness (1) £m	Notional £m	Assets £m	Liabilities £m	Change in fair value used for hedge ineffectiveness (1) £m
Fair value hedging - interest rate contracts	**3,787**	**93**	**371**	**133**	3,812	140	574	(8)
Cash flow hedging - interest rate contracts	**25,805**	**78**	**330**	**(792)**	26,035	595	25	307
		171	**701**	**(659)**		735	599	299

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

The notional of hedging instruments affected by interest rate benchmark reform is as follows:

	2021 £bn	2020 £bn
Fair value hedging		
EURIBOR (1)	**—**	0.1
GBP LIBOR	**—**	1.9
USD LIBOR (2)	**1.7**	1.7
Cash flow hedging		
EURIBOR (1)	**—**	0.3
GBP LIBOR	**—**	21.5
SOFR (3)	**0.3**	—
USD LIBOR (2)	**—**	0.4

(1) In 2021 management concluded that EURIBOR is not expected to be significantly reformed further and therefore any uncertainty due to interest benchmark rate reform for EURIBOR has ended.
(2) In 2021 the FCA declared that USD LIBOR will be non-representative post 30 June 2023; at the time of preparing the 2020 disclosures this date was expected to be 31 December 2021.
(3) Hedge relationships subject to reform are those where either the hedged item or the hedging instrument is subject to the IBOR reform.
(4) Notional of £28 million GBP LIBOR derivative contracts in fair value hedge relationships will convert to repricing off SONIA at the first repricing date post cessation.

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

2021	0-3 months £m	3-12 months £m	1-3 years £m	3-5 years £m	5-10 years £m	10-20 years £m	20+ years £m	Total £m
Fair value hedging								
Hedging assets - interest rate risk	**11**	**18**	**154**	**283**	**555**	**755**	**268**	**2,044**
Hedging liabilities - interest rate risk	**—**	**—**	**1,743**	**—**	**—**	**—**	**—**	**1,743**
Cash flow hedging								
Hedging assets - interest rate risk	**—**	**—**	**10,150**	**10,936**	**2,203**	**—**	**—**	**23,289**
Average fixed interest rate (%)	***—***	***—***	***0.85***	***0.57***	***0.91***	***—***	***—***	***0.72***
Hedging liabilities - interest rate risk	**—**	**—**	**1,233**	**49**	**1,234**	**—**	**—**	**2,516**
Average fixed interest rate (%)	***—***	***—***	***0.24***	***0.82***	***0.67***	***—***	***—***	***0.46***
2020								
Fair value hedging								
Hedging assets - interest rate risk	12	82	120	310	588	807	172	2,091
Hedging liabilities - interest rate risk	—	—	1,355	366	—	—	—	1,721
Cash flow hedging								
Hedging assets - interest rate risk	450	2,230	9,288	8,052	2,472	—	—	22,492
Average fixed interest rate (%)	*1.15*	*1.29*	*1.28*	*0.56*	*1.00*	—	—	*0.99*
Hedging liabilities - interest rate risk	—	800	2,567	49	127	—	—	3,543
Average fixed interest rate (%)	—	*1.07*	*0.31*	*0.82*	*0.78*	—	—	*0.51*

11 Derivatives continued

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

2021	Carrying value of hedged assets and liabilities £m	Impact on hedged items included in carrying value £m	Change in fair value used as a basis to determine ineffectiveness (1) £m	Impact on hedged items ceased to be adjusted for hedging gains or losses £m
Fair value hedging - interest rate				
Loans to customers - amortised cost	**2,289**	**228**	**(182)**	**12**
Other financial liabilities - debt securities in issue	**387**	**12**	**14**	**—**
Subordinated liabilities	**1,427**	**53**	**54**	**—**
Total	**1,814**	**65**	**68**	**—**
Cash flow hedging - interest rate				
Loans to banks and customers - amortised cost	**23,289**		**826**	
Bank and customer deposits	**2,516**		**(63)**	
Total	**25,805**		**763**	
2020				
Fair value hedging - interest rate				
Loans to customers - amortised cost	2,542	431	78	17
Other financial liabilities - debt securities in issue	397	26	(15)	—
Subordinated liabilities	1,464	106	(47)	—
Total	1,861	132	(62)	—
Cash flow hedging - interest rate				
Loans to banks and customers - amortised cost	22,492		(297)	
Bank and customer deposits	3,543		14	
Total	26,035		(283)	

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

11 Derivatives continued

The following risk exposures will be affected by interest rate benchmark reform (notional, hedged adjustment):

	2021		2020	
	Notional £bn	Hedged adjustment £m	Notional £bn	Hedged adjustment £m
Fair value hedging				
EURIBOR (1)	—	—	0.1	22
GBP LIBOR	—	—	1.6	299
USD LIBOR (2)	1.7	(54)	1.7	(133)
GBP SONIA (3)	—	—	0.4	120
Cash flow hedging				
EURIBOR (1)	—	—	0.3	(1)
GBP LIBOR	—	—	6.8	(230)
USD LIBOR (2)	0.3	6	0.4	(16)
BOE Base rate (3)	—	—	14.7	(234)

(1) In 2021 management concluded that EURIBOR is not expected to be significantly reformed further and therefore any uncertainty due to interest benchmark rate reform for EURIBOR has ended.
(2) In 2021 the FCA declared that USD LIBOR will be non-representative post 30 June 2023; at the time of preparing the 2020 disclosures this date was expected to be 31 December 2021.
(3) Hedge relationships subject to reform are those where either the hedged item or the hedging instrument is subject to the IBOR reform.
(4) Notional of £2.6 billion GBP LIBOR hedged items in cash flow hedge relationships will convert to repricing off SONIA at the first repricing date post cessation.

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

	2021 Cash flow hedge reserve £m	2020 Cash flow hedge reserve £m
Continuing		
Interest rate risk	(277)	509
De-designated		
Interest rate	26	6
Total	(251)	515

	2021 Cash flow hedge reserve £m	2020 Cash flow hedge reserve £m
Amount recognised in equity		
- Interest rate risk	(564)	416
Total	(564)	416
Amount transferred from equity to earnings		
- Interest rate risk to net interest income	(167)	(138)
- Interest rate risk to non-interest income (1)	(35)	(3)
Total	(202)	(141)

(1) There was £35 million reclassified from the cash flow reserve to earnings due to forecasted cash flows that are no longer expected to occur.

11 Derivatives continued

Hedge ineffectiveness recognised in other operating income comprised:

	2021 £m	2020 £m
Fair value hedging		
(Losses)/gains on the hedged items attributable to the hedged risk	**(114)**	16
Gains/(losses) on the hedging instruments	**133**	(8)
Fair value hedging ineffectiveness	**19**	8
Cash flow hedging		
Interest rate risk	**(29)**	24
Foreign exchange risk	**—**	—
Cash flow hedging ineffectiveness	**(29)**	24
Total	**(10)**	32

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).

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.

	2021 £m	2020 £m
Loans - amortised cost		
Stage 1	**36,097**	35,198
Stage 2	**6,501**	13,942
Stage 3	**989**	1,486
Inter-group	**23,821**	20,894
	67,408	71,520
ECL provisions		
Stage 1	**47**	84
Stage 2	**282**	633
Stage 3	**373**	628
Inter-group	**5**	14
	707	1,359
ECL provision coverage (1)		
Stage 1 (%)	**0.13**	0.24
Stage 2 (%)	**4.34**	4.54
Stage 3 (%)	**37.71**	42.26
Inter-group (%)	**0.02**	0.07
	1.61	2.66
Impairment (releases)/losses		
ECL (release)/charge		
Stage 1	**(258)**	9
Stage 2	**(98)**	521
Stage 3	**5**	147
Inter-group	**(9)**	13
	(360)	690
Amounts written off	**305**	182

(1) ECL provisions coverage is calculated as total ECL provisions divided by third party loans – amortised cost and FVOCI.
(2) The table shows gross loans only and excludes amounts that are outside the scope of the ECL framework. Refer to page 32 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 £37.5 billion (2020 – £26.5 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 policies note 7 sets out how the expected loss approach is applied. At 31 December 2021, customer loan impairment provisions amounted to £707 million (2020 - £1,359 million). A loan is impaired when there is objective evidence that the cash flows will not occur in the manner expected when the loan was advanced. Such evidence includes, changes in the credit rating of a borrower, the failure to make payments in accordance with the loan agreement, significant reduction in the value of any security, breach of limits or covenants, and observable data about relevant macroeconomic measures.

The impairment loss is the difference between the carrying value of the loan and the present value of estimated future cash flows at the loan's original effective interest rate.

The measurement of credit impairment under the IFRS expected loss model depends on management’s assessment of any potential deterioration in the creditworthiness of the borrower, its modelling of expected performance and the application of economic forecasts. All three elements require judgments that are potentially significant to the estimate of impairment losses.

For further information and sensitivity analysis, refer to Risk and capital management – Measurement uncertainty and ECL sensitivity analysis section.

IFRS 9 ECL model design principles

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 Investments in Group undertakings

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

	2021 £m	2020 £m
At 1 January	**28**	28
Disposals	**(19)**	—
impairment of investments	**(3)**	—
At 31 December	**6**	28

Disposal of £19 million in 2021 is related to the RBS plc disposal of its subsidiary Adam & Company Investment Management Limited.

The table below shows the principal subsidiaries of RBS plc. Their capital consists of ordinary shares which are unlisted. All of the subsidiary undertakings are owned by RBS plc directly and have an accounting reference date of 31 December. Refer to Note 28 for details of all subsidiary undertakings.

For accounting policy information see Accounting policies note 11.

	Nature of business	Country of incorporation and principal area of operation
The One Account Limited	Banking	Great Britain

14 Other assets

	2021 £m	2020 £m
Other financial assets	**85**	105
Intangible assets and goodwill	**—**	85
Investment in Group undertakings (Note 13)	**6**	28
Property, plant and equipment	**145**	194
Accrued income	**43**	37
Deferred tax (Note 7)	**289**	92
Acceptances	**154**	173
Other assets	**16**	18
	738	732

Intangible assets and goodwill are reviewed for indicators of impairment. In 2021, £85 million of goodwill was impaired following a reduction in the recoverable value as reduced five-year cash flow forecasts decreased the value in use.

Critical accounting policy: Intangible assets and goodwill

Impairment testing involves a number of judgments. The key judgments in the impairment of the intangible asset relate to the five-year cash flow forecast and the long-term growth rate. Future value in use is primarily affected by the rate of run-off of the remaining customers given the decision to terminate a specific product line, adversely affecting the profitability. The product line represents the cash generating unit, and is the subject of annual impairment testing. The decision to impair in full is sensitive to the rate at which customers switch to alternative products and a slower rate of change would lead to a higher value in use.

15 Other liabilities

	2021 £m	2020 £m
Lease liabilities (Note 17)	**133**	150
Provisions for liabilities and charges	**201**	309
Accruals	**104**	55
Deferred income	**49**	68
Current tax	**234**	65
Acceptances	**154**	173
Other liabilities	**25**	20
	900	840

Provisions for liabilities and charges	Customer redress (1) £m	Litigation and other regulatory £m	Property £m	Financial commitments and guarantees £m	Other (2) £m	Total £m
At 1 January 2021	**216**	**2**	**41**	**49**	**1**	**309**
Expected credit losses impairment release	**—**	**—**	**—**	**(26)**	**—**	**(26)**
Currency translation and other movements	**—**	**—**	**—**	**—**	**—**	**—**
Charge to income statement	**38**	**—**	**20**	**—**	**35**	**93**
Release to income statement	**(16)**	**(2)**	**(8)**	**—**	**—**	**(26)**
Provisions utilised	**(124)**	**—**	**(7)**	**—**	**(18)**	**(149)**
At 31 December 2021	**114**	**—**	**46**	**23**	**18**	**201**

(1) Includes payment protection insurance provision which reflects the estimated cost of PPI redress attributable to claims prior to the Financial Conduct Authority (FCA) complaint deadline of 29 August 2019. All pre-deadline complaints have been processed which removes complaint volume estimation uncertainty from the provision estimate. NatWest Group continues to conclude remaining bank-identified closure work and conclude cases with the Financial Ombudsmen Service.
(2) Other materially comprises provisions relating to restructuring costs.

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 see Accounting policies note 4.

Critical accounting policy: Provisions for liabilities

The key judgment is involved in determining whether a present obligation exists. There is often a high degree of uncertainty and judgment is based on the specific facts and circumstances relating to individual events in determining whether there is a present obligation. Judgment 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: 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 such as rates associated with vacant properties.
- Litigation and other provisions: These materially comprise provisions for property onerous contracts and restructuring costs. Onerous contract provisions comprise an estimate of the costs involved with fulfilling the terms and conditions of contracts net of any expected benefits to be received. This includes provision for contractual costs such as rates associated with vacant properties. Redundancy and restructuring provisions comprise the estimated cost of restructuring, including redundancy costs where an obligation exists. For further information in relation to legal proceedings and discussion of the associated uncertainties, refer to Note 20.

16 Share capital and reserves

			Number of shares	
	2021	2020	2021	2020
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 2021 or 2020.

In 2021, RBS plc paid an ordinary dividend of £2.1 billion to NWH Ltd (2020 - £0.8 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.

	2021	2020
	£m	£m
Additional Tier 1 instruments		
US$1,350 billion 3.9683% instruments callable August 2023 (1)	**969**	969
	969	969

(1) Coupon reset on 15th August 2021 from 6.49% to 3.9683%.

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 see Accounting policies note 9.

17 Leases

RBS plc is party to lease contracts as lessee to support its operations. The following table provides information in respect of those lease contracts as lessee.

Lessees	2021	2020
	£m	£m
Amounts recognised in income statement		
Interest payable	**(3)**	(3)
Depreciation (1)	**(26)**	(10)
	£m	£m
Amounts recognised on balance sheet		
Right of use assets included in property, plant and equipment	**53**	79
Additions to right of use assets	**1**	4
Lease liabilities (2)	**(133)**	(150)

The total cash outflow for leases is £14 million (2020 - £18 million), including payment of principal amount of £11 million (2020 - £14 million) which are included in the operating activities in the cash flow statement.

(1) Depreciation includes impairment of right of use assets of £18 million (2020 - nil).
(2) Contractual cashflows of lease liabilities are shown in Note 10.

Lessor
Acting as a lessor, RBS plc provides asset finance to its customers. It purchases plant, equipment and intellectual property, renting them to customers under lease arrangements that, depending on their terms, qualify as either operating or finance leases.

	2021	2020
Amount receivable under finance leases	£m	£m
Within 1 year	**4**	17
1 to 2 years	**1**	25
2 to 3 years	**—**	2
Lease payments total	**5**	44
Unearned income	**—**	—
Present value of lease payments	**5**	44
Impairments	**—**	—
Net investment in finance leases	**5**	44

18 Unconsolidated structured entities

RBS plc has lending to unconsolidated structured entities of £129 million (2020 - £137 million) and loan commitments of £7 million (2020 – £7 million).

19 Capital resources

Regulatory capital is assessed against minimum requirements that are set out under the Capital Requirements Regulation on a legal entity and consolidated basis. Transitional arrangements on the phasing in of end-point capital resources are set by the relevant regulatory authority.

The capital resources based on the PRA transitional basis for RBS plc are set out below.

Shareholders' equity (excluding non-controlling interests)	2021 £m	2020 £m
Shareholders' equity	**3,747**	5,670
Other equity instruments	**(969)**	(969)
	2,778	4,701
Regulatory adjustments and deductions		
Cash flow hedging reserve	**168**	(376)
Deferred tax assets	**(161)**	(186)
Prudential valuation adjustments	**(4)**	(3)
Other intangible assets	**—**	(85)
Expected losses less impairments	**—**	—
Adjustment under IFRS 9 transitional arrangements	**126**	380
Foreseeable ordinary dividend	**(225)**	—
	(96)	(270)
CET1 capital	**2,682**	4,431
Additional Tier 1 (AT1) capital		
Qualifying instruments and related share premium	**969**	969
	969	969
Tier 1 capital	**3,651**	5,400
Qualifying Tier 2 capital		
Qualifying instruments and related share premium	**1,372**	1,355
Other regulatory adjustments	**83**	60
Tier 2 capital	**1,455**	1,415
Total regulatory capital	**5,106**	6,815

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 2021. 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 see Accounting policies note 4.

	2021 £m	2020 £m
Contingent liabilities and commitments		
Guarantees and assets pledged as collateral security	**283**	409
Other contingent liabilities	**498**	562
Standby facilities, credit lines and other commitments	**22,430**	25,905
	23,211	26,876

Banking commitments and contingent obligations, which have been entered into on behalf of customers and for which there are corresponding obligations from customers, are not included in assets and liabilities. RBS plc's maximum exposure to credit loss, in the event of its obligation crystallising and all counterclaims, collateral or security proving valueless, is represented by the contractual nominal amount of these instruments included in the table above. These commitments and contingent obligations are subject to RBS plc's normal credit approval processes.

Guarantees – RBS plc gives guarantees on behalf of customers. A financial guarantee represents an irrevocable undertaking that RBS plc will meet a customer's specified obligations to a third party if the customer fails to do so. The maximum amount that RBS plc could be required to pay under a guarantee is its principal amount as in the table above. RBS plc expects most guarantees it provides to expire unused.

Other contingent liabilities - these include standby letters of credit, supporting customer debt issues and contingent liabilities relating to customer trading activities such as those arising from performance and customs bonds, warranties and indemnities.

Standby facilities and credit lines - under a loan commitment RBS plc agrees to make funds available to a customer in the future. Loan commitments, which are usually for a specified term may be unconditionally cancellable or may persist, provided all conditions in the loan facility are satisfied or waived. Commitments to lend include commercial standby facilities and credit lines, liquidity facilities to commercial paper conduits and unutilised overdraft facilities.

Other commitments - these include documentary credits, which are commercial letters of credit providing for payment by RBS plc to a named beneficiary against presentation of specified documents, forward asset purchases, forward deposits placed and undrawn note issuance and revolving underwriting facilities, and other short-term trade related transactions.

Capital Support Deed

RBS plc, together with certain other subsidiaries of NatWest Holdings Ltd, is party to a Capital Support Deed (CSD). Under the terms of the CSD, RBS plc may be required, if compatible with its legal obligations, to make distributions on, or repurchase or redeem, its ordinary shares. The amount of this obligation is limited to RBS plc's capital resources in excess of the capital and financial resources needed to meet its regulatory requirements. RBS plc may also be obliged to make onward distribution to its ordinary shareholders of dividends or other capital distributions received from subsidiaries that are party to the CSD. The CSD also provides that, in certain circumstances, funding received by RBS plc from other parties to the CSD becomes immediately repayable, such repayment being limited to RBS plc's available resources.

Contractual obligations for future expenditure not provided for in the accounts

The following table shows contractual obligations for future expenditure not provided for in the accounts at the year end.

	2021 £m	2020 £m
Capital expenditure on property, plant and equipment	**1**	6
	1	6

20 Memorandum items continued

Trustee and other fiduciary activities

In its capacity as trustee or other fiduciary role, RBS plc may hold or place assets on behalf of individuals, trusts, companies, pension schemes and others. The assets and their income are not included in its financial statements. RBS plc earned fee income of £8 million (2020 - £9 million) from these activities.

The Financial Services Compensation Scheme

The Financial Services Compensation Scheme (FSCS), the UK's statutory fund of last resort for customers of authorised financial services firms, pays compensation if a firm is unable to meet its obligations. The FSCS funds compensation for customers by raising management expenses levies and compensation levies on the industry. In relation to protected deposits, each deposit-taking institution contributes towards these levies in proportion to their share of total protected deposits on 31 December of the year preceding the scheme year (which runs from 1 April to 31 March), subject to annual maxima set by the Prudential Regulation Authority. In addition, the FSCS has the power to raise levies on a firm that has ceased to participate in the scheme and is in the process of ceasing to be authorised for the costs that it would have been liable to pay had the FSCS made a levy in the financial year it ceased to be a participant in the scheme.

Litigation and regulatory matters

RBS plc and certain members of NatWest Group are party to legal proceedings and involved in regulatory matters, including as the subject of investigations and other regulatory and governmental action (Matters) in the United Kingdom (UK), the United States (US), the European Union (EU) and other jurisdictions.

NatWest Group recognises a provision for a liability in relation to these Matters when it is probable that an outflow of economic benefits will be required to settle an obligation resulting from past events, and a reliable estimate can be made of the amount of the obligation.

In many of these Matters, it is not possible to determine whether any loss is probable, or to estimate reliably the amount of any loss, either as a direct consequence of the relevant proceedings and regulatory matters or as a result of adverse impacts or restrictions on NatWest Group's reputation, businesses and operations. Numerous legal and factual issues may need to be resolved, including through potentially lengthy discovery and document production exercises and determination of important factual matters, and by addressing novel or unsettled legal questions relevant to the proceedings in question, before a liability can reasonably be estimated for any claim. NatWest Group cannot predict if, how, or when such claims will be resolved or what the eventual settlement, damages, fine, penalty or other relief, if any, may be, particularly for claims that are at an early stage in their development or where claimants seek substantial or indeterminate damages.

There are situations where NatWest Group may pursue an approach that in some instances leads to a settlement agreement. This may occur in order to avoid the expense, management distraction or reputational implications of continuing to contest liability, or in order to take account of the risks inherent in defending claims or regulatory matters, even for those Matters for which NatWest Group believes it has credible defences and should prevail on the merits. The uncertainties inherent in all such Matters affect the amount and timing of any potential outflows for both Matters with respect to which provisions have been established and other contingent liabilities. It is not practicable to provide an aggregate estimate of potential liability for our legal proceedings and regulatory matters as a class of contingent liabilities.

The future outflow of resources in respect of any Matter may ultimately prove to be substantially greater than or less than the aggregate provision that NatWest Group has recognised. Where (and as far as) liability cannot be reasonably estimated, no provision has been recognised. NatWest Group expects that in future periods additional provisions, settlement amounts and customer redress payments will be necessary, in amounts that are expected to be substantial in some instances. Please refer to Note 15 for information on material provisions.

We have provided information below 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 (including investigations and customer redress programmes)

NatWest Group's businesses and financial condition can be affected by the actions of various governmental and regulatory authorities in the UK, the US, the EU and elsewhere. NatWest Group has engaged, and will continue to engage, in discussions with relevant governmental and regulatory authorities, including in the UK, the US, the EU and elsewhere, on an ongoing and regular basis, and in response to informal and formal inquiries or investigations, regarding operational, systems and control evaluations and issues including those related to compliance with applicable laws and regulations, including consumer protection, investment advice, business conduct, competition/anti-trust, VAT recovery, anti-bribery, anti-money laundering and sanctions regimes.

Any matters discussed or identified during such discussions and inquiries may result in, among other things, further inquiry or investigation, other action being taken by governmental and regulatory authorities, increased costs being incurred by NatWest Group, remediation of systems and controls, public or private censure, restriction of NatWest Group's business activities and/or fines. Any of the events or circumstances mentioned in this paragraph or below could have a material adverse effect on RBS plc, its business, authorisations and licences, reputation, results of operations or the price of securities issued by it, or lead to material additional provisions being taken

RBS plc is co-operating fully with the matters described below.

20 Memorandum items continued

Litigation and regulatory matters

Investigations

FCA investigation into NatWest Group's compliance with the Money Laundering Regulations 2007

Following an FCA investigation, commenced in 2017, into potential breaches of the UK Money Laundering Regulations 2007 ('MLR 2007'), NWB Plc pled guilty in October 2021 to three offences under regulation 45(1) of the MLR 2007 for failure to comply with regulation 8(1) between 7 November 2013 and 23 June 2016, and regulations 8(3) and 14(1) between 8 November 2012 and 23 June 2016. These regulations required the firm to determine, conduct and demonstrate risk sensitive due diligence and ongoing monitoring of its relationships with its customers for the purposes of preventing money laundering. The offences relate to operational weaknesses between 2012 and 2016, during which period NWB Plc did not adequately monitor the accounts of a UK incorporated customer. In December 2021, NWB Plc was fined £264.8 million, incurred a confiscation order and was ordered to pay costs. This was met by NWB Plc from existing provisions, with a small additional provision taken in Q4 2021.

Systematic Anti-Money Laundering Programme assessment

In December 2018, the FCA commenced a Systematic Anti-Money Laundering Programme assessment of NatWest Group. In August 2019, the FCA instructed NatWest Group to appoint a Skilled Person under section 166 of the Financial Services and Markets Act 2000 to provide assurance on financial crime governance arrangements in relation to two financial crime change programmes. The Skilled Person's final report was received in January 2022.

Customer redress programmes

FCA review of NatWest Group's treatment of SMEs

In 2014, the FCA appointed an independent Skilled Person under section 166 of the Financial Services and Markets Act 2000 to review NatWest Group's treatment of SME customers whose relationship was managed by NatWest Group's Global Restructuring Group (GRG) in the period 1 January 2008 to 31 December 2013. In response to the Skilled Person's final report and update in 2016, NatWest Group announced redress steps for SME customers in the UK and the Republic of Ireland that were in GRG between 2008 and 2013. These steps were (i) an automatic refund of certain complex fees; and (ii) a new complaints process, overseen by an independent third party. Both processes have now been completed. Accordingly, NatWest Group retains only a small residual provision at December 2021.

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 now conducting additional review / remediation work.

21 Analysis of changes in financing during the year

	Share capital, share premium, and paid-in equity		Subordinated liabilities		MRELs	
	2021	2020	2021	2020	2021	2020
	£m	£m	£m	£m	£m	£m
At 1 January	989	989	1,464	1,469	397	396
Interest on subordinated liabilities			(70)	(75)		
Interest on MRELs					(16)	(17)
Net cash outflow from financing	—	—	(70)	(75)	(16)	(17)
Effects of foreign exchange			16	(46)	4	(13)
Changes in fair value of subordinated liabilities and MRELs			(53)	41	(14)	14
Interest on subordinated liabilities and MRELs			70	75	16	17
At 31 December	989	989	1,427	1,464	387	397

22 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.

	2021	2020
	£m	£m
At 1 January		
- cash	26,927	26,597
- cash equivalents	19,499	5,246
	46,426	31,843
Net increase in cash and cash equivalents	13,782	14,583
At 31 December	60,208	46,426
Comprising:		
Cash and balances at central banks	38,014	26,927
Net loans to banks including intragroup balances	22,194	19,499
Cash and cash equivalents	60,208	46,426

23 Directors' and key management remuneration

The composition of RBS plc's board of directors is aligned to its intermediate holding company NatWest Holdings Ltd. The directors are remunerated for their services to NatWest Group as a whole, and their remuneration cannot be apportioned in respect of their services to RBS plc.

The directors' emoluments in the table below represent the NWH Group emoluments of the directors.

Directors remuneration	2021 £000	2020 £000
Non-executive directors emoluments	**1,955**	2,078
Chairman and executive directors emoluments	**4,688**	4,349
	6,643	6,427
Amounts receivable under long-term incentive and share option plans	**549**	609
	7,192	7,036

The total emoluments and amounts receivable under long-term incentive plans and share option plans of the highest paid director were £2,808,000 (2020 - £2,561,000).

No directors accrued benefits under defined benefit schemes or defined contribution schemes during 2021. 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 2021 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:

	2021 £000	2020 £000
Short-term benefits	**15,604**	15,099
Post-employment benefits	**280**	363
Share-based payments	**1,967**	2,707
	17,851	18,169

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

24 Transactions with directors and key management

At 31 December 2021, amounts outstanding in relation to transactions, arrangements and agreements entered into by RBS plc, as defined in UK legislation, were £7,032,240 in respect of loans to eight persons who were directors of RBS plc at any time during the financial period.

For the purposes of IAS 24 Related party disclosures, key management comprises directors of RBS plc and members of RBS plc's Executive Committee. Amounts in the table below are attributed to each person at their highest level of NatWest Group key management.

	2021 £000	2020 £000
Loans to customers - amortised cost	**8,632**	5,105
Customer deposits	**45,719**	39,164

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.

25 Related parties

UK Government

The UK Government through HM Treasury is the ultimate controlling party of NatWest Group plc. The UK Government's shareholding is managed by UK Government Investments Limited, a company wholly owned by the UK Government. As a result, the UK Government and UK Government controlled bodies are related parties of the Group.

At 31 December 2021, HM Treasury's holding in NatWest Group's ordinary shares was 52.96%.

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 0.406% of their average eligible liabilities in excess of £600 million. RBS plc also has access to Bank of England reserve accounts: sterling current accounts that earn interest at the Bank of England base rate.

Other related parties

In its role as providers of finance, RBS plc provides development and other types of capital support to businesses. These investments are made in the normal course of business. In some instances, the investment may extend to ownership or control over 20% or more of the voting rights of the investee company. Other net income/(expenses) represents the share of post-tax results of associates and joint ventures, profit (or loss) on disposal of subsidiaries, associates and joint ventures, and gains on acquisitions.

The table below discloses transactions between RBS plc and fellow subsidiaries of NatWest Group.

	2021 £m	2020 £m
Interest receivable	**35**	47
Interest payable	**(60)**	(75)
Fees and commissions receivable	**1**	—
Fees and commissions payable	**(48)**	(21)
	(72)	(49)

26 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 2021, NatWest Group plc heads the largest group in which RBS plc is consolidated. 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, currently holds 52.96% of the issued ordinary share capital of the ultimate holding company and is therefore RBS plc's ultimate controlling party.

27 Post balance sheet events

There have been no other significant events between 31 December 2021 and the date of approval of these accounts which would require a change to or additional disclosure in the accounts.

28 Related undertakings

Legal entities and activities at 31 December 2021

In accordance with the Companies Act 2006, RBS plc's related undertakings and the accounting treatment for each are listed below. All undertakings are wholly-owned by RBS plc or subsidiaries of RBS plc and are consolidated in NatWest Group's accounts by reason of contractual control (Section 1162(2) CA 2006), unless otherwise indicated. RBS plc interest refers to ordinary shares of equal values and voting rights unless further analysis is provided in the notes. Activities are classified in accordance with Annex I to the Capital Requirements Directive (CRD IV) and the definitions in Article 4 of the Capital Requirements Regulation.

The following table details active related undertakings incorporated in the UK which are 100% owned by RBS plc and fully consolidated for accounting purposes

Entity Name	Activity	Regulatory treatment	Notes
The One Account Ltd	BF	FC	(1)

The following table details related undertakings that are dormant

Entity Name	Accounting treatment	Regulatory treatment	Group %	Notes
Adam & Company (Nominees) Ltd	FC	FC	100	(2)

The following table details active related undertakings incorporated in the UK where RBS plc ownership is less than 100%.

Entity Name	Activity	Accounting treatment	Regulatory treatment	Group %	Notes
Oaxaca Ltd	OTH	IA	IA	24	(3)

Key:
BF Banking and financial institution
FC Full consolidation

	Registered addresses	Country of incorporation
(1)	250 Bishopsgate, London, EC2M 4AA, England	UK
(2)	6-8 George Street, Edinburgh, EH2 2PF, Scotland	UK
(3)	5 Little Portland Street, London, W1W 7JD	UK