Royal Bank of Scotland

SC 083026

The Royal Bank of Scotland plc
Annual Report and Accounts 2019

Strategic report

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

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

Description of business
RBS Group structure
The UK ring-fencing legislation required the separation of essential banking services from investment banking services from 1 January 2019. RBS Group has placed the majority of the UK and Ireland banking business in ring-fenced banking entities under an intermediate holding company, NatWest Holdings Limited. (NWH Ltd). Some Western European corporate business has been transferred from the ring-fenced bank entities to NatWest Markets N.V., a subsidiary of NatWest Markets Plc (NWM Plc) and RBS Group continues to review the scope of further transfers. NWM Plc and RBS International Limited (RBSI Ltd) are separate banks outside the ring-fence, both subsidiaries of RBSG plc.

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

RBS Group re-segmentation
Effective from 1 January 2019, Business Banking has been transferred from UK Personal and Business Banking (UK PBB) to Commercial Banking as the nature of the business, including distribution channels, products and customers are more closely aligned to the Commercial Banking business. Concurrent with the transfer, UK PBB has been renamed UK Personal Banking and the previous franchise combining UK PBB and Ulster Bank RoI was renamed Personal & Ulster. Reportable segmental comparatives have been restated.

Franchises
In the fourth quarter of 2019, Commercial & Private Banking (CPB), combining the reportable segments of Commercial Banking and Private Banking ceased to operate as one business area and the franchise Personal & Ulster, combining the reportable segments of UK Personal Banking and Ulster Bank RoI was also disbanded. The reportable operating segments remain unchanged and no comparatives have been restated.

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:

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

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

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

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

Performance overview
The profit for 2019 was £660 million, compared with profit for 2018 of £702 million. 2019 reflects a full twelve month period of the personal and commercial banking business transferred in under ring-fencing related transfers, compared to eight months of that business in 2018.The additional profit from that business was more than offset by a PPI conduct charge of £296 million.

The operating profit before tax of £998 million includes £257 million relating to UK Personal Banking, £673 million relating to Commercial Banking, with UK Personal Banking reflecting the PPI charge. There was continued margin pressure through mortgages and the flattening yield curve impact on deposit margins.

The additional four months of business increased total income to £2,379 million in 2019 compared to £1,755 million in 2018. However, the underlying income trend was downward due to decreases in income earning assets from the run-off of direct mortgage portfolios in UK Personal Banking and the transfer of Commercial Banking customers to NatWest Bank Plc. The additional four months of business and the PPI charge also increased operating expenses to £1,174 million in 2019 from £755 million in 2018.

The CET1 capital ratio remained at 13.2% reflecting the attributable profit and a decrease in RWA's, offset by a dividend paid to the entity's parent during the year and a £800 million foreseeable ordinary dividend accrual.

Stakeholder engagement and s.172(1) statement

Stakeholder engagement and s.172(1) statement
The Board objectives, approved in February 2019, identified the Board's key stakeholders (as set out in this statement). During 2019 the Board undertook a variety of activities to engage with stakeholders and bring their voice into the boardroom. Details are set out below, together with additional information on related engagement activities undertaken within RBS Group which impacted RBS plc.

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

Board training and support on s.172 duties
Directors are supported in the discharge of their duties by the Company Secretary. All directors receive guidance on their statutory duties including Section 172 and were briefed on the reporting requirements introduced by the Companies (Miscellaneous Reporting) Regulations 2018 in advance of the effective date. A new approach to Board and committee papers has been introduced with greater focus on ensuring relevant stakeholder interests are clearly articulated; and guidance on documenting decisions has been refreshed to ensure these are recorded in a consistent manner across RBS Group.

Customers
Customers are at the heart of everything RBS plc does. During the year the Board received updates on key customer issues through customer service performance updates and regular business reviews. There was also a dedicated Board session on the Retail Banking environment. The directors met a range of business and personal customers during a programme of visits in September 2019, which provided an opportunity to gain insights into customer issues and challenges. The Chairman and Chief Executive Officer have regular meetings with customers to enhance relationships and understand their views.

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

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

During 2019 the Board engaged with colleagues during a number of Board and committee visits to businesses and functions and there was also a Meet the Board event for colleagues.

The Colleague Advisory Panel (CAP), established in 2018, met twice during 2019, providing a valuable mechanism for directors to engage directly with colleagues on topics of strategic interest affecting RBS Group and the workforce; and offering colleagues a greater understanding of the Board's role. A number of directors attended CAP meetings during the year and discussion topics included Purpose, future strategy, executive pay, inclusion and sustainability. Outputs were reported to the Board and have influenced the Board's consideration of these topics.

Engaging colleagues
Every year colleagues are asked to share their thoughts on what it's like to work for RBS Group via a colleague opinion survey. The results from the 2019 survey, which were considered by the Board in October 2019, showed a further improvement in colleague sentiment and demonstrate that the culture of RBS Group is changing for the better. Key measures of engagement, leadership and culture have increased further, and RBS Group is above the global financial services norm in all comparable survey categories.

The colleague opinion survey results were one culture oversight tool available to the Board and the Board also listened to colleague views during the process of establishing RBS Group's Purpose. The continued strengthening of RBS Group's culture was also echoed in this year's improved Banking Standards Board annual assessment of culture in the UK banking sector, which was also considered by the Board and provides further proof of progress across a range of measures.

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

Speak Up
Where colleagues wish to report any concerns relating to wrong doing or misconduct, one of the ways they can do this is by raising their concerns via Speak Up, RBS Group's whistleblowing service. The 2019 colleague opinion survey showed the highest ever score when asking colleagues if they feel safe to speak up, as well as an understanding the process of how they do that. In 2019, 458 cases were raised across RBS Group, compared to 480 in 2018.

Developing colleagues
Culturally, becoming a learning organisation is a strategic priority. Focus has been on preparing colleagues for the future with broader development focused on key Critical People Capabilities. In 2019 RBS Group created an Agile Capability Hub, providing learning content to support colleagues to confidently engage in new ways of working. This year, RBS Group was also the first UK retail bank to launch a Data Academy, to nurture and grow data expertise, innovation, and collaboration. More information can be found in the 2019 Annual Report and Accounts of RBSG plc and on rbs.com.

Investing in colleagues
RBS Group has also transformed colleagues' experience by deploying new digital tools. Workday was implemented as a new digital HR platform in November 2019 and includes a mobile app, giving colleagues an experience on par with the digital experience customers enjoy. ServiceNow was extended to improve how RBS Group responds to colleagues' queries, and an expanded HR chat bot has helped over 50,000 colleagues to answer their basic queries. These enhancements are enabling RBS Group to respond to the evolving world of work and needs of its colleagues.

Health and wellbeing of colleagues
As a strong component of making RBS Group a great place to work, wellbeing initiatives have been successfully delivered against four pillars; Physical, Mental, Social and Financial Wellbeing. Further details can be found in the 2019 Annual Report and Accounts of RBSG plc and on rbs.com.

Inclusion
RBS Group is proud to be building an inclusive bank which is a great place for all colleagues to work. RBS Group's inclusion guidelines apply to all colleagues globally and focus on five key priorities - LGBT Innovative, Gender Balanced, Disability Smart, Ethnically Diverse, all leading to Inclusive Culture. Detailed information can be found in the 2019 Annual Report and Accounts of RBSG plc and on rbs.com.

RBS Group has been recognised for work on Equality, Diversity and Inclusion in 2019 by retaining position in the Times Top 50 Employers for Women; being recognised again as a Top 10 Employer for Working Families; being Exemplary Level in the Scottish Carer Positive Campaign; being a Top Global Stonewall employer; being a Top Ten Employer in the Investing in Ethnicity Maturity Matrix; and rated as Gold in the Business Disability Forum benchmark.

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

Stakeholder engagement and s.172(1) statement

Regulators

The Board recognises the importance of open and continuous dialogue with regulators. Representatives from the Financial Conduct Authority (FCA) attended the February 2019 Board meeting to present and discuss their annual Firm Evaluation letter. The Prudential Regulation Authority (PRA) conducted a Board effectiveness review in 2019, which included attendance at the October 2019 Board meeting and meetings with directors. The Chairman and executive directors have regular meetings with both the FCA and PRA. In addition, individual directors engage regularly with regulators through Continuous Assessment and Proactive Engagement meetings.

Suppliers

The Board recognises the key role suppliers play in ensuring RBS plc delivers a reliable service to customers. In October the Board held a suppliers' spotlight session, which included an overview of RBS Group's key suppliers and provided insights on the approach towards managing supplier relationships, including payment practices. The directors discussed the future approach to suppliers and the changing regulatory landscape in relation to outsourcing. Meetings with key suppliers in September 2019 provided a first hand opportunity for directors to hear directly from strategic partners and to discuss current challenges.

Community and environment

RBS plc is committed to managing the wider social, environmental and economic impacts of its operations which includes the way it deals with its customers and manages sustainability issues in its supply chain. Refer to rbs.com for RBS Group's Modern Slavery Statement and details of the Supplier Code of Conduct, both of which apply to RBS plc. It is recognised by the Board that climate change must have greater prominence at both senior management and board levels across RBS Group, including RBS plc. Further details on RBS Group's response to climate change can be found within the 2019 Annual Report and Accounts of RBSG plc.

How stakeholder interests have influenced decision-making

RBS plc recognises the importance of engaging with stakeholders to help inform strategy and Board decision-making. Relevant stakeholder interests, including those of employees, suppliers, customers and others are taken into account by the Board when it takes decisions.

RBS plc defines principal decisions as those that are material, or of strategic importance, to RBS plc, and also those that are significant to any of its key stakeholder groups. In making its decisions, the Board considers the outcomes of relevant stakeholder engagement as well as the need to maintain a reputation for high standards of business conduct, and to consider the long-term consequences of its decisions. The appointment of a new Chief Executive Officer in 2019 provides one example of how stakeholder interests were considered in a principal decision made by the Board.

Appointment of Chief Executive Officer

In 2019 the Board approved the appointment of Alison Rose as Chief Executive Officer with effect from 1 November 2019. From the outset, the Board placed stakeholder interests at the core of its objectives in the search for Ross McEwan's successor.

The Nominations Committee, on behalf of the Board, agreed a role specification which required candidates to demonstrate broad and authoritative banking and strategic experience that would serve to deliver long term sustainable growth to the business for the benefit of its shareholders and wider stakeholders. A rigorous search process was undertaken, involving the consideration of both internal and external candidates. Alison Rose was identified as the strongest candidate on the basis of the role specification criteria.

In reaching its decision, the interests of RBS plc customers were a key focus for the Board, particularly each candidate's ability to lead a business that would be recognised as truly customer centric. The Board ensured that colleague interests were taken into account when agreeing the critical capabilities used to assess potential candidates. These required candidates to demonstrate the strong ethical and moral principles needed to lead the culture and values of RBS Group. The Board ensured that relevant regulators, another of its key stakeholder groups, were kept regularly apprised of progress during the search.

The Board will continue to ensure that its nominations process is based on the principles of fairness, respect and inclusion and that all nominations and appointments are made on the basis of individual competence, skills and expertise measured against identified objective criteria and taking into account a broad range of stakeholder interests.

Further details on how RBS Group engages with its stakeholders can be found in the 2019 Annual Report and Accounts of RBSG plc and on rbs.com.

Board of directors and secretary

Approval of Strategic report
The Strategic report for the year ended 31 December 2019 set out on pages to was approved by the Board of directors on 13 February 2020.

Jan Cargill

By order of the Board
Jan Cargill
Company Secretary
13 February 2020

Chairman
Howard Davies

Executive directors
Alison Rose
Katie Murray

Non-executive directors

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

Chairman
Howard Davies
Nominations (Chairman)

Executive directors
Alison Rose (appointed 1 November 2019)
ExCo (Chairman)

Katie Murray (appointed 1 January 2019)
ExCo

Independent non-executive directors
Francesca Barnes

Graham Beale
Senior Independent Director
Audit, Nominations, Risk

Ian Cormack
Audit, Remuneration, Risk (Deputy Chairman)

Alison Davis
Remuneration

Patrick Flynn
Audit (Chairman), Nominations, Risk

Morten Friis
Audit, Risk

Robert Gillespie
Remuneration (Chairman), Nominations, Risk

Yasmin Jetha
Remuneration

Baroness Noakes
Risk (Chairman), Audit, Nominations

Mike Rogers
Remuneration

Mark Seligman
Audit, Nominations, Remuneration

Lena Wilson

Chief Governance Officer and Company Secretary
Jan Cargill (appointed 5 August 2019)

Other board changes in 2019
Aileen Taylor (company secretary) resigned on 5 August 2019
Ross McEwan (executive director) resigned on 31 October 2019

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

Key:

Audit	member of the Audit Committee
ExCo	member of the Executive 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 2019

	UK Personal Banking	Commercial Banking	Private Banking	Central items & other	31 December 2019	31 December 2018	Variance	
	£m	£m	£m	£m	£m	£m	£m	%
Net interest income	910	905	28	(5)	1,838	1,300	*538*	*41*
Non-interest income	156	301	10	74	541	455	*86*	*19*
Total income	1,066	1,206	38	69	2,379	1,755	*624*	*36*
Operating expenses	(746)	(390)	(38)	—	(1,174)	(755)	*(419)*	*55*
Profit/(loss) before impairment losses	320	816	—	69	1,205	1,000	*205*	*20*
Impairment losses	(63)	(143)	—	(1)	(207)	(24)	*(183)*	*nm*
Operating profit/(loss)	257	673	—	68	998	976	*22*	*2*
Tax charge					(338)	(274)	*(64)*	*23*
Profit for the year					660	702	*(42)*	*(6)*

Key metrics and ratios			
Cost:income ratio (%)	49.3	43.0	6.3
Loan impairment expected credit loss rate (bps)	37.4	3.8	33.6
CET 1 ratio (%)	13.2	13.2	—
Leverage ratio (%)	5.3	5.6	(0.3)
Risk weighted assets (£bn)	28.9	34.5	(5.6)
Loan:deposit ratio (%)	72	81	(9)

The profit for 2019 was £660 million, compared with profit for 2018 of £702 million. 2019 reflects a full twelve month period of the personal and commercial banking business transferred in under ring-fencing related transfers, compared to eight months of that business in 2018.The additional profit from that business was more than offset by a PPI conduct charge of £296 million.

The operating profit before tax of £998 million includes £257 million relating to UK Personal Banking, £673 million relating to Commercial Banking, with UK Personal Banking reflecting the PPI charge and both operating segments reflecting steady margins achieved in a competitive market, against a difficult economic background. There was continued margin pressure through mortgages and the flattening yield curve impact on deposit margins.

The additional four months of business increased total income to £2,379 million in 2019 compared to £1,755 million in 2018. However, the underlying income trend in RBS plc was downward due to decreases in income earning assets from the run-off of direct mortgage portfolios in UK Personal Banking and the transfer of Commercial Banking customers to NatWest Bank Plc. The additional four months of business and the PPI charge also increased operating expenses to £1,174 million in 2019 from £755 million in 2018.

Net interest income increased by £538 million to £1,838 million compared with £1,300 million in 2018, due to the additional four months of business in 2019, partially offset by the impact of reduced income earning assets.

Non-interest income increased by £86 million to £541 million compared with £455 million in 2018, due to the additional four months of business in 2019, partially offset by fair value losses from hedging activity, within other operating income.

Operating expenses increased by £419 million, to £1,174 million, compared with £755 million in 2018. This increase reflects the additional four months of business in 2019, as well as the PPI charge of £296 million.

Impairment losses were £207 million up from £24 million in 2018, primarily reflecting a small number of large individual commercial charges as well as the transition from a very benign period towards a more normalised external credit environment. The credit loss rate at 37 basis points was within RBS plc's view of a normalised blended long-term loss rate of 30 -40 basis points.

Tax charge increased by £64 million to £338 million compared to £274 million in 2018, primarily reflecting the impact of the PPI charge which is treated as a non-deductible tax item.

Financial review

Summary balance sheet as at 31 December 2019

	2019 £m	2018 £m	Variance £m
Assets			
Cash and balances at central banks	26,597	21,650	*4,947*
Loans to banks - amortised cost	1,561	2,344	*(783)*
Loans to customers - amortised cost	53,493	60,521	*(7,028)*
Amounts due from holding companies and fellow subsidiaries	7,713	8,917	*(1,204)*
Other assets	1,238	1,065	*173*
Total assets	90,602	94,497	*(3,895)*
Liabilities			
Bank deposits	1,206	1,217	*(11)*
Customer deposits	74,813	75,024	*(211)*
Amounts due to holding companies and fellow subsidiaries	5,143	7,167	*(2,024)*
Other financial liabilities	810	883	*(73)*
Notes in circulation	1,267	1,286	*(19)*
Other liabilities	1,389	1,359	*30*
Total liabilities	84,628	86,936	*(2,308)*
Total equity	5,974	7,561	*(1,587)*
Total liabilities and equity	90,602	94,497	*(3,895)*

Total assets decreased by £3.9 billion to £90.6 billion at 31 December 2019, compared with £94.5 billion at 31 December 2018, reflecting ongoing shrinkage of the RBS plc balance sheet due to run-off of mortgage portfolios and commercial customer transfers to NatWest Bank Plc.

Cash and balances at central banks of £26.6 billion represent placement of surplus funds with the Bank of England of £24.4 billion, £1.5 billion of cash with the central bank backing the RBS plc bank note issuance and £0.7 billion of cash held at branches. The surplus funds placed have increased by £5.0 billion in 2019, generated by a reduction in lending activity.

Loans to customers – amortised cost decreased by £7.0 billion to £53.5 billion, compared with £60.5 billion at 31 December 2018. UK Personal Banking lending decreased by £3.0 billion due to the run-off of direct mortgage portfolios. Commercial Banking lending decreased by £4.0 billion due to customer transfers to NatWest Bank Plc and the run-off of legacy portfolios.

Amounts due from holding companies and fellow subsidiaries of £7.7 billion reflects surplus funds placed on a short term basis with NatWest Bank Plc and its subsidiaries. The decrease from £8.9 billion in 2018 was due to ongoing simplification of inter-group funding arrangements.

Customer deposits decreased by £0.2 billion to £74.8 billion. This was driven by a decrease in Commercial Banking deposits of £1.0 billion due to customer transfers to NatWest Bank Plc, partially offset by an increase in UK Personal Banking deposits of £0.7 billion resulting from sales initiatives.

Amounts due to holding companies and fellow subsidiaries of £5.1 billion includes short term deposits from other entities in RBS Group and the Tier 2 issuances to NWH Ltd of £1.4 billion. The decrease from £7.2 billion in 2018 is due to ongoing simplification of inter-group funding arrangements.

Other financial liabilities of £0.8 billion mainly consists of derivative instruments with fellow subsidiaries.

Notes in circulation of £1.3 billion represent the value of Royal Bank of Scotland banknotes in issue.

Other liabilities include tax liabilities and financial guarantees of £0.4 billion together with provisions for liabilities and charges which reflect legacy provisions, primarily in relation to PPI (£0.4 billion).

Total equity decreased by £1.6 billion to £6.0 billion, compared with £7.6 billion at 31 December 2018. The decrease reflects the distributions in the period of £2.5 billion, partially offset by attributable profits of £0.6 billion and increased cashflow hedging reserves of £0.2 billion.

Capital and Risk Management

Presentation of information

Where indicated in the section headers, information in the Capital and risk management section (pages 7 to 54) is within the scope of the Independent auditor's report. Where a main section header, presented in bold, is marked as audited, all subsequent sub sections are also audited, the end of the audited section is marked by Δ. Unless otherwise indicated, disclosures in this section include disposal groups in relevant exposures and measures. Capital and risk management are generally conducted on an overall basis within RBS Group such that common policies, procedures, frameworks and models apply across RBS Group, therefore, where appropriate, further information on risk management practices and methodologies may be found in the RBS Group Annual Report and Accounts.

Risk management framework

Introduction

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

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

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

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

During 2019, a number of enhancements to the RBS Group risk management framework were developed. The increasing significance of climate risk was considered as part of these developments and will be fully integrated as part of the implementation of the enhanced framework in 2020.

Risk culture

Risk culture is at the centre of both the risk management framework and risk management practice. The target culture across RBS plc is one in which risk is part of the way employees work and think. The target risk culture behaviours are aligned to RBS plc's core values. They are embedded in Our Standards and therefore form an effective basis for risk culture since these are used for performance management, recruitment and development. For further information on risk culture, refer to page 112 of the RBS Group Annual Report and Accounts.

Training

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

Code of Conduct

A Code of Conduct is in place across all entities within RBS Group. It provides guidance on the behaviour expected of employees and describes the principles that must be followed. For further information on the Code of Conduct, refer to page 112 of the RBS Group Annual Report and Accounts.

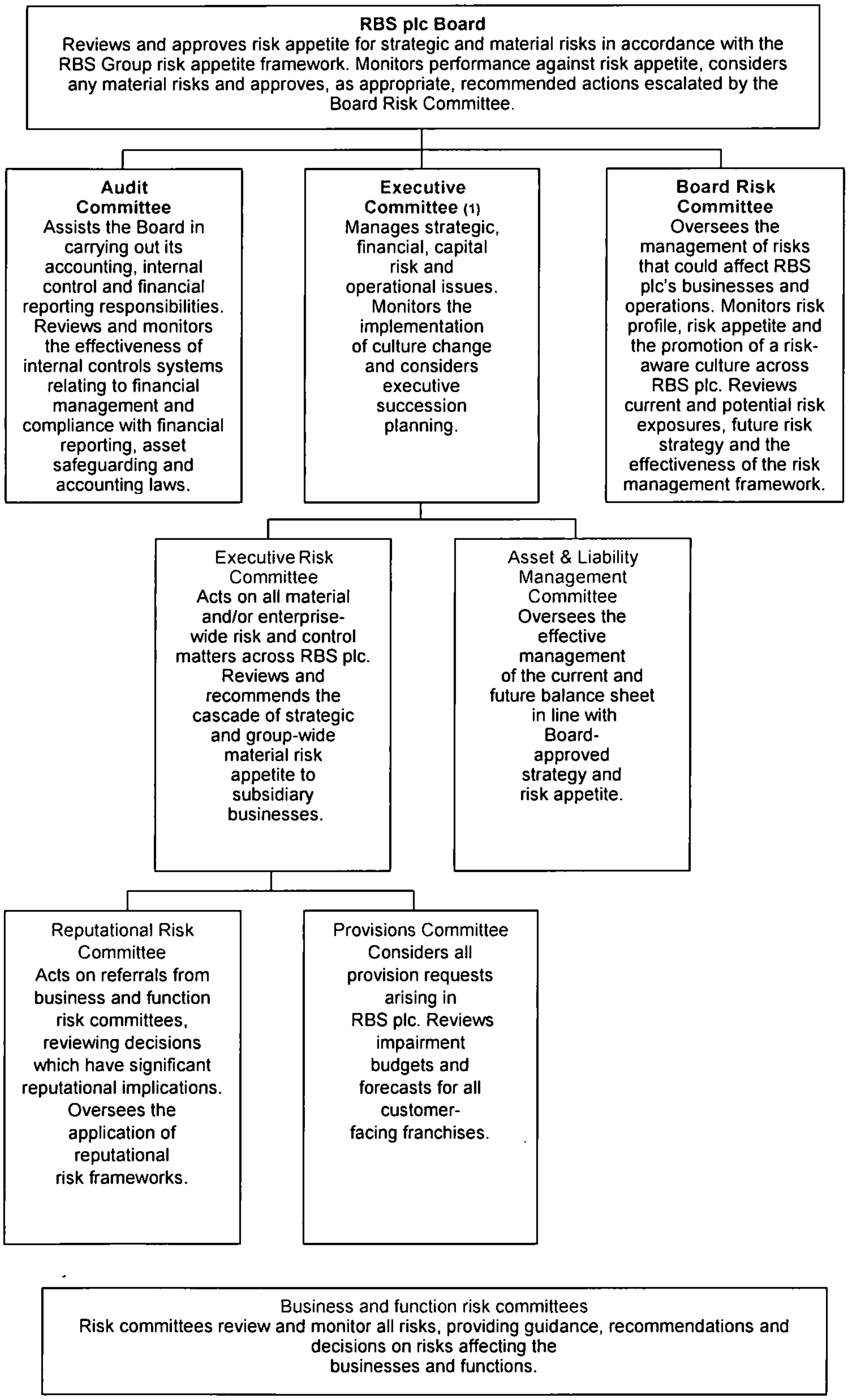
Capital and risk management

Risk management framework continued

Risk governance

Committee structure

The diagram illustrates RBS plc's risk committee structure in 2019 and the main purposes of each committee.



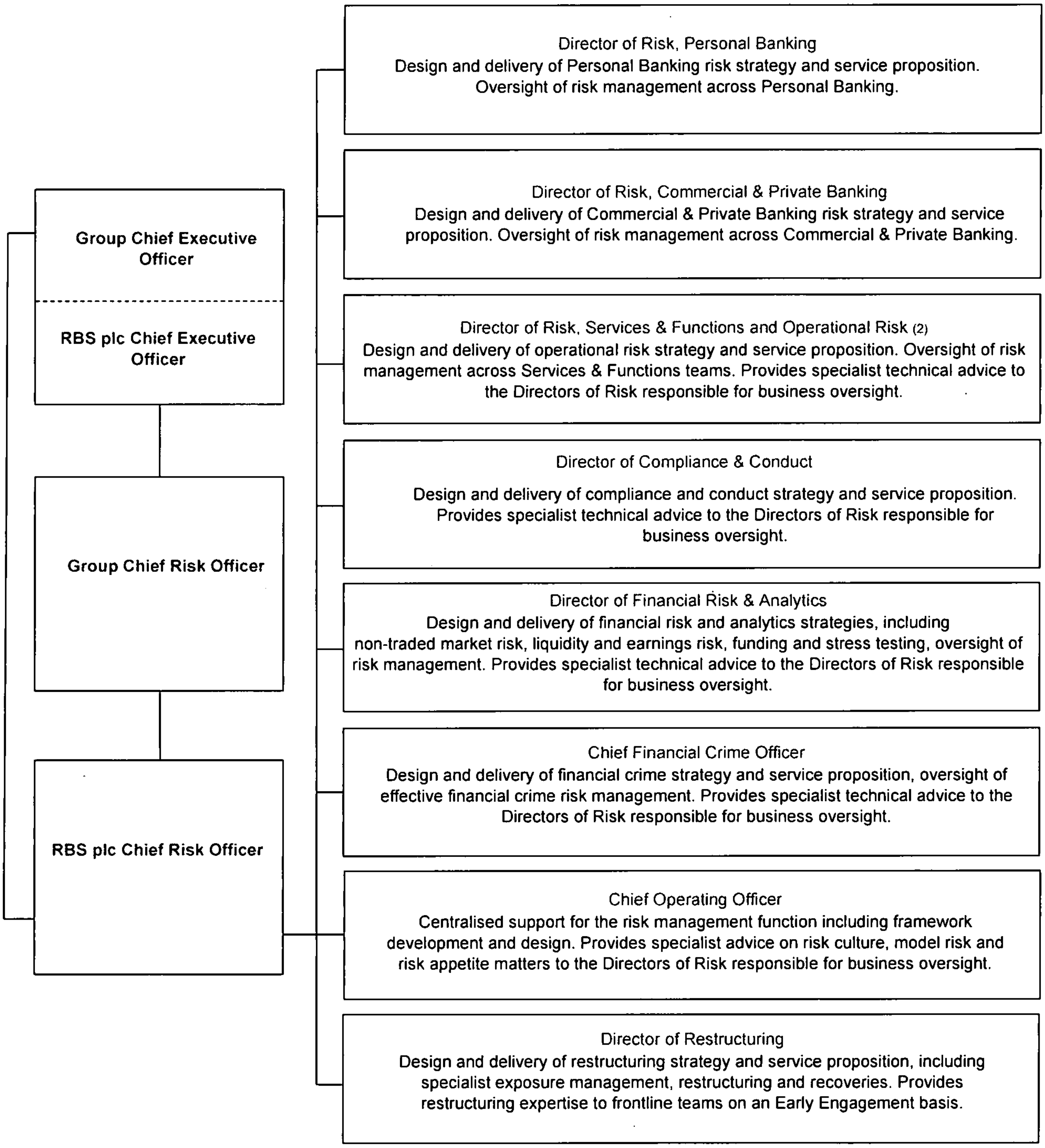
Note:
(1) Operated as a Board Committee during 2019.

Capital and risk management

Risk management framework continued

Risk management structure

The diagram illustrates RBS plc's risk management structure in 2019 and key risk management responsibilities.



Notes:

(1) The RBS plc Chief Risk Officer reports directly to the RBS plc Chief Executive Officer (who is also the Group Chief Executive Officer, RBS Group) and to the Group Chief Risk Officer, RBS Group. There is a further secondary reporting line to the chair of the RBS plc Board Risk Committee and a right of access to the committee, including the deputy chair. The members of the committee mirror those of the NWH Group Board Risk Committee.

(2) As of January 2020, the Director of Risk, Commercial & Private Banking role was split into two roles (Director of Risk, Commercial Banking and Director of Risk, Private Banking).

(3) The Risk function is independent of the 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.

Risk management framework continued

Three lines of defence

The three lines of defence model is used across the RBS Group to articulate accountabilities and responsibilities for managing risk. The first line is accountable for managing its own risks within the appetite set by the Board. It incorporates most roles in RBS Group – including those in the customer-facing franchises, Technology and Services as well as support functions such as Human Resources, Legal and Finance. The second line – which is responsible for the design and maintenance of the risk management framework and proactive oversight as well as advising, monitoring, approving, challenging and reporting on the first line's risk-taking activities – is the Risk function. The third line of defence is Internal Audit, which provides assurance to the Group Audit Committee on the appropriateness of the design and operational effectiveness of governance, risk management and internal controls to monitor and mitigate material risks. All roles, except for that of CEO, sit within one of these three lines. For further details see page 115 of the RBSG plc Annual Report & Accounts.

Risk appetite

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

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

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

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

RBS plc's risk profile is frequently reviewed and monitored and management focus is concentrated on all strategic risks, material risks and emerging risk issues. Risk profile relative to risk appetite is reported regularly to the Board and senior management. For further information on risk appetite, refer to page 115 of the RBS Group Annual Report and Accounts.

Risk controls and limits

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

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

Risk identification and measurement

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

Risk treatment and mitigation

Risk treatment and mitigation is an important aspect of ensuring that risk profile remains within risk appetite. Risk mitigation strategies are discussed and agreed with the businesses.

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

Risk testing and monitoring

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

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

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

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

Stress testing

Stress testing – capital management

Stress testing is a key risk management tool and a fundamental component of RBS 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 RBS Group, including its capital position.

Capital and risk management

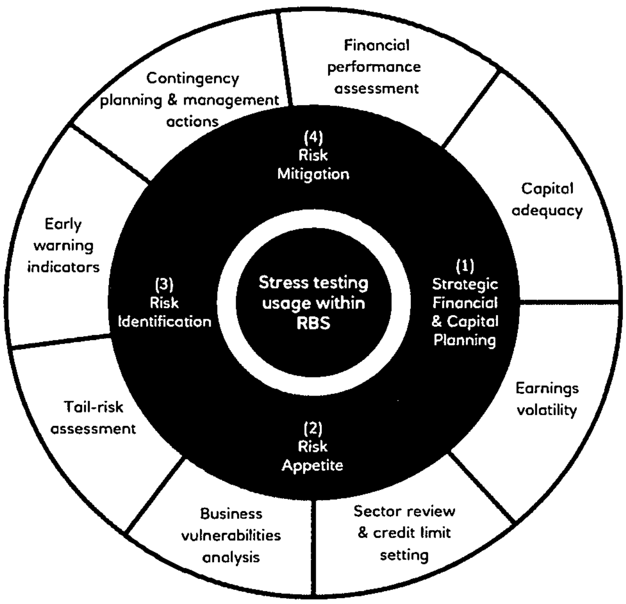
Risk management framework continued
Stress testing includes:

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

Stress testing is used widely across RBS Group. The diagram below summarises 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 identification* – by better understanding the risks that could potentially affect RBS 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 RBS Group's recovery plan.

Reverse stress testing is also carried out in order to identify circumstances that may lead to specific, defined outcomes such as business failure. Reverse stress testing allows potential vulnerabilities in the business model to be examined more fully.

Capital sufficiency – going concern forward-looking view
Going concern capital requirements are examined on a forward-looking basis – including as part of the annual budgeting process – by assessing the resilience of capital adequacy and leverage ratios under hypothetical future states. These assessments include assumptions about regulatory and accounting factors (such as IFRS 9). They are linked to economic variables and impairments and seek to demonstrate that RBS Group and its operating subsidiaries maintain sufficient CET1 capital. A range of future states are tested. In particular, capital requirements are assessed:

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

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

The examination of capital requirements under adverse economic and market conditions is assessed through stress testing. The results of stress tests are not only used widely across RBS Group but also by the regulators to set specific capital buffers. RBS Group takes part in stress tests run by regulatory authorities to test industry-wide vulnerabilities under crystallising global and domestic systemic risks. In 2019, RBS Group took part in the Bank of England stress test exercise.

Stress and peak-to-trough movements are used to help assess the amount of CET1 capital RBS 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 RBS Group's specific capital requirements through the Pillar 2 framework.

Capital and risk management

Risk management framework continued

Capital allocation

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

Governance

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

Stress testing – liquidity

Liquidity risk monitoring and contingency planning

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

Internal assessment of liquidity

Under the liquidity risk management framework, RBS Group maintains the Individual Liquidity Adequacy Assessment Process. This includes assessment of net stressed liquidity outflows under a range of extreme but plausible stress scenarios detailed in the table below.

Type	Description
Idiosyncratic scenario	The market perceives RBS 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. RBS 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.

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

Stress testing – recovery and resolution planning

The RBS Group recovery plan explains how RBS 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 RBS Group to maintain critical services and products it provides to its customers, maintain its core business lines and operate within risk appetite while restoring RBS 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 the RBS Group and individual legal entity recovery plans. The fire drills are designed to replicate possible financial stress conditions and allow senior management to rehearse the responses and decisions that may be required in an actual stress. The results and lessons learnt from the fire drills are used to enhance RBS Group's approach to recovery planning.

Under the resolution assessment part of the PRA rulebook, RBS 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. The initial report submission to the PRA is in Q4 2020. RBS Group has a programme of work in place to carry out these requirements.

Resolution would be implemented if RBS 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 as part of the Stress Testing Data Framework. This provides the regulator with an overview of RBS Group's banking book interest rate exposure. The report includes detailed product information analysed by interest rate driver and other characteristics – including accounting classification, currency and, counterparty type.

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

Non-traded exposures are capitalised through the ICAAP. It covers gap risk, basis risk, credit spread risk, pipeline risk, structural foreign exchange risk, prepayment 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 99% confidence level. Methodologies are reviewed by RBS Group Model Risk and the results are approved by the Capital Management & Stress Testing Committee.

Capital and risk management

Capital, liquidity and funding risk

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.

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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.

Minimum requirement for own funds and eligible liabilities (MREL)

In addition to capital, other specific loss absorbing instruments, including senior notes issued by RBS, may be used to cover certain gone concern capital requirements which, in the EU, 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 Domestic Liquidity Sub- Group (UK DoLSub), which is regulated by the PRA and comprises NWH Group's four licensed deposit taking UK banks: The Royal Bank of Scotland plc, National Westminster Bank Plc, Coutts & Company and Ulster Bank Limited. NWH Group maintains a prudent approach to the definition of liquidity resources. NWH Group manages its liquidity to ensure it is always available when and where required, taking into account regulatory, legal and other constraints.

Liquidity resources of the UK DoLSub are divided into primary and secondary liquidity as follows:

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

Funding

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

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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 significant subsidiaries of the RBS Group. The RBS Group itself is monitored and reported on a consolidated basis.

For disclosure purposes, significant subsidiaries are determined with reference to RBS Group RWAs, using 5% as the threshold. The significant legal entities in the RBS Group are National Westminster Bank Plc (NWB Plc), the Royal Bank of Scotland plc (RBS plc), NatWest Markets Plc (NWM Plc) and Ulster Bank Ireland DAC (UBI DAC).

Key developments in 2019

13.2% CET1 ratio

- The CET1 ratio remained 13.2% reflecting attributable profit and a decrease in RWAs offset by a dividend paid to the entity's parent and an £800 million foreseeable ordinary dividend accrual.
- During 2019 RWAs decreased by £5.6 billion primarily due to decreased asset size due to repayments and the transfer out of lending portfolios to NWB plc.

5.3% leverage ratio

- The leverage ratio on a PRA transitional basis reduced from 5.6% to 5.3% primarily as a result of lower Tier 1 capital partially offset by decreased balance sheet and undrawn commitment exposures.

Liquidity position:

- RBS plc's liquidity risk is managed as part of the UK DoLSub. The UK DoLSub's liquidity portfolio was £161 billion at 31 December 2019 (2018 - £163 billion), comprising primary liquidity of £87 billion (2018 - £93 billion) and secondary liquidity of £73 billion (2018 - £70 billion). The reduction in primary liquidity is mainly due to reduced customer surplus within NatWest Holdings and Term Funding Scheme (TFS) repayment, partially offset with increased net term issuance.

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 the RBS Group level. It is enacted through an RBS 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 and risk management

Capital, liquidity and funding risk continued

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

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, it's 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 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 the RBS 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 RBS 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.

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)	0.9%	0.9%	0.9%
Total (2)	7.9%	9.4%	11.4%

Notes:

(1) The countercyclical capital buffer (CCyB) applied to UK designated assets is set by the Financial Policy Committee (FPC). The UK CCyB is currently 1.0% increasing to 2.0%, effective December 2020. Firm specific CCyB is based on a weighted average at CCyB rates applicable to countries in which the Bank has exposures.

(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

The CRR2 amendments to the CRR will introduce a binding 3% Tier 1 minimum capital leverage ratio for individual regulated legal entities, including RBS plc, from 28 June 2021.

Liquidity and funding ratios

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

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

Note:

(1) The CRR2 amendments to the CRR will introduce a binding NSFR requirement from 28 June 2021.

Capital and risk management

Capital, liquidity and funding risk continued

Measurement

Capital, RWAs and leverage

The table below sets out the key Capital and Leverage ratios. Refer to Note 20 of the consolidated accounts for a more detailed breakdown of regulatory capital.

	2019	2018
Capital (1)	£m	£m
CET1	3,828	4,569
Tier 1	4,797	5,538
Total	6,199	6,984
RWAs		
Credit risk	23,191	28,683
Counterparty credit risk	—	—
Market risk	15	23
Operational risk	5,714	5,819
Total RWAs	28,920	34,525
Risk asset ratios	%	%
CET1	13.2	13.2
Tier 1	16.6	16.0
Total	21.4	20.2
Leverage		
Tier 1 capital (£m)	4,797	5,538
Leverage exposure (£m)	90,981	98,264
Leverage ratio (%)	5.3	5.6

Note:

(1) CRR as implemented by the Prudential Regulation Authority in the UK, with effect from 1 January 2014.
From 1 January 2015, UK banks have been required to meet at least 56% of its Pillar 2A capital requirement with CET1 capital and the balance with Additional Tier 1 and/or Tier 2 capital. The Pillar 2A capital requirement is the additional capital that RBS must hold, in addition to meeting its Pillar 1 requirements in order to comply with the PRA's overall financial adequacy rule.

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.

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

2018	
Liquidity coverage ratio (1)	153%
Stressed outflow coverage (2)	147%
Net stable funding ratio (3)	142%

Notes:

(1) The published LCR excludes Pillar 2 add-ons. RBS 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. Note that a methodology change was applied to the Stressed Outflow Coverage calculation during 2019 to incorporate all intra-group cashflows for the UK DoLSub. This resulted in a 5% reduction in the Stressed Outflow Coverage ratio for UK DoLSub at FY19.

(3) The CRR2 amendments to the CRR will introduce a binding NSFR requirement from 28 June 2021.

Capital and risk management

Capital, liquidity and funding risk continued

Leverage exposure

The leverage exposure is based on the CRR Delegated Act.

Leverage	2019 £m	2018 £m
Cash and balances at central banks	26,597	21,650
Derivatives	366	114
Other financial assets	62,767	71,779
Other assets	872	954
Total assets	90,602	94,497
Derivatives		
- netting and variation margin	—	(10)
- potential future exposures	299	277
Securities financing transactions gross up	—	—
Undrawn commitments	8,766	11,409
Regulatory deductions and other adjustments	(377)	(222)
Exclusion of core UK-group exposures	(8,309)	(7,687)
Leverage exposure	90,981	98,264

Liquidity portfolio

The table below shows the liquidity portfolio by product, with primary liquidity aligned to internal stressed outflow coverage and regulatory 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 stressed outflow purposes. Liquidity for RBS is managed and regulated as part of the UK DoLSub. NWB Plc manages the majority of the UK DoLSub's portfolio under the control of the RBS Treasurer.

	2019		2018	
	UK DoLSub (1) £m	RBS plc £m	UK DoLSub (1) £m	RBS plc £m
Cash and balances at central banks	51,080	24,629	63,951	19,615
AAA to AA- rated governments	34,585	—	27,603	—
A+ and lower rated governments	—	—	—	—
Government guaranteed issuers, PSEs and GSEs	90	—	100	—
International Organisations and MDBs	1,717	—	1,437	—
Level 1 Bonds	36,392	—	29,140	—
LCR Level 1 Eligible Assets	87,472	24,629	93,091	19,615
LCR Level 2 Eligible Assets	—	—	—	—
Non-LCR Eligible Assets	—	—	—	—
Primary liquidity	87,472	24,629	93,091	19,615
Secondary liquidity (2)	73,332	11,243	69,642	15,026
Total liquidity value	160,804	35,872	162,733	34,641

Notes:

(1) UK DoLSub comprises RBS Group's four licensed deposit-taking UK banks: National Westminster Bank Plc, The Royal Bank of Scotland plc, Coutts and Company and Ulster Bank Limited.

(2) Comprises assets eligible to 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.

	2019 Short-term less than 1 year £m	2019 Long-term more than 1 year £m	2019 Total £m	2018 Short-term less than 1 year £m	2018 Long-term more than 1 year £m	2018 Total £m
Bank deposits	1,206	—	1,206	1,157	60	1,217
Customer deposits						
Personal	30,177	209	30,386	29,343	324	29,667
Corporate	32,448	2	32,450	32,446	6	32,452
Non-bank financial institutions (NBFI)	11,977	—	11,977	12,904	1	12,905
	74,602	211	74,813	74,693	331	75,024
Other financial liabilities (1)	—	—	—	3	—	3
Amounts due to holding companies and fellow subsidiaries						
Bank and customer deposits	3,028	250	3,278	5,401	299	5,700
Debt securities in issue	4	392	396			
Subordinated liabilities	2	1,467	1,469	2	1,465	1,467
	3,034	2,109	5,143	5,403	1,764	7,167
Total funding	78,842	2,320	81,162	81,256	2,155	83,411
Of which: available in resolution (2)	*6*	*1,859*	*1,865*	*2*	*1,465*	*1,467*

Notes:
(1) Excludes settlement balances of £47 million (2018 – £20 million) and derivatives of £763 million (2018 – £860 million).
(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.

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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. Trading activities comprising Mandatory fair value through profit or loss (MFVTPL) assets and held-for-trading liabilities (HFT) have been excluded from the maturity analysis due to their short-term nature and are shown in total in the table below.

	Banking activities										
2019	Less than 1 month £m	1-3 months £m	3-6 months £m	6 months - 1 year £m	Subtotal £m	1-3 years £m	3-5 years £m	More than 5 years £m	Total £m	Trading activities £m	Total £m
Central bank balances	26,597	—	—	—	26,597	—	—	—	26,597	—	26,597
Loans to banks	1,345	—	216	—	1,561	—	—	—	1,561	—	1,561
Loans to customers (1)	7,466	1,815	1,644	2,996	13,921	12,677	7,343	20,342	54,283	—	54,283
Personal	964	408	569	1,057	2,998	4,252	2,794	13,543	23,587	—	23,587
Corporate	5,804	1,399	1,064	1,925	10,192	8,137	4,428	6,371	29,128	—	29,128
NBFI	698	8	11	14	731	288	121	428	1,568	—	1,568
Other assets	54	—	—	95	149	182	61	20	412	135	547
Total financial assets	35,462	1,815	1,860	3,091	42,228	12,859	7,404	20,362	82,853	135	82,988
2018											
Total financial assets	31,254	1,813	2,003	3,368	38,438	12,509	10,002	24,453	85,402	340	85,742
2019											
Bank deposits	1,206	—	—	—	1,206	—	—	—	1,206	—	1,206
Customer deposits	73,209	360	736	297	74,602	209	—	2	74,813	—	74,813
Personal	29,635	107	161	274	30,177	209	—	—	30,386	—	30,386
Corporate	31,924	239	265	20	32,448	—	—	2	32,450	—	32,450
NBFI	11,650	14	310	3	11,977	—	—	—	11,977	—	11,977
Other financial liabilities	47	18	51	—	116	122	109	279	626	184	810
Derivatives	—	18	51	—	69	122	109	279	579	184	763
Settlement balances	47	—	—	—	47	—	—	—	47	—	47
Lease liabilities	1	3	4	7	15	21	17	104	157	—	157
Notes in circulation	1,267	—	—	—	1,267	—	—	—	1,267	—	1,267
Total financial liabilities	75,730	381	791	304	77,206	352	126	385	78,069	184	78,253
2018											
Total financial liabilities	75,341	552	840	492	77,225	494	94	277	78,090	320	78,410

Note:
(1) Loans to customers excludes £790 million (2018 - £765 million) of ECL provisions.

Δ

Capital and risk management

Credit risk

Definition (audited)

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

The disclosures in this section are audited where indicated.

Δ

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.

Δ

Risk governance (audited)

NWH Group operates a Credit Risk function, which provides oversight of frontline credit risk management activities.

Governance activities include:

- Defining credit risk appetite for the management of concentration risk and credit policy to establish the key causes of risk in the process of providing credit and the controls that must be in place to mitigate them.
- Approving and monitoring credit limits.
- Oversight of the first line of defence to ensure that credit risk remains within the appetite set by the Board and that controls are being operated adequately and effectively.

Δ

Risk appetite

NWH Group's approach to Wholesale credit is governed by a comprehensive credit risk appetite framework. The framework is monitored and actions are taken to adapt lending criteria as appropriate. Credit risk appetite aligns to the strategic risk appetite set by the RBS Group Board. 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. The framework is supported by a suite of transaction acceptance standards that set out the risk parameters within which businesses should operate.

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

For the Wholesale credit risk appetite framework, the four formal frameworks used – and their basis for classification – are detailed in the following table.

Framework	Basis for classification	
	Measure	Other
Single name concentration	Exposure	Risk – based on loss given default for a given probability of default
Sector	Exposure	Risk – based on economic capital and other qualitative factors
Country	Exposure	Risk – based on sovereign default risk, political stability and macroeconomic factors
Product and asset class	Exposure	Risk – based on heightened risk characteristics

Risk controls

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

Risk identification and measurement (audited)

Credit stewardship

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

A key aspect of credit risk stewardship is monitoring signs of customer stress, and when identified, applying appropriate debt management actions.

Δ

Risk models

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

Credit risk models are designed to provide:

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

Asset quality

All credit grades map to an asset quality (AQ) scale, used for financial reporting. For Wholesale customers, a master grading scale is used for internal management reporting across portfolios. Measures of risk exposure may be aggregated and reported at differing levels of detail depending on stakeholder or business requirements. Performing loans are defined as AQ1-AQ9 (where the PD is less than 100%) and non-performing loans as AQ10 or Stage 3 under IFRS 9 (where the PD is 100%).

Risk mitigation

Risk mitigation techniques, as set out in the appropriate credit policies, 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 residential mortgage collateral and CRE are detailed below.

Residential mortgages – RBS plc takes collateral in the form of residential property to mitigate the credit risk arising from mortgages. RBS plc values residential property during the loan underwriting process by either appraising properties individually or valuing them collectively using statistically valid models. RBS plc updates residential property values quarterly using the Halifax quarterly regional house price index.

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

Capital and risk management

Credit risk continued

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

Risk 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 making 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 from 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.

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 ethical risk policies which restrict exposure to certain highly carbon intensive industries as well as those with potentially heightened reputational impacts.

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

For all other transactions credit is only granted to customers following joint approval by an approver from the business and the credit risk function or by two credit officers. The joint business and credit approvers act within a delegated approval authority under the Wholesale Credit Authorities Framework Policy.

The level of delegated authority held by approvers is dependent on their experience and expertise with only a small number of senior executives holding the highest approval authority.

Both business and credit approvers are accountable for the quality of each decision taken, although the credit risk approver holds ultimate sanctioning authority.

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

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

Problem debt management

Personal

Early problem identification

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

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

Collections

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

Credit risk continued

Wholesale

Early problem identification

Each segment and sector has 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 Risk of Credit loss framework is used where the credit profile of a Wholesale customer has deteriorated. Experienced credit risk officers apply expert judgement to classify cases into categories that reflect progressively deteriorating credit risk. 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 NWH Group's default criteria (AQ10 exposures). Defaulted exposures are categorised as Stage 3 impaired for provisioning purposes.

Customers classified in the Heightened Monitoring category are those who are still performing but have certain characteristics – such as trading issues, covenant breaches, material PD downgrades and past due facilities – that may affect the ability to meet repayment obligations. Heightened Monitoring customers require pre-emptive actions to return or maintain their facilities within 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 – including 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.

For further information on the Risk of Credit Loss framework, refer to page 134 of the RBS Group Annual Report and Accounts.

Restructuring

For the Wholesale problem debt portfolio, customer relationships are mainly managed by the Restructuring team. The purpose of Restructuring is to protect RBS plc's capital. Restructuring does this by working with corporate and commercial customers in financial difficulty on their restructuring and repayment strategies. Restructuring will always aim to recover capital fairly and efficiently.

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

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

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

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

Types of forbearance

Personal

In the Personal portfolio, forbearance may involve payment concessions and loan rescheduling (including extensions in contractual maturity) and capitalisation of arrears. Forbearance is granted principally to customers with mortgages and less frequently to customers with unsecured loans. This includes instances where forbearance may be provided to customers with highly flexible mortgages.

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 re-assessed prior to finalising any forbearance arrangement.

The ultimate outcome of a forbearance strategy is highly dependent on the cooperation of the borrower and a viable business or repayment outcome. Where forbearance is no longer appropriate, RBS plc will consider other options such as the enforcement of security, insolvency proceedings or both, although these are options of last resort.

Provisioning for forbearance

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 remain in forbearance for the defined probation period and be subject to performance criteria. These include making regular repayments and being less than 30 days past due.

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 (UK Personal 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.

Credit risk continued

Forbearance (audited)

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

Wholesale

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

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

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

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

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

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

Five key areas may materially influence the measurement of credit impairment under IFRS 9 – two of these relate to model build and three relate to their 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 mechanisms).
  - The build of term structures to extend the determination of the risk of loss beyond 12 months that will influence the impact of lifetime loss for assets in Stage 2.
- Model application:
  - The assessment of the significant increase in credit risk 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 determination of a base case (or central) economic scenario which has the most material impact (of all forward-looking scenarios) on the measurement of loss (RBS Group uses consensus forecasts to remove management bias).

Refer to Accounting policy 6 for further details.

Economic loss drivers (audited)

Introduction

The most material economic loss drivers for Personal portfolios include UK GDP, unemployment rate, house price index, and base rate.

In addition to some of these loss drivers, world GDP is a primary loss driver for Wholesale portfolios.

Central base case economic scenario

The internal base case scenario is the primary forward-looking economic information driving the calculation of ECL. The same base case scenario is used for financial planning by RBS plc with the exception of the yield curve, as a result of the different timing of the exercises. The key elements of the current economic base case, which includes forecasts over a five year forecast horizon, are summarised below.

The central base case economic scenario projects modest growth in the UK economy, in line with the consensus outlook. Brexit related uncertainty results in subdued confidence in the near term, placing it in the lower quartile of advanced economies. Business investment is weak at the start of the forecast, improving only gradually. Consumer spending rises steadily as households benefit from falling inflation and rising wage growth, though it is a modest upturn. The central scenario assumes slower job growth than seen in recent years, meaning unemployment edges up from its current historic lows. House price growth slows, extending the current slowdown, before picking up to low single digit growth in later years. Monetary policy follows the market implied path for Bank of England base rate at the time the scenarios were set, therefore it is assumed there are two base rate cuts over the next five years, whereas the yield curve used for financial planning assumes one base rate cut.

Use of the central base case in Personal

In Personal the internal base case is directly used as the central scenario for the ECL calculations by feeding the forecasted economic loss drivers into the respective PD and LGD models.

Use of the central base case in Wholesale

As in Personal, the primary input is the central base case scenario but a further adjustment is applied to the aggregate credit cycle conditions arising from the base case to explicitly enforce a gradual reversion to long run average conditions starting from the first projected year onwards.

The application of the mean reversion adjustment is based on two empirical observations. Firstly, historic credit loss rates in Wholesale portfolios show pronounced mean reversion behaviour and secondly, the accuracy of economic forecasts tends to drop significantly for horizons beyond one or two years.

Approach for multiple economic scenarios (MES)

The response of portfolio loss rates to changes in economic conditions is typically non-linear and asymmetric. Therefore, in order to appropriately take account of the uncertainty in economic forecasts a range of economic scenarios is considered when calculating ECL.

- Personal – In addition to the central base case a further four bespoke scenarios are taken into account – a base case upside and downside – and an additional upside and downside. The overall MES ECL is calculated as a probability weighted average across all five scenarios (refer to the Probability weightings of scenarios section for further details).

The ECL impact on the Personal portfolio arising from the systematic application of MES over the single, central base case was relatively low and estimated at less than 1%, in line with 2018. Losses are expected to increase on a non-linear basis in the event of an economic downturn, and for UK Personal Banking, this effect was included within the overlay for UK economic uncertainty detailed on page 24. At the end of 2018, an overlay of £7 million covering non-linearity of losses had been held separately.

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- Wholesale – The approach to MES is a Monte Carlo method that involves simulating a large number of alternative scenarios around the central scenario (adjusted for mean reversion) and averaging the losses and PD values for each individual scenario into unbiased expectations of losses (ECL) and PD.

Credit risk continued

Economic loss drivers (audited)

The simulation of alternative scenarios does not occur on the level of the individual economic loss drivers but operates on the aggregate Credit Cycle Indices (CCI) that underpin the Wholesale credit models. CCIs measure portfolio level default rate conditions expressed as an index value. An index value of zero represents long run average default rates. Negative and positive index values represent default rates above and below long run averages respectively. The Monte Carlo MES approach increases Wholesale modelled ECL for Stage 1 and Stage 2 by approximately 7% above the single, central scenario outcomes. No additional non-linearity overlay was applied for Wholesale, similar to 2018, with the final reported ECL inclusive of the systematic MES uplift from the Monte Carlo modelling and also the overlay for economic uncertainty detailed below.

For both Personal and Wholesale, the impact from MES is factored into account level PDs through scalars. These MES-adjusted PDs are used to assess whether a significant increase in credit risk has occurred.

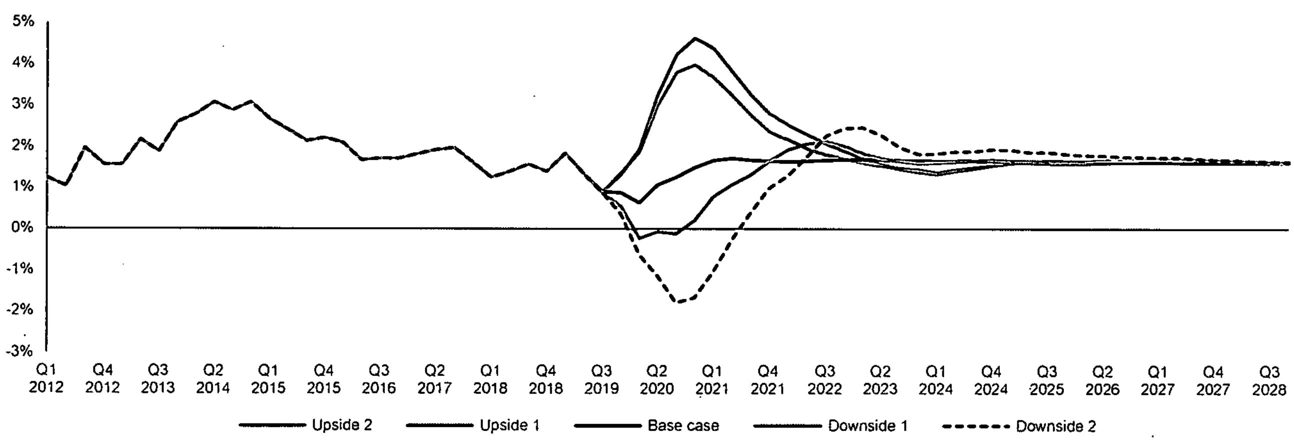
Key economic loss drivers

The tables and commentary below provide an update on the base case economics used at 31 December 2019, and also the MES used for Personal portfolios. The average over the five year horizon (2020 to 2024) for the central base case and two upside and downside scenarios used for ECL modelling, are set out below. It is compared with the five year average (2019 to 2023) of the 2018 scenarios. The graph shows the quarterly GDP year-on-year growth rates across the MES. Subsequently, the annual figures for key variables across the UK are shown. Finally, the extreme points table show the best and worst readings for three key variables in the two upside and two downside scenarios, highlighting the most challenging points in the downside scenarios and the strongest points in the upside scenarios.

The 2019 base case GDP growth and interest rate assumptions are pessimistic compared to 2018 as consensus outlook and market implied interest rate projections worsened over the year. Unemployment rate projections are less extreme in the 2019 downside scenarios as RBS Group aimed to align the Downside 2 scenario with Office for Budget Responsibility's analysis of a hard Brexit scenario.

	2019					2018				
	Upside 2	Upside 1	Base case	Downside 1	Downside 2	Upside 2	Upside 1	Base case	Downside 1	Downside 2
UK	%	%	%	%	%	%	%	%	%	%
GDP - change	2.4	2.2	1.6	1.3	0.9	2.6	2.3	1.7	1.5	1.1
Unemployment	3.6	3.9	4.4	4.7	5.2	3.3	3.8	5.0	5.6	6.9
House Price Inflation - change	4.1	3.3	1.6	0.8	(1.0)	4.3	3.3	1.7	1.1	(0.5)
Bank of England base rate	1.0	0.7	0.3	—	—	1.7	1.3	1.1	0.5	—
World GDP - change	3.8	3.3	2.8	2.5	2.1	3.6	3.2	2.7	2.5	2.3
Probability weight	12.7	14.8	30.0	29.7	12.7	12.8	17.0	30.0	25.6	14.6

UK Gross domestic product



Capital and risk management

Credit risk continued
Economic loss drivers (audited)
UK GDP - annual growth

	Upside 2	Upside 1	Base case	Downside 1	Downside 2
	%	%	%	%	%
2019	1.3	1.4	1.2	1.1	1.1
2020	3.5	3.2	1.1	(0.1)	(1.3)
2021	3.6	3.0	1.7	1.2	—
2022	2.2	1.9	1.7	2.0	1.9
2023	1.5	1.5	1.7	1.7	2.1
2024	1.4	1.5	1.6	1.6	1.9

UK unemployment rate

	Upside 2	Upside 1	Base case	Downside 1	Downside 2
	%	%	%	%	%
Q4 2019	4.0	4.0	4.1	4.1	4.1
Q4 2020	3.7	3.8	4.4	4.8	5.1
Q4 2021	3.5	3.8	4.4	4.8	5.5
Q4 2022	3.5	3.8	4.4	4.7	5.4
Q4 2023	3.6	3.9	4.4	4.6	5.3
Q4 2024	3.8	4.0	4.4	4.6	5.1

UK House Price Inflation - annual growth

	Upside 2	Upside 1	Base case	Downside 1	Downside 2
	%	%	%	%	%
2019	1.7	1.7	1.5	1.5	1.4
2020	5.7	4.5	1.0	(1.1)	(3.6)
2021	8.2	6.0	0.9	(2.7)	(7.7)
2022	4.2	3.1	1.5	0.8	(1.9)
2023	1.7	1.4	2.0	3.1	3.0
2024	0.9	1.4	2.6	3.9	5.2

Extreme points

	Best points				Worst points			
	H2 2019		H2 2018		H2 2019		H2 2018	
	Upside 2	Upside 1	Upside 2	Upside 1	Downside 1	Downside 2	Downside 1	Downside 2
UK	%	%	%	%	%	%	%	%
GDP (year-on-year)	4.6	4.0	5.0	4.1	(0.2)	(1.8)	(0.1)	(1.9)
Unemployment	3.5	3.8	2.8	3.4	4.9	5.5	5.9	7.4
House Price Inflation (year-on-year)	8.9	6.7	9.1	7.0	(3.5)	(8.4)	(2.8)	(7.3)

Credit risk continued

Economic loss drivers (audited)

Probability weightings of scenarios

RBS plc's approach to IFRS 9 MES in Personal involves selecting a suitable set of discrete scenarios to characterise the distribution of risks in the economic outlook and assigning appropriate probability weights to those scenarios. This involves the following steps:

- Scenario selection – Two upside and two downside scenarios from Moody's inventory of scenarios were chosen. The aim is to obtain downside scenarios that are not as severe as stress tests, so typically they have a severity of around one in ten and one in five of approximate likelihood, along with corresponding upsides.
- Severity assessment – Having selected the most appropriate scenarios, their severity is then assessed based on the behaviour of UK GDP, by calculating a variety of measures such as average growth, deviation from baseline and peak to trough falls. These measures are compared against a set of 1,000 model runs following which, a percentile in the distribution is established which most closely corresponds to the scenario.
- Probability assignment – Having established the relevant percentile points, probability weights are assigned to ensure that the scenarios produce an unbiased result.

UK economic uncertainty

RBS plc's approach is designed to capture the historic variability and distribution of economic risks. RBS plc's approach to capturing these incremental or skewed forward-looking risks is to apply an overlay to ECL of £39 million (2018 – £35 million). To calculate the value of this overlay, information was used from prevailing downside sensitivity scenario analyses. The underlying economics were broadly aligned to published International Monetary Fund and Office for Budget Responsibility hard Brexit scenarios and management judgement was applied on the likelihood of this alternative path for the economy emerging. The value of the overlay was increased once during the year, in the third quarter, when management judged uncertainty to be more pronounced. The value of the overlay was subsequently reviewed in the fourth quarter, when management concluded that it was appropriate to leave it unchanged reflecting the ongoing elevated economic uncertainty.

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Credit risk modelling (audited)

ECLs are calculated using a combination of:

- Probability of default.
- Loss given default.
- Exposure at default.

In addition, lifetime PDs (as at reporting date and at date of initial recognition) are used in the assessment of the significant increase in credit risk criteria.

IFRS 9 ECL model design principles

To meet IFRS 9 requirements, PD, LGD and EAD used in ECL calculations must be:

- Unbiased – material regulatory conservatism has been removed to produce unbiased model estimates.
- Point-in-time – recognise current economic conditions.
- Forward-looking – incorporated into PD estimates and, where appropriate, EAD and LGD estimates.
- For the life of the loan – all PD, LGD and EAD models produce term structures to allow a lifetime calculation for assets in Stage 2 and Stage 3.

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

Credit risk continued

Credit risk modelling (audited)

Wholesale models

Wholesale PD models use the existing CCI based point-in-time/through-the-cycle framework to convert one-year regulatory PDs into point-in-time estimates that reflect economic conditions observed at the reporting date across a comprehensive set of region/industry segments.

One year point-in-time PDs are then subsequently extended to life-time PDs using a conditional transition matrix approach. The conditional transition matrix approach allows for the incorporation of forward-looking economic information into the life-time PDs.

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 directly modelled.

Analysis has indicated that there is minimal impact on EAD arising from changes in the economy for all Retail 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 (CCF), closely following the product segmentation and approach of the respective Basel model. However, the CCFs are estimated over multi-year time horizons to produce unbiased model estimates.

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

Governance and post model adjustments

The IFRS 9 PD, EAD and LGD models are subject to RBS's model risk policy that stipulates periodic model monitoring, periodic re-validation and defines approval procedures and authorities according to model materiality. Post model adjustments (PMAs) are applied where necessary to incorporate the most recent data available and are made on a temporary basis ahead of the underlying model parameter changes being implemented.

For UK Personal Banking, these PMAs netted to a total overlay of approximately £11 million at the year end. This included £8 million in respect of the repayment risk not captured in the models, that a proportion of customers on interest only mortgages will not be able to repay the capital element of their loan at end of term. The overlay for interest only mortgages was based on an analysis of recent experience on customer repayments pre and post end of term, and modelling that forward for maturities over the next ten years. In addition, judgemental ECL overlays totalling approximately £8 million were held. In credit cards, a £6 million ECL overlay was in place in respect of a withheld systematic model release in recognition of expected future modelling developments. For mortgages, a judgmental overlay of £2 million was held in respect of the perceived forward-looking incremental risk on buy-to-let lending.

For Wholesale portfolios, the PMAs increased ECL by £15 million. Those held on a temporary basis ahead of the underlying model parameter changes being implemented were £14 million. Those held as judgemental ECL overlays totalled £1 million.

These adjustments were over and above those detailed in the UK economic uncertainty section and are also subject to oversight and governance by the Provisions Committee.

Significant increase in credit risk

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 movements in probability of default supported by additional backstops. The principles applied are consistent across RBS plc and align to credit risk management practices.

The framework comprises the following elements:

- IFRS 9 lifetime PD assessment (the primary driver) – on modelled portfolios the assessment is based on the relative deterioration in forward-looking lifetime PD and is assessed monthly. To assess whether credit deterioration has occurred, the residual lifetime PD at balance sheet date (which PD is established at date of initial recognition (DOIR)) is compared to the current PD. If the current lifetime PD exceeds the residual origination PD by more than a threshold amount deterioration is assumed to have occurred and the exposure transferred to Stage 2 for a lifetime loss assessment. For Wholesale, a doubling of PD would indicate a significant increase in credit risk subject to a minimum PD uplift of 0.1%. For Personal portfolios, the criteria varies by risk band, with lower risk exposures needing to deteriorate more than higher risk exposures, as outlined in the following table:

Personal risk bands	Risk 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 for Personal, adverse credit bureau results.
- 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. It is a Personal methodology feature and is applied to PD driven deterioration only.

Credit risk continued

Credit risk modelling (audited)

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.

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Asset lifetimes (audited)

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

- The date of initial recognition reflects the date that a transaction (or account) was first recognised on the balance sheet; the PD recorded at that time provides the baseline used for subsequent determination of significant increase in credit risk.
- 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 pre-payment and amortisation).
  - Revolving facilities – for Personal portfolios (except credit cards), asset duration is based on behavioural life and this is normally greater than contractual life (which would typically be overnight). For Wholesale portfolios, asset duration is based on annual counterparty review schedules and will be set to the next review date.

In the case of credit cards, the most significant judgement is to reflect the operational practice of card reissuance and the associated credit assessment as enabling a formal re-origination trigger. As a consequence, a capped lifetime approach of up to 36 months is used on credit card balances. If the approach was uncapped the ECL impact is estimated at less than £25 million.

The approach reflects RBS plc's 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.

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Measurement uncertainty and ECL sensitivity analysis (audited)

The recognition and measurement of ECL is complex and involves the use of significant judgement and estimation. 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. Set out below is the impact of some of the material sensitivities considered for 2019 year end reporting. These ECL simulations are separate to the impact arising from MES and UK economic uncertainty as described earlier in this disclosure, which impacts are embedded in the reported ECL.

The primary focus of the simulations is on ECL provisioning requirements on performing exposures in Stage 1 and Stage 2. The simulations are run on a stand-alone basis and are independent of each other; the potential ECL impacts reflect the simulated impact as at the year end balance sheet date. As default is an observed event as at the balance sheet date, Stage 3 provisions are not subject to the same level of measurement uncertainty, and therefore have not been considered in this analysis, with the exception of a univariate HPI sensitivity. The following common scenarios have been applied across the key Personal and Wholesale portfolios:

- Economic uncertainty – simulating the impact arising from the Downside 2 and Upside 2 scenarios, which are two of the five discrete scenarios used in the methodology for Personal MES. In the simulation, RBS Group have assumed that the economic macro variables associated with these scenarios replace the existing base case economic assumptions, giving them a 100% probability weighting and thus serving as a single economic scenario.

These scenarios have been applied to all modelled portfolios in the analysis below, with the simulation impacting both PDs and LGDs. Modelled overlays present in the underlying ECL estimates are also sensitised. 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, e.g. potential customer behaviour changes, policy changes by lenders that might impact on the wider availability of credit.

These broader economic scenarios were complemented with two specific portfolio simulations:

- Wholesale portfolios – simulating the impact of PDs and LGDs moving upwards to the through-the-cycle (TTC) average from their current point-in-time (PIT) estimate. With the current relatively benign economic conditions wholesale IFRS 9 PIT PDs are significantly lower than TTC PD. This scenario shows the increase to ECL by immediately switching to TTC measures providing an indication of long run average expectations. IFRS 9 measures have been used so there remains some differences to Basel TTC equivalent measures, where conservative assumptions are required, such as caps or floors, not permitted under the IFRS 9 best estimate approach.
- Mortgages – House Price Inflation (HPI) is a key economic driver and RBS Group have simulated a univariate scenario of a 20% decrease in HPI across the main mortgage portfolios. A univariate analysis using only HPI does not allow for the interdependence across the other key primary loss drivers to be reflected in any ECL estimate. PDs are not impacted in this scenario analysis. The simulated impact is based on 100% probability weighting to demonstrate the isolated sensitivity of HPI against base ECL estimates.

RBS Group's core criterion to identify a significant increase in credit risk is founded on PD deterioration, as discussed above. Under the simulations, PDs increase and result in exposures moving from Stage 1 to Stage 2 contributing to the ECL impact.

Capital and risk management

Credit risk continued

Measurement uncertainty and ECL sensitivity analysis (audited)

Economic sensitivity analysis

	Actual position at 31 December 2019 Stage 1 and Stage 2 (1)			Common scenarios (2, 3) Downside 2			Common scenarios (2, 3) Upside 2			Discrete scenarios (2, 3)		
	Exposure	of which in Stage 2	ECL provision (2)	Potential ECL impact		Exposure in Stage 2	Potential ECL impact		Exposure in Stage 2	HPI (4) / TTC PD (5) potential ECL impact		Exposure in Stage 2
	£bn	%	£m	£m	%	%	£m	%	%	£m	%	%
Personal and business banking												
UK	23.8	14.8%	135.3	21.8	16.1%	15.8%	(17.9)	(13.2%)	14.6%			
Of which: mortgages												
Stage 1 and Stage 2	*19.9*	*13.0%*	*28.3*	—	—	—	—	—	—	*6.3*	*22.4%*	*13.0%*
Wholesale	52.0	5.0%	92.0	25.1	27.3%	6.8%	(22.5)	(24.5%)	4.6%	33.0	35.9%	8.4%
Total	75.8	8.1%	227.3	46.9	20.6%	9.6%	(40.4)	(17.8%)	7.7%			
Personal banking												
UK: mortgages												
stage 3	0.5	—	87.6							4.3	4.9%	

Notes:
(1) Reflects drawn exposure and ECL for all modelled exposure in scope for IFRS 9; in addition to loans this includes bonds, and cash. For Personal, the analysis excludes non-modelled portfolios such as Private Banking.
(2) The ECL provision includes the ECL overlay taken to recognise elevated Brexit related economic uncertainty.
(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 at the year end balance sheet date.
(4) HPI is applied to the most material mortgage portfolios only, namely UK Personal Banking. The impacts for Stage 3 are included separately.
(5) TTC or long-run average PDs and LGDs are applied to Wholesale portfolios only (excluding business banking exposures which reside in the Personal and Business Banking section).
(6) Refer to page 22 for details of base case economic scenarios.
(7) 2018 comparative details are not included as the sensitivity scenario analysis relates to the 2019 balance sheet position. Refer to the 2018 Annual Report and Accounts for the sensitivity analysis carried out at that time.

Key points

- In the Downside 2 scenario, the ECL requirement overall was simulated to increase by £47 million on Stage 1 and 2 exposures from the current level of £227 million. The simulation estimates the balance sheet ECL requirement as at 31 December 2019 and assumes that the economic variables associated with the Downside 2 scenario had been RBS Group's base case economic assumption at that time.
- The sensitivity of Personal portfolios to Downside 2 has reduced over time. This is mainly because compared to 2018, the path assumed for the unemployment rate in the Downside 2 scenario is lower. However, significant ECL impacts were still evident with the UK Personal Banking mortgage portfolio ECL simulated to increase by 22%, and which impact is included within the overall Personal and Business banking, UK, simulated result.
- The Upside 2 scenario indicates a slightly lower release to ECL for Personal and Business Banking, UK, and Wholesale compared to the Downside 2 uplift. This is intuitive given the shape of the Upside 2 economics and non-linearity of losses to the downside.
- On the univariate HPI scenario, the impact of a 20% fall in house prices was illustrated for Stage 1 and 2 ECL, where the impacts were relatively modest. Additionally, the HPI reduction impacts on the Stage 3 ECL have been shown specifically for this scenario, given the relevance to measurement sensitivity in Stage 3. The relationship between the required ECL and house price movements is expected to be nonlinear should the level of house prices reduce by more material amounts.
- For Wholesale, the TTC scenario has the most significant impact on ECL highlighting that reverting to long run average PDs and LGDs is more severe than a switch to the Downside 2 scenario. The TTC scenario shows a higher ECL impact compared to the Downside 2 scenario given the relative severity of the TTC view. Furthermore, the TTC scenario assumes the higher PDs remain heightened at TTC levels over the simulation period, thus driving higher losses across the latter years of the scenario period compared to Downside 2.

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Credit risk – Banking activities

Introduction

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

Refer to Accounting policy 6 and Note 12 on the accounts for revisions to policies and critical judgements relating to impairment loss determination.

Banking activities include a small number of portfolios that were carried at fair value.

Presentation of interest in suspense recoveries

In March 2019 the IFRS Interpretations Committee (IFRIC) issued an agenda decision on the presentation of unrecognised interest when a credit-impaired financial asset (commonly referred to as a 'Stage 3' financial asset) is subsequently paid in full or is no longer credit-impaired. This concluded that the difference arising from the additional interest recovered must be recognised as a reversal of impairment rather than within interest revenue. This affects both recognition and the reversal of the ECL allowance.

RBS Group changed its accounting policy in line with the IFRIC decision. Hence, the carrying amount of the financial assets within the scope of the provisions of the decision as well as the associated ECL allowance on the statement of financial position have been adjusted and the comparative period restated. The coverage ratio for the current and comparative periods have been adjusted and restated accordingly. There has been no restatement of the comparative period in statement of profit or loss on the grounds of materiality.

Refer to Accounting policy 1, Other amendments to IFRS, for further details.

Financial instruments within the scope of the IFRS 9 ECL framework (audited)

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

Financial assets

	2019 £bn	2018* £bn
Balance sheet total gross AC/FVOCI	82.5	85.4
In scope of IFRS 9 ECL framework	81.4	84.2
% in scope	99%	99%
Loans - in scope	55.3	63.2
Stage 1	47.8	54.9
Stage 2	6.1	6.6
Stage 3	1.4	1.7
Other financial assets - in scope	26.1	21.0
Stage 1	26.1	21.0
Out of scope of IFRS 9 ECL framework	1.1	1.2

*2018 data has been restated for a change to presentation of unrecognised interest. Refer to Accounting policy 1, Other amendments to IFRS, for further details.

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

- Settlement balances, items in the course of collection, cash balances and other non-credit risk assets of £0.6 billion (2018 - £0.7 billion). These were assessed as having no ECL unless there was evidence that they were credit impaired.
- Fair value adjustments on loans hedged by interest rate swaps, where the underlying loan was within the IFRS 9 ECL scope of £0.4 billion (2018 - £0.4 billion).
- Commercial cards which operate in a similar manner to charge cards, with balances repaid monthly via mandated direct debit with the underlying risk of loss captured within the customer's linked current account of £0.1 billion (2018 - £0.2 billion).

In scope assets also include an additional £7.7 billion of inter-Group assets (2018 - £8.8 billion) not shown in table above.

Contingent liabilities and commitments

In addition to contingent liabilities and commitments disclosed in Note 21 on the accounts – reputationally-committed limits are also included in the scope of the IFRS 9 ECL framework. These are offset by £0.9 billion (2018 - £1.1 billion) out of scope balances primarily related to facilities that, if drawn would not be classified as AC or FVOCI, or undrawn limits relating to financial assets exclusions. Total contingent liabilities (including financial guarantees) and commitments within IFRS 9 ECL scope of £27.1 billion (2018 - £33.4 billion) comprised Stage 1; £25.8 billion (2018 - £31.2 billion); Stage 2 £1.2 billion (2018 - £2.0 billion) and Stage 3 £0.1 billion (2018 - £0.2 billion).

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Capital and risk management

Credit risk – Banking activities continued

Portfolio summary – segment analysis (audited)

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

2019	UK Personal Banking £m	Commercial Banking £m	Private Banking £m	Central items & other £m	Total £m
Loans - amortised cost					
Stage 1	18,921	26,707	664	1,473	47,765
Stage 2	3,323	2,751	36	—	6,110
Stage 3	607	801	27	—	1,435
Inter-Group (1)				7,694	7,694
	22,851	30,259	727	9,167	63,004
ECL provisions					
Stage 1	20	37	—	1	58
Stage 2	104	67	—	—	171
Stage 3	225	367	2	—	594
	349	471	2	1	823
ECL provisions coverage (2,3)					
Stage 1 (%)	0.11	0.14	—	0.07	0.12
Stage 2 (%)	3.13	2.44	—	—	2.80
Stage 3 (%)	37.07	45.82	7.41	—	41.39
	1.53	1.56	0.28	0.07	1.49
Impairment losses					
ECL charge (4)					
Stage 1	(24)	(24)	—	1	(47)
Stage 2	45	9	(3)	—	51
Stage 3	42	158	3	—	203
	63	143	—	1	207
ECL loss rate - annualised (basis points) (3)	27.57	47.26	—	6.79	37.43
Amounts written-off	62	219	—	—	281

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

Capital and risk management

Credit risk – Banking activities continued
Portfolio summary – segment analysis (audited)

2018*	UK Personal Banking £m	Commercial Banking £m	Private Banking £m	Central items & other £m	Total £m
Loans - amortised cost					
Stage 1	21,608	31,390	661	1,218	54,877
Stage 2	3,660	2,902	25	—	6,587
Stage 3	710	935	40	—	1,685
Inter-Group (1)				8,804	8,804
	25,978	35,227	726	10,022	71,953
ECL provisions					
Stage 1	22	40	1	—	63
Stage 2	98	89	—	—	187
Stage 3	204	417	3	—	624
	324	546	4	—	874
ECL provisions coverage (2, 3)					
Stage 1 (%)	0.10	0.13	0.15	—	0.11
Stage 2 (%)	2.68	3.07	—	—	2.84
Stage 3 (%)	28.73	44.60	7.50	—	37.03
	1.25	1.55	0.55	—	1.38
Impairment losses					
ECL charge (4)					
Stage 1	(13)	(5)	—	—	(18)
Stage 2	35	(2)	—	—	33
Stage 3	21	(12)	—	—	9
	43	(19)	—	—	24
ECL loss rate - annualised (basis points) (3)	16.55	(5.39)	—	—	3.80
Amounts written-off	81	200	—	—	281

*2018 data has been restated for a change to reportable segments and a change to presentation of unrecognised interest. Refer to Note 4 on the accounts and Accounting policy 1, Other amendments to IFRS, for further details.

Notes:
(1) RBS plc's intercompany assets were classified in Stage 1. The ECL attached to these loans was £0.3 million at 31 December 2019 (31 December 2018 - £0.5 million).
(2) ECL provisions coverage is calculated as ECL provisions divided by loans - amortised cost.
(3) ECL provisions coverage and ECL loss rates are calculated on third party loans and related ECL provisions and charge respectively.
(4) Includes a £1 million release (2018 – nil) related to other financial assets, of which nil (2018 – nil) related to assets classified as FVOCI; and a £25 million release (2018 – £11 million release) related to contingent liabilities.
(5) The table above shows gross loans only and excludes amounts that are outside the scope of the ECL framework. Refer to page 28 for Financial instruments within the scope of the IFRS 9 ECL framework for further details. Other financial assets within the scope of the IFRS 9 ECL framework were cash and balances at central banks totalling £26.1 billion (2018 – £21.0 billion).

Key points

- Total ECL provisions reduced slightly, primarily driven by Stage 3.
- UK Personal Banking ECL provisions – Overall Stage 1 and Stage 2 were broadly stable. The slight increase in Stage 2 included additional ECL raised due to ongoing economic uncertainty. The rise in Stage 3 reflected the steady flow of new defaults which increased slightly year-on-year, however, in unsecured lending the trend flattened in the second half of the year as a result of risk appetite tightening.
- Commercial Banking provisions – ECL balances decreased across all stages. Despite increased charges for Stage 3 impairments, primarily as a result of a small number of material provisions during the year, the ECL balance reduced as write-offs and repayments offset new charges.
- Total provision coverage rose, as Stage 3 increased due to individual Commercial Banking cases, as well as in UK Personal Banking, offset by a slight decrease in Stage 2.
- The impairment charge for the year was £207 million up from £24 million in 2018; primarily this reflected a small number of large individual commercial charges as well as the transitioning from a very benign period towards a more normalised external credit environment. The cost of risk at 37 basis points was within RBS plc's view of a normalised blended long-term loss rate of 30 to 40 basis points.

Capital and risk management

Credit risk – Banking activities continued
Segmental loans and impairment metrics (audited)
The table below shows gross loans and ECL provisions, by days past due by segment and stage, within the scope of the ECL framework.

	Gross loans							ECL provisions (2)						
		Stage 2 (1)							Stage 2 (1)					
	Stage 1	Not past due	1-29 DPD	>30 DPD	Total	Stage 3	Total	Stage 1	Not past due	1-29 DPD	>30 DPD	Total	Stage 3	Total
2019	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
UK Personal Banking	18,921	2,884	275	164	3,323	607	22,851	20	82	11	11	104	225	349
Commercial Banking	26,707	2,672	52	27	2,751	801	30,259	37	64	2	1	67	367	471
Private Banking	664	26	9	1	36	27	727	—	—	—	—	—	2	2
Personal	*622*	*5*	*9*	*1*	*15*	*27*	*664*	—	—	—	—	—	*2*	*2*
Wholesale	*42*	*21*	—	—	*21*	—	*63*	—	—	—	—	—	—	—
Central items & other	1,473	—	—	—	—	—	1,473	1	—	—	—	—	—	1
Total loans	47,765	5,582	336	192	6,110	1,435	55,310	58	146	13	12	171	594	823
Of which:														
Personal	*19,543*	*2,889*	*284*	*165*	*3,338*	*634*	*23,515*	*20*	*82*	*11*	*11*	*104*	*227*	*351*
Wholesale	*28,222*	*2,693*	*52*	*27*	*2,772*	*801*	*31,795*	*38*	*64*	*2*	*1*	*67*	*367*	*472*
2018*														
UK Personal Banking	21,608	3,152	322	186	3,660	710	25,978	22	76	11	11	98	204	324
Commercial Banking	31,390	2,604	29	269	2,902	935	35,227	40	85	2	2	89	417	546
Private Banking	661	16	7	2	25	40	726	1	—	—	—	—	3	4
Personal	*624*	*9*	*7*	*2*	*18*	*36*	*678*	—	—	—	—	—	*3*	*3*
Wholesale	*37*	*7*	—	—	*7*	*4*	*48*	*1*	—	—	—	—	—	*1*
Central items & other	1,218	—	—	—	—	—	1,218	—	—	—	—	—	—	—
Total loans	54,877	5,772	358	457	6,587	1,685	63,149	63	161	13	13	187	624	874
Of which:														
Personal	*22,232*	*3,161*	*329*	*188*	*3,678*	*746*	*26,656*	*22*	*76*	*11*	*11*	*98*	*207*	*327*
Wholesale	*32,645*	*2,611*	*29*	*269*	*2,909*	*939*	*36,493*	*41*	*85*	*2*	*2*	*89*	*417*	*547*

*2018 data has been restated for a change to reportable segments and a change to presentation of unrecognised interest. Refer to Note 4 on the accounts and Accounting policy 1, Other amendments to IFRS, for further details.

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

Credit risk – Banking activities continued

Segmental loans and impairment metrics (audited)

	ECL provisions coverage							ECL		
		Stage 2 (1,2)								
	Stage 1	Not past due	1-29 DPD	>30 DPD	Total	Stage 3	Total	Total charge	Loss rate	Amounts written-off
2019	%	%	%	%	%	%	%	£m	basis points	£m
UK Personal Banking	0.11	2.84	4.00	6.71	3.13	37.07	1.53	63	27.57	62
Commercial Banking	0.14	2.40	3.85	3.70	2.44	45.82	1.56	143	47.26	219
Private Banking	—	—	—	—	—	7.41	0.28	—	—	—
Personal	—	—	—	—	—	*7.41*	*0.30*	*8*	*nm*	*1*
Wholesale	—	—	—	—	—	—	—	*(8)*	*nm*	*(1)*
Central items & other	0.07	—	—	—	—	—	0.07	1	6.79	—
Total loans	0.12	2.62	3.87	6.25	2.80	41.39	1.49	207	37.43	281
Of which:										
Personal	*0.10*	*2.84*	*3.87*	*6.67*	*3.12*	*35.80*	*1.49*	*71*	*30.19*	*63*
Wholesale	*0.13*	*2.38*	*3.85*	*3.70*	*2.42*	*45.82*	*1.48*	*136*	*42.77*	*218*
2018*										
UK Personal Banking	0.10	2.41	3.42	5.91	2.68	28.73	1.25	43	16.55	81
Commercial Banking	0.13	3.26	6.90	0.74	3.07	44.60	1.55	(19)	(5.39)	200
Private Banking	0.15	—	—	—	—	7.50	0.55	—	—	—
Personal	—	—	—	—	—	*8.33*	*0.44*	*4*	*nm*	—
Wholesale	*2.70*	—	—	—	—	—	*2.08*	*(4)*	*nm*	—
Central items & other	—	—	—	—	—	—	—	—	—	—
Total loans	0.11	2.79	3.63	2.84	2.84	37.03	1.38	24	3.80	281
Of which:										
Personal	*0.10*	*2.40*	*3.34*	*5.85*	*2.66*	*27.75*	*1.23*	*47*	*17.63*	*81*
Wholesale	*0.13*	*3.26*	*6.90*	*0.74*	*3.06*	*44.41*	*1.50*	*(23)*	*(6.30)*	*200*

*2018 data has been restated for a change to reportable segments and a change to presentation of unrecognised interest. Refer to Note 4 on the accounts and Accounting policy 1, Other amendments to IFRS, for further details.

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

Key points

- UK Personal Banking accounted for the vast majority of Personal provisions. The year-on-year increase was driven by Stage 3 reflecting the natural flow of defaults and also small uplifts in the actual default rate on unsecured lending which trend flattened in the second half of the year as a result of risk appetite tightening. Additional ECL was also raised as a result of the ongoing uncertain economic outlook. Provision coverage increased driven by Stage 2 and Stage 3.
- The UK Personal Banking charge for the year of £63 million, 28 basis points, increased year-on-year (2018 – 17 basis points) reflecting a slight rise in default rates and also lower recoveries and impairment benefits from debt sales.
- The Commercial Banking charge for the year of £143 million, 47 basis points, compared to a small release in 2018, primarily due to a small number of material individual provisions, model enhancements and increased economic uncertainty. Stage 3 provisions were the largest contributor to the overall ECL provisions which reduced during the year as increased charges for Stage 3 impairments were more than offset by higher write-offs and repayments. Provision coverage overall remained broadly stable with increases in Stage 3 coverage for both individual and collective assessments, offset by a slight decrease in Stage 2.
- In performing exposures (Stage 1 and Stage 2), materially higher ECL provision was held in credit-deteriorated Stage 2 exposures than in Stage 1. This was in line with expectations and was also reflected in provision coverage levels.
- The majority of Stage 2 exposures were less than 30 days past due. This was in line with expectations, since PD deterioration is the primary driver of credit deterioration.
- The differing cover rates between the Personal and Wholesale portfolios largely reflected differences in asset mix, including security cover, and the differing effects of external environment events.

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Capital and risk management

Credit risk – Banking activities continued

Portfolio summary – sector analysis (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 based on the country of operation of the customer.

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

For the notes to this table refer to page 36.

Capital and risk management

Credit risk – Banking activities continued

Portfolio summary – sector analysis (audited)

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

**Not within audit scope.

For the notes to this table refer to page 36.

Credit risk – Banking activities continued

Portfolio summary – sector analysis (audited)

	Personal				Wholesale					Total
	Mortgages (1)	Credit cards	Other personal	Total	Property	Corporate	FI	Sovereign	Total	
2018*	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Loans by geography	23,797	1,103	1,756	26,656	13,610	18,839	3,169	875	36,493	63,149
- UK	*23,788*	*1,103*	*1,753*	*26,644*	*13,100*	*16,387*	*511*	*554*	*30,552*	*57,196*
- RoI	—	—	—	—	—	*114*	*22*	—	*136*	*136*
- Other Europe	*2*	—	*1*	*3*	*359*	*779*	*36*	*194*	*1,368*	*1,371*
- RoW	*7*	—	*2*	*9*	*151*	*1,559*	*2,600*	*127*	*4,437*	*4,446*
Loans by stage and asset quality (2)	23,797	1,103	1,756	26,656	13,610	18,839	3,169	875	36,493	63,149
Stage 1	20,280	749	1,203	22,232	12,520	16,102	3,152	871	32,645	54,877
- AQ1	*78*	—	*8*	*86*	*1,973*	*276*	*508*	*467*	*3,224*	*3,310*
- AQ2	*358*	—	—	*358*	*1,028*	*685*	*12*	*50*	*1,775*	*2,133*
- AQ3	*34*	—	—	*34*	*912*	*1,655*	*63*	*226*	*2,856*	*2,890*
- AQ4	*13,915*	*4*	*31*	*13,950*	*3,163*	*5,392*	*2,278*	—	*10,833*	*24,783*
- AQ5	*4,932*	*238*	*561*	*5,731*	*2,960*	*4,821*	*105*	*118*	*8,004*	*13,735*
- AQ6	*309*	*230*	*322*	*861*	*1,838*	*2,047*	*138*	*10*	*4,033*	*4,894*
- AQ7	*590*	*258*	*195*	*1,043*	*615*	*1,131*	*48*	—	*1,794*	*2,837*
- AQ8	*59*	*18*	*77*	*154*	*29*	*90*	—	—	*119*	*273*
- AQ9	*5*	*1*	*9*	*15*	*2*	*5*	—	—	*7*	*22*
Stage 2	2,945	313	420	3,678	577	2,322	7	3	2,909	6,587
- AQ1	*2*	—	—	*2*	—	—	—	—	—	*2*
- AQ2	*10*	—	—	*10*	—	—	—	—	—	*10*
- AQ3	—	—	—	—	—	*2*	—	—	*2*	*2*
- AQ4	*957*	—	*4*	*961*	*98*	*374*	—	*3*	*475*	*1,436*
- AQ5	*876*	*13*	*89*	*978*	*131*	*373*	*1*	—	*505*	*1,483*
- AQ6	*207*	*67*	*115*	*389*	*59*	*201*	*1*	—	*261*	*650*
- AQ7	*238*	*174*	*88*	*500*	*215*	*1,061*	*3*	—	*1,279*	*1,779*
- AQ8	*420*	*43*	*93*	*556*	*58*	*234*	*2*	—	*294*	*850*
- AQ9	*235*	*16*	*31*	*282*	*16*	*77*	—	—	*93*	*375*
Stage 3	572	41	133	746	513	415	10	1	939	1,685
- AQ10	*572*	*41*	*133*	*746*	*513*	*415*	*10*	*1*	*939*	*1,685*
Loans - past due analysis (3,4)	23,797	1,103	1,756	26,656	13,610	18,839	3,169	875	36,493	63,149
- Not past due	*22,810*	*1,047*	*1,576*	*25,433*	*13,158*	*18,220*	*3,158*	*866*	*35,402*	*60,835*
- Past due 1-29 days	*427*	*20*	*31*	*478*	*65*	*203*	*8*	*9*	*285*	*763*
- Past due 30-89 days	*243*	*12*	*20*	*275*	*78*	*204*	—	—	*282*	*557*
- Past due 90-180 days	*124*	*9*	*18*	*151*	*14*	*12*	—	—	*26*	*177*
- Past due >180 days	*193*	*15*	*111*	*319*	*295*	*200*	*3*	—	*498*	*817*
Loans - Stage 2	2,945	313	420	3,678	577	2,322	7	3	2,909	6,587
- Not past due	*2,489*	*293*	*379*	*3,161*	*503*	*2,098*	*7*	*3*	*2,611*	*5,772*
- Past due 1-29 days	*294*	*12*	*23*	*329*	*5*	*24*	—	—	*29*	*358*
- Past due 30-89 days	*162*	*8*	*18*	*188*	*69*	*200*	—	—	*269*	*457*

*2018 data has been restated for a change to presentation of unrecognised interest. Refer to Accounting policy 1, Other amendments to IFRS, for further details.

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

Capital and risk management

Credit risk – Banking activities continued

Portfolio summary – sector analysis (audited)

	Personal				Wholesale					Total
2018*	Mortgages £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)	3	2	3	3	3	4	2	6	3	3
Weighted average 12 months PDs **										
- IFRS 9 (%)	0.45	3.95	2.87	0.75	0.65	0.72	0.10	0.13	0.59	0.68
- Basel (%)	1.01	3.61	3.38	1.27	0.76	1.17	0.25	0.14	0.91	1.06
ECL provisions by geography	114	65	148	327	290	252	4	1	547	874
- UK	114	65	148	327	288	177	4	1	470	797
- Other Europe	—	—	—	—	1	5	—	—	6	6
- RoW	—	—	—	—	1	70	—	—	71	71
ECL provisions by stage	114	65	148	327	290	252	4	1	547	874
- Stage 1	1	10	11	22	15	24	1	1	41	63
- Stage 2	24	31	43	98	12	77	—	—	89	187
- Stage 3	89	24	94	207	263	151	3	—	417	624
ECL provisions coverage (%)	0.48	5.89	8.43	1.23	2.13	1.34	0.13	0.11	1.50	1.38
- Stage 1 (%)	—	1.34	0.91	0.10	0.12	0.15	0.03	0.11	0.13	0.11
- Stage 2 (%)	0.81	9.90	10.24	2.66	2.08	3.32	—	—	3.06	2.84
- Stage 3 (%)	15.56	58.54	70.68	27.75	51.27	36.39	30.00	—	44.41	37.03
ECL charge - Third party	11	17	19	47	(21)	(6)	4	—	(23)	24
ECL loss rate (%)	0.05	1.54	1:08	0.18	(0.15)	(0.03)	0.13	—	(0.06)	0.04
Amounts written-off	3	17	61	81	138	62	—	—	200	281
Other financial assets by asset quality (2)	—	—	—	—	—	—	4	20,952	20,956	20,956
- AQ1-AQ4	—	—	—	—	—	—	—	20,952	20,952	20,952
- AQ5-AQ8	—	—	—	—	—	—	4	—	4	4
- AQ9	—	—	—	—	—	—	—	—	—	—
Off-balance sheet	3,891	4,129	1,498	9,518	6,116	16,103	1,411	237	23,867	33,385
- Loan commitments	3,891	4,129	1,498	9,518	5,786	14,495	1,323	237	21,841	31,359
- Financial guarantees	—	—	—	—	330	1,608	88	—	2,026	2,026
Off-balance sheet by asset quality (2)	3,891	4,129	1,498	9,518	6,116	16,103	1,411	237	23,867	33,385
- AQ1-AQ4	3,325	51	1,167	4,543	4,791	12,413	1,264	223	18,691	23,234
- AQ5-AQ8	561	4,015	330	4,906	1,266	3,663	147	14	5,090	9,996
- AQ9	—	1	1	2	1	6	—	—	7	9
- AQ10	5	62	—	67	58	21	—	—	79	146

*2018 data has been restated for a change to presentation of unrecognised interest. Refer to Accounting policy 1, Other amendments to IFRS, for further details.
**Not within audit scope.

Notes:
(1) Includes a portion of secured lending in Private Banking, in line with ECL calculation methodology.
(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 (2018 – £0.1 billion) AQ10 Personal balances primarily relate to loan commitments, the draw down of which is effectively prohibited.
(3) 30 DPD – 30 days past due, the mandatory 30 days past due backstop as prescribed by the IFRS 9 guidance for significant increase in credit risk.
(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
Portfolio summary – sector analysis (audited)
Wholesale forbearance
The table below shows Wholesale forbearance, Heightened Monitoring and Risk of Credit Loss by sector. Personal forbearance is disclosed on page 39.

2019	FI £m	Property £m	Other corporate £m	Total £m
Forbearance (flow)	1	263	546	810
Forbearance (stock)	1	308	1,069	1,378
Heightened Monitoring and Risk of Credit Loss	47	405	962	1,414
2018				
Forbearance (flow)	1	109	881	991
Forbearance (stock)	1	173	974	1,148
Heightened Monitoring and Risk of Credit Loss	2	216	1,483	1,701

Key points
- Geography – The vast majority of exposures in both the Personal and Wholesale portfolios were in the UK. Other exposures in Europe and the rest of the world were Wholesale in nature. Mortgages accounted for approximately 37% of exposure.
- Asset quality – Measured against RBS plc's asset quality scale, 52% of lending exposure was rated in the AQ1-AQ4 bands at 31 December 2019 (2018 – 55%). This equated to an indicative investment rating of BBB- or above. Specifically, 51% of Personal (2018 – 58%) and 52% of Wholesale lending exposure (2018 – 53%) were in the AQ1-AQ4 category respectively. The movement in Personal was primarily driven by mortgages, with a movement in assets from AQ4-AQ5, which was reflective of a slight increase in the portfolio default rate as the book contracts.
- Loans by stage – The percentage of exposures in Stage 2, significantly credit deteriorated, remained broadly stable at 11%. Stage 3 assets, which align to AQ10, represented 2.6% of total exposures, broadly unchanged in the year. Similar to 2018, the Personal portfolio had a higher proportion of unsecured lending assets in Stage 2 than the mortgage portfolio. The proportion of assets in Stage 2 in Wholesale was lower than for Personal, with Stage 3 similar.
- Loans – Past due analysis – Stage 2 – The vast majority of assets overall were not past due, with the Stage 2 classification driven primarily by changes in lifetime PD. (For further detail, refer to the Significant increase in credit risk section). In other Personal, the relatively high rate of exposures past due by more than 90 days reflected the fact that impaired assets can be held on balance sheet with commensurate ECL provision for up to six years after default. Similarly, in the Wholesale portfolio, impaired assets can be held on the balance sheet for a significant period of time while restructuring and recovery processes are concluded.
- Weighted average 12 months PDs – In Wholesale, Basel PDs, which are based on a through-the-cycle approach, tend to be higher than point-in-time best estimate IFRS 9 PDs, reflecting the current state in the economic cycle, and also an element of conservatism in the regulatory capital framework. In Personal, the Basel PDs, which are point-in-time estimates, tend to be higher, also reflecting conservatism, higher in mortgages than other products, and an element of default rate under-prediction in the IFRS 9 PD models. This has been mitigated by ECL overlays – refer to the Governance and post model adjustments section for further details. PDs overall increased slightly. The rise in other personal was reflective of slight increases in default rates addressed by risk appetite tightening. Overall Wholesale PDs were in line with the prior year, with reductions in the property sector offset by increases in the corporate sector.
- ECL provision by stage and coverage – The majority of ECL by value was in Stage 3 impaired, with similar seen in both Personal and Wholesale. Provision coverage was progressively higher by stage reflecting the lifetime nature of losses in both Stage 2 and Stage 3. In the Personal portfolio, provision coverage was materially lower in mortgages relative to credit cards and other Personal, reflecting the secured nature of the facilities. In the Personal portfolios, provision coverage increased, driven by Stage 2 and Stage 3. For Wholesale exposures, security and enterprise value mitigated against losses in Stage 3. At a total Wholesale level, the Stage 3 provision coverage slightly increased for both individual and collectively assessed exposures.
- The ECL charge for the year was £207 million up from £24 million in 2018; primarily this reflected a small number of large individual commercial charges as well as the transitioning from a very benign period towards a more normalised external credit environment.,The cost of risk at 37 basis points was within RBS plc's view of a normalised blended long-term loss rate of 30 to 40 basis points.
- Other financial assets by asset quality – Consisting entirely of cash and balances at central banks, these assets were mainly within the AQ1-AQ4 category.
- Off-balance sheet exposures by asset quality – For Personal exposures, undrawn exposures were reflective of available credit lines in credit cards and current accounts. Additionally, the mortgage portfolio had undrawn exposure, where a formal offer had been made to a customer but had not yet been drawn down. There was also a legacy portfolio of flexible mortgages where a customer had the right and ability to draw down further funds. The asset quality distribution in mortgages remained heavily weighted to the highest quality bands AQ1-AQ4, with credit card concentrated in the risk bands AQ5-AQ8. In Wholesale, the significant majority of undrawn exposure, relating mainly to loan commitments, was in the AQ1-AQ4 category.

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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
2019	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Financial assets											
Cash and balances at central banks	26.1	—	26.1	—	—	—	—	—	—	26.1	—
Loans - amortised cost (3)	55.3	0.8	54.5	0.9	—	33.3	6.3	39.6	0.8	14.9	0.1
Personal	23.5	0.3	23.2	0.4	—	20.5	—	20.5	0.4	2.7	—
Wholesale (4)	31.8	0.5	31.3	0.5	—	12.8	6.3	19.1	0.4	12.2	0.1
Total financial assets	81.4	0.8	80.6	0.9	—	33.3	6.3	39.6	0.8	41.0	0.1
Contingent liabilities and commitments											
Personal (5,6)	9.1	—	9.1	0.1	—	3.3	—	3.3	—	5.8	0.1
Wholesale	18.0	—	18.0	—	0.1	2.4	1.0	3.5	—	14.5	—
Total off-balance sheet	27.1	—	27.1	0.1	0.1	5.7	1.0	6.8	—	20.3	0.1
Total exposure	108.5	0.8	107.7	1.0	0.1	39.0	7.3	46.4	0.8	61.3	0.2
2018*											
Financial assets											
Cash and balances at central banks	21.0	—	21.0	—	—	—	—	—	—	21.0	—
Loans - amortised cost (3)	63.2	0.8	62.4	1.0	0.1	37.4	6.0	43.5	0.9	18.9	0.1
Personal	26.7	0.3	26.4	0.5	—	23.6	—	23.6	0.5	2.8	—
Wholesale (4)	36.5	0.5	36.0	0.5	0.1	13.8	6.0	19.9	0.4	16.1	0.1
Total financial assets	84.2	0.8	83.4	1.0	0.1	37.4	6.0	43.5	0.9	39.9	0.1
Contingent liabilities and commitments											
Personal (5,6)	9.5	—	9.5	0.1	—	3.7	—	3.7	—	5.8	0.1
Wholesale	23.9	—	23.9	0.1	0.1	2.4	1.1	3.6	—	20.3	0.1
Total off-balance sheet	33.4	—	33.4	0.2	0.1	6.1	1.1	7.3	—	26.1	0.2
Total exposure	117.6	0.8	116.8	1.2	0.2	43.5	7.1	50.8	0.9	66.0	0.3

*2018 data has been restated for a change to presentation of unrecognised interest, refer to Accounting policy 1, Other amendments to IFRS, for further details. Also restated for the inclusion of non-modelled portfolios, primarily the Private Banking mortgage portfolio and associated CREM amounts.

Notes:
(1) Includes cash and securities collateral.
(2) Includes guarantees, charges over trade debtors, other asset finance related physical collateral as well as the amount by which credit risk exposure is reduced through netting arrangements, mainly cash management pooling, which give RBS plc a legal right to set off the financial asset against a financial liability due to the same counterparty.
(3) RBS plc holds collateral in respect of individual loans – amortised cost to banks and customers. This collateral includes mortgages over property (both personal and commercial); charges over business assets such as plant and equipment, inventories and trade debtors; and guarantees of lending from parties other than the borrower. Collateral values are capped at the value of the loan.
(4) Stage 3 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.
(5) £0.1 billion (2018 – £0.1 billion) of Personal Stage 3 balances primarily relates to loan commitments, the draw down of which is effectively prohibited.
(6) The Personal gross exposure value includes £0.2 billion (2018 – £0.2 billion) in respect of pipeline mortgages where a committed offer has been made to a customer but where the funds have not yet been drawn down. When draw down, the exposure would be covered by a security over the borrower's property.

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Capital and risk management

Credit risk – Banking activities continued

Personal portfolio (audited)

Disclosures in the Personal portfolio section include drawn exposure (gross of provisions). Loan-to-value (LTV) ratios are split by stage under IFRS 9.

	2019			2018*		
Personal lending	UK PB £m	Private Banking £m	Total £m	UK PB £m	Private Banking £m	Total £m
Mortgages	20,090	578	20,668	23,124	577	23,701
Of which:						
Owner occupied	18,091	518	18,609	20,842	515	21,357
Buy-to-let	1,999	60	2,059	2,282	62	2,344
Interest only - variable	2,767	182	2,949	3,464	225	3,689
Interest only - fixed	1,932	248	2,180	1,888	201	2,089
Mixed (1)	1,530	1	1,531	1,781	2	1,783
Impairment provisions (2)	116	—	116	113	1	114
Other personal lending (3)	2,810	99	2,909	2,730	97	2,827
Impairment provisions (2)	232	2	234	210	2	212
Total personal lending	22,900	677	23,577	25,854	674	26,528
Mortgage LTV ratios						
- Total portfolio	50%	57%	50%	51%	58%	51%
- Stage 1	*49%*	*57%*	*49%*	*50%*	*58%*	*50%*
- Stage 2	*54%*	*55%*	*54%*	*55%*	*56%*	*55%*
- Stage 3	*53%*	*66%*	*53%*	*54%*	*60%*	*54%*
- Buy-to-let	51%	52%	51%	53%	51%	53%
- Stage 1	*51%*	*51%*	*51%*	*52%*	*51%*	*52%*
- Stage 2	*57%*	*43%*	*57%*	*58%*	*54%*	*58%*
- Stage 3	*59%*	*80%*	*60%*	*58%*	*85%*	*59%*
Gross new mortgage lending (4)	1,010	84	1,094	1,671	105	1,776
Of which:						
Owner occupied exposure	966	79	1,045	1,604	99	1,703
Weighted average LTV	68%	63%	68%	69%	65%	69%
Buy-to-let	44	5	49	67	6	73
Weighted average LTV	60%	75%	62%	62%	53%	61%
Interest only variable rate	14	23	37	16	41	57
Interest only fixed rate	66	42	108	94	31	125
Mixed (1)	43	—	43	85	—	85
Mortgage forbearance						
Forbearance flow	140	—	140	162	—	162
Forbearance stock	439	—	439	521	—	521
Current	231	—	231	*287*	—	*287*
1-3 months in arrears	105	—	105	*123*	—	*123*
>3 months in arrears	102	—	102	*111*	—	*111*

*2018 data has been restated for a change to presentation of unrecognised interest. Refer to Accounting policy 1, Other amendments to IFRS, for further details.

Notes:
(1) Includes accounts which have an interest only sub-account and a capital and interest sub-account to provide a more comprehensive view of interest only exposures.
(2) For UK Personal Banking this 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 that are commercial in nature.
(4) UK Personal Banking excludes additional lending to existing customers.

Key points

- The overall credit risk profile of the Personal portfolio, and its performance against credit risk appetite, remained stable during 2019.
- Total mortgage lending reduced with redemptions and repayments exceeding new lending, affected by intermediary new lending being originated through the NatWest Bank business.
- New mortgage lending was lower than in 2018. 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. Underwriting standards were maintained during the period.
- Owner occupied and buy-to-let – Mortgage growth was lower than in 2018. New mortgages in the buy-to-let portfolio remained subdued as tax and regulatory changes in the UK reduced borrower activity.
- LTV – The mortgage portfolio LTV ratio decreased, reflecting house price increases across a number of regions including Scotland and lower new lending in 2019.
- Interest only – By value, the proportion of mortgages on interest only and mixed terms (capital and interest only) was flat. This was driven by low proportions of buy to-let and owner occupied interest only new business.
- Regional mortgage analysis – 29% of the stock of lending was in Greater London and the South East (2018 – 29%). The average weighted LTV for these regions was 42% (2018 – 43%) compared to 50% for all regions.
- Other lending – UK Personal Banking balances continued to increase, up 2.9% in 2019.
- Other lending asset quality – Overall new lending quality was stable in 2019, with observed deterioration in loans addressed by management actions. Credit card new business quality improved in 2019 due to the introduction of credit enhancements to online marketing controls and new product offers.
- Provisions – Mortgage provisions were broadly flat year-on-year. In other Personal, the increase was primarily a result of Stage 3 assets and reflected the steady flow of new defaults which increased slightly year-on-year, however, in unsecured lending the trend flattened in the second half of the year as a result of risk appetite tightening.

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 UK Personal Banking. Mortgage lending not within the scope of IFRS 9 ECL reflected portfolios carried at fair value.

	Mortgages						ECL provisions				ECL provisions coverage (2)			
2019	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%	8,948	1,031	196	12	10,187	219	1	8	37	46	—	0.8	18.9	0.4
>50% and ≤70%	5,346	1,010	169	4	6,529	270	1	10	28	39	—	1.0	16.4	0.6
>70% and ≤80%	1,740	308	47	1	2,096	193	—	5	11	16	—	1.3	22.4	0.7
>80% and ≤90%	829	161	30	—	1,020	234	—	3	8	11	—	1.9	27.6	1.1
>90% and ≤100%	185	37	7	—	229	91	—	1	2	3	0.1	3.0	28.0	1.4
>100% and ≤110%	7	8	3	—	18	—	—	—	1	1	0.2	4.9	31.6	7.3
>110% and ≤130%	2	3	1	—	6	—	—	—	—	—	0.3	6.9	32.7	9.2
>130% and ≤150%	—	—	1	—	1	—	—	—	—	—	0.2	2.4	38.9	20.3
Total with LTVs	17,057	2,558	454	17	20,086	1,007	2	27	87	116	—	1.0	19.2	0.6
Other	4	—	—	—	4	3	—	—	—	—	0.3	—	—	12.5
Total	17,061	2,558	454	17	20,090	1,010	2	27	87	116	—	1.0	19.3	0.6
2018*														
≤50%	9,763	1,126	211	12	11,112	302	1	6	46	53	—	0.6	21.5	0.5
>50% and ≤70%	6,250	1,136	184	4	7,574	469	1	9	24	34	—	0.8	13.7	0.5
>70% and ≤80%	2,152	358	51	1	2,562	339	—	4	7	11	—	0.9	14.4	0.4
>80% and ≤90%	1,220	236	38	—	1,494	438	—	4	6	10	—	1.6	16.8	0.7
>90% and ≤100%	219	52	11	—	282	117	—	1	2	3	0.1	2.3	19.4	1.2
>100% and ≤110%	10	10	3	—	23	—	—		1	1	0.2	4.4	23.5	5.1
>110% and ≤130%	2	3	1	—	6	—	—	—	—	—	0.1	6.7	21.3	8.4
>130% and ≤150%	1	—	—	—	1	—	—	—	—	—	0.2	6.6	17.7	4.9
Total with LTVs	19,617	2,921	499	17	23,054	1,665	2	24	87	112	—	0.8	17.5	0.5
Other	63	6	1	—	70	6	—	—	1	1	—	1.8	61.7	0.9
Total	19,680	2,927	500	17	23,124	1,671	2	24	88	113	—	0.8	17.6	0.5

*2018 data has been restated for a change to presentation of unrecognised interest. Refer to Accounting policy 1, Other amendments to IFRS, for further details.

Notes:

(1) Excludes a non-material amount of provisions held on relatively small legacy portfolios.

(2) ECL provisions coverage is ECL provisions divided by mortgages.

Key point

- ECL coverage rates increase through the LTV bands with only limited exposures in the highest LTV bands. The relatively high coverage level in the lowest LTV band included the effect of time-discounting on expected recoveries. Additionally, this also reflected the modelling approach that recognised an element of expected loss on mortgages that are not subject to formal repossession activity.

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Capital and risk management

Credit risk – Banking activities continued

Commercial real estate (CRE)

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

By sub sector	2019 £m	2018* £m
Investment		
Residential (1)	1,624	1,848
Office (2)	1,243	1,559
Retail (3)	2,260	2,438
Industrial (4)	773	847
Mixed/other (5)	358	534
	6,258	7,226
Development		
Residential (1)	849	1,077
Office (2)	37	187
Retail (3)	32	14
Industrial (4)	34	31
Mixed/other (5)	2	3
	954	1,312
Total (6)	7,212	8,538

*2018 data has been restated for a change to presentation of unrecognised interest. Refer to Accounting policy 1, Other amendments to IFRS, for further details.

Notes:
(1) Properties including houses, flats and student accommodation.
(2) Properties including offices in central business districts, regional headquarters and business parks.
(3) Properties including high street retail, shopping centres, restaurants, bars and gyms.
(4) Properties including distribution centres, manufacturing and warehouses.
(5) Properties that do not fall within the other categories above. Mixed generally relates to a mixture of retail/office with residential.
(6) 100% (2018 – 98%) of the total exposure relates to the UK.

Capital and risk management

Credit risk – Banking activities continued

Commercial real estate (CRE)

CRE LTV distribution by stage (audited)

The table below shows CRE current exposure and related ECL by LTV band. CRE lending not within the scope of IFRS 9 ECL included exposures in wealth businesses and other exposures carried at fair value, including derivatives.

	Current exposure (gross of provisions) (1,2)					ECL provisions				ECL provisions coverage (4)			
2019	Stage 1 £m	Stage 2 £m	Stage 3 £m	Not within IFRS 9 ECL scope £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 %	Stage 2 %	Stage 3 %	Total %
≤50%	2,968	197	16	8	3,189	3	2	5	10	0.1	1.0	31.3	0.3
>50% and ≤70%	2,017	49	116	13	2,195	3	3	25	31	0.1	6.1	21.6	1.4
>70% and ≤80%	135	27	27	1	190	—	—	13	13	—	—	48.1	6.9
>80% and ≤90%	17	5	8	1	31	—	—	2	2	—	—	25.0	6.7
>90% and ≤100%	2	16	17	—	35	—	—	13	13	—	—	76.5	37.1
>100% and ≤110%	3	1	2	—	6	—	—	1	1	—	—	50.0	16.7
>110% and ≤130%	1	—	23	1	25	—	—	8	8	—	—	34.8	33.3
>130% and ≤150%	1	5	14	—	20	—	—	5	5	—	—	35.7	25.0
>150%	11	3	18	—	32	—	—	10	10	—	—	55.6	31.3
Total with LTVs	5,155	303	241	24	5,723	6	5	82	93	0.1	1.7	34.0	1.6
Total portfolio average LTV (%)	45%	45%	98%	53%	48%								
Other (5)	(103)	62	15	561	535	1	1	9	11	(1.0)	1.6	60.0	(42.3)
Development (6)	812	92	50	—	954	2	—	14	16	0.2	—	28.0	1.7
Total	5,864	457	306	585	7,212	9	6	105	120	0.2	1.3	34.3	1.8
2018*													
≤50%	3,483	80	18	9	3,590	4	2	8	14	0.1	2.5	44.4	0.4
>50% and ≤70%	2,267	159	41	17	2,484	3	4	5	12	0.1	2.5	12.2	0.5
>70% and ≤80%	176	13	7	2	198	1	—	3	4	0.6	—	42.9	2.0
>80% and ≤90%	29	4	8	1	42	—	—	4	4	—	—	50.0	9.8
>90% and ≤100%	8	3	12	—	23	—	—	4	4	—	—	33.3	17.4
>100% and ≤110%	5	1	3	—	9	—	—	1	1	—	—	33.3	11.1
>110% and ≤130%	3	1	89	1	94	—	—	19	19	—	—	21.3	20.4
>130% and ≤150%	2	6	7	—	15	—	—	3	3	—	—	42.9	20.0
>150%	14	2	21	—	37	—	—	13	13	—	—	61.9	35.1
Total with LTVs	5,987	269	206	30	6,492	8	6	60	74	0.1	2.2	29.1	1.1
Total portfolio average LTV (%)	45%	60%	121%	56%	48%								
Other (5)	843	17	16	(142)	734	1	1	9	11	0.1	5.9	56.3	1.3
Development (6)	1,184	65	63	—	1,312	4	1	27	32	0.3	1.5	42.9	2.4
Total	8,014	351	285	(112)	8,538	13	8	96	117	0.2	2.3	33.7	1.4

*2018 data has been restated for a change to presentation of unrecognised interest. Refer to Accounting policy 1, Other amendments to IFRS, for further details.

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

Key points (audited)

- Overall – The majority of the CRE portfolio was managed in the UK within Commercial Banking and Private Banking. Business appetite and strategy remain aligned across the segments.
- 2019 trends – Portfolio exposure reduced slightly during 2019, with new business and refinance activity lower than in previous years. CRE retail capital values have continued to decline in 2019.
- The retail property market continued to be affected by structural change which resulted in a significant number of CVA's and material capital value falls. In contrast, the office and industrial sectors remained generally positive with solid demand and stable or rising values. An unfavourable Brexit remains the key risk, most notably to the London office market. The mainstream residential housing market was relatively resilient, however a continual slowing of sales was evident particularly for properties above the Help to Buy threshold. Price growth slowed, with some areas softening, most notably in London and the Southeast.
- Credit quality – Heightened Monitoring inflows are stable from a volume perspective but have increased in value due to some larger CRE retail exposures that have entered the framework. The sub-sector was monitored on a regular basis and despite the challenges in the sub-sector, the CRE retail portfolio had a manageable default rate, with a limited number of new defaults.
- Risk appetite – Lending criteria for commercial real estate are considered conservative, with lower leverage required for new London office originations and most parts of the retail sector.

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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 in this section may therefore differ from those reported in other tables in the credit risk section, principally in relation to exposures in Stage 1 and Stage 2. These differences do not have a material ECL impact. Other points to note:

- Financial assets include treasury liquidity portfolios, comprising balances at central banks and debt securities, as well as loans. Both modelled and non-modelled portfolios are included.
- Stage transfers (for example, exposures moving from Stage 1 to Stage 2) are a key feature of the ECL movements, with the net re-measurement cost of transitioning to a worse stage being a primary driver of income statement charges. Similarly, there is an ECL benefit for accounts improving stage.
- Changes in risk parameters shows the reassessment of the ECL within a given stage, including any ECL overlays and residual income statement gains or losses at the point of write-off or accounting write-down.
- Other (P&L only items) includes any subsequent changes in the value of written-down assets (for example, fortuitous recoveries) along with other direct write-off items such as direct recovery costs. Other (P&L only items) affects the income statement but does not affect balance sheet ECL movements.
- Amounts written-off represent the gross asset written-down against accounts with ECL, including the net asset write-down for debt sale activity.
- There were small ECL flows from Stage 3 to Stage 1. This does not however indicate that accounts returned from Stage 3 to Stage 1 directly. On a similar basis, there were flows from Stage 1 to Stage 3 including transfers due to unexpected default events.
- RBS plc continues to hold post model adjustments (PMAs) on a temporary basis ahead of the underlying model parameter changes being implemented, as well as on certain portfolio segments where management judge additional ECL is required. The impact of any change in PMAs during the year is reported under changes in risk parameters, as are any impacts arising from changes to the underlying models. Refer to the Governance and post model adjustments section for further details.
- Reporting enhancements since 31 December 2018, now mean all movements are captured monthly and aggregated. Previously, for example, the main Personal portfolios were prepared on a six month movement basis. Additionally, as noted earlier, interest suspended post default is now included within Stage 3 ECL, with 2018 data restated. The movement in the value of suspended interest during the year is 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 2019	74,586	63	6,871	187	1,763	624	83,220	874
Currency translation and other adjustments	(163)	(2)	(25)	(2)	17	—	(171)	(4)
Inter-Group transfers	(1,251)	(1)	(16)	(1)	29	—	(1,238)	(2)
Transfers from Stage 1 to Stage 2	(5,571)	(19)	5,571	19	—	—	—	—
Transfers from Stage 2 to Stage 1	4,488	61	(4,488)	(61)	—	—	—	—
Transfers to Stage 3	(50)	—	(813)	(47)	863	47	—	—
Transfers from Stage 3	105	3	382	25	(487)	(28)	—	—
Net re-measurement of ECL on stage transfer		(50)		112		124		186
Changes in risk parameters (model inputs)		(7)		(43)		144		94
Other changes in net exposure	(1,735)	10	(1,306)	(18)	(321)	(11)	(3,362)	(19)
Other (P&L only items - primarily fortuitous recoveries)		—		—		(54)		(54)
Income statement (releases)/charges		(47)		51		203		207
Amounts written-off	—	—	—	—	(281)	(281)	(281)	(281)
Unwinding of discount		—		—		(25)		(25)
At 31 December 2019	70,409	58	6,176	171	1,583	594	78,168	823
Net carrying amount	70,351		6,005		989		77,345	
At 1 January 2018	666	1	16	—	47	3	729	4
2018 movements	73,920	62	6,855	187	1,716	621	82,491	870
At 31 December 2018*	74,586	63	6,871	187	1,763	624	83,220	874
Net carrying amount	74,523		6,684		1,139		82,346	

*2018 data has been restated for a change to reportable segments and a change to presentation of unrecognised interest. Refer to Note 4 on the accounts and Accounting policy 1, Other amendments to IFRS, for further details.

2018 movements included transfers from Stage 1 to Stage 2 of £3,126 million (ECL – £8 million), transfers from Stage 2 to Stage 1 of £2,027 million (ECL – £35 million), transfers into Stage 3 of £1,015 million (ECL – £14 million) and transfers from Stage 3 of £1,625 million (ECL – £85 million). An additional ECL of £66 million was recognised as a result of these cumulative transfers. It also included amounts written-off of £281 million.

Capital and risk management

Credit risk – Banking activities continued
Flow statements (audited)
The following flow statements provide insight into the material portfolios.

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
UK Personal Banking - mortgages	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2019	20,054	1	2,973	24	524	88	23,551	113
Currency translation and other adjustments	—	1	—	—	7	7	7	8
Transfers from Stage 1 to Stage 2	(1,357)	—	1,357	—	—	—	—	—
Transfers from Stage 2 to Stage 1	1,261	3	(1,261)	(3)	—	—	—	—
Transfers to Stage 3	(3)	—	(198)	(5)	201	5	—	—
Transfers from Stage 3	5	1	161	13	(166)	(14)	—	—
Net re-measurement of ECL on stage transfer		(3)		3		5		5
Changes in risk parameters (model inputs)		(1)		(1)		23		21
Other changes in net exposure	(2,634)	—	(446)	(4)	(86)	(5)	(3,166)	(9)
Other (P&L only items)		—		—		(15)		(15)
Income statement (releases)/charges		(4)		(2)		8		2
Amounts written-off	—	—	—	—	(7)	(7)	(7)	(7)
Unwinding of discount		—		—		(14)		(14)
At 31 December 2019	17,326	2	2,586	27	473	88	20,385	117
Net carrying amount	17,324		2,559		385		20,268	
At 1 January 2018	—	—	—	—	—	—	—	—
2018 movements	20,054	1	2,973	24	524	88	23,551	113
At 31 December 2018*	20,054	1	2,973	24	524	88	23,551	113
Net carrying amount	20,053		2,949		436		23,438	

*2018 data has been restated for a change to reportable segments and a change to presentation of unrecognised interest. Refer to Note 4 on the accounts and Accounting policy 1, Other amendments to IFRS, for further details.

Key points

- Stage 1 and Stage 3 provisions remained broadly stable.
- The small increase in Stage 2 was reflective of a slight increase in the portfolio default rate as the book contracts.
- In Stage 3, the ECL cost within changes in risk parameters reflected the monthly assessment of the loss requirement, capturing underlying portfolio movements.
- Write-off occurs once the repossessed property has been sold and there is a residual shortfall balance remaining outstanding. Write-off would typically be within five years from default but can be longer.

Capital and risk management

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
UK Personal Banking - other personal unsecured	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2019	1,142	11	413	43	115	92	1,670	146
Currency translation and other adjustments	—	—	—	—	1	2	1	2
Transfers from Stage 1 to Stage 2	(519)	(7)	519	7	—	—	—	—
Transfers from Stage 2 to Stage 1	271	14	(271)	(14)	—	—	—	—
Transfers to Stage 3	(4)	—	(67)	(20)	71	20	—	—
Transfers from Stage 3	2	—	8	3	(10)	(3)	—	—
Net re-measurement of ECL on stage transfer		(11)		40		23		52
Changes in risk parameters (model inputs)		1		(5)		18		14
Other changes in net exposure	229	3	(144)	(8)	(13)	(2)	72	(7)
Other (P&L only items)		—		—		(16)		(16)
Income statement (releases)/charges		(7)		27		23		43
Amounts written-off	—	—	—	—	(32)	(32)	(32)	(32)
Unwinding of discount		—		—		(5)		(5)
At 31 December 2019	1,121	11	458	46	132	113	1,711	170
Net carrying amount	1,110		412		19		1,541	
At 1 January 2018	—	—	—	—	—	—	—	—
2018 movements	1,142	11	413	43	115	92	1,670	146
At 31 December 2018*	1,142	11	413	43	115	92	1,670	146
Net carrying amount	1,131		370		23		1,524	

*2018 data has been restated for a change to reportable segments and a change to presentation of unrecognised interest. Refer to Note 4 on the accounts and Accounting policy 1, Other amendments to IFRS, for further details.

Key points

- The overall increase in ECL was primarily in Stage 3, including the effect of a modest increase in the rate of default, however, the trend flattened in the second half of the year as a result of risk appetite tightening. Additionally, there was a loss rate model adjustment that increased ECL.
- In addition, the sale of Stage 3 impaired debt in 2018 reduced the ongoing business-as-usual flow of write-offs, with the actual value of debts sales in 2019 also lower than the prior year.
- The portfolio continued to experience cash recoveries after write-off which are reported in other (P&L only items). These benefited the income statement without affecting ECL. The level was lower compared to the prior year reflecting the debt sales executed in 2018.
- Write-off occurs once recovery activity with the customer has been concluded and there are no further recoveries expected, but no later than six years after default.

Capital and risk management

Credit risk – Banking activities continued
Flow statements (audited)

UK Personal 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 2019	736	10	322	31	36	24	1,094	65
Currency translation and other adjustments	—	—	—	—	—	—	—	—
Transfers from Stage 1 to Stage 2	(333)	(6)	333	6	—	—	—	—
Transfers from Stage 2 to Stage 1	256	16	(256)	(16)	—	—	—	—
Transfers to Stage 3	(5)	—	(34)	(11)	39	11	—	—
Transfers from Stage 3	—	—	3	2	(3)	(2)	—	—
Net re-measurement of ECL on stage transfer		(12)		36		15		39
Changes in risk parameters (model inputs)		(8)		(16)		2		(22)
Other changes in net exposure	43	7	(29)	—	(12)	(1)	2	6
Other (P&L only items)		—		—		(5)		(5)
Income statement (releases)/charges		(13)		20		11		18
Amounts written-off	—	—	—	—	(23)	(23)	(23)	(23)
Unwinding of discount		—		—		(2)		(2)
At 31 December 2019	697	7	339	32	37	24	1,073	63
Net carrying amount	690		307		13		1,010	
At 1 January 2018	—	—	—	—	—	—	—	—
2018 movements	736	10	322	31	36	24	1,094	65
At 31 December 2018*	736	10	322	31	36	24	1,094	65
Net carrying amount	726		291		12		1,029	

*2018 data has been restated for a change to reportable segments and a change to presentation of unrecognised interest. Refer to Note 4 on the accounts and Accounting policy 1 for further details.

Key points

- ECL reduced slightly overall driven by Stage 1. Stage 2 and Stage 3 ECL remained stable.
- The portfolio continued to experience cash recoveries after write-off which are reported in other (P&L only items). These benefited the income statement without affecting ECL. The level was lower compared to the prior year reflecting the debt sales executed in 2018.
- Charge-off (analogous to partial write-off) typically occurs after 12 missed payments.

Capital and risk management

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 - excluding business banking	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2019	28,639	36	2,977	81	964	365	32,580	482
Currency translation and other adjustments	(169)	(1)	(22)	1	10	(9)	(181)	(9)
Inter-group transfers	(486)	(1)	(16)	(1)	29	—	(473)	(2)
Transfers from Stage 1 to Stage 2	(3,144)	(5)	3,144	5	—	—	—	—
Transfers from Stage 2 to Stage 1	2,541	24	(2,541)	(24)	—	—	—	—
Transfers to Stage 3	(32)	—	(450)	(7)	482	7	—	—
Transfers from Stage 3	96	1	168	1	(264)	(2)	—	—
Net re-measurement of ECL on stage transfer		(21)		27		67		73
Changes in risk parameters (model inputs)		(1)		(19)		90		70
Other changes in net exposure	(2,734)	(1)	(637)	(5)	(174)	—	(3,545)	(6)
Other (P&L only items)		—		—		(10)		(10)
Income statement (releases)/charges		(23)		3		147		127
Amounts written-off	—	—	—	—	(203)	(203)	(203)	(203)
Unwinding of discount		—		—		(3)		(3)
At 31 December 2019	24,711	31	2,623	59	844	312	28,178	402
Net carrying amount	24,680		2,564		532		27,776	
At 1 January 2018	—	—	—	—	—	—	—	—
2018 movements	28,639	36	2,977	81	964	365	32,580	482
At 31 December 2018*	28,639	36	2,977	81	964	365	32,580	482
Net carrying amount	28,603		2,896		599		32,098	

*2018 data has been restated for a change to reportable segments and a change to presentation of unrecognised interest. Refer to Note 4 on the accounts and Accounting policy 1, Other amendments to IFRS, for further details.

Key points

- ECL decreased primarily as write-offs exceeded the level of impairment charges on new into default cases.
- The Stage 1 and Stage 2 decreases in ECL were a result of improvements in underlying risk metrics which are reflected in changes to risk parameters in Stage 1 and Stage 2. They were partially offset by model enhancements and increases related to economic uncertainty.
- The distribution of assets across stages remained broadly in line with 2018, with model enhancements and increases in exposures managed in the Risk of Credit Loss framework driving the majority of the net movement from Stage 1 to Stage 2.
- Despite increased charges for Stage 3 impairments, primarily as a result of a small number of material provisions during the year, the ECL balance reduced as write-offs and repayments offset new charges.
- For loans that are individually assessed for impairment, the timing of write-off is determined on a case-by-case basis. Such loans are reviewed regularly and write-offs are prompted by bankruptcy, insolvency, renegotiation and similar events.

Capital and risk management

Credit risk – Banking activities continued
Flow statements (audited)

Commercial Banking Business Banking	Stage 1 Financial assets £m	Stage 1 ECL £m	Stage 2 Financial assets £m	Stage 2 ECL £m	Stage 3 Financial assets £m	Stage 3 ECL £m	Total Financial assets £m	Total ECL £m
At 1 January 2019	1,387	4	154	8	74	49	1,615	61
Currency translation and other adjustments	—	—	—	(1)	1	1	1	—
Transfers from Stage 1 to Stage 2	(174)	(1)	174	1	—	—	—	—
Transfers from Stage 2 to Stage 1	108	4	(108)	(4)	—	—	—	—
Transfers to Stage 3	(2)	—	(31)	(4)	33	4	—	—
Transfers from Stage 3	1	—	7	2	(8)	(2)	—	—
Net re-measurement of ECL on stage transfer		(3)		9		11		17
Changes in risk parameters (model inputs)		1		(1)		10		10
Other changes in net exposure	(103)	—	(53)	(2)	(15)	(4)	(171)	(6)
Other (P&L only items)		—		—		(9)		(9)
Income statement charges		(2)		6		8		12
Amounts written-off	—	—	—	—	(16)	(16)	(16)	(16)
Unwinding of discount		—		—		(1)		(1)
At 31 December 2019	1,217	5	143	8	69	52	1,429	65
Net carrying amount	1,212		135		17		1,364	
At 1 January 2018	—	—	—	—	—	—	—	—
2018 movements	1,387	4	154	8	74	49	1,615	61
At 31 December 2018*	1,387	4	154	8	74	49	1,615	61
Net carrying amount	1,383		146		25		1,554	

*2018 data has been restated for a change to reportable segments and a change to presentation of unrecognised interest. Refer to Note 4 on the accounts and Accounting policy 1, Other amendments to IFRS, for further details.

Key points

- The ECL increase overall was mainly due to an uplift in Stage 3 reflective of loss rate model adjustments.
- Stage 1 remained broadly unchanged. Stage 2 ECL also remained broadly unchanged despite the reduction in Stage 2 exposure, and included the effect of an increase in ECL related to economic uncertainty.
- 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 and there are no further recoveries expected, but no later than five years after default.

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Capital and risk management

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	
2019	£m	%	£m	%	£m	%	£m	%
Personal								
Currently in arrears (>30 DPD)	127	4	4	2	14	3	145	9
Currently up-to-date	2,432	23	327	30	434	42	3,193	95
- PD deterioration	*1,278*	*20*	*193*	*22*	*279*	*34*	*1,750*	*76*
- Up-to-date, PD persistence	*383*	*1*	*111*	*5*	*110*	*5*	*604*	*11*
- Other driver (adverse credit, forbearance etc)	*771*	*2*	*23*	*3*	*45*	*3*	*839*	*8*
Total Stage 2	2,559	27	331	32	448	45	3,338	104
2018								
Personal								
Currently in arrears (>30 DPD)	157	3	4	2	14	4	175	9
Currently up-to-date	2,788	21	309	29	406	39	3,503	89
- PD deterioration	*1,395*	*18*	*197*	*22*	*257*	*31*	*1,849*	*71*
- Up-to-date, PD persistence	*411*	*1*	*82*	*4*	*88*	*4*	*581*	*9*
- Other driver (adverse credit, forbearance etc)	*982*	*2*	*30*	*3*	*61*	*4*	*1,073*	*9*
Total Stage 2	2,945	24	313	31	420	43	3,678	98

Key point

- Overall, Stage 2 balances reduced, driven by mortgages. The reduction in the Other driver category reflected an enhancement to the treatment of certain credit bureau data items. As expected, ECL coverage was higher on accounts that are more than 30 days past due. Also, in line with expectations, up-to-date accounts exhibiting PD deterioration have a higher ECL coverage than accounts in Stage 2 for other reasons.

	Property		Corporate		FI		Other		Total	
2019	£m	%	£m	%	£m	%	£m	%	£m	%
Wholesale										
Currently in arrears (>30 DPD)	16	—	10	1	—	—	—	—	26	1
Currently up-to-date	750	12	1,935	54	58	—	3	—	2,746	66
- PD deterioration	*419*	*9*	*1,207*	*38*	*12*	—	*3*	—	*1,641*	*47*
- Up-to-date, PD persistence	*5*	—	*30*	*1*	—	—	—	—	*35*	*1*
- Other driver (adverse credit, forbearance etc)	*326*	*3*	*698*	*15*	*46*	—	—	—	*1,070*	*18*
Total Stage 2	766	12	1,945	55	58	—	3	—	2,772	67
2018										
Wholesale										
Currently in arrears (>30 DPD)	66	1	200	1	1	—	—	—	267	2
Currently up-to-date	511	11	2,122	76	6	—	3	—	2,642	87
- PD deterioration	*328*	*9*	*1,425*	*51*	*4*	—	*3*	—	*1,760*	*60*
- Up-to-date, PD persistence	*6*	—	*25*	*1*	—	—	—	—	*31*	*1*
- Other driver (adverse credit, forbearance etc)	*177*	*2*	*672*	*24*	*2*	—	—	—	*851*	*26*
Total Stage 2	577	12	2,322	77	7	—	3	—	2,909	89

Key points

- Overall, Stage 2 balances remained broadly stable. Coverage can vary across categories or sectors reflecting the individual characteristics of the customer and exposure type.
- The primary driver of credit deterioration was PD, which including persistence, accounted for the majority of movements into Stage 2.

Credit risk – Banking activities continued

Stage 2 decomposition by a significant increase in credit risk trigger

2019	UK mortgages £m	UK mortgages %	Credit cards £m	Credit cards %	Other £m	Other %	Total £m	Total %
Personal trigger (1)								
PD movement	1,382	54.1	197	59.6	289	64.6	1,868	55.9
PD persistence	385	15.0	111	33.5	110	24.6	606	18.2
Adverse credit bureau recorded with credit reference agency	679	26.5	16	4.8	22	4.9	717	21.5
Forbearance support provided	48	1.9	—	—	2	0.4	50	1.5
Customers in collections	21	0.8	1	0.3	5	1.1	27	0.8
Other reasons (2)	28	1.1	6	1.8	18	4.0	52	1.6
Days past due >30	16	0.6	—	—	2	0.4	18	0.5
	2,559	100.0	331	100.0	448	100.0	3,338	100.0
2018								
Personal trigger (1)								
PD movement	1,524	51.7	201	64.2	268	63.8	1,993	54.1
PD persistence	412	14.0	82	26.2	88	21.0	582	15.8
Adverse credit bureau recorded with credit reference agency	757	25.7	19	6.1	22	5.2	798	21.7
Forbearance support provided	58	2.0	—	—	3	0.7	61	1.7
Customers in collections	31	1.1	1	0.3	7	1.7	39	1.1
Other reasons (2)	145	4.9	10	3.2	31	7.4	186	5.1
Days past due >30	18	0.6	—	—	1	0.2	19	0.5
	2,945	100.0	313	100.0	420	100.0	3,678	100.0

Key point

- The primary driver of credit deterioration was PD, which including persistence, accounted for the majority of movements into Stage 2. High risk back-stops, for example, forbearance and adverse credit bureau, provide additional valuable discrimination particularly on mortgages. The reduction in the Other driver category reflected an enhancement to the treatment of certain credit bureau data items.

2019	Property £m	Property %	Corporate £m	Corporate %	FI £m	FI %	Other £m	Other %	Total £m	Total %
Wholesale trigger (1)										
PD movement	429	56.0	1,215	62.4	12	20.7	3	100.0	1,659	59.8
PD persistence	6	0.8	29	1.5	—	—	—	—	35	1.3
Adverse credit bureau recorded with credit reference agency	306	39.9	552	28.3	46	79.3	—	—	904	32.6
Forbearance support provided	12	1.6	48	2.5	—	—	—	—	60	2.2
Customers in collections	3	0.4	11	0.6	—	—	—	—	14	0.5
Other reasons (3)	7	0.9	87	4.5	—	—	—	—	94	3.4
Days past due >30	3	0.4	3	0.2	—	—	—	—	6	0.2
	766	100.0	1,945	100.0	58	100.0	3	100.0	2,772	100.0
2018										
Wholesale trigger (1)										
PD movement	330	57.3	1,428	61.5	5	71.4	3	100.0	1,766	60.7
PD persistence	6	1.0	25	1.1	—	—	—	—	31	1.1
Adverse credit bureau recorded with credit reference agency	137	23.7	504	21.7	2	28.6	—	—	643	22.1
Forbearance support provided	19	3.3	56	2.4	—	—	—	—	75	2.6
Customers in collections	3	0.5	12	0.5	—	—	—	—	15	0.5
Other reasons (3)	19	3.3	119	5.1	—	—	—	—	138	4.7
Days past due >30	63	10.9	178	7.7	—	—	—	—	241	8.3
	577	100.0	2,322	100.0	7	100.0	3	100.0	2,909	100.0

Notes:
(1) The table is prepared on a hierarchical basis from top to bottom, for example, accounts with PD deterioration may also trigger backstop(s) but are only reported under PD deterioration.
(2) Includes customers that have accessed payday lending, interest only mortgages past end of term, a small number of mortgage customers on a highly flexible mortgage significantly behind their repayment plan and customers breaching risk appetite thresholds for new business acquisition. Includes customers where a PD assessment cannot be undertaken due to missing PDs.
(3) Includes customers where a PD assessment cannot be undertaken due to missing PDs.

Key point

- The primary driver of credit deterioration was PD, which including persistence, accounted for 61% of Stage 2. The Risk of Credit Loss framework accounted for a further 33%, highlighting the importance of expert judgement being used to identify deterioration.

Non-traded market risk

Definition

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

Sources of risk

RBS plc's non-traded market risk exposure largely comprises interest rate risk. Following further disposals of structured loans to local authorities (LOBOs) during the year, credit spread risk exposure continued to decrease and was not material by 31 December 2019.

Risk governance, appetite and controls

For general information on risk governance, appetite and controls in RBS plc, refer to pages 8 to 10. Further information specific to non-traded market risk can be found in the non-traded market risk section of the RBS Group ARA.

Risk measurement

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

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

	2019				2018
	Average	Maximum	Minimum	Period-end	Period-end
	£m	£m	£m	£m	£m
Interest rate	2.7	6.9	0.5	1.1	3.1
Euro	0.2	0.3	—	0.2	0.1
Sterling	2.7	6.9	0.6	1.1	2.5
US dollar	0.3	0.9	—	0.1	0.3
Other	—	0.1	—	—	—
Credit spread	1.0	1.4	0.5	—	1.7
Pipeline risk	0.1	0.1	—	0.1	—
Diversification (1)	(1.0)	—	—	(0.1)	(1.3)
Total	2.8	6.7	0.5	1.1	3.5

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

Δ

Key point (audited)

- The reduction in interest rate and credit spread VaR during the year was driven by the disposal of the LOBO loans. Credit spread VaR was not material by the end of August 2019.

Δ

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 RBS Group ARA.

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. Further detail on these measurement approaches can also be found in the non-traded market risk section of the RBS Group ARA.

Structural hedging

RBS plc has a significant pool of stable, non and low interest-bearing liabilities, principally comprising equity and money transmission accounts. Money transmission accounts were novated primarily from NatWest Markets Plc and additional capital was injected by RBS plc's parent company, NatWest Holdings Limited.

RBS 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 2019, RBS plc's structural hedge had a notional of £31 billion (£31 billion at 31 December 2018) with an average life of approximately three years.

Sensitivity of net interest earnings

The sensitivity of net interest earnings table below shows the expected impact, over 12 months, to an immediate upward or downward change of 25 and 100 basis points to all interest rates. Yield curves are expected to move in parallel though interest rates are assumed to floor at zero per cent or, for euro rates, at the current negative rate. For further information on the assumptions and methodology relating to this table, refer to the corresponding table in the RBS Group ARA.

	Parallel shifts in yield curve			
2019	+25 basis points £m	-25 basis points £m	+100 basis points £m	-100 basis points £m
12-month interest earnings sensitivity	41	(39)	164	(178)
2018				
12-month interest earnings sensitivity	40	(50)	176	(165)

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 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 RBS Group ARA.

2019	+25 basis points £m	-25 basis points £m	+100 basis points £m	-100 basis points £m
Cash flow hedge reserves	(153)	155	(601)	634
2018				
Cash flow hedge reserves	(146)	148	(572)	603

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 RBS Group ARA.

Capital and risk management

Compliance & conduct risk

Definition

Compliance risk is the risk that the behaviour of RBS 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 RBS 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 RBS Group's relationships with its customers and arise from a variety of activities including product design, marketing and sales, complaint handling, staff training, and handling of confidential insider information. As set out in Note 21 on the accounts, RBS Group and certain members of staff are party to legal proceedings and are subject to investigation and other regulatory action in the UK, the US and other jurisdictions.

Key developments in 2019

- Policies were simplified and enhanced to reflect regulatory changes and technical training delivered across the lines of defence.
- Ongoing investment in regulatory technology.
- Planning for LIBOR transition continued including an extended SONIA pilot and further industry engagement.
- Preparations continued for a number of Brexit outcomes.
- Enhanced operational capabilities to cope with unprecedented volumes of PPI mis-selling claims.

Risk governance

RBS 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.

Risk controls

A range of controls is operated to ensure 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 RBS 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.

Risk monitoring and measurement

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

Risk mitigation

Activity to mitigate the most-material compliance and conduct risks is carried out across RBS 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 RBS Group. Independent assessments of compliance with applicable regulations are also carried out at a legal entity level.

Financial crime risk

Definition

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

Sources of risk

Financial crime risk may be presented if RBS plc's employees, customers 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 of RBS plc's lines of business.

Key developments in 2019

- Enhanced financial crime risk assessment processes were implemented to enable improved identification and mitigation of financial crime risks
- Improvements were made to transaction monitoring alert processes, including the use of risk-based artificial intelligence to facilitate focus on activity of higher concern.
- Financial crime policies were refreshed and updated to reflect changes to the regulatory environment and industry best practice.

Risk governance

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

Risk appetite

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

Risk controls

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

Risk monitoring and measurement

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

Risk mitigation

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

Climate-related financial risk

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

Financial risks from climate change arise from physical risks – including the threats from extreme weather events, flooding and sea level rises - and transition risks, which are those relating to the move to a low carbon economy, including changes due to evolving customer behaviour as well as those resulting from new regulation or legislation.

Climate-related financial risk continued

The RBSG plc Board is responsible for addressing and overseeing the financial risks from climate change within RBS plc's overall business strategy and risk appetite. Climate risk will be considered and, where appropriate, embedded in the risk management framework and subject to the governance set out by individual risk disciplines.

For further details, refer to Climate-related financial risk in the Capital and risk management section of the 2019 RBSG plc Annual Report.

Operational risk

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. Operational risk appetite supports effective management of material operational risks. It expresses the level and types of operational risk RBS plc is willing to accept to achieve its strategic objectives and business plans.

The RBS Group-wide operational risk appetite statement encompasses the full range of operational risks faced by its legal entities, businesses and functions. The most material risk appetite measures are defined as board risk measures, which are those that align to strategy and should the limit be breached, would impact on the ability to achieve business plans and threaten stakeholder confidence.

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 Group's Risk Directory. Risk assessments are refreshed at least annually to ensure they remain relevant and capture any emerging risks as well as ensuring risks are reassessed.

The process is designed to confirm that risks are effectively managed in line with risk appetite. Controls are tested on a regular basis to ensure they operate effectively to reduce identified risks.

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

RBS plc manages and monitors operational resilience through its risk and control assessments methodology. This is underpinned by setting, monitoring and testing tolerances for key business services. Progress continues on the response to regulatory expectations on operational resilience.

Model risk

A variety of models are used as part of risk management processes and activities. To mitigate the risk that models are specified, implemented or used incorrectly, independent validation and regular reviews are carried out. Oversight is provided by an RBS Group model risk governance committee in accordance with relevant policies and procedures. For further information on model risk, refer to page 189 of the RBS Group Annual Report and Accounts.

Reputational risk

A reputational risk policy is in place to support the management of issues that could pose a threat to RBS plc's public image. A number of measures – including some also used in the management of operational, conduct and financial risks – are used to assess risk levels against risk appetite. Where a material reputational risk is presented, this is escalated to the RBS Group Reputational Risk Committee. For further information on reputational risk, refer to page 189 of the RBS Group Annual Report and Accounts.

Report of the directors

The directors present their report together with the audited accounts for the year ended 31 December 2019.

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 intermediate holding company'). The Royal Bank of Scotland Group plc ('RBSG plc') is 'the ultimate holding company'. The term 'RBS Group' comprises RBSG plc and its subsidiary and associated undertakings. RBSG 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 13 on the accounts.

The financial statements of RBSG plc can be obtained from Legal, Governance and Regulatory Affairs, RBS Gogarburn, Edinburgh, EH12 1HQ, the Registrar of Companies or through RBS Group's website rbs.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 2019 amounted to £592 million compared with a profit of £656 million for the year ended 31 December 2018, as set out in the consolidated income statement on page 69.

In 2019, RBS plc paid a distribution of £1.8 billion by ordinary dividend and a further ordinary dividend of £0.7 billion to NWH Ltd (2018 – nil).

Employees

As at 31 December 2019, RBS plc directly employs 2,200 people (full-time equivalent basis, including temporary workers). National Westminster Bank Plc (NWB Plc) provides the majority of shared services (including technology) and operational processes under Intra-Group Agreements. Details of related costs are included in Note 3 on the accounts.

Corporate Governance statement

The Companies (Miscellaneous Reporting) Regulations 2018 introduced new statutory reporting requirements for financial years beginning on or after 1 January 2019. As a result of these new requirements, the directors of RBS plc are required to provide a statement in the Report of the directors stating which corporate governance code, if any, RBS plc followed during the year, how it applied the code and any part of the code it did not follow. For the financial year ended 31 December 2019, RBS plc has chosen to report against the Wates Corporate Governance Principles for Large Private Companies, published by the Financial Reporting Council (FRC) in December 2018 and available on the FRC website (the Wates Principles). The disclosures below explain how RBS plc has applied the Wates Principles in the context of its corporate governance arrangements.

1. Purpose and leadership

RBS Group's Purpose is established by the RBSG plc Board, promoted across RBS Group and cascaded to subsidiaries including RBS plc. Further information on RBS Group's Purpose can be found in the 2019 Annual Report and Accounts of RBSG plc.

RBS Group's strategy is set and approved by the RBSG plc Board.

The board of directors of RBS plc (the Board) monitors and maintains the consistency of RBS plc's activities within the strategic direction of RBS Group and, as appropriate, the strategies approved by NWH Ltd for each of the businesses within the NWH Group (which comprises NWH Ltd and its subsidiary and associated undertakings, including RBS plc).

The RBSG plc Board is supported in monitoring culture across RBS Group by the RBS Group Sustainable Banking Committee and the RBS Group Board Risk Committee. RBS Group is on a journey towards a generative risk culture whereby "risk is simply part of the way people work and think". There is regular reporting to the Board on risk culture which allows the Board to have appropriate oversight of risk culture matters that are relevant for RBS plc.

The Board also considered the overall alignment of purpose and strategy with culture and values.

Building a healthy culture that embodies Our Values is a core priority for RBS Group.

Our Values, which guide the way RBS Group identifies the right people to serve customers well, and how to manage, engage and reward colleagues, are at the heart of Our Code (the RBS Group-wide Code of Conduct).

2. Board composition

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

The names of the current directors and secretary are shown on page 4.

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, and all directors of RBS plc are required to stand for election or re-election at the Annual General Meeting.

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

The Boardroom Inclusion Policy contains a number of measurable objectives, targets and ambitions reflecting the ongoing commitment of the Board to inclusion progress. The Board aims to meet the highest industry standards and recommendations wherever possible. That includes, but is not limited to, aspiring to meet the targets set by the Hampton-Alexander Report: FTSE100 Women Leaders (33% female representation on the boards) and the Parker Report: Beyond 1 by '21 (at least one director from an ethnic minority background on the boards) by 2020/2021. The policy supports the RBS Group-wide ambition to aim for a 50/50 gender balance across all levels of the organisation by 2030.

The Board currently meets the Parker target and exceeds the Hampton-Alexander target with a female representation of 47%.

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

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

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

An integral part of RBS Group's governance arrangements is the appointment of four Double Independent Non-Executive Directors (DINEDs) to the boards of NWH Ltd, NWB Plc, RBS plc, and UBL (the NWH Sub Group). The DINEDs are independent in two respects: (i) independent of management as non-executives; and (ii) independent of the rest of RBS Group by virtue of their NWH Group only directorships.

The DINEDs play a critical role in RBS 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 RBS Group.

All RBS plc directors who are not DINEDs are directors of RBSG plc. All DINEDs attend RBSG plc Board meetings in an observer capacity.

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

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

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

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

There is an induction programme for all new directors which is tailored to their specific experience and knowledge. In 2019, Katie Murray and Alison Rose undertook induction programmes following their appointments as Chief Financial Officer (CFO) and Deputy CEO respectively. These programmes focused on building existing knowledge of RBS plc; meetings with relevant internal and external stakeholders and personal development. Alison Rose's induction programme continues following her appointment as CEO.

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 RBSG plc Group Nominations and Governance Committee also approves all appointments to the Board, reflecting RBS plc's position as a subsidiary within RBS Group.

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

2019 Performance evaluation
The 2019 evaluation of the NWH Sub Group Boards was facilitated by the Chief Governance Officer and Company Secretary, Jan Cargill, during Q4 2019, alongside the evaluation of the RBSG plc Board. The conclusion of the 2019 Board evaluation was that the Board operated effectively throughout the year and fulfilled its remit as set out in its terms of reference. Directors engaged fully with the evaluation exercise and commented positively in relation to many aspects of the Board's operations.

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

- Agenda focus had improved following introduction of the Board objectives, particularly in relation to stakeholder voice.
- Ring-fencing governance arrangements had embedded well. The DINED role was clearly understood and functioning effectively, and a recovery fire drill had provided a useful opportunity to test the conflicts of interest process.
- Directors had responded positively to the new reporting style for Board and committee papers, which had driven better quality presentations and shorter packs.
- Although the Board's size had reduced following the departure of Brendan Nelson, most directors still felt the Board was too large, although not necessarily unwieldy or unworkable.
- The balance of skills, knowledge and experience on the Board was considered appropriate, however there was scope for additional technology experience, to support future strategy.
- Focus was needed to continue promoting good working relationships between the Board and executive management.
- Enhancing the quality of management information would enable the Board to focus less on the details and spend more time on key strategic issues.
- There was clear appetite amongst Board members to have more visibility of top executive talent.

Actions
Following Board discussion of the evaluation report, a number of actions were agreed for 2020:

- Agree a focused set of Board objectives for 2020.
- Maintain focus on Board composition and succession planning, balancing the desire to reduce overall Board size with the requirement to ensure an appropriate balance of skills, knowledge and experience, and the need to improve diversity.
- Consider further ways to improve Board dynamics.
- Consider improvements to future management reporting to the Board.
- Develop a structured programme for the Board to meet key executive talent.

Implementation of the 2019 Board evaluation actions will be overseen by the Nominations Committee during 2020.

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

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

Non-executive directors discuss professional development annually with the Chairman and they participate in scheduled Board training sessions and other external sessions, as appropriate. Training topics during 2019 included financial crime, political and economic outlook, directors' duties (including the new statutory reporting requirements), suppliers' spotlight, climate risk, data teach-in, enterprise wide risk management (including the risk appetite framework) and inside information. Directors may also request individual in-depth briefings from time to time on areas of particular interest.

3. Director responsibilities
All directors receive guidance on their statutory duties under the Companies Act and are supported in the discharge of their duties by the Company Secretary, as further described on page 2.

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.

RBS Group also produces and maintains a document called "Our Governance" which sets out the governance, systems and controls applicable to RBSG 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 RBS Group. RBS plc maintains a register of directors' interests and appointments, which is reviewed annually by the Board, and there is discussion of directors' conflicts in Board meetings, as required.

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

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

The Board held eight scheduled meetings during the year. The Board's key areas of focus for 2019 included CEO appointment; capital distributions; risk appetite framework; a review of payments strategy; and Brexit planning and preparedness.

In order to provide effective oversight and leadership, the Board has established a number of Board committees with particular responsibilities. The Audit, Performance & Remuneration, and Nominations Committees of NWH Ltd operate as committees of each of NWH Ltd, NWB Plc, RBS plc and UBL, with meetings running concurrently. During 2019, the Executive Committee operated as a Committee of the Board.

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 for monitoring the integrity of the financial statements. It reviews the accounting policies, financial reporting and regulatory compliance practices of RBS plc, RBS plc's system and 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 and future risk profile, including determination of risk appetite; and the effectiveness of the risk management framework within RBS plc and (in conjunction with the Audit Committee) internal controls required to manage risk. It reviews compliance with the RBS Group Policy Framework within RBS plc and reviews the performance of RBS plc relative to risk appetite.

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

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

The Executive Committee comprises RBS plc's most senior executives and supports the CEO in managing RBS plc's businesses. It considers strategic, financial, capital, risk and operational issues.

4. Opportunity and risk

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

The Board reviews and approves risk appetite for strategic and material risks in accordance with the RBS Group risk appetite framework; monitors performance against risk appetite for RBS plc; and considers any material risks and approves, as appropriate, recommended actions escalated by the Board Risk Committee.

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

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

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

During 2019, a number of enhancements to the risk management framework were developed. The increasing significance of climate risk was considered as part of these developments and will be fully integrated as part of the implementation of the enhanced framework in 2020.

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

Further information on the RBS plc risk management framework including risk culture, risk governance, risk appetite, risk controls and limits, and risk identification and measurement can be found in the capital and risk management section of this report (pages 7 to 12).

5. Remuneration

The RBS Group remuneration policy provides a consistent policy across all companies in RBS Group 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 at RBS plc level.

Executive remuneration structures incentivise individuals to deliver sustainable performance based on strategic objectives for RBS 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 employees about how their contribution links to RBS Group's ambition and all employees have goals set across a balanced scorecard of measures. RBS Group continues to ensure employees are paid fairly for the work they do and are supported by simple and transparent pay structures in line with industry best practices. This clarity and certainty on how pay is delivered is also helping to improve employees' financial wellbeing, which is a priority. Employees are provided with flexibility in terms of how they wish to receive pay to suit their circumstances. Pay is compared against the external market so that pay and benefits are competitive. RBS Group is a fully accredited Living Wage Employer in the UK with rates of pay that continue to exceed the Living Wage Foundation Benchmarks.

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

Further information on the remuneration policy can be found in the Directors' Remuneration Report (DRR) of the 2019 RBSG plc Report and Accounts along with the steps being taken to build an inclusive and engaged workforce and employee share plans. The DRR also contains details of pay ratios for RBS Group. Gender and Ethnicity Pay Gap information can be found in the Strategic Report section of the 2019 Annual Report and Accounts of RBSG plc.

6. Stakeholder relationships and engagement

In developing its annual objectives, the Board identified a number of key stakeholders, and the Board's agenda and engagement plans were structured to enhance the Board's understanding of these key stakeholders' views and interests. This in turn has supported more informed Board discussions and decision-making. Of particular note is the developing role of the Colleague Advisory Panel, which was established in 2018 in response to the requirements of the 2018 UK Corporate Governance Code.

Engagement with Employees, Suppliers, Customers and Others

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

Internal control over financial reporting

The internal controls over financial reporting for RBS plc are consistent with those at RBS Group level. RBS plc has designed and assessed the effectiveness of its internal control over financial reporting as of 31 December 2019 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.

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

Directors' interests

Where directors of RBS plc are also directors of RBSG plc, their interests in the shares of the ultimate holding company at 31 December 2019 are shown in the Corporate governance, Annual report on remuneration section of the 2019 Annual Report and Accounts of RBSG plc. 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 2019 to 13 February 2020.

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 RBS Group subsidiaries.

Going concern

RBS plc's business activities and financial position, the factors likely to affect its future development and performance and its objectives and policies in managing the financial risks to which it is exposed, and its capital, are discussed in the Business review. RBS plc's regulatory capital resources and significant developments in 2019, and anticipated future developments are detailed in the Capital, liquidity and funding section on pages to . This section also describes RBS plc's funding and liquidity profile, including changes in key metrics and the build up of liquidity reserves.

Having reviewed RBS plc's forecasts, projections and other relevant evidence, the directors have a reasonable expectation that RSB plc will continue in operational existence for the foreseeable future. Accordingly, the financial statements of RBS plc have been prepared on a going concern basis.

Political donations

During 2019, 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

Jan Cargill
Company Secretary
13 February 2020

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 to .

The directors are responsible for the preparation of the Annual Report and Accounts which include the Strategic Report, Directors' Report and the accounts. The Directors, as permitted by the Companies Act 2006, have elected to prepare company accounts, for each financial year in accordance with International Financial Reporting Standards as adopted by the European Union. They are responsible for preparing accounts that present fairly the financial position, financial performance and cash flows of the Bank. In preparing those accounts, the directors are required to:

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

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

The directors confirm that to the best of their knowledge:

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

By order of the Board

Howard Davies
Chairman

Alison Rose-Slade
Chief Executive Officer

Katie Murray
Chief Financial Officer

13 February 2020

Board of directors

Chairman
Howard Davies

Executive directors
Alison Rose
Katie Murray

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

Financial Statements

Independent auditor's 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 2019 which comprise the Income statement, Statement of comprehensive income, the Balance sheet, Statement of changes in equity, Statement of cash flows, the Accounting policies and the related notes 1 to 30. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; 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 below. 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 Financial Reporting Council'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 relation to the ISAs (UK) which require us to report to you, we have nothing to report in respect of the following matters:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Bank's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue

Overview of our audit approach

Separate opinion in relation to IFRSs as issued by the IASB
As explained in the accounting policies, in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, the Bank has applied IFRSs as issued by the International Accounting Standards Board (IASB). In our opinion the Bank financial statements comply with IFRSs as issued by the IASB.

Key audit matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements 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
Provisions for conduct, litigation and regulatory matters, customer remediation and claims	
At 31 December 2019, the Bank has reported £0.6 billion (2018: £0.6 billion) of provisions for liabilities and charges, including £0.5 billion (2018: £0.4 billion) for conduct and litigation claims, including Payment Protection Insurance (PPI) as detailed in Note 26 of the financial statements. The continued litigious environment and heightened regulatory scrutiny give rise to a high level of management judgement in determining appropriate provisions and disclosures. Management judgement is needed to determine whether a present obligation exists, and a provision should be recorded at 31 December 2019 in accordance with the accounting criteria set out under IAS 37. The most significant areas of judgement are: • Auditing provisions for Payment Protection Insurance (PPI) is complex considering the large number of complaints that remain unprocessed following the significant number of complaints received in the run up to the 29 August 2019 FCA deadline and considering the judgement required by management to estimate the portion of Information Requests ("IR"s) and complaints that will ultimately require PPI redress payments along with the costs associated with doing so; • Auditing the adequacy of these provisions is complex because judgement is involved in the selection and use of assumptions in the estimation of material provisions and there is	We evaluated the design and operating effectiveness of controls over the identification, estimation, monitoring and disclosure of provisions related to legal and conduct matters considering the potential for management override of controls. The controls tested, among others, included those designed and operated by management to identify and monitor claims, and to ensure the completeness and accuracy of data used to estimate provisions. Among other procedures, we examined the relevant regulatory and legal correspondence to assess developments in certain cases. For the 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. For the significant provisions made we assessed the provisioning methodology. For example, we tested the underlying data and assumptions used in the determination of the provisions recorded, including expected claim rates, legal costs, and the timing of settlement. We considered the accuracy of management's historical estimates and peer bank settlement in similar cases by comparing the actual settlement to the provision. We also developed our own range of reasonable alternative estimates and compared them to management's provision. Among other procedures, we assessed the appropriateness of the PPI provision assumptions, which included the complaint conversion, uphold and average redress rates assumed for unprocessed complaints. In assessing these assumptions, we considered the Bank's recent experience, our own expectations, sensitivities, our industry knowledge, the Bank's historical forecasting accuracy in this area and correspondence during the year with regulators. We also tested the clerical accuracy of the provision calculation. We also independently determined a range of future PPI claims and compared it to management's estimate. For significant legal matters, we received confirmations from the Bank's external legal counsel for significant matters to evaluate the existence of the obligation and management's estimate of the outflow at year-end. We assessed management's conclusion by evaluating the underlying information used in estimating the provisions including consideration of alternate sources. We also conducted inquiries with internal legal counsel over the existence of the legal obligations and related provision

a risk of management bias in the determination of whether an outflow in respect of identified material conduct or legal matters is probable and can be estimated reliably, and • Judgement is required to assess the adequacy of disclosures of provision for contingent liabilities given the underlying estimation uncertainty in the provisions	In evaluating the adequacy of these provisions, we considered regulatory developments and, for significant cases, assessed the reasonableness of the assumptions used by management by comparing to the results of our independently performed benchmarking and sensitivity analysis. Where appropriate, we involved our conduct risk specialists to assist us in evaluating the provision. We also analysed historical relevant data and whether it supported current estimates. We performed a test for unrecorded provisions to determine if there were cases not considered in the provision estimate by assessing against external legal confirmations and discussing with internal counsel. We evaluated the disclosures provided on conduct, litigation, regulatory, customer remediation and claims provisions to assess whether they complied with accounting standards.

Key observations communicated to the Audit Committee[1]

We are satisfied that provisions for conduct, litigation and regulatory matters, customer remediation and claims are reasonable and recognised in accordance with IFRS. We highlighted the following matters to the Audit Committee:

- The PPI provision remains sensitive to variations in key assumptions, the most significant of which are the conversion, uphold and average redress rates assumed for complaints not yet examined. The director's estimate was within our independent range of reasonable outcomes based on reasonably possible alternative assumptions. We were satisfied with the PPI disclosures; and
- We concurred with the recognition, measurement and level of disclosures of other conduct and litigation provisions. We did not identify any material unrecorded provisions.

Relevant references in the Annual Report and Accounts

Accounting policies
Note 16 on the financial statements

Risk	Our response to the risk
Impairment of loans	
At 31 December 2019 the Bank reported total gross loans of £63 billion (2018: £72 billion) and £0.8 billion of expected credit loss provisions (2018: £0.9 billion), which includes an overlay of £39m for economic uncertainty. Management's judgements and estimates which are especially subjective to audit due to significant uncertainty associated with the assumptions used in the estimation in respect of the timing and measurement of expected credit losses (ECL) include: • Allocation of assets to stage 1, 2, or 3 using criteria in accordance with the accounting standard; • Accounting interpretations, modelling assumptions and data used to build and run the models that calculate the ECL; • Inputs and assumptions used to estimate the impact of multiple economic scenarios; • Completeness and valuation of post model adjustments considering the risk of management override; and • Measurement of individual provisions including the assessment of multiple scenarios. We also considered the complexity of management's process to design and create financial statement disclosures given their granularity and complexity.	We evaluated the design and operating effectiveness of controls across the processes relevant to ECL, including the judgements and estimates noted involving specialists to assist us in performing our procedures where appropriate. These controls, among others, included controls over the allocation of assets into stages including management's monitoring of stage effectiveness, model monitoring including the need for post model adjustments, model validation, data accuracy and completeness, credit monitoring, multiple economic scenarios, individual provisions and production of journal entries and disclosures. Among other procedures, we observed the executive finance and risk committee meetings where the inputs, assumptions and adjustments to the ECL were discussed and approved. 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, credit risk management practices and the macroeconomic environment by considering trends in the economy and industries to which the Bank is exposed. 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. We involved modelling specialists to assist us to test the assumptions, inputs and formulae used in a sample of ECL models. This included assessing the appropriateness of model design and formulae used, alternative modelling techniques, refinements made to models in the second year of IFRS 9, and recalculating the Probability of Default, Loss Given Default and Exposure at Default, and model implementation for a sample of models. To evaluate data quality, we agreed ECL calculation data points to source systems. To test credit monitoring, we recalculated the risk ratings for a sample of performing loans We involved economic specialists to assist us to evaluate the base case and alternative economic scenarios, including evaluating probability weights and comparing to other scenarios from a variety of external sources, as well as EY internally developed forecasts. This included assessing whether forecasted macroeconomic variables were appropriate, such as GDP, unemployment rate, interest rates and the House Price Index. With the support of our modelling specialists we assessed the correlation and the overall impact of the macroeconomic factors to the ECL. We assessed the completeness and appropriateness of post model adjustments and recalculated a sample. Based on current economic conditions and market circumstances, we considered the need for sector or systemic adjustments. We assessed the scenarios used and calculation of the overlay in response to economic uncertainty.

[1] NatWest Holdings Audit Committee covers the ring-fenced bank legal entities of RBS Group, including RBS plc

Independent auditor's report to the members of The Royal Bank of Scotland Plc

	We involved valuation specialists to recalculate a sample of individual provisions including the alternative scenarios and evaluating probability weights assigned The sample was based on a number of factors, including higher risk sectors and materiality We assessed the adequacy of disclosures for compliance with the accounting standards and regulatory considerations.

Key observations communicated to the Audit Committee

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 Audit Committee:

- Overall provision levels were reasonable which also considered available peer information and our understanding of the credit environment;
- The economic uncertainty overlay was within our independently established reasonable range;
- 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;
- We recalculated the staging of all retail and wholesale exposures in material portfolios and noted no material differences. We also performed sensitivity analysis on the staging criteria and noted that substantial changes would be needed to the criteria to result in a material difference; and
- Considerable improvements were made to the control environment throughout the year, with previously identified control deficiencies remediated by year-end.

Relevant references in the Annual Report and Accounts

Credit Risk section of the Capital and risk management section
Accounting policies
Note 12 on the financial statements

Risk	Our response to the risk
Legal entity transactions Legal entity transactions are the recording of intercompany transactions, such as legal entity recharges, intercompany eliminations and consolidation transactions. Legal entity recharging consists of charging back costs incurred by one legal entity on behalf of or for the benefit of another legal entity These costs are recharged in line with the transfer pricing policy and inter-group agreements (IGAs). Financial reporting is heavily dependent on the accuracy of the accounting processes to appropriately present and disclose the transactions with the rest of the RBS Group, including elimination of intercompany accounts, transfers of business and legal entities, which are pervasive across RBS Group entities and can be subject to different rules and agreements in place. Accounting and reporting risks arising include: • The percentage of costs that are allocated from one legal entity to another are manually updated by Management based on IGAs; • Transparency of the costs that are being allocated to each legal entity; • Volume and matching of intercompany eliminations and consolidation adjustments; and • Establishing a post-ICB implementation BAU process.	We evaluated the design and operating effectiveness of controls, including the review of the service catalogue, the allocation metrics, and the ending net recharge balance by management, as well as the application controls in place to calculate the allocation of costs and the mark-ups applied. We also tested the design and operating effectiveness of controls to identify and report appropriately intercompany eliminations as part of the consolidation process. With the support of our tax specialists, we discussed any changes in IGAs made during the current year with management and tested that changes to the service catalogue were made completely and accurately, including the transfer pricing implications. We tested the completeness of the cost base being allocated and tested that the costs had an IGA in place to govern the allocation. We obtained direct cost information from the ledger and recalculated the recharges based on the service catalogue. We reconciled this recalculation to the ledger. We inquired of the business to validate the completeness and accuracy of the recharging allocations applied, the business rationale and considered any contrary evidence. We performed an analytical review at the legal entity level to understand the type of costs allocated per legal entity and the total costs allocated to each legal entity. We tested material transactions with the rest of RBS Group impacting financial reporting, including indemnities and transfer of assets.

Key observations communicated to the Audit Committee

We are satisfied that the costs recharged in the year were in accordance with the intra-group agreements and approvals in place. We highlighted the following matters to the Audit Committee:

- Control deficiencies were identified within the process and we performed additional testing in response to those deficiencies; and
- Where exceptions were identified, we obtained further evidence that costs were allocated appropriately and transparently between the impacted legal entities, and that costs retained by the entity incurring the original expense were appropriate

Relevant references in the Annual Report and Accounts

Accounting policies

Risk	Our response to the risk
IT systems and controls impacting financial reporting The IT environment is complex and pervasive to the operations of the Bank due to the large volume of transactions processed in numerous locations daily and the reliance on automated and IT dependent manual controls Appropriate IT controls are required to ensure that applications process data as expected and that changes are made in an appropriate manner. This risk is also impacted by the greater dependency on third-parties, increasing	We evaluated the design and operating effectiveness of IT controls over the applications, operating systems and databases that are relevant to financial reporting We assessed automated controls within business processes and the reliability of relevant reports used as part of a manual control. This included assessing the integrity of system interfaces, the completeness and accuracy of data feeds, automated calculations and specific input controls. We tested system migrations and related technology changes (including where relevant new systems) resulting from transformation programmes that were material to financial

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

Our audit approach relies upon IT applications and the related control environment including:

- User access management across application, database and operating systems;
- Changes to the IT environment, including transformation that changes the IT landscape including the general ledger and human resource system migrations;
- IT operational controls;
- IT application or IT dependent controls; and
- Evaluation of IT control environment at third party service providers.

statement reporting. This included verifying the completeness of information transferred to new systems as well as testing the controls in place for both the migration and the new system

We tested user access by assessing the controls in place for in-scope applications and verifying the addition and removal of users.

We identified an increasing number of systems outsourced to third party service providers. For these systems, we tested IT general controls through evaluating the relevant Service Organisation Controls reports produced by third parties by assessing the timing of the reporting and the controls tested. We also tested required complementary controls performed by management.

Where control deficiencies were identified, we tested remediation activities performed by management and compensating controls in place and assessed where necessary to mitigate any residual risk.

Key observations communicated to the Audit Committee

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

- We have seen a reduction in the number of IT control deficiencies identified compared to prior year;
- Improvements were made to user access management controls, where we noted the consolidation of access processes. Control deficiencies previously identified around access management, were remediated by year end or mitigated by compensating controls. We also performed additional testing in response to deficiencies identified, where required;
- Where IT transformation or change occurred within the year, particularly around outsourcing and the use of third parties, we updated our audit approach accordingly and tested relevant controls. Where we identified control deficiencies these were remediated by year end or mitigated by compensating controls; and
- As the Bank continues to increase the use of third, and 4th parties, (including cloud service providers), focus on the identification of and accountability for, internal controls over financial reporting, will be essential.

In the prior year, our auditor's report included key audit matters in relation to the financial impact of structural reform as it was the year of implementation. We did not consider this to be a key audit matter in the current year.

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 each component of 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 RBS 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 four components covering entities within three countries, which represent the principal business units within the Bank.

Component	Scope	Key locations
UK Personal Banking	Full	United Kingdom
Commercial Banking	Full	United Kingdom
Private Banking	Specific	United Kingdom
Central items and other (including Services, and Treasury)	Full	United Kingdom, India
Central items and other (other areas)	Specific	United Kingdom

Changes from the prior year

The table below illustrates the coverage obtained from the work performed by our audit teams, the coverage includes the full scope components presented in disposal groups as noted above. We considered total assets, total equity and total income to verify we had appropriate overall coverage on the income statement.

	Full scope[2]	Specific scope[3]	Other procedures[4]	Total
Total assets	100%	-	-	100%
Total equity	100%	-	-	100%
Total income	98%	2%	-	100%

The audit scope of the Specific scope component may not have included testing of all significant accounts within the component However, the testing will have contributed to the total coverage of significant accounts tested for the Bank.

Involvement with component teams

[2] Full scope: audit procedures on all significant accounts

[3] Specific scope. audit procedures on selected accounts

[4] Other procedures: considered in analytical procedures

Independent auditor's report to the members of The Royal Bank of Scotland Plc

In establishing our overall approach to the Bank audit, we determined the type of work that needed to be undertaken in each of the components by us, as the primary audit engagement team, or by component auditors in the United Kingdom or 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 engagement team also participated in meetings with key management personnel in the components and, for certain overseas locations, implemented a programme of planned visits. These visits involved discussing the audit approach with the component team and any issues arising from their work, as well as meeting with local management. This, together with the additional procedures performed at Bank level, gave us appropriate evidence for our opinion on the Bank financial statements

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 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 £65 million (2018: £50 million), which is 5% of adjusted profit before tax of the Bank and removes the disproportionate effect of certain matters. The significant increase in materiality is due to the impact of the transfer of balances as part of the ring-fencing of the RBS Group, as described above. The measure of materiality for the Bank 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 is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceed materiality.

On the basis of our risk assessments, together with our assessment of the Bank's overall control environment, our judgement was that performance materiality was 50% of our planning materiality, namely £33 million (2018: £25 million). We have set performance materiality at this percentage (which is at the lowest end of the range of our audit methodology) based on various considerations including the past history of misstatements, our ability to assess the likelihood of misstatements, the effectiveness of the control environment and other factors affecting the entity and its financial reporting.

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

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

We agreed with the Audit Committee that we would report to them all corrected and uncorrected audit misstatements in excess of £3 million (2018: £2 million), which is set at 5% of planning materiality, as well as misstatements 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.

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.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements 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:

Independent auditor's report to the members of The Royal Bank of Scotland Plc

- adequate accounting records have not been kept by the Bank, 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 directors' responsibilities statement, 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 the implementation of 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
The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Bank and have a direct impact on the preparation of the financial statements. We 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).
- Companies Act 2006
- Financial Reporting Council (FRC) and the UK Corporate Governance Code
- Tax Legislation (governed by HM Revenue and Customs)

We understood how the Bank is complying with those frameworks by reviewing the RBS Policy Framework, holding discussions with the Bank's general counsel, external counsel compliance group, regulatory group, internal audit, amongst others. We inquired as to any known instances of non-compliance or suspected non-compliance with laws and regulations. We also reviewed the Bank's Complaints Management Policy and Whistleblowing Policy. We assessed the susceptibility of the Bank's financial statements to material misstatement, including how fraud might occur by holding discussions with senior management, including the Chief Executive, Chief Financial Officer, Chief Risk Officer, Head of Internal Audit and the Audit Committee Chairman. We also reviewed the Bank's fraud-related policies and mandates of different governance forums assessing fraud. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiring of key management, reviewing the key policies and reports on the aforementioned regulatory frameworks as well as reviewing the correspondence exchanged with the Regulators.

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 of the Audit Committee we were appointed by the Bank at its annual general meeting on 4 May 2016 to audit the financial statements of the Bank for the period ending 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is 4 years, covering periods from our appointment through 31 December 2019.
- 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

Independent auditor's report to the members of The Royal Bank of Scotland Plc

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
13 February 2020

Note:
(1) The maintenance and integrity of the RBS Group web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
(2) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Income statement for the year ended 31 December 2019

	Note	2019 £m	2018* £m
Interest receivable		2,168	1,733
Interest payable		(330)	(433)
Net interest income	1	1,838	1,300
Fees and commissions receivable		577	416
Fees and commissions payable		(110)	(73)
Other operating income		74	112
Non-interest income	2	541	455
Total income		2,379	1,755
Staff costs		(108)	(99)
Premises and equipment		(30)	13
Other administrative expenses		(998)	(643)
Depreciation and amortisation		(38)	(26)
Operating expenses	3	(1,174)	(755)
Profit before impairment losses		1,205	1,000
Impairment losses	12	(207)	(24)
Operating profit before tax		998	976
Tax charge	7	(338)	(274)
Profit for the year		660	702
Attributable to:			
Ordinary shareholders		592	656
Paid-in equity holders		68	46
		660	702

Statement of comprehensive income for the year ended 31 December 2019

	2019 £m	2018* £m
Profit for the year	660	702
Items that do qualify for reclassification		
Cash flow hedges	170	68
Tax	(41)	(18)
Other comprehensive income after tax	129	50
Total comprehensive income for the year	789	752
Attributable to:		
Ordinary shareholders	721	706
Paid-in equity holders	68	46
	789	752

*Restated for IAS12 'income taxes' refer to accounting policy 1, Other amendments to IFRS, for further details.

The accompanying notes on pages 76 to 98, the accounting policies on pages 73 to 75 and the audited sections of the Financial review: Capital and risk management on pages 7 to 54 form an integral part of these financial statements.

Balance sheet as at 31 December 2019

	Note	2019 £m	2018 £m
Assets			
Cash and balances at central banks	9	26,597	21,650
Loans to banks - amortised cost	9	1,561	2,344
Loans to customers - amortised cost	9	53,493	60,521
Amounts due from holding companies and fellow subsidiaries	9	7,713	8,917
Other assets	14	1,238	1,065
Total assets		90,602	94,497
Liabilities			
Bank deposits	9	1,206	1,217
Customer deposits	9	74,813	75,024
Amounts due to holding companies and fellow subsidiaries	9	5,143	7,167
Other financial liabilities	15	810	883
Notes in circulation		1,267	1,286
Other liabilities	16	1,389	1,359
Total liabilities		84,628	86,936
Total equity		5,974	7,561
Total liabilities and equity		90,602	94,497

The accompanying notes on pages to , the accounting policies on pages to and the audited sections of the Financial review: Capital and risk management on pages to form an integral part of these financial statements.

The accounts were approved by the Board of directors on 13 February 2020 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 2019

	2019 £m	2018* £m
Called-up share capital - at 1 January and 31 December	20	20
Paid-in equity - at 1 January	969	—
Securities issued during the year (1)	—	969
At 31 December	969	969
Cash flow hedging reserve - at 1 January	50	—
Amount recognised in equity (2)	241	79
Amount transferred from equity to earnings (3)	(71)	(11)
Tax	(41)	(18)
At 31 December (4)	179	50
Retained earnings - at 1 January	6,522	67
Implementation of IFRS 16 on 1 January 2019 (5)	(23)	—
Profit attributable to ordinary shareholders and other equity owners	660	702
Ordinary dividends	(700)	—
Paid-in equity dividends paid	(68)	(47)
Distribution (6)	(1,800)	—
Capital contribution (7)	215	5,800
At 31 December	4,806	6,522
Total equity at 31 December	5,974	7,561
Total equity is attributable to:		
Ordinary shareholders	5,005	6,592
Paid-in equity holders	969	969
	5,974	7,561

*Restated for IAS12 'income taxes' refer to accounting policy 1, Other amendments to IFRS, for further details.

Notes:
(1) AT1 capital notes totalling £1.0 billion issued in April 2018 in preparation for ring-fencing.
(2) Relates to interest rate hedges.
(3) Relates to interest rate hedges transferred to net interest income.
(4) The hedging element of cash flow hedging reserve relates mainly to continuing hedges.
(5) Refer to Note 18 for further information on the impact of IFRS 16 implementation.
(6) A distribution of £1.8 billion was paid to NatWest Holdings on the 26th February 2019.
(7) In 2019, a capital contribution of £215 million in respect of tax losses transferred from NatWest Markets Plc as a consequence of the ring fencing regulations. In 2018, a capital contribution of £5.8 billion was received from NatWest Holdings in April 2018 in preparation for the business acquisitions completed in relation to ring-fencing. The contribution was received in cash, and is distributable subject to the regulatory consent.

The accompanying notes on pages 76 to 98, the accounting policies on pages 73 to 75 and the audited sections of the Financial review: Capital and risk management on pages 7 to 54 form an integral part of these financial statements.

Cash flow statement for the year ended 31 December 2019

	Note	2019 £m	2018 £m
Cash flows from operating activities			
Operating profit for the year before tax		998	976
Elimination of foreign exchange differences		110	3
Gain on sale of property, plant and equipment		(14)	15
Depreciation, amortisation and impairment of property, plant equipment, goodwill and intangibles		38	8
Change in fair value taken to profit or loss of subordinated liabilities		—	44
Change in fair value taken to profit or loss of MRELs		13	—
Interest in MRELs		13	—
Impairment losses on loans to banks and customers		25	765
Provisions: expenditure in excess of charges		338	102
Other non-cash items		(14)	112
Net cash inflow from trading activities		1,507	2,025
(Increase)/decrease in net loans to banks		(16)	3,502
Decrease in net loans to customers		7,028	993
Decrease in amounts due from holding company and fellow subsidiaries		81	—
Decrease/(increase) in other assets		59	(96)
Decrease in derivative assets		—	677
(Decrease)/increase in bank deposits		(10)	4,583
Decrease in customers deposits		(211)	(806)
Decrease in amounts due to holding company and fellow subsidiaries		(2,395)	—
Decrease in other financial liabilities		(87)	—
Decrease in other liabilities		(231)	(331)
Decrease in other notes in circulation		(19)	—
Decrease in derivative liabilities		—	(1,040)
Changes in operating assets and liabilities		4,199	7,482
Income tax paid		(249)	(3)
Net cash flows from operating activities (1)		5,457	9,504
Cash flows from investing activities			
Sale of property, plant and equipment		19	15
Purchase of property, plant and equipment		(37)	(17)
Net investment in business interests and intangible assets	22	—	10,201
Net cash flows from investing activities		(18)	10,199
Cash flows from financing activities			
Issue of other equity instruments: Additional Tier 1 capital notes		—	970
Issue of subordinated debt		—	1,329
Service cost of other equity instruments		(2,568)	5,754
Interest on subordinated liabilities		—	(42)
Issue of MRELs		379	—
Interest on MRELs		(9)	—
Net cash flows from financing activities (2)		(2,198)	8,011
Effects of exchange rate changes on cash and cash equivalents		(155)	115
Net increase in cash and cash equivalents		3,086	27,829
Cash and cash equivalents at 1 January	23	28,757	928
Cash and cash equivalents at 31 December		31,843	28,757

Notes:
(1) Includes interest received of £2,146 million (2018 - £1,630 million) and interest paid of £330 million (2018 - £409 million).
(2) 2018 has been re-presented to align the balance sheet classification. MREL was previously presented in Operating activities and is now presented in Financing activities.

The accompanying notes on pages 76 to 98, the accounting policies on pages 73 to 75 and the audited sections of the Financial review: Capital and risk management on pages 7 to 54 form an integral part of these financial statements.

Accounting policies

1. Presentation of accounts
The accounts set out on pages 69 to 98, including these accounting policies on pages 73 to 75 and the audited sections of the Financial review: Capital and risk management on pages 7 to 54, are prepared on a going concern basis (see the Report of the directors, pages 55 to 58) and in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB) and interpretations as issued by the IFRS Interpretations Committee of the IASB and adopted by the European Union (EU) (together IFRS). The significant accounting policies and related judgments are set out below.

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

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

With the exception of certain financial instruments as described in Accounting policy 5, the accounts are presented on a historical cost basis.

Accounting changes effective 1 January 2019
Adoption of IFRS 16
Refer to Note 18 for details of the adoption of IFRS 16.

Consolidated financial statements
The financial statements contain information about RBS plc as an individual company and do not contain consolidated financial information as the parent of a group. RBS plc is exempt under IFRS 10 Consolidated Financial Statements and section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as in accordance with IFRS 10. RBS plc and its subsidiaries are included by full consolidation in the IFRS consolidated financial statements of its ultimate parent, The Royal Bank of Scotland Group plc, a public company registered in Scotland whose registered address is 36 St Andrew Square, Edinburgh. EH2 2YB.

Amendments to IFRS
IAS 12 'Income taxes' was revised with effect from 1 January 2019. The income statement now includes any tax relief on the servicing cost of instruments classified as equity. Relief of £13 million was recognised in the statement of changes in equity for the year ended 31 December 2018; this and prior years have been restated.

IAS 19 'Employee Benefits' was amended by the IASB in February 2018 to clarify the need to update assumptions whenever there is a plan amendment, curtailment or settlement. This amendment has not affected the accounts.

Presentation of interest in suspense recoveries - In March 2019 the IFRS Interpretations Committee (IFRIC) issued an agenda decision on the presentation of unrecognised interest when a credit-impaired financial asset (commonly referred to as a 'Stage 3' financial asset) is subsequently paid in full or is no longer credit-impaired. This concluded that the difference arising from the additional interest recovered must be recognised as a reversal of impairment rather than within interest revenue. This affects both recognition and the reversal of the expected credit loss (ECL) allowance.

RBS Group changed its accounting policy in line with the IFRIC decision. Hence, the gross carrying amount of the financial assets within the scope of the provisions of the decision, as well as the associated ECL allowance on the balance sheet, have been adjusted by £94 million and the comparative period restated by £93 million with no effect on equity. The coverage ratio for the current and comparative periods have been adjusted and restated accordingly.

In addition, until 1 January 2019, interest in suspense recoveries were presented as a component of interest receivable within Net interest income. From 1 January 2019 interest in suspense recoveries are presented within Impairment losses and amounted to £19 million for the year ended 31 December 2019. Amounts are not material.

IFRIC decision - Disclosure of change in liabilities arising from financing activities (IAS 7 statement of cash flows) – Following the IFRIC decision on how changes in liabilities should be presented in the cash flow statement, RBS plc has revised its presentation of financing activities and applied this to the cash flow statement.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Most financial assets are within 'held to collect' business models, and have contractual cash flows that comprise solely payments of principal and interest and therefore measured at amortised cost. Certain financial assets are managed under a business model of both 'held to collect and sell' and have contractual cash flows comprising solely of payments of principal and interest, and are measured at fair value through other comprehensive income ('FVOCI').

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

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

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

Expected credit losses are a probability-weighted estimate of credit losses. The probability is determined by the risk of default which is applied to the cash flow estimates. In the absence of a change in credit rating, allowances are recognised when there is a reduction in the net present value of expected cash flows. On a significant increase in credit risk, allowances are recognised without a change in the expected cash flows, although typically expected cash flows do also change; and expected credit losses are adjusted from 12 month to lifetime expectations.

Judgement is exercised as follows:

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

On restructuring a financial asset without causing derecognition of the original asset the revised cash flows are used in re-estimating the credit loss. Where restructuring causes derecognition of the original financial asset, the fair value of the replacement asset is used as the closing cash flow of the original asset.

Where, in the course of the orderly realisation of a loan, it is exchanged for equity shares or property, the exchange is accounted for as the sale of the loan and the acquisition of equity securities or investment property.

The costs of loss allowances on assets held at amortised cost, fair value through comprehensive income (excluding equity shares), and in respect of financial guarantees and loan commitments are presented as impairments in the income statement.

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

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 when an account is closed, if earlier.
- Credit cards: the irrecoverable amount is written off after 12 months; three years later 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; the period does not exceed five years.
- Business loans are generally written off within five years.

7. Financial guarantee contracts
Under a financial guarantee contract, RBS plc, in return for a fee, undertakes to meet a customer's obligations under the terms of a debt instrument if the customer fails to do so. A financial guarantee is recognised as a liability; initially at fair value and, if not designated as at fair value through profit or loss, subsequently at the higher of its initial value less cumulative amortisation and any provision under the contract measured in accordance with Accounting policy 6. Amortisation is calculated so as to recognise fees receivable in profit or loss over the period of the guarantee.

8. Loan commitments
Provision is made for expected credit loss on loan commitments, other than those classified as held-for-trading. Syndicated loan commitments in excess of the level of lending under the commitment approved for retention by RBS plc are classified as held-for-trading

and measured at fair value through profit or loss.

9. Derecognition
A financial asset is derecognised when the contractual right to receive cash flows from the asset has expired or when it has been transferred and the transfer qualifies for derecognition. Conversely, an asset is not derecognised by a contract under which RBS plc retains substantially all the risks and rewards of ownership. If substantially all the risks and rewards have been neither retained nor transferred, RBS plc does not derecognise an asset over which it has retained control but limits its recognition to the extent of its continuing involvement.

A financial liability is removed from the balance sheet when the obligation is discharged, or is cancelled, or expires.

10. Netting
Financial assets and financial liabilities are offset and the net amount presented in the balance sheet when, and only when, RBS plc currently has a legally enforceable right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. RBS plc is party to a number of arrangements, including master netting agreements, that give it the right to offset financial assets and financial liabilities, but where it does not intend to settle the amounts net or simultaneously, the assets and liabilities concerned are presented gross.

11. Cash and cash equivalents
In the cash flow statement, cash and cash equivalents comprises cash and deposits with banks with an original maturity of less than three months together with short-term highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value.

12. Shares in RBS plc's subsidiary entities
RBS plc's investments in its 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. UK company law and IFRS require the directors, in preparing RBS plc's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent. In the absence of an applicable standard or interpretation, IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', requires management to develop and apply an accounting policy that results in relevant and reliable information in the light of the requirements and guidance in IFRS dealing with similar and related issues and the IASB's 'Conceptual Framework for Financial Reporting'. The judgements and assumptions involved in RBS plc's accounting policies that are considered by the Board to be the most important to the portrayal of its financial condition are discussed below. The use of estimates, assumptions or models that differ from those adopted by RBS plc would affect its reported results

Critical accounting policy	Note
Loan impairment provision	12
Provisions for liabilities and charges	16

Future accounting developments
International Financial Reporting Standards
A number of IFRSs and amendments to IFRS were in issue at 31 December 2019 that would affect RBS Group from 1 January 2020 or later:

- The amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policy, Changes in Accounting Estimates and Errors' on the definition of material were issued in October 2018 and are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The amendments are aimed at improving the understanding of the existing requirements rather than to significantly impact current materiality judgements. They provide a new definition of material which shall be used to assess whether information, either individually or in combination with other information, is material in the context of the financial statements.
- The amendments to IFRS 3 'Business Combinations' which clarify the definition of a Business were issued in October 2018, are effective for annual reporting periods beginning on or after 1 January 2020 and apply prospectively with earlier application permitted. They clarify the minimum requirements for a business; remove the assessment of whether market participants are capable of replacing any missing elements; add guidance to help entities assess whether an acquired process is substantive; narrow the definitions of a business and of outputs; and introduce an optional fair value concentration test.
- Effective in 2022 - IFRS 17 'Insurance contracts' was issued in May 2017 to replace IFRS 4 and to establish a comprehensive standard for inceptors of insurance policies. The effective date is 1 January 2021, subject to IASB's approval of a deferral until 1 January 2022.

RBS plc is assessing the effect of adopting these standards on its financial statements.

Notes on the accounts

1 Net interest income

	2019 £m	2018 £m
Loans to banks - amortised cost	203	92
Loans to customers - amortised cost	1,887	1,372
Amounts due from holding company and fellow subsidiaries	78	269
Interest receivable (1)	2,168	1,733
Balances with banks	2	—
Customer deposits	207	107
Amounts due to holding company and fellow subsidiaries	121	326
Interest payable (1)	330	433
Net interest income	1,838	1,300

Note:
(1) Negative interest on loans is classed as interest payable and on customer deposits is classed as interest receivable.

Interest income on financial instruments measured at amortised cost and debt instruments classified as FVOCI is measured using the effective interest rate which allocates the interest income or interest expense over the expected life of the asset or liability at the rate that exactly discounts all estimated future cash flows to equal the instrument's initial carrying amount. Calculation of the effective interest rate takes into account fees payable or receivable that are an integral part of the instrument's yield, premiums or discounts on acquisition or issue, early redemption fees and transaction costs. All contractual terms of a financial instrument are considered when estimating future cash flows.

2 Non-interest income

	2019 £m	2018 £m
Net fees and commissions	467	343
Other operating income		
Operating lease and other rental income	4	—
Changes in fair value of other financial assets held at mandatory fair value through profit or loss	28	50
Hedge ineffectiveness	26	21
Cost of economic hedging	(15)	30
Gain/(loss) on disposal of amortised cost assets	4	(8)
Profit on sale of property, plant and equipment	14	3
Dividend income	—	9
Other income (1)	13	7
	74	112
Non-interest income	541	455

Note:
(1) Includes income from activities other than banking.

3 Operating expenses

	2019 £m	2018 £m
Wages, salaries and other staff costs	85	83
Social security costs	9	7
Pension costs	14	9
Staff costs	108	99
Premises and equipment	30	(13)
Depreciation and amortisation	38	26
Other administrative expenses (1,2)	998	643
Administrative expenses	1,066	656
Operating expenses	1,174	755

Notes:
(1) Includes recharges from other RBS 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 16.

2,300 front office customer-facing staff (2018 – 2,900) are contractually employed by NWB Plc with all related staff costs paid by RBS plc. 100 staff (2018 – 100) that directly service the Adam & Co business are contractually employed by and paid by RBS plc.

Notes on the accounts

4 Segmental analysis

Effective from 1 January 2019 Business Banking was transferred from UK Personal & Business Banking (UK PBB) to Commercial Banking, as the nature of the business, including distribution channels, products and customers were more closely aligned to the Commercial Banking business. Following the transfer, UK PBB was renamed UK Personal Banking. Comparatives have been re-stated.

Reportable operating segments

The reportable operating segments are as follows:

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

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

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

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

2019	Net interest income £m	Net fees and commissions £m	Other non-interest income £m	Total income £m	Operating expenses £m	Depreciation and amortisation £m	Impairment losses £m	Operating profit £m
UK Personal Banking	910	145	11	1,066	(727)	(19)	(63)	257
Commercial Banking	905	317	(16)	1,206	(374)	(16)	(143)	673
Private Banking	28	5	5	38	(35)	(3)	—	—
Central items & other	(5)	—	74	69	—	—	(1)	68
Total	1,838	467	74	2,379	(1,136)	(38)	(207)	998
2018*								
UK Personal Banking	666	98	8	772	(404)	—	(43)	325
Commercial Banking	665	240	36	941	(333)	—	19	627
Private Banking	25	5	1	31	(18)	—	—	13
Central items & other	(56)	—	67	11	26	(26)	—	11
Total	1,300	343	112	1,755	(729)	(26)	(24)	976

*2018 data has been restated for the business re-segmentation.

	2019			2018*		
Total revenue	External £m	Inter segment £m	Total £m	External £m	Inter segment £m	Total £m
UK Personal Banking	1,186	32	1,218	856	11	867
Commercial Banking	1,189	52	1,241	941	26	967
Private Banking	46	2	48	35	3	38
Central items & other	398	(86)	312	429	(40)	389
Total	2,819	—	2,819	2,261	—	2,261

*2018 data has been restated for the business re-segmentation.

	2019			2018*		
Total income	External £m	Inter segment £m	Total £m	External £m	Inter segment £m	Total £m
UK Personal Banking	1,034	32	1,066	761	11	772
Commercial Banking	1,154	52	1,206	918	23	941
Private Banking	36	2	38	28	3	31
Central items & other	155	(86)	69	48	(37)	11
Total	2,379	—	2,379	1,755	—	1,755

*2018 data has been restated for the business re-segmentation.

Notes on the accounts

4 Segmental analysis continued

Analysis of net fees and commissions

2019	UK Personal Banking £m	Commercial Banking £m	Private Banking £m	Total £m
Fees and commissions receivable				
Payment services	62	160	2	224
Credit and debit card fees	86	47	—	133
Lending (credit facilities)	45	132	—	177
Other	21	19	3	43
Total	214	358	5	577
Fees and commissions payable	(69)	(41)	—	(110)
Net fees and commissions	145	317	5	467

2018*	UK Personal Banking £m	Commercial Banking £m	Private Banking £m	Total £m
Fees and commissions receivable				
Payment services	29	95	2	126
Credit and debit card fees	59	38	—	97
Lending (credit facilities)	41	113	—	154
Other	15	21	3	39
Total	144	267	5	416
Fees and commissions payable	(46)	(27)	—	(73)
Net fees and commissions	98	240	5	343

*2018 data has been restated for the business re-segmentation.

	2019		2018*	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
UK Personal Banking	25,054	31,360	28,161	30,758
Commercial Banking	30,609	46,697	36,663	48,220
Private Banking	2,526	2,359	2,323	2,217
Central items & other	32,413	4,212	27,350	5,741
Total	90,602	84,628	94,497	86,936

*2018 data has been restated for the business re-segmentation.

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 RBS Group operated pension schemes. The principal defined benefit scheme is The Royal Bank of Scotland 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 Royal Bank of Scotland Retirements Savings Plan, a defined contribution pension scheme. The RBS Group pension schemes are further disclosed in the Annual Report and Accounts of RBS Group.

6 Auditor's remuneration

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

	2019 £m	2018 £m
Fees payable for the audit of RBS plc's annual accounts	3.2	2.7
Fees payable to the auditor for other services to RBS plc	0.6	—
Total audit and audit-related assurance service fees	3.8	3.0

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

Notes on the accounts

7 Tax

	2019 £m	2018* £m
Current tax		
Charge for the year	(295)	(279)
Over/(under) provision in respect of prior years	28	(2)
	(267)	(281)
Deferred tax		
(Charge)/credit for the year	(36)	7
Decrease in the carrying value of deferred tax asset	(9)	—
Under provision in respect of prior years	(26)	—
Tax charge for the year	(338)	(274)

*Restated for IAS12 'Income taxes'. Refer to Accounting policy 1, Other amendments to IFRS.

The actual tax charge differs from the expected tax charge computed by applying the standard rate of UK corporation tax of 19% (2018 – 19%) as follows:

	2019 £m	2018* £m
Expected tax charge	(190)	(185)
Items not allowed for tax:		
- UK bank levy	(5)	(6)
- regulatory and legal actions	(61)	(17)
- other disallowable items	(1)	(3)
Non-taxable items	8	9
Decrease in the carrying value of deferred tax assets in respect of:		
- UK losses	(9)	—
Banking surcharge	(95)	(82)
Tax on paid-in equity	13	12
Adjustments in respect of prior years (1)	2	(2)
Actual tax charge	(338)	(274)

*Restated for IAS12 'Income taxes'. Refer to Accounting policy 1, Other amendments to IFRS.

Note:

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

Deferred tax

RBS plc makes provision for deferred tax on temporary differences where tax recognition occurs at a different time from accounting recognition. Deferred tax assets of £111 million were recognised as at 31 December 2019 (2018 - £3 million).

	2019 £m	2018 £m
Deferred tax liability	—	—
Deferred tax asset	(111)	(3)
Net deferred tax asset	(111)	(3)

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 2018	—	—	—	—	—	—
Transfers from fellow subsidiaries	(37)	(2)	25	—	—	(14)
Charge to income statement	1	(5)	(3)	—	—	(7)
Charge to other comprehensive income	—	—	18	—	—	18
At 31 December 2018	(36)	(7)	40	—	—	(3)
Implementation of IFRS16 on 1 January 2019	—	—	—	—	(7)	(7)
Acquisitions and disposals of subsidiaries	1	—	—	—	—	1
Charge/(credit) to income statement	6	3	(3)	65	—	71
Charge to other comprehensive income	—	—	42	—	—	42
Currency translation and other adjustments (1)	—	—	—	(215)	—	(215)
At 31 December 2019	(29)	(4)	79	(150)	(7)	(111)

Note:

(1) £215 million capital contribution in respect of losses transferred from NatWest Markets Plc as a consequence of the ring fencing regulations.

Deferred tax assets and liabilities at 31 December 2019 take into account the reduced rates in respect of tax losses and non-banking temporary differences and, where appropriate, the banking surcharge inclusive rate in respect of other banking temporary differences.

A deferred tax asset of £206 million was recognised in respect of losses transferred of £1,161 million from NatWest Markets Plc as a consequence of the ring fencing regulations, with £56 million of the deferred tax asset utilised to reduce current tax expense, leaving a balance of recognised deferred tax asset at 31 December 2019 of £150 million, recovered by the end of 2025. The remaining losses transferred of £3,396 million have not been recognised in the deferred tax balance at 31 December 2019; such losses will be available to offset 25% of future taxable profits.

8 Hedging Derivatives
RBS plc applies hedge accounting to manage interest rate risk.

RBS plc's interest rates hedging relate to the management of RBS plc's non-trading structural interest rate risk, caused by the mismatch between fixed interest rates and floating interest rates. RBS plc manages this risk within approved limits. Residual risk positions are hedged with derivatives principally interest rate swaps. Suitable larger financial instruments are fair value hedged; the remaining exposure, where possible, is hedged by derivatives documented as cash flow hedges.

Cash flow hedges of interest rate risk relate to exposures to the variability in future interest payments and receipts due to the movement of benchmark interest rates on forecast transactions and on recognised financial assets and financial liabilities. This variability in cash flows is hedged by interest rate swaps, fixing the hedged cash flows. For these cash flow hedge relationships, the hedged items are actual and forecast variable interest rate cash flows arising from financial assets and financial liabilities with interest rates linked to the relevant benchmark rate LIBOR, EURIBOR or the Bank of England Official Bank Rate. The variability in cash flows due to movements in the relevant benchmark rate is hedged; this risk component is identified using the risk management systems of RBS plc. This risk component comprises the majority of cash flow variability risk.

Fair value hedges of interest rate risk involve interest rate swaps transforming the fixed interest rate risk in recognised financial assets and financial liabilities to floating. The hedged risk is the risk of changes in the hedged items fair value attributable to changes in the benchmark interest rate embedded in the hedged item. The significant embedded benchmarks are LIBOR and EURIBOR. This risk component is identified using the risk management systems of RBS plc. This risk component comprises the majority of the hedged items fair value risk.

For all cash flow hedging and fair value hedge relationships RBS plc determines that there is an adequate level of offsetting between the hedged item and hedging instrument via assessing the initial and ongoing effectiveness by comparing movements in the fair value of the expected highly probable forecast interest cash flows/ fair value of the hedged item attributable to the hedged risk with movements in the fair value of the expected changes in cash flows from the hedging interest rate swap. Hedge effectiveness is measured on a cumulative basis over a time period management determines to be appropriate. RBS plc uses either the actual ratio between the hedged item and hedging instruments or one that minimises hedge ineffectiveness to establish the hedge ratio for hedge accounting.

A number of the current cash flow and fair value hedges of interest rate risk will be directly affected by interest rate benchmark reform; RBS Group currently considers all of these relationships that mature after 31 December 2021 to be directly affected. As at 31 December 2019, the exact transition dates of affected hedge accounting relationships is not known. The disclosures are prepared on these assumptions where the amendments made to IAS39 paragraphs 102D-102N and 108G are applied. The disclosures made for the notional of hedging instruments and risk exposures affected by interest rate benchmark reform contain information for both the hedging instrument and hedged risks even if only one of these will be directly impacted by the reform.

RBS plc is managing the process to transition to alternative benchmark rates in the following ways:

- reviewed or is in the process of reviewing the fall-back language for IBOR linked instruments
- continues to liaise with regulators, standard setters, industry groups and customers on other relevant matters as the transition to risk free rates progresses
- is in the process of adjusting its products, processes and information systems to deal with the expected effects of the discontinuation of IBOR most notably the transition and calculation rules.

Hedging derivatives which are included in Other assets and Other financial liabilities are as follows:

	2019				2018			
	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	3,861	87	558	34	3,525	25	540	31
Cash flow hedging - Interest rate contracts	22,498	271	21	186	15,829	75	—	67
		358	579	220		100	540	98

Note:
(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:

	2019 £bn
Fair value hedging	
- LIBOR	3.6
- EURIBOR	0.1
Cash flow hedging	
- LIBOR	15.7
- EURIBOR	0.2

Notes on the accounts

8 Hedging Derivatives continued

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

2019	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	20	42	177	144	690	896	112	2,081
Hedging liabilities - Interest rate risk	—	—		1,780	—	—	—	1,780
Cash flow hedging								
Hedging assets - interest rate risk	300	1,320	7,159	8,664	2,395	—	—	19,838
Average fixed interest rate (%)	1.02	1.11	1.29	1.13	1.21	—	—	1.19
Hedging liabilities - interest rate risk	—	1,200	1,284	—	176	—	—	2,660
Average fixed interest rate (%)	—	0.90	0.97	—	0.79	—	—	0.93
2018								
Fair value hedging								
Hedging assets - Interest rate risk	10	5	275	125	586	956	115	2,072
Hedging liabilities - Interest rate risk	—	—	—	1,453	—	—	—	1,453
Cash flow hedging								
Hedging assets - interest rate risk	—	—	102	9,717	3,831	2,179	—	15,829
Average fixed interest rate (%)	—	—	2.84	1.25	1.33	1.39	—	1.30

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

2019	Carrying value (CV) of hedged assets and liabilities £m	Impact on hedged items included in CV £m	Change in fair value used as a basis to determine ineffectiveness (1) £m	Impact on hedged items ceased to be adjusted for hedging gains or losses £m
Fair value hedging - interest rate				
Loans to customers - amortised cost	2,494	389	45	20
Other financial liabilities - debt securities in issue	396	13	(14)	—
Subordinated liabilities	1,470	65	(50)	—
Total	1,866	78	(64)	—
Cash flow hedging - interest rate				
Loans to banks and customers - amortised cost	19,838		(178)	
Bank and customer deposits	2,660		3	
2018				
Fair value hedging - interest rate				
Loans to customers - amortised cost	2,485	375	9	21
Other financial liabilities - debt securities in issue	—	—	—	—
Subordinated liabilities	1,467	18	(19)	—
Total	1,467	18	(19)	—
Cash flow hedging - interest rate				
Loans to banks and customers - amortised cost	15,829		(67)	
Bank and customer deposits	—		—	

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

Notes on the accounts

8 Hedging Derivatives continued

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

	Notional £bn	Hedged adjustment £m
Fair value hedging		
- LIBOR	3.6	256
- EURIBOR	0.1	22
Cash flow hedging		
- LIBOR	7.1	(142)
- EURIBOR	0.2	(2)
- BOE Base rate	8.7	(64)

Hedge ineffectiveness recognised in other operating income comprised:

	2019 £m	2018 £m
Fair value hedging		
Losses on the hedged items attributable to the hedged risk	(19)	(10)
Gains on the hedging instruments	34	31
Fair value hedging ineffectiveness	15	21
Cash flow hedging		
- Interest rate risk	11	—
- Foreign exchange risk	—	—
Cash flow hedging ineffectiveness	11	—
Total	26	21

The main sources of ineffectiveness for interest rate risk hedge accounting relationships are:

- the effect of the counterparty credit risk on the fair value of the interest rate swap, which is not reflected in the fair value of the hedged item attributable to the change in interest rate (fair value hedge);
- differences in the repricing basis between the hedging instrument and hedged cash flows (cash flow hedge); and
- upfront present values on the hedging derivatives where hedge accounting relationships have been designated after the trade date (cash flow hedge and fair value hedge).

Additional information on cash flow hedging can be found in the Statement of Changes in Equity.

Notes on the accounts

9 Financial instruments - classification

The following tables analyses RBS plc's financial assets and liabilities in accordance with the categories of financial instrument on an IFRS 9 basis at 31 December 2019. Assets and liabilities outside the scope of IFRS 9 are shown within other assets and other liabilities.

Assets	MFVTPL (1) £m	FVOCI (2) £m	Amortised cost £m	Other assets £m	Total £m
Cash and balances at central banks			26,597		26,597
Loans to banks - amortised cost (3)			1,561		1,561
Loans to customers - amortised cost			53,493		53,493
Amounts due from holding companies and fellow subsidiaries	—	—	7,685	28	7,713
Other assets (4)	493	6	47	692	1,238
31 December 2019	493	6	89,383	720	90,602
Cash and balances at central banks			21,650		21,650
Loans to banks - amortised cost (3)			2,344		2,344
Loans to customers - amortised cost			60,521		60,521
Amounts due from holding companies and fellow subsidiaries	—	—	8,917	—	8,917
Other assets (4)	435	6	21	603	1,065
31 December 2018	435	6	93,453	603	94,497

Liabilities	Held-for-trading £m	DFV (5) £m	Amortised cost £m	Other liabilities £m	Total £m
Bank deposits (6)			1,206		1,206
Customer deposits			74,813		74,813
Amounts due to holding companies and fellow subsidiaries	—	—	5,143	—	5,143
Other financial liabilities	763	—	47	—	810
Notes in circulation			1,267		1,267
Other liabilities (4,7)	—	—	29	1,360	1,389
31 December 2019	763	—	82,505	1,360	84,628
Bank deposits (6)			1,217		1,217
Customer deposits			75,024		75,024
Amounts due to holding companies and fellow subsidiaries	—	—	7,167	—	7,167
Other financial liabilities	860	3	20	—	883
Notes in circulation			1,286		1,286
Other liabilities (4)	—	—	15	1,344	1,359
31 December 2018	860	3	84,729	1,344	86,936

Notes:
(1) Mandatory fair value through profit or loss.
(2) Fair value through other comprehensive income.
(3) Includes items in the course of collection from other banks of £18 million (2018 - £87 million).
(4) Includes hedging derivative assets of £358 million (2018 - £100 million) and hedging derivative liabilities of £579 million (2018 - £540 million).
(5) Designated as at fair value through profit or loss.
(6) Includes items in the course of transmission to other banks of £3 million (2018 - £42 million).
(7) Includes lease liabilities.

The above includes amounts due from/to holding companies and fellow subsidiaries:

	2019			2018		
	Holding companies £m	Fellow subsidiaries £m	Total £m	Holding companies £m	Fellow subsidiaries £m	Total £m
Assets						
Loans to banks and customers	—	7,685	7,685	—	8,917	8,917
Other assets	—	28	28	—	—	—
Total inter group assets	—	7,713	7,713	—	8,917	8,917
Not included above:						
Derivatives	—	366	366	—	114	114
Liabilities						
Bank and customer deposits	—	3,278	3,278	—	5,700	5,700
CRR-compliant internal MREL	396	—	396	—	—	—
Other financial liabilities - subordinated liabilities (1)	1,469	—	1,469	1,467	—	1,467
Total inter group liabilities	1,865	3,278	5,143	1,467	5,700	7,167
Not included above:						
Derivatives	—	763	763	—	860	860

Note:
(1) RBS plc issued $1,850 million fixed rate subordinated notes 2023, dated loan capital (tier 2) in 2018.

Notes on the accounts

10 Financial Instruments: fair value of financial instruments not carried at fair value

The following table shows the carrying value and fair value of financial instruments carried 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
2019	£m	£m	£m	£m	£m
Financial assets					
Cash and balances at central banks	26,597				
Loans to banks		1,561	1,561	1,254	307
Loans to customers		53,493	53,219	—	53,219
Amounts due from holding companies and fellow subsidiaries		7,685	7,660	—	7,660
Other assets	47				
Financial liabilities					
Bank deposits	1,205	1	1	—	1
Customer deposits	66,201	8,612	8,616	1,171	7,445
Amounts due to holding companies and fellow subsidiaries	1,579	3,564	3,574	1,907	1,667
Other financial liabilities	47				
Notes in circulation	1,267				
Other liabilities	29				
2018					
Financial assets					
Cash and balances at central banks	21,650				
Loans to banks	87	2,257	2,257	1,214	1,043
Loans to customers		60,521	60,060	—	60,060
Amounts due from holding companies and fellow subsidiaries	3,510	5,407	5,398	—	5,398
Other assets	21				
Financial liabilities					
Deposits by banks	1,125	92	81	4	77
Customer deposits	66,095	8,929	9,106	1,471	7,635
Amounts due to holding companies and fellow subsidiaries	3,179	3,988	3,856	1,398	2,458
Other financial liabilities	20				
Notes in circulation	1,286				
Other liabilities	15				

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Quoted market values are used where available; otherwise, fair values have been estimated based on discounted expected future cash flows and other valuation techniques. These techniques involve uncertainties and require assumptions and judgments covering prepayments, credit risk and discount rates. Furthermore there is a wide range of potential valuation techniques. Changes in these assumptions would significantly affect estimated fair values. The fair values reported would not necessarily be realised in an immediate sale or settlement.

The assumptions and methodologies underlying the calculation of fair values of financial instruments at the balance sheet date are as follows:

Short-term financial instruments

For certain short-term financial instruments: cash and balances at central banks, items in the course of collection from other banks, settlement balances, items in the course of transmission to other banks, customer demand deposits and notes in circulation, carrying value is a reasonable approximation of fair value.

Loans to banks and customers – amortised cost

In estimating the fair value of net loans to customers and banks measured at amortised cost, RBS plc's loans are segregated into appropriate portfolios reflecting the characteristics of the constituent loans. Two principal methods are used to estimate fair value:

(a) Contractual cash flows are discounted using a market discount rate that incorporates the current spread for the borrower or where this is not observable, the spread for borrowers of a similar credit standing.

(b) Expected cash flows (unadjusted for credit losses) are discounted at the current offer rate for the same or similar products. This approach is adopted for lending portfolios in UK Personal Banking, Commercial Banking (SME loans) and Private Banking in order to reflect the homogeneous nature of these portfolios which are included in assets of disposal groups.

For certain portfolios where there are very few or no recent transactions a bespoke approach is used.

Bank and customer deposits

Fair values of deposits are estimated using discounted cash flow valuation techniques.

Notes on the accounts

11 Financial instruments - maturity analysis

Remaining maturity

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

	2019			2018		
	Less than 12 months £m	More than 12 months £m	Total £m	Less than 12 months £m	More than 12 months £m	Total £m
Assets						
Cash and balances at central banks	26,597	—	26,597	21,650	—	21,650
Loans to banks - amortised cost	1,561	—	1,561	2,344	—	2,344
Loans to customers - amortised cost	13,131	40,362	53,493	13,607	46,914	60,521
Amounts due from holding companies and fellow subsidiaries (1)	7,331	354	7,685	8,448	469	8,917
Other assets	58	489	547	33	429	462
Liabilities						
Bank deposits	1,206	—	1,206	1,157	60	1,217
Customer accounts	74,602	211	74,813	74,693	331	75,024
Amounts due to holding companies and fellow subsidiaries	3,034	2,109	5,143	5,402	1,765	7,167
Other financial liabilities	64	746	810	36	847	883
Lease liabilities	15	142	157			
Notes in circulation	1,267	—	1,267	1,286	—	1,286

Note:

(1) Amounts due from holding companies and fellow subsidiaries relating to non-financial instruments of £28 million (2018 – nil) have been excluded from the table.

Liabilities by contractual cash flow maturity

The tables below show the timing of cash outflows to settle financial liabilities, prepared on the following basis:

Financial liabilities are included at the earliest date on which the counterparty can require repayment regardless of whether or not such early repayment results in a penalty. If repayment is triggered by, or is subject to, specific criteria such as market price hurdles being reached, the liability is included at the earliest possible date that the conditions could be fulfilled without considering the probability of the conditions being met. For example, if a structured note automatically prepays when an equity index exceeds a certain level, the cash outflow will be included in the less than three months' period whatever the level of the index at the year end.

Liabilities with a contractual maturity of greater than 20 years - the principal amounts of financial liabilities that are repayable after 20 years or where the counterparty has no right to repayment of the principal, are excluded from the table along with interest payments after 20 years.

The maturity of guarantees and commitments is based on the earliest possible date they would be drawn in order to evaluate RBS plc's liquidity position.

HFT liabilities of £184 million (2018 - £321 million) have been excluded from the tables

2019	0-3 months £m	3-12 months £m	1-3 years £m	3-5 years £m	5-10 years £m	10-20 years £m
Liabilities by contractual maturity						
Bank deposits	1,206	—	—	—	—	—
Customer deposits	73,571	1,033	209	—	2	—
Amounts due to holding companies and fellow subsidiaries	2,971	150	290	1,972	49	—
Other financial liabilities (1)	66	53	127	113	185	104
Lease liabilities	4	11	21	17	31	73
Notes in circulation	1,267	—	—	—	—	—
	79,085	1,247	647	2,102	267	177
Guarantees and commitments notional amount						
Guarantees (2)	442					
Commitments (3)	25,704					
	26,146					
2018						
Liabilities by contractual maturity						
Bank deposits	1,157	—	—	—	—	59
Customer deposits	73,411	1,283	324	—	1	—
Amounts due to holding companies and fellow subsidiaries	5,363	117	256	252	1,836	58
Other financial liabilities (1)	40	51	169	94	161	98
Notes in circulation	1,286	—	—	—	—	—
	81,257	1,451	749	346	1,998	215
Guarantees and commitments notional amount						
Guarantees (2)	533					
Commitments (3)	30,864					
	31,397					

Notes:

(1) Other financial liabilities includes derivatives held for hedging.

(2) 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.

(3) RBS plc has given commitments to provide funds to customers under undrawn formal facilities, credit lines and other commitments to lend subject to certain conditions being met by the counterparty. RBS plc does not expect all facilities to be drawn, and some may lapse before drawdown.

Notes on the accounts

12 Loan impairment provisions

Loan exposure and impairment metrics

The table below summarises loan and related credit impairment measures on an IFRS 9 basis.

	2019 £m	2018* £m
Loans - amortised cost		
Stage 1	47,765	54,877
Stage 2	6,110	6,587
Stage 3	1,435	1,685
Inter-Group (1)	7,694	8,804
	63,004	71,953
ECL provisions		
Stage 1	58	63
Stage 2	171	187
Stage 3	594	624
	823	874
ECL provision coverage (2, 3)		
Stage 1 (%)	0.12	0.11
Stage 2 (%)	2.80	2.84
Stage 3 (%)	41.39	37.03
	1.49	1.38
Impairment losses		
ECL charge (4)		
Stage 1	(47)	(18)
Stage 2	51	33
Stage 3	203	9
	207	24
ECL loss rate - annualised (basis points) (3)	37.43	3.80
Amounts written off	281	281

*2018 data has been restated for a change to presentation of unrecognised interest. Refer to Accounting policy 1, Other amendments to IFRS, for further details.

Notes:

(1) RBS plc's intercompany assets were classified in Stage 1. The ECL attached to these loans was £0.3 million at 31 December 2019 (31 December 2018 - £0.5 million).

(2) ECL provisions coverage is calculated as ECL provisions divided by loans - amortised cost.

(3) ECL provisions coverage and ECL loss rates are calculated on third party loans and related ECL provisions and charge respectively.

(4) Includes a £1 million release (2018 – nil) related to other financial assets, of which nil (2018 nil) related to assets classified as FVOCI; and a £25 million release (2018 – £11 million release) related to contingent liabilities.

(5) The table above shows gross loans only and excludes amounts that are outside the scope of the ECL framework. Refer to page 28 of Financial instruments within the scope of the IFRS 9 ECL framework for further details. Other financial assets within the scope of the IFRS 9 ECL framework were cash and balances at central banks totalling £26.1 billion (2018 – £21.0 billion).

Notes on the accounts

12 Loan impairment provisions continued

Credit risk enhancement and mitigation

For information on credit risk enhancement and mitigation held as securities, refer to Capital and risk management – credit risk on page 38.

Critical accounting policy: Loan impairment provisions

The loan impairment provisions have been established in accordance with IFRS 9. Accounting policy 6 sets out how the expected loss approach is applied. At 31 December 2019, customer loan impairment provisions amounted to £823 million (2018 - £874 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. Further information and sensitivity analyses are on page 26.

IFRS 9 ECL model design principles

To meet IFRS 9 requirements, PD, LGD and EAD used in ECL calculations must be:

- Unbiased – material regulatory conservatism has been removed to produce unbiased model estimates.
- Point-in-time – recognise current economic conditions.
- Forward-looking – incorporated into PD estimates and, where appropriate, EAD and LGD estimates.
- For the life of the loan – all PD, LGD and EAD models produce term structures to allow a lifetime calculation for assets in Stage 2 and Stage 3.

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

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

For wholesale, while conversion ratios in the historical data show temporal variations, these cannot be sufficiently explained by the CCI measure (unlike in the case of PD and some LGD models) and are presumed to be driven to a larger extent by exposure management practices. Therefore point-in-time best estimates measures for EAD are derived by estimating the regulatory model specification on a rolling five year window.

Approach for multiple economic scenarios (MES)

The base scenario plays a greater part in the calculation of ECL than the approach to MES.

13 Investments in Group undertakings

Investments in Group undertakings are carried at cost less impairment. Movements during the year were as follows:

	2019 £m	2018 £m
At 1 January	28	17
Additions	—	11
At 31 December	28	28

In 2018 additions principally relate to the acquisition of The One Account 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 29 for detail of all subsidiary undertakings.

	Nature of business	Country of incorporation and principal area of operation
Adam & Company Investment Management Limited	Investment Management	Great Britain
Adam & Company (Nominees) Limited	Banking and trust	Great Britain
The One Account Limited	Banking	Great Britain

Notes on the accounts

14 Other assets

	2019 £m	2018 £m
Other financial assets	24	162
Derivatives	366	114
Other loans	109	300
Prepayments	17	15
Accrued income	50	52
Deferred tax (Note 7)	111	3
Investment in Group undertakings (Note 13)	28	28
Property, plant and equipment	248	123
Intangible assets	85	86
Assets held for sale	12	20
Other assets (1)	188	162
	1,238	1,065

Note:
(1) Includes acceptances of £131 million (2018 - £238 million). Also included in Other liabilities.

15 Other financial liabilities

	2019 £m	2018 £m
Customer deposits - designated as at fair value through profit and loss	—	3
Settlement balances	47	20
Derivatives	763	860
Total	810	883

Notes on the accounts

16 Other liabilities

	2019 £m	2018 £m
Current tax	296	278
Accruals	68	60
Deferred income	70	94
Provisions for liabilities and charges	599	602
Post retirement benefits	—	1
Lease liabilities (Note 18)	157	—
Other liabilities	199	324
	1,389	1,359

Provisions for liabilities and charges	Payment Protection Insurance (1) £m	Other customer redress £m	Litigation and other regulatory £m	Other (2) £m	Total £m
At 1 January 2019	285	96	5	216	602
Implementation of IFRS 16 on 1 January 2019 (3)	—	—	—	(12)	(12)
ECL impairment charge	—	—	—	14	14
Transfer	—	—	—	(61)	(61)
Charge to income statement	296	37	1	41	375
Releases to income statement	—	(13)	—	(24)	(37)
Provisions utilised	(159)	(69)	(5)	(49)	(282)
At 31 December 2019	422	51	1	125	599

Notes:
(1) 31 December 2019 includes provisions held in relation to offers made in 2018 and earlier years of £38 million.
(2) Materially comprises provisions relating to property closures and restructuring costs.
(3) Refer to Note 18 for further information on the impact of the implementation of IFRS 16.

There are uncertainties as to the eventual cost of redress in relation to certain of the provisions contained in the table above. Assumptions relating to these are inherently uncertain and the ultimate financial impact may be different from the amount provided.

Payment protection insurance

An additional provision of £296 million was taken in 2019, reflecting greater than predicted complaints volumes in the lead up to the 29 August 2019 deadline for making new PPI complaints. RBS plc has a total income statement charge of £390 million for PPI provisions, transferred in £327 million during 2018 ring-fencing, and utilised £295 million to date. Closing PPI provisions are £422 million.

The table below shows the sensitivity of the provision to reasonable changes in the principle assumptions in relation to claims which are still being processed, all other assumptions remaining the same. RBS Group has received 4.9 million claims at the 29 August 2019 deadline.

			Sensitivity	
Assumption	Claims processed as at 31 December 2019	Claims still to process	Change in assumption	Consequential change in provisions £m
Average redress (1)	£1,631	£1,552	+/-£150	+/-27
No PPI % (2)	28%	60%	+/-3%	+/-5
Uphold rate (3)	85%	94%	+/-2%	+/-6

Notes:
(1) Average redress for PPI (mis-sale) and Plevin (commission) pay-outs.
(2) No PPI % relates to those cases where no PPI policy exists.
(3) Average uphold rate per customer initiated claims received directly by RBS plc, including those received via claims management companies, to end of timebar for both PPI (mis-sale) and Plevin (commission), excluding those for which no PPI policy exists.

Critical accounting policy: Provisions for liabilities

Judgment is involved in determining whether an obligation exists, and in estimating 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.

Notes on the accounts

17 Share capital and reserves

			Number of shares	
Allotted, called up and fully paid	2019 £m	2018 £m	2019 000s	2018 000s
Ordinary shares of £1	20	20	19,500	19,500

Ordinary shares

No ordinary shares were issued during 2019 or 2018.

In 2019, RBS plc paid a distribution of £1.8 billion by ordinary dividend and a further ordinary dividend of £0.7 billion to NWH Ltd (2018 – nil).

18 Leases

RBS plc has adopted IFRS 16 Leases retrospectively from 1 January 2019 on a modified retrospective basis without restating prior periods. The impact on RBS plc's balance sheet and retained earnings is shown below:

	2019 £m
Retained earnings at 1 January 2019	6,552
Other assets - Net right of use assets	136
- Recognition of lease liabilities	(171)
- Provision for onerous leases	12
Other liabilities	(159)
Net impact on retained earnings	(23)
Retained earnings at 1 January 2019	6,529

On adoption of IFRS 16, RBS plc recognised right of use assets and lease liabilities in relation to leases which had been previously classified as operating leases under IAS 17 Leases subject to certain practical expedients as allowed by the standard.

The following practical expedients permitted by the standard were used:

- A single discount rate has been applied to a portfolio of lease with reasonably similar characteristics.
- The accounting for operating leases with a remaining lease term of 12 months at 1 January 2019 for non property leases.
- Exclusion of initial direct costs from the measurement of the right of use asset at the date of initial application.
- Reliance on assessment of onerous provisions under IAS 37 Provisions, Contingent Liabilities and Contingent Assets for the purposes of impairment.
- The use of hindsight where contracts contain options to extend or terminate the lease in determining the lease term.

The lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 2.2%.

	2019 £m
Operating lease commitments as disclosed as at 31 December 2018	255
Adjustments as a result of a different treatment of extension and termination options	(10)
Discounted using the incremental borrowing rate	(74)
Lease liability recognised as at 1 January 2019 on adoption of IFRS 16	171

Lessees	2019 £m
Amounts recognised in income statement	
Interest payable	(4)
Depreciation (1)	(21)

Rental expense in respect of operating leases in 2018 was £24 million.

	£m
Amounts recognised on balance Sheet	
Right of use assets included in property, plant and equipment	120
Additions to right of use assets	9
Lease liabilities (2)	(157)

The total cash outflow for leases is £21 million.

Notes:

(1) Depreciation includes impairment of right of use assets of £8 million.

(2) Contractual cashflows of lease liabilities is shown in Note 11.

	2018 £m
Operating leases	
Minimum rentals payable under non-cancellable leases (1)	
- within 1 year	23
- within 1 year but within 5 years	58
- after 5 years	174
	255

Note:

(1) Predominantly property leases.

18 Leases continued

Lessor

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

Amount receivable under finance leases	2019 £m
Within 1 year	—
1 to 2 years	47
2 to 3 years	43
3 to 4 years	3
4 to 5 years	1
After 5 years	—
Lease payments total	94
Unearned income	(1)
Present value of lease payments	93
Impairments	—
Net investment in finance leases	93

19 Unconsolidated structured entities

RBS plc has lending to unconsolidated structured entities of £149 million (2018 - £88 million) and loan commitments of £44 million (2018 – £11 million).

20 Capital resources

Under Capital Requirements Regulation (CRR), regulators within the European Union monitor capital on a legal entity basis, with local transitional arrangements on the phasing in of end-point CRR. The capital resources based on the PRA transitional basis are set out below.

Shareholders' equity (excluding non-controlling interests)	2019 £m	2018 £m
Shareholders' equity	5,974	7,561
Preference shares - equity	—	—
Other equity instruments	(969)	(969)
	5,005	6,592
Regulatory adjustments and deductions		
Cash flow hedging reserve	(179)	(49)
Deferred tax assets	(87)	—
Prudential valuation adjustments	(10)	(7)
Goodwill and other intangible assets	(85)	(86)
Expected losses less impairments	(16)	(81)
Foreseeable ordinary dividend	(800)	(1,800)
	(1,177)	(2,023)
CET1 capital	3,828	4,569
Additional Tier 1 (AT1) capital		
Qualifying instruments and related share premium	969	969
	969	969
Tier 1 capital	4,797	5,538
Qualifying Tier 2 capital		
Qualifying instruments and related share premium	1,402	1,446
Tier 2 capital	1,402	1,446
Total regulatory capital	6,199	6,984

In the management of capital resources, RBS plc is governed by RBS 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, RBS 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 RBS 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 RBS Group to lend money to other members of RBS Group may be subject to restrictions such as local regulatory or legal requirements, the availability of reserves and financial and operating performance.

Key movements during 2019

Shareholders' equity and regulatory capital reduced reflecting a distribution paid to RBS plc's parent of £2.5 billion, offset by attributable profit.

Notes on the accounts

21 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 2019. 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.

	2019 £m
Capital expenditure on property, plant and equipment	9
	9

	2019 £m	2018 £m
Contingent liabilities and commitments		
Guarantees and irrevocable letters of credit	1,151	1,808
Total contingent liabilities	1,151	1,808
Commitments		
Undrawn formal standby facilities, credit lines and other commitments to lend:		
Less than one year	11,298	12,091
One year and above	14,804	19,297
Total commitments	26,102	31,388

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

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

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

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

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

Capital Support Deed

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

Trustee and other fiduciary activities

In its capacity as trustee or other fiduciary role, RBS plc may hold or place assets on behalf of individuals, trusts, companies, pension schemes and others. The assets and their income are not included in it's financial statements. RBS plc earned fee income of £20.4 million (2018 - £7.9 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.

The FSCS had borrowed from HM Treasury to fund compensation costs associated with the failure of Bradford & Bingley, Heritable Bank, Kaupthing Singer & Friedlander, Landsbanki 'Icesave' and London Scottish Bank plc. The industry has now repaid all outstanding loans with the final £4.7 billion being repaid in June 2018. The loan was interest bearing with the reference rate being the higher of 12 month LIBOR plus 111 basis points or the relevant gilt rate for the equivalent cost of borrowing from HMT.

RBS plc has accrued £0.4 million for its share of estimated FSCS levies.

Notes on the accounts

21 Memorandum items continued

Litigation, investigations and reviews

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

RBS 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 proceedings and investigations, 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 investigations or as a result of adverse impacts or restrictions on RBS 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. RBS 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 RBS 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 investigations, even for those Matters for which RBS Group believes it has credible defences and should prevail on the merits. The uncertainties inherent in all such Matters affect the amount and timing of any potential outflows for both Matters with respect to which provisions have been established and other contingent liabilities.

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

Litigation

Claims by customers regarding RBS Group's Global Restructuring Group (GRG)

RBS Group is dealing with a number of active and threatened litigation claims brought by current and former customers of RBS plc and other RBS Group companies on a wide variety of bases who allege that they have suffered losses as a result of RBS 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 RBS Group's designated complaints process for SME customers, which is now closed to new complaints.

RBS plc remains exposed to potential new litigation claims from customers who are dissatisfied with their complaint outcome or who were ineligible to complain.

Investigations and reviews

RBS 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. RBS 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, business conduct, competition/anti-trust, 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 RBS Group, remediation of systems and controls, public or private censure, restriction of RBS 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.

RBS plc is co-operating fully with the investigations and reviews described below.

FCA review of RBS 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 RBS Group's treatment of SME customers whose relationship was managed by RBS Group's Global Restructuring Group (GRG) in the period 1 January 2008 to 31 December 2013.

The Skilled Person delivered its final report to the FCA during September 2016, and the FCA published an update in November 2016. In response, RBS Group announced redress steps for SME customers in the UK and the Republic of Ireland that were in GRG between 2008 and 2013. These steps were (i) an automatic refund of certain complex fees; and (ii) a new complaints process, overseen by an independent third party. The complaints process has since closed to new complaints.

RBS plc's remaining provisions in relation to these matters at 31 December 2019 were £27 million.

In July 2018, the FCA confirmed that it had concluded its investigation and that it did not intend to take disciplinary or prohibitory action against any person in relation to these matters. On 13 June 2019, the FCA published a full report explaining how it had reached that conclusion.

21 Memorandum items continued

Investment advice review

As a result of an FSA review in 2013, the FCA required RBS Group to carry out a past business review and customer contact exercise on a sample of historic customers who received investment advice on certain lump sum products, during the period from March 2012 to December 2012. The review was conducted under section 166 of the Financial Services and Markets Act 2000. Redress was paid to certain customers in that sample group.

RBS Group later agreed with the FCA that it would carry out a wider review/remediation exercise relating to certain investment, insurance and pension sales from 1 January 2011 to 1 April 2015. That exercise is now complete. Phase 2 (covering sales in 2010) started in April 2018 and, with the exception of a small cohort of former customers for whom there is an extended completion date, was completed by the end of 2019, with full completion and formal closure expected by the end of June 2020.

In addition, RBS Group agreed with the FCA that it would carry out a remediation exercise, for a specific customer segment who were sold a particular structured product. Redress was paid to certain customers who took out the structured product. This remediation activity was completed in December 2019.

RBS plc's remaining provisions in relation to these matters at 31 December 2019 were £2 million.

During October 2019, the FCA notified RBS 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 RBS 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. RBS Group is co-operating with the Skilled Person's review, which is expected to conclude during Q1 2020.

Packaged accounts

RBS Group has had dedicated resources in place since 2013 to investigate and resolve packaged account complaints on an individual basis. The FCA conducted a thematic review of packaged bank accounts across the UK from October 2014 to April 2016, the results of which were published in October 2016. RBS Group made amendments to its sales process and complaints procedures to address the findings from that review.

RBS plc's remaining provisions in relation to these matters at 31 December 2019 were £6 million.

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

In July 2017, the FCA notified RBS Group that it was undertaking an investigation into RBS Group's compliance with the Money Laundering Regulations 2007 in relation to certain customers. There are currently two areas under review: (1) compliance with Money Laundering Regulations in respect of Money Service Business customers; and (2) the Suspicious Transactions regime in relation to the events surrounding particular customers. The investigations in both areas are assessing both criminal and civil culpability. RBS Group is cooperating with the investigations, including responding to information requests from the FCA.

Systematic Anti-Money Laundering Programme assessment

In December 2018, the FCA commenced a Systematic Anti-Money Laundering Programme assessment of RBS Group. The FCA provided its written findings to RBS Group on 28 June 2019, and RBS Group responded on 8 August 2019. On 28 August 2019, the FCA instructed RBS Group to appoint a Skilled Person to provide assurance on financial crime governance arrangements in relation to two financial crime change programmes. RBS Group is cooperating with the Skilled Person's review, which is expected to conclude during Q1 2020. It is not yet possible to assess the likely impact of these matters.

Payment Protection Insurance (PPI)

Since 2011, RBS Group has been implementing the FCA's policy statement for the handling of complaints about the mis-selling of PPI (Policy Statement 10/12). In August 2017, the FCA's new rules and guidance on PPI complaints handling (Policy Statement 17/3) came into force. The Policy Statement introduced new so called 'Plevin' rules, under which customers may be eligible for redress if the bank earned a high level of commission from the sale of PPI, but did not disclose this detail at the point of sale. The Policy Statement also introduced a two year deadline for making new PPI complaints, which expired on 29 August 2019.

RBS plc has made provisions totalling £0.7 billion to date for PPI claims, including an additional provision of £0.3 billion taken at 30 September 2019, reflecting greater than predicted complaints volumes in the lead up to the 29 August 2019 deadline. £0.3 billion of these provisions had been utilised by 31 December 2019.

FCA mortgages market study

In December 2016, the FCA launched a market study into the provision of mortgages. On 26 March 2019 the final report was published. This found that competition was working well for many customers but also proposed remedies to help customers shop around more easily for mortgages. A period of consultation is underway and the FCA has indicated that it intends to provide updates on the remedies in due course.

Notes on the accounts

22 Analysis of the net investment in business interests and intangible assets

Acquisitions and disposals	2019 £m	2018 £m
Fair value given for businesses acquired	—	—
Value recognised for business transferred from fellow subsidiary	—	10,213
Additional and new investments in Group undertakings	—	(12)
Net inflow/(outflow) of cash in respect of purchases	—	10,201
Net inflow	—	10,201

23 Analysis of cash and cash equivalents

	2019 £m	2018 £m
At 1 January		
- cash	21,650	—
- cash equivalents	7,107	928
	28,757	928
Net cash inflow	3,086	27,788
Effect of exchange rate on cash and cash equivalents	—	—
At 31 December	31,843	28,715
Comprising:		
Cash and balances at central banks	26,597	21,650
Net loans to banks	5,246	7,107
Cash and cash equivalents	31,843	28,757

RBS plc is required by law or regulation to maintain balances with the Bank of England at 31 December 2019 the balance held was £0.2 billion (31 December 2018 £0.2 billion).

Notes on the accounts

24 Directors' and key management remuneration

The composition of RBS plc's board of directors changed significantly on 27 April 2018 in preparation for ring-fencing.

Up to 27 April 2018 the executive and non-executive directors of RBS plc were remunerated directly by RBS plc or by a subsidiary of RBS plc for their services. From the 27 April 2018 the directors of RBS plc were also directors of the intermediate holding company NatWest Holdings Ltd and were remunerated for their services to NWH Group as a whole. From this point, RBS plc did not remunerate these directors nor could their remuneration be apportioned in respect of their services to RBS plc.

The directors' emoluments in the table below represents the NWH Group emoluments of the new directors for the period from which they were appointed in 2018 and the remuneration provided directly to the previous directors prior to their resignation in 2018. The amounts for those that are also RBSG plc directors are as disclosed in the 2019 Annual Report and Accounts of RBSG plc.

	2019	2018	
		NWH Group	RBS plc
Directors remuneration	£000	£000	£000
Non-executive directors emoluments	2,276	1,529	48
Chairman and executive directors emoluments			
-emoluments	6,471	3,155	114
-amounts receivable under long-term incentive and share option plans	741	—	—
	9,488	4,684	162

The total emoluments and amounts receivable under long-term incentive plans and share option plans of the highest paid director were £2,082,000 (2018 - £1,676,000).

No directors accrued benefits under defined benefit schemes or money purchase schemes during 2019. Three directors of RBS plc accrued benefits under defined benefit schemes or money purchase schemes during 2018. The executive directors may participate in the RBS Group's long-term incentive plans, executive share option and sharesave schemes. Where directors of RBS plc are also directors of RBSG plc, details of their share interests can be found in the 2019 Annual Report and Accounts of RBSG plc in line with regulations applying to RBSG 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:

	2019	2018	
		NWH Group	RBS plc
	£000	£000	£000
Short-term benefits	17,295	15,133	162
Post-employment benefits	249	60	—
Share-based payments	1,686	—	—
	19,230	15,193	162

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

25 Transactions with directors and key management

At 31 December 2019, amounts outstanding in relation to transactions, arrangements and agreements entered into by RBS plc, as defined in UK legislation, were £740,303 in respect of loans to seven 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 comprise directors of RBS plc and members of RBS plc's Executive Committee. Applying the captions in RBS plc's primary financial statements the following amounts[1] are attributable, in aggregate, to key management.

	2019	2018
	£000	£000
Loans to customers	1,566	1,530
Customer deposits	29,887	28,728

Key management have banking relationships with RBS 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.

Note:
(1) Amounts are attributed to each person at their highest level of RBS Group key management.

Notes on the accounts

26 Related parties

UK Government

On 1 December 2008, the UK Government through HM Treasury became the ultimate controlling party of The Royal Bank of Scotland 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 became related parties of RBS plc.

In 2015, HM Treasury sold 630 million of RBSG plc's ordinary shares and a further 925 million in June 2018. At 31 December 2019, HM Treasury's holding in RBSG plc's ordinary shares was 62.1%.

RBS plc enters into transactions with many of these bodies on an arm's length basis. 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.

Service entity

On 30 April 2018, in preparation for ring-fencing, NWB Plc became the main provider of shared service activities for RBS Group, including RBS plc. This includes Treasury services as well as shared service activity.

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 0.324% 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 Rate.

Other related parties

In their roles as providers of finance, RBS plc provides development and other types of capital support to businesses. These investments are made in the normal course of business. In some instances, the investment may extend to ownership or control over 20% or more of the voting rights of the investee company. However, these investments are not considered to give rise to transactions of a materiality requiring disclosure under IAS 24.

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

	2019 £m	2018 £m
Interest receivable	78	269
Interest payable	(122)	(327)
Fees and commissions receivable	—	—
Fees and commissions payable	(19)	(8)
Other administrative expenses	—	(1)
	(63)	(67)

27 Ultimate holding company

RBS plc's ultimate holding company is The Royal Bank of Scotland Group plc (RBSG plc) which is incorporated in Great Britain and registered in Scotland, and its intermediate holding company is NatWest Holdings Ltd (NWH Ltd) which is incorporated in Great Britain and registered in England.

As at 31 December 2019, RBSG plc heads the largest group in which RBS plc is consolidated. Copies of the consolidated accounts may be obtained from The Secretary, The Royal Bank of Scotland Group plc, Gogarburn, PO Box 1000, Edinburgh EH12 1HQ.

Following placing and open offers by RBSG plc in December 2008 and April 2009, the UK Government, through HM Treasury, currently holds 62.1% of the issued ordinary share capital of the ultimate holding company and is therefore RBS plc's ultimate controlling party.

28 Post balance sheet events

There have been no other significant events between 31 December 2019 and the date of approval of these accounts which would require a change to or additional disclosure in the accounts.

Notes on the accounts

29 Related undertakings

Legal entities and activities at 31 December 2019

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 the RBS Group accounts by reason of contractual control (Section 1162(2) CA 2006), unless otherwise indicated. RBS Group interest refers to ordinary shares of equal values and voting rights unless further analysis is provided in the notes. Activities are classified in accordance with Annex I to the Capital Requirements Directive ("CRD IV") and the definitions in Article 4 of the Capital requirements Regulation.

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

Entity Name	Activity	Regulatory treatment	Notes
Adam & Company Investment Management Ltd	BF	FC	(1)
The One Account Ltd	BF	FC	(2)

The following table details related undertakings that are dormant

Entity Name	Accounting treatment	Regulatory treatment	Group %	Notes
Adam & Company (Nominees) Ltd	FC	FC	100	(1)

Key:

BF Banking and financial institution

FC Full consolidation

Notes	Registered addresses	Country of incorporation
(1)	24/25 St Andrew Square, Edinburgh, EH2 1AF, Scotland	UK
(2)	250 Bishopsgate, London, EC2M 4AA, England	UK