

Company Registered Number: 65046

THE ROYAL BANK OF SCOTLAND INTERNATIONAL (HOLDINGS) LIMITED
and
THE ROYAL BANK OF SCOTLAND INTERNATIONAL LIMITED

ANNUAL REPORT AND ACCOUNTS

31 December 2022

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Board of directors and secretary

Chairman

John Philip Ward Brewster

Executive directors

Oliver Holbourn (appointed 1 July 2022)

Chief Executive Officer

Robert Horrocks (appointed 1 September 2022)

Chief Financial Officer

Dominic Simpson (appointed 12 January 2023)

Non-executive directors

Bruce Mark Cannon

Christine Hilary Ashton

Company Secretary

Rachael Emma Pocklington

Board changes

Andrew Martin McLaughlin resigned on 1 July 2022

Gregory John Branch passed on 22 August 2022

Lynn Cleary resigned on 1 September 2022

Auditor

Ernst & Young LLP

Castle Street

St Helier

Jersey

JE1 1EY

Registered office and Head office

Royal Bank House

71 Bath Street

St Helier

Jersey

JE2 4SU

The Board information covers the following companies:

The Royal Bank of Scotland International (Holdings) Limited

Registered in Jersey, Channel Islands No. 65046

The Royal Bank of Scotland International Limited

Registered in Jersey, Channel Islands No. 2304

Report of the directors

Presentation of information

The directors of The Royal Bank of Scotland International Limited (the “Company”/“RBS International”/“RBSI”/the “Bank”) present their Annual Report, together with audited consolidated financial statements of The Royal Bank of Scotland International (Holdings) Limited (the “RBSIH”/“RBS International Holdings”) and its subsidiaries (together “the RBSI Group”) for the year ended 31 December 2022.

The audited financial statements of The Royal Bank of Scotland International Limited and The Royal Bank of Scotland International (Holdings) Limited are clearly and separately identifiable throughout this document.

The financial statements are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB). The Bank publishes its financial statements in the functional currency, pound sterling (£ or ‘sterling’) and all values are rounded to the nearest million pound, except when otherwise indicated. The abbreviations ‘£m’ and ‘£bn’ represent millions and thousands of millions of pounds sterling, respectively.

Activities and Business review

Principal activities

The RBS International Holdings is a holding company owning the entire issued share capital of RBS International, as well as the other key companies forming the Group, including NatWest Trustee and Depositary Services Limited (NWTDS) and RBS International Depositary Services SA (RBSI DS).

The RBS International is one of the largest banks operating in the Channel Islands, Isle of Man and Gibraltar with wholesale branches in Luxembourg and the United Kingdom (UK). It provides a comprehensive range of financial services through its International Retail & Commercial Banking (IRCB) and Institutional Banking (IB) customer segments. IRCB provides loan and deposit products and services to personal, private, business and commercial customers. IB provides services to European fund asset managers, fund administrators and corporate service providers.

NWTDS provides corporate trustee and depositary services to UK domiciled Authorised Fund Managers in respect of the Collective Investment Schemes they operate. RBSI DS operates Depositary Services for regulated Alternative Investment Funds (AIFs) that are mainly established and regulated in Luxembourg and invested in non-custodial assets.

The directors do not anticipate any material change in the type or activities of the Bank or the RBSI Group. The RBSI Group is part of the Commercial and Institutional franchise of NatWest Group. We have improved connectivity across the business segment, as we look forward in 2023 to unlocking further opportunities by delivering a more connected customer offering across NatWest Group plc (‘NWG’). The ultimate holding company of RBSIH is NWG which provides support and access to all central resources. The RBSI Group will leverage this relationship with NWG and other subsidiaries to continue to improve on the quality and efficiency of the services and products provided.

Copies of the annual report of NWG can be obtained from Corporate Governance and Regulatory Affairs, NatWest Gogarburn, Edinburgh EH12 1HQ, the Registrar of Companies or through the NWG website, www.natwestgroup.com. RBSI DS is expected to change its parent by 30 December 2023 to meet the European Banking Authority’s Capital Requirements Directive IV. This requires that firms belonging to a third country group with assets of €40bn or more and at least two subsidiaries in the EU must establish an Intermediate Parent Undertaking by 30 December 2023. In 2022 RBSI DS contributed £1 million to the RBSI Group profit before tax.

Business review

The RBSI Group's purpose, which is aligned with NWG, is to champion potential, helping people, families and businesses to thrive.

We have a purpose led strategy for growth that drives sustainable returns and balances the evolving stakeholder needs. Our ambitions are –

- A more customer centric relationship for a digital world,
- A diverse, happy, healthy team and an inclusive culture where colleagues thrive,
- A bank at the heart of our societies, helping safeguard further generations,
- A simpler bank with a firm foundations enabled by OneBank capabilities, and
- A trusted and reliable partner balancing the needs of evolving stakeholders.

We welcomed Oliver Holbourn as CEO for RBSIH during 2022. Oliver champions diversity, equity and inclusion and is the executive sponsor of the Enable Disability Network a NWG-wide employee led network.

We were saddened that Gregory Branch passed away in August 2022. The Directors would like to acknowledge his significant contribution to the RBSI Group during his tenure and he will be missed.

Customer centric relationships

- We continue with improvements in our digital propositions and our mobile app for retail customers has c71k active users.
- Our 'Round up' feature on the mobile app had 8,815 users registered at the end of 2022. It helps customers with enhanced saving opportunities by rounding up their transactions to the nearest pound and sending them into their nominated savings account.
- We launched a digital journey for personal lending which has enabled us to facilitate personal lending volumes online, saving time for both colleagues and customers.

A simpler bank with a firm foundations enabled by OneBank capabilities

- We are working closely with NWG colleagues to bring a One Bank solution to our technology platforms. We successfully completed a pilot in 2022 ahead of a full roll out in 2023.
- NWTDS is investing in a programme that focuses on delivering a technology platform using the latest Cloud based solutions. In 2022, we met a key milestone with the delivery of the production ready environment for our first wave of processes and clients. This has set us up to complete the programme in 2023 with all processes and clients moving to our new platform.

Inclusive culture where colleagues thrive

- We launched the Isle of Man (IoM) apprenticeship pilot in partnership with the IoM government to provide colleagues with externally recognised qualifications.
- We welcomed our largest ever cohort of graduates as we continue to invest in early career opportunities at RBSI Group.
- We launched a Gender Network Development Programme to champion female potential across our business with 16 RBSI colleagues participating in this year's programme.
- In July and December, we announced specific cost-of-living support for colleagues. This included a £1,000 or local equivalent one off Cost of Living payment in January. We also announced the pay approach for 2023, including further uplift to salary ranges, and a minimum of £2,000 fixed pay increase for the majority of colleagues with effect from 1 April.

A trusted and reliable partner

- We paid £379 million dividends to our shareholder during the year, reflecting the strength of our capital position and profitability.
- We saw 1.5k downloads of the RBSI 'A Just Transition' podcast, which ran through 2021 and 2022. This podcast focused on different topics around climate and ESG.
- We had 2.8k page views across the 15 2022 climate & ESG insights articles and 1,500 page views of the science-based targets research.
- We drew 85 new Green Mortgages (totalling ~£20m).
- We have supported customers with £1.27 billion Climate and Sustainable Funding and Financing of which £1.00 billion are Sustainability Linked Loans.
- We won two awards, the Jersey Finance 'Leadership in Sustainable Banking' award and 'Lender of the Year' at the Real Deals ESG Awards, celebrating those making a positive change in Private Equity.

A bank at the heart of our societies

- Our three days volunteering for every colleague continues to have a positive impact on our communities and colleagues. This year colleagues gave over 3,600 volunteering hours and £42k in fundraising to good causes in 2022.
- We resolved over 1,158 fraud cases and continued to work to protect and educate our colleagues and customers on fraud and scam activity.
- Our flagship Jersey branch located in Library Place is undergoing renovations to transform into a hybrid space to support and engage communities, charities and events. It re-opens in March 2023.

	Group		Bank	
	2022	2021	2022	2021
Performance key metrics and ratios				
Total Income	£810m	£549m	£769m	£508m
Operating profit before tax	£524m	£350m	£514m	£335m
Loans and advances to customers	£16.4bn	£15.5bn	£16.4bn	£15.5bn
Customer deposits	£34.6bn	£37.5bn	£34.6bn	£37.5bn
Loan to deposit ratio	47%	41%	47%	41%
Depository assets & assets held in a fiduciary capacity	£439bn	£482bn	£2.2bn	£2.8bn
RBSI regulatory metrics				
Liquidity portfolio			£20.3bn	£23.1bn
Risk weighted assets (RWAs)			£7.6bn	£7.4bn
CET1 capital ratio			18.5%	20.9%
T1 capital ratio			22.4%	25.0%
Leverage ratio ⁽¹⁾			4.0%	4.2%
Liquidity coverage ratio (LCR)			130%	136%

(1) Leverage ratio is Tier 1 capital as a percentage of on and off balance sheet exposures in line with Jersey Financial Services Commission (JFSC) guidance. The primary driver of the leverage ratio is short term deposit balances, which RBSI typically holds in high quality liquid assets. Excluding unencumbered central bank balances would result in a ratio of 6.6%.

The RBSI Group's operating profit before tax was £524 million compared with an operating profit before tax of £350 million in 2021 reflecting robust financial performance through customer growth and higher liability margins.

The Bank's operating profit before tax was £514 million compared with an operating profit before tax of £335 million in 2021.

The RBSI Group and Bank's financial performance are presented in the Income Statement on page 21. These results demonstrate the resilience of our underlying business and the strength of our balance sheet whilst also investing for growth as we support our customers and drive sustainable returns to our shareholder.

Income

RBSI Group income increased by 48% to £810 million principally reflecting the higher liability margins following base rate rises and IB customer lending volume growth.

Operating expenses

RBSI Group operating expenses increased by 13% or £33 million to £284 million, reflecting higher investment spend and increased costs for financial crime and fraud prevention.

Impairments

Impairments of £2 million reflected the low levels of realised losses we continue to see across our portfolio. We continue to monitor our book given the uncertain economic outlook. The expected credit losses (ECL) coverage ratio was 0.30% (2021: 0.33%) and has decreased on 2021 following disposals in our Corporate Real Estate portfolio in 2022.

Loans and advances to customers

Loans and advances to customers increased by £0.9 billion during the year to £16.4 billion with growth mainly in IB client facilities.

Customer L&A	FY22	FY21
IRCB	£3.9bn	£3.8bn
o/w mortgages	£2.4bn	£2.4bn
IB	£12.5bn	£11.7bn

Customer deposits

Customer deposits at £34.6 billion decreased by £2.9 billion and represent the RBSI Group's primary funding source. Average balances increased by £0.7 billion on 2021 balances, however year end balances decreased due to short term activity in our Funds Banking sector.

Customer Deposits	FY22	FY21
IRCB	£11.0bn	£10.3bn
IB	£23.6bn	£27.2bn

Capital and liquidity management

The RBSI Group's capital and liquidity positions remained robust during 2022. As RBSIH is not a regulated entity, the capital and liquidity metrics of The Royal Bank of Scotland International Limited are discussed.

As at 31 December 2022 the CET1 ratio was 18.5% (2021: 20.9%) and the Liquidity Coverage Ratio was 130% (2021: 136%).

CET1 ratio of 18.5% was 240 basis points lower than 31 December 2021 as total distributions of c.500 basis points and increased RWAs of c.80 basis points were partially offset by the attributable profit of c.340 basis points.

RWAs increased £0.2 billion to £7.6 billion reflecting a £0.1 billion increase in Operational Risk RWAs, £0.2 billion increase following changes to advanced internal ratings-based (AIRB) models, £0.1 billion increase due to asset quality movements and £0.1 billion FX movements offset by £0.3 billion reduction in exposures.

Liquidity Coverage Ratio of 130% was 600bps lower than 31 December 2021 as higher customer lending and lower customer deposits was partially offset by higher Commercial Paper issuance and term funding from NatWest Group.

The RBSI Group's loan to deposit ratio stood at 47% at 31 December 2022 (2021: 41%). To support diversification of funding sources the RBSI Group continues to issue Euro Commercial Paper with volumes of £0.8 billion at December 2022 which is an increase of £0.3 billion on 2021.

RBSI Group held securities of £3.3 billion which are highly liquid and comprised primarily of UK Gilts, German Bund and US Treasuries.

Depository assets & assets held in a fiduciary capacity

The RBSI Group holds assets under management which are not included in its financial statements. This includes trustee and depository services to Collective Investment Schemes (CIS), including Alternative Investment Funds (AIFs) and Undertakings for Collective Investment in Transferable Securities Directive (UCITS). Depository assets decreased on 2021 reflecting equity market movements, which was partly offset with continued growth in AIFs.

Credit ratings

The Bank had the following Credit Ratings at 31 December 2022:

S&P	A- / A-2 (Stable)
Moody's	A1 / P-1 (Stable)
Fitch	A / F1 (Stable)

During the year Moody's upgraded the Bank's long-term deposit and issuer ratings to A1 (from A3) and to A2 (from A3), respectively, and upgraded the short-term rating to P-1 (from P-2). The upgrade reflected the agency's application of its Advanced Loss Given Failure (LGF) framework, under which it believes RBSI's deposits are likely to face a very low loss given failure because of the loss absorption provided by subordinated debt and the volume of deposits themselves.

Accounting policies

The reported results of the RBSI Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. Details of the RBSI Group's accounting policies and key sources of estimation uncertainty are included within the accounting policies on pages 26 to 31.

Principal risks and uncertainties

Set out below are certain risk factors that could adversely affect RBSI Group's future results, its financial condition and/or prospects and cause them to be materially different from what is forecast or expected, and directly or indirectly impact the value of its securities. The financial position of the RBSI Group, its cash flows, liquidity position and borrowing facilities are set out in the financial statements.

RBSI Group, its customers and its counterparties face continued economic and political risks and uncertainties in its jurisdictions and global markets, including as a result of high inflation and rising interest rates, supply chain disruption and the Russian invasion of Ukraine.

RBSI Group is affected by global economic and market conditions. Uncertain and volatile economic conditions can create a challenging operating environment for financial services companies such as RBSI Group. Prevailing market and economic conditions pose risks for the RBSI Group including the level of defaults from customers on outstanding advances as well as the degree of uncertainty in the valuation of other financial assets and liabilities.

The outlook for the global economy remains uncertain due to, amongst others: falling economic activity, high inflation, rising interest rates, elevated energy prices and higher cost-of-living, supply chain disruption, changes to monetary and fiscal policy, and the impact of armed conflict (in particular the Russian invasion of Ukraine).

These conditions, including the current cost-of-living crisis, could be worsened by a number of factors including: instability in the global financial system, market volatility and change, fluctuations in the value of the pound sterling, new or extended economic sanctions, the ongoing effects of the COVID-19 pandemic, economic volatility in emerging markets, volatility in commodity prices or concerns regarding sovereign debt or sovereign credit ratings. Economic conditions may also be affected by the changing demographics in the markets that RBSI Group serves, increasing social and other inequalities, or rapid changes to the economic environment due to the adoption of technology, automation and artificial intelligence, or due to climate change, environmental degradation, biodiversity loss and/or other sustainability risks.

RBSI Group is also exposed to risks arising out of geopolitical events or political developments, such as exchange controls and other measures taken by sovereign governments that may hinder economic or financial activity levels. Unfavourable political, military or diplomatic events, increasing geopolitical tensions leading to armed conflict, protectionist policies or trade barriers, secession movements or the exit of other member states from the EU, changes to monetary and fiscal policy, new and widespread public health crises (including any epidemics or pandemics), state and privately sponsored cyber and terrorist acts or threats, and the responses to each of the above economic, political or other scenarios by various governments and markets, could negatively affect the business and performance of RBSI Group, including as a result of the indirect impact on regional or global trade and/or RBSI Group's customers and counterparties.

In addition, financial markets are susceptible to severe events evidenced by rapid depreciation in asset values, which may be accompanied by a reduction in asset liquidity. Under these conditions, hedging and other risk management strategies may not be as effective at mitigating losses as they would be under more normal market conditions. Moreover, under these conditions, market participants are particularly exposed to trading strategies employed by many market participants simultaneously and on a large scale, increasing RBSI Group's counterparty risk. RBSI Group's risk management and monitoring processes seek to quantify and mitigate RBSI Group's exposure to more extreme market moves. However, market events have historically been difficult to predict, and RBSI Group, its customers and its counterparties could realise significant losses if extreme market events were to occur.

The COVID-19 pandemic prompted many changes that may prove to be permanent shifts in customer behaviour and economic activity, such as changes in spending patterns and significantly more people working in a more flexible manner. These changes may affect asset prices, the economic environment, and RBSI Group's customers' and counterparties' financial performance and needs.

Any of the above may adversely affect RBSI Group.

RBSI Group's businesses are subject to substantial regulation and oversight, which are constantly evolving and may adversely affect RBSI Group.

RBSI Group is subject to extensive laws, regulations, guidelines, corporate governance practice and disclosure requirements, administrative actions and policies in each jurisdiction in which it operates, which represents ongoing compliance and conduct risks. Many of these have been introduced or amended recently and are subject to further material changes, which may increase compliance and conduct risks, including the divergence of EU/EEA laws from UK laws as a result of Brexit that may adversely affect RBSI Group, or its ultimate parent (NatWest Group) and its other subsidiaries. RBSI Group expects government and regulatory intervention in the financial services industry to remain high for the foreseeable future, which may in turn place additional constraints on RBSI Group. See also Note 17 on litigation and regulatory matters.

In recent years, regulators and governments have focused on reforming the prudential regulation of the financial services industry and the manner in which the business of financial services is conducted, including, amongst others: enhanced capital, liquidity and funding requirements, implementation and strengthening of the recovery and resolution framework applicable to financial institutions in Jersey (the Bank (Recovery and Resolution) (Jersey) Law 2017 came into force on 31 January 2022), the transition away from LIBOR as a benchmark

interest rate for financial products, financial industry reforms, and increased regulatory focus in certain areas, including conduct, consumer protection, competition and disputes regimes, anti-money laundering, anti-corruption, anti-bribery, anti-tax evasion, payment systems, sanctions and anti-terrorism laws and regulations.

Other areas in which, and examples of where, governmental policies, regulatory and accounting changes, and increased public and regulatory scrutiny could have an adverse effect (some of which could be material) on RBSI Group include, but are not limited to, the following:

- the introduction of, and changes to, taxes, levies or fees applicable to RBSI Group's operations, such as the introduction of global minimum tax rules and qualifying domestic minimum top-up taxes;
- shifts in the international tax policy environment and imposition of levies and taxes can affect the distributable profits of the RBSI Group, as the RBSI Group is subject to the tax laws and practice in the jurisdictions in which it has operations.
- changes to Internal Ratings Based (IRB) regulation from the Prudential Regulatory Authority (PRA) and the Jersey Financial Services Commission (JFSC).
- the introduction of Basel 3 amendments may result in additional supervisory and prudential expectations, including an increase in risk weighted assets. The details of Basel 3 amendments in Jersey remain subject to regulatory uncertainty on both quantum and timing.
- increased regulatory focus on combating financial crime and failure to comply could lead to enforcement action by RBSI Group's regulators, including penalties, which may have an adverse effect on the RBSI Group's business, financial condition and prospects.
- increased regulatory focus on customer protection (such as the FCA's Consumer Duty policy statement and final rules and guidance and the Lending, The Credit and Finance (Bailiwick of Guernsey) Law, 2022 in Guernsey) in retail or other financial markets; and
- the potential introduction by the Bank of England of a Central Bank Digital Currency which could result in deposit outflows, higher funding costs, and/or other implications for UK banks including NatWest Group (of which RBSI Group forms part).

These and other recent regulatory changes, proposed or future developments and heightened levels of public and regulatory scrutiny in various jurisdictions have resulted in increased capital, funding and liquidity requirements, changes in the competitive landscape, changes in other regulatory requirements and increased operating costs, and have impacted, and will continue to impact, competitive position, product offerings and business models. Any of these developments (including any failure to comply with new rules and regulations) could also have a significant impact on RBSI Group's authorisations and licences, the products and services that RBSI Group may offer, its reputation and the value of its assets, RBSI Group's operations or legal entity structure, and the manner in which RBSI Group conducts its business. Material consequences could arise should RBSI Group be found to be non-compliant with these regulatory requirements. Regulatory developments may also result in an increased number of regulatory investigations and proceedings and have increased the risks relating to RBSI Group's ability to comply with the applicable body of rules and regulations in the manner and within the timeframes required.

Operational risks are inherent in RBSI Group's businesses.

Operational risk is the risk of loss or disruption resulting from inadequate or failed internal processes, procedures, people or systems, or from external events, including legal and regulatory risks. RBSI Group offers a diverse range of products and services supported directly or indirectly by third party suppliers. Operational risks are also present when RBSI Group relies on critical service providers (suppliers) or vendors to provide services to it or its customers, as is increasingly the case as RBSI Group outsources certain activities, including with respect to the implementation of technologies, innovation and responding to regulatory and market changes. Operational risks or losses can arise from a number of internal or external factors (including for example, payment errors or financial crime and fraud). There is continued scrutiny (including political) by third parties as to the activities of offshore entities, including but not limited to compliance with financial crime requirements. Further, political, monetary and fiscal policies that apply to RBSI Group are subject to change and any perceived decrease in attractiveness to carrying out business activities in the jurisdictions in which RBSI Group operates, may in turn adversely affect its future results, financial condition and/or prospects.

Operational risks continue to be heightened as a result of the implementation of NatWest Group's (RBSI Group's ultimate parent) purpose-led strategy, and the organisational and operational changes involved, including: the creation of the Commercial and Institutional business segment (of which RBSI Group forms part), the progression towards working as One Bank across NatWest Group to serve customers, and conditions affecting the financial services industry generally (including macroeconomic and other geo-political developments) as well as the legal and regulatory uncertainty resulting therefrom. It is unclear as to how the future ways of working may evolve, including in respect of how working practices may develop, or how RBSI Group will evolve to best serve its customers. Any of the above may place significant pressure on RBSI Group's ability to maintain effective internal controls and governance frameworks.

Further operational risks may arise from:

- any critical system failure, material loss of service availability or material breach of data security could cause significant damage to (i) important business services across RBSI Group and (ii) RBSI Group's ability to provide services to its customers, which could result in reputational damage, significant compensation costs or regulatory sanctions (including fines resulting from regulatory investigations such as the current Isle of Man Financial Services Authority investigation) or a breach of applicable regulations;
- improper functioning of RBSI Group's payment systems, financial crime, fraud systems and controls, risk management, credit analysis and reporting, accounting, customer service and other IT systems (some of which are owned and operated by other entities in NatWest Group (of which RBSI Group forms part) or third parties), as well as the communication networks between its branches and main data processing centres;
- cyberattack threats across the RBSI Group and against its supply chain. A failure in RBSI Group's cybersecurity policies, procedures or controls, may result in significant financial losses, major business disruption, inability to deliver customer services, or loss of data or other sensitive information (including as a result of an outage) and may cause associated reputational damage;
- third parties attempts to induce RBSI Group employees, customers, third-party providers or other users who have access to RBSI Group's systems to disclose sensitive information in order to gain access to RBSI Group's data or

- that of its customers or employees. A failure to monitor and manage data in accordance with applicable legislation and regulations may result in financial losses, regulatory fines and investigations and associated reputational damage;
- a lack of, or ineffective use of, accurate data to support, monitor, evaluate, manage and enhance RBSI Group's operations and deliver its strategy could result in a failure to manage and report important risks and opportunities or satisfy customers' expectations including the inability to deliver innovative products and services;
 - data weaknesses and limitations, or the unethical or inappropriate use of data, and/or non-compliance with customer data protection laws could give rise to conduct and litigation risks and may increase the risk of operational challenges, losses or other adverse consequences due to inappropriate models, systems, processes, decisions or other actions;
 - a failure to further simplify, upgrade and improve its IT and technology capabilities (including migration of certain services to cloud platforms);
 - inability to attract, retain through creating an inclusive environment, and develop highly skilled and qualified diverse personnel, including senior management, directors and key employees especially for technology and data focused roles; and
 - failure to maintain good employee relations.

The effective management of operational risks is critical to meeting customer service expectations and retaining and attracting customer business. Although RBSI Group has implemented risk controls and mitigation actions, with resources and planning having been devoted to mitigate operational risk, such measures may not be effective in controlling each of the operational risks faced by RBSI Group. Ineffective management of such risks may adversely affect RBSI Group's future results, financial condition and/or prospects.

RBSI Group is subject to strategic risks including as part of NatWest Group's Commercial and Institutional business segment and RBSI Group's climate targets.

In 2022 NatWest Group (the ultimate parent of RBSI Group) created the Commercial and Institutional business segment. The Commercial and Institutional business segment combined the pre-existing Commercial, RBS International and NatWest Markets businesses to form a single business segment, which focuses on serving commercial and institutional customers. The Commercial and Institutional business segment is intended to allow closer operational and strategic alignment to support growth, with increased levels of service being provided between NatWest Group entities. The interests of NatWest Group plc and the interests of the Commercial and Institutional business segment may differ from the interests of RBSI Group. As a result of becoming part of NatWest Group's Commercial and Institutional business segment, RBSI Group may become increasingly reliant on NatWest Group. Reputational risk around the strategy to create the Commercial and Institutional business segment also arises in relation to stakeholder and public perceptions of the RBSI Group as part of the Commercial and Institutional business segment.

Further, key strategic risks also relate to NatWest Group's (of which RBSI Group forms part) ambition to become a leading bank in the UK helping to address the climate challenge. As part of the implementation of its climate ambitions, at NatWest Group's Annual General Meeting in April 2022, ordinary shareholders passed an advisory 'Say on Climate' resolution including endorsing NatWest Group's previously announced strategy to address climate change, including its ambitions to at least halve the climate impact of its financing activity by 2030, achieve alignment with the 2015 Paris Agreement and reach net

zero by 2050 across its financed emissions, assets under management and operational value chain. RBSI Group has a dedicated Environment, Social and Governance (ESG) team alongside NatWest Group's climate strategy, which underpinned the focus on the climate challenge and allocate dedicated resource to address climate opportunities and risks. RBSI Group's ability to contribute to achieving NatWest Group's strategy to address climate change, including achieving NatWest Group's climate ambitions and targets will depend to a large extent on many factors and uncertainties beyond RBSI Group's control. Any delay or failure by RBSI Group to contribute to setting, making progress against or meeting RBSI Group's climate-related ambitions and targets may adversely affect RBSI Group, its reputation, future results, financial condition and/or prospects and may increase the climate and sustainability-related risks RBSI Group faces.

RBSI Group has exposure to counterparty and borrower risk.

RBSI Group has exposure to many different industries, customers and counterparties, and risks arising from actual or perceived changes in credit quality and the recoverability of monies due from borrowers and other counterparties are inherent in RBSI Group's business. RBSI Group's lending strategy and associated processes/systems may fail to identify or anticipate weaknesses or risks in a particular sector, market or borrower, or RBSI Group's risk appetite relative to competitors, or fail to adequately value physical or financial collateral. This may result in increased default rates or a higher loss given default for loans, which may, in turn, impact RBSI Group's profitability. RBSI Group also has counterparty exposures to certain financial institutions through its cash and liquidity management arrangements such as its repurchase/reverse repurchase agreements. See also Note 16 'Risk Management — Credit Risk'.

The credit quality of RBSI Group's borrowers and other counterparties may be affected by the recent UK and global macroeconomic and political uncertainties and a further deterioration in prevailing economic and market conditions (including a resurgence of the COVID-19 pandemic or new health crises) and by the legal and regulatory landscape in the jurisdictions where RBSI Group is exposed to credit risk. Any further deterioration in these conditions or changes to legal or regulatory landscapes could worsen borrower and counterparty credit quality or impact the enforcement of contractual rights over security, increasing credit risk.

As a result, adverse changes in borrower and counterparty credit risk may cause accelerated impairment charges under IFRS 9, increased repurchase demands, higher costs, additional write-downs and losses for RBSI Group and an inability to engage in routine funding transactions.

RBSI Group has applied an internal analysis of multiple economic scenarios (MES) together with the determination of specific overlay adjustments to inform its IFRS 9 ECL (Expected Credit Loss). The recognition and measurement of ECL is complex and involves the use of significant judgment and estimation. This includes the formulation and incorporation of multiple forward-looking economic scenarios 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. Going forward, RBSI Group anticipates observable credit deterioration of a proportion of assets resulting in a systematic uplift in defaults, which is mitigated by those economic assumption scenarios being reflected in the Stage 2 ECL across portfolios, along with a combination of post model overlays in both wholesale and retail portfolios reflecting the uncertainty of credit outcomes. See also, Note 16 'Risk

Management — Credit Risk'. A credit deterioration would also lead to RWA increases. Furthermore, the assumptions and judgments used in the MES and ECL assessment at 31 December 2022 may not prove to be adequate resulting in incremental ECL provisions for RBSI Group.

RBSI Group may not be able to adequately access sources of liquidity and funding.

RBSI Group is required to access sources of liquidity and funding through retail and wholesale deposits and wholesale funding, including debt capital market. As at 31 December 2022, RBSI Group held £34.6 billion in customer deposits. The level of deposits may fluctuate due to factors outside RBSI Group's control, such as a loss of customers and/or investor confidence, changes in interest rates, government support, increasing competitive pressures for retail and corporate customer deposits or the reduction or cessation of deposits by wholesale depositors, which could result in a significant outflow of deposits within a short period of time. An inability to grow or any material decrease in RBSI Group's deposits could, particularly if accompanied by one of the other factors described above, adversely affect RBSI Group's ability to satisfy its liquidity or funding needs. In turn, this could require RBSI Group to adapt its funding plans or change its operations.

Current economic uncertainties and any significant market volatility could affect RBSI Group's ability to access sources of liquidity and funding, which may result in higher funding costs and failure to comply with regulatory capital, funding and leverage requirements. As a result, RBSI Group could be required to adapt its funding plans. This could exacerbate funding and liquidity risk, which may adversely affect RBSI Group.

As at 31 December 2022, RBSI Limited's liquidity coverage ratio was 130%. If its liquidity position were to come under stress, and if RBSI Group were unable to raise funds through deposits on acceptable terms or at all, its liquidity position could be adversely affected and it might be unable to meet deposit withdrawals on demand or at their contractual maturity, to repay borrowings as they mature, to meet its obligations under committed financing facilities, to comply with regulatory funding requirements, to undertake certain capital and/or debt management activities, or to fund new loans, investments and businesses. RBSI Group may need to liquidate assets to meet its liabilities, including disposals of assets not previously identified for disposal to reduce its funding commitments or trigger the execution of certain management actions or recovery options. In a time of reduced liquidity, RBSI Group may be unable to sell some of its assets, or may need to sell assets at depressed prices, which in either case may adversely affect RBSI Group's future results, financial condition and/or prospects.

Any of the above may lead to RBSI Group not being able to maintain a diversified, stable and cost-effective funding basis, which may adversely affect RBSI Group's future results, financial condition and/or prospects.

Governance

The Board

The Board is collectively responsible for the long-term success of the RBSI Group; approving the strategic priorities and delivering sustainable value to its shareholder. It monitors and maintains the consistency of the RBSI Group's activities within the strategic direction of NWG. It reviews and approves risk appetite for strategic and material risks in accordance with NWG Risk Appetite Framework and it monitors performance against risk appetite for the RBSI Group.

It approves the RBSI Group's key financial objectives and keeps the capital and liquidity positions of the RBSI Group under review. The Board is also responsible for purpose and culture, which underpins all of the RBSI Group's activities and its long-term sustainability.

The Board's terms of reference include key aspects of the RBSI Group's affairs reserved for the Board's decision and are reviewed at least annually.

In order to provide effective oversight and leadership the Board has established three Board Committees with particular responsibilities:

The Audit Committee assists the Board in discharging its responsibilities for monitoring the quality of the financial statements. It reviews the accounting policies, financial reporting and relevant compliance practices of the RBSI Group. It also reviews its systems and standards of internal controls and monitors the RBSI Group's processes for internal and external audit.

The Board Risk Committee provides oversight and advice on current and potential risk exposures and on future risk strategy. It reviews compliance with approved risk appetite and oversees the operation within the RBSI Group of its Risk Management Framework.

The Remuneration Committee is responsible for overseeing the implementation of the NWG-wide Remuneration Policy within RBSI Group. The Remuneration Committee also reviews performance and remuneration arrangements for senior executives of the RBSI Group.

There are a number of areas where the Board has delegated specific authority to management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO). These include responsibility for the operational management of the RBSI Group's businesses as well as reviewing high-level strategic issues and considering risk appetite, risk policies and risk management strategies in advance of these being considered by the Board and/or its Committees. The CEO is supported by various executive and management level committees including the Executive Committee (ExCo) which assists the CEO in managing key strategic, financial risk, control, operational, people and governance matters related to the running of the business.

The roles of Chairman and CEO are distinct and separate, with a clear division of responsibilities. The Chairman leads the Board and ensures the effective engagement and contribution of all executive and non-executive directors. The CEO has responsibility for all RBSI Group businesses and acts in accordance with authority delegated by the Board. The independent non-executive directors combine broad business and commercial experience with independent and objective judgment, and they provide independent challenge to the executive directors and leadership team.

The Bank has a separate board structure to provide effective oversight and leadership.

Directors and Secretary

The present directors and secretary of both the RBSI Group and the Bank, are listed on page 3.

Colleagues

Colleague engagement

RBSI Group has a hybrid approach to office and home working, appropriate to the needs of the role to enable us to continue to deliver for customers. Our office spaces support a flexible and dynamic working environment when we do spend time in the office.

The RBSI Group values the input of its colleagues and actively seeks opportunities to engage with them to contribute to on-going dialogue and activities to make the RBSI Group a better bank for our customers and colleagues. The bi-annual colleague listening survey, known as 'Our View', provides valuable data to decision makers across the RBSI Group in support of improving employee engagement and satisfaction. In the latest September 2022 survey, we saw a year on year improvement in 15 of the 17 category scores. The leadership focusses on the value of feedback garnered and credit it to be the key to building a business in which colleagues and customers can all thrive together.

Diversity, Equity and Inclusion

Creating a diverse, equitable and inclusive workplace is integral to fulfilling our purpose. It enables us to work together to achieve great things with our colleagues, communities and customers. We will stand up for people who are excluded, remove barriers that stop people progressing in their career and create a safe, happy and healthy environment for all. We want to give everyone who works here, and every customer who comes into contact with us, the chance to succeed and the support to thrive.

We base the employment relationship on the principles of fairness, respect and inclusion. We comply with local laws on equality and Our Code, which sets out the RBSI Group's expected behaviours and standards of conduct, to build and develop an inclusive workforce in order to understand and respond to our diverse customer base. Colleague sentiment on inclusivity is strong, reaching a score of 92 percentage points in our latest opinion survey. Although sentiment has increased in all colleague groups, our focus is now on where scores may vary for colleagues in minority groups.

The key principles of our Diversity Equity and Inclusion Policy are to attract, motivate and retain the best talent. We base the employment relationship on the principles of fairness, respect and inclusion. We comply with local laws on equality and Our Code, which sets out the RBSI Group's expected behaviours and standards of conduct to build and develop an inclusive workforce in order to understand and respond to our diverse customer base. Colleague sentiment on inclusivity is strong, reaching a score of 93 percentage points in our latest opinion survey.

RBSI continues to align to NatWest Group's One Bank Diversity, Equity and Inclusion Action Committee and takes a focused and impactful approach to DE&I. Activity in 2022 includes:

- Over 600 colleagues have enrolled in our learning module Choose to Challenge which educates participants on the importance of challenging non-inclusive behaviours. We have also encouraged colleagues to take other learning modules such as LGBT+ Awareness and Disability Smart, to continue to build a more inclusive workplace.
- We launched a revised and improved Recruitment YES Check to ensure DE&I is front of mind at every stage of the recruitment process. As part of this, we introduced Inclusive Interview Ambassadors who are trained not only in technical aspects of interviewing, along with inclusion and identifying

bias, to help bring diversity, challenge and an objective lens to the decision making process.

- 2022 has also seen progress against our targets on gender and Ethnicity. We have a target to have full gender balance in our CEO-3 and above global roles by 2030. At 31 December 2022, we had, on aggregate, 33.9% women in our top three layers which is an increase of 1.9% since 31 December 2021. We have a target to have 14% ethnically diverse colleague in the top four levels of our UK population by 2025. At 31 December 2022, of the 78.2% who disclose their ethnicity, 9.3% of UK colleagues in our top four layers identify as being from an ethnic minority background. This is an increase of 2.5% since 31 December 2021.
- Information on our Gender and Ethnicity pay gap is disclosed within the NatWest Group's Gender Pay Gap report.

Safety, health and wellbeing

We believe that the wellbeing of colleagues forms a large part of making the RBSI Group a great place to work. As an employer we want to make sure our colleagues have the right support to be healthy and happy and feel able to bring their whole selves to work. The RBSI Group's Wellbeing strategy is delivered against four pillars; Physical, Mental, Social and Financial. Within the RBSI Group we have a network of Wellbeing Ambassadors who are available for colleagues to reach out to and can provide practical support and advice. The RBSI Group has a programme of events throughout the year that focuses on physical, mental and financial wellbeing with a host of resources and tool kits available to colleagues. We have ensured these resources and toolkits are tailored to our jurisdictions where necessary to ensure all colleagues across the organisation are able to access support where it is needed.

Speak Up

Colleagues can report concerns relating to wrong-doing or misconduct through Speak Up, our whistleblowing service. The service facilitates confidential and anonymous reporting. The 2022 colleague listening survey showed an above financial services industry score when asking colleagues if they feel safe to speak up, as well as understanding the process of how they do that.

Building a healthy culture

The Board views building a high performing and healthy culture as essential to the RBSI Group's long-term success. The RBSI Group's culture plan focuses on becoming a purpose led organisation, helping people, families and businesses to thrive.

Our Values guide the way we serve our clients, how we work together and manage and mitigate risk. They help us to focus on the long term rather than the short term.

The RBSI Group also maintains a risk culture plan, aligned to NWG's target of achieving a generative risk culture whereby "risk is simply part of the way people work and think."

Championing the potential of our colleagues

We are committed to developing knowledge, skills and behaviours in a number of key critical capability areas that support our ambition and purpose. By encouraging a culture of continuous learning, knowledge sharing and reflective practice, we are ensuring that colleagues stay relevant and employable – and that we can adapt to the changing needs of our customers, communities and context.

The RBSI Group offers a wide range of learning opportunities including technical knowledge and skills. To keep the RBSI Group safe and secure, all colleagues must complete mandatory learning on our key policies, including anti-bribery and corruption, financial crime awareness including anti-money laundering, health and safety, and inclusion. Some colleagues also complete additional mandatory learning that is related to where they work or the job they do.

Our approach to performance management provides clarity for our colleagues about how their contribution links to our ambition. Individual performance objectives are clearly linked to our vision and strategy.

Rewarding our colleagues

We take a balanced approach to managing performance which is linked to reward. This includes taking into account the conduct and behaviour of individuals in addition to financial performance. This balanced approach to reward recognises both what the individual has achieved and how they have achieved it.

Climate

Our sustainable growth strategy aims to address climate change by supporting our customers in their own transition to net zero, helping to end the most harmful activity, forging powerful partnerships and getting our own house in order.

RBSI Group, as part of NWG, became one of the largest banks globally to date to have science-based emissions intensity targets validated by the Science Based Targets initiative ('SBTi'). These targets have been assessed by the SBTi against the latest available climate science and have been used in the development of our first ever climate transition plan, which demonstrates how we plan to reduce the climate impact of our financing activity. A strategic tool, the climate transition plan will be developed and enhanced further as we move towards 2030 and beyond. Refer to the NatWest Group 2022 Climate-related Disclosures Report, section 3.1 for further detail.

Since 2020, RBSI Institutional Banking has lent £3.57 billion in Climate and Sustainable Funding and Financing (of which £1.27 billion is during 2022) to drive practical, real-world outcomes such as clean energy production and energy efficiency enhancements in the construction and real estate sector. During 2022 we provided £1.00 billion in Sustainability Linked Loans ('SLLs') limits that met the NWG Climate and Sustainable Funding and Financing Inclusion criteria. SLLs offer customers a financial benefit when material and predetermined sustainability performance targets have been met.' Additionally, for the first time in 2022, RBSI structured a Green Revolving Subscription Credit Facility for a climate-focused fund. The facility is priced to support sustainable investment activity aligned with a bespoke 'Green Loan Framework'.

In 2022, our International Retail & Commercial Banking business expanded the existing Green Mortgage product to include properties in Gibraltar as well as the UK. The Green Mortgage product offers a lower interest rate for customers purchasing, porting or re-mortgaging a property with an Energy Performance Certificate ('EPC') rating of A or B, rewarding them for helping drive the transition towards a low carbon economy. We have lent £20.6 million to customers through the Green Mortgage product in 2022. Our activities in these areas contribute towards the NWG target of £100 billion Climate & Sustainable Funding and Financing between 1 July 2021 and the end of 2025.

At RBSI, we recognise the importance of investing in our people to build the future skills and behaviours we need to realise our purpose. In 2022, we leveraged the NWG partnership with the University of Edinburgh to provide c.1500 colleagues with climate change awareness training to understand the science behind climate change, what it means for us as a business and how we can address it. The aim is to create a consistent language across our organisation, promoting better discussions, decision-making and risk management, while facilitating good customer conversations to support their transition.

We know combating climate change must be a collaborative and wide-reaching effort. Our climate & ESG thought leadership programme aims to support our customers and drive the climate conversation across the communities we serve. In addition to the climate & ESG insights articles published on the RBSI website, we ran the second series of our podcast 'A Just Transition', speaking to industry stakeholders about a range of sustainability topics and providing regular climate & ESG news updates. We also worked with strategic partners to sponsor events across our jurisdictions, such as Guernsey Sustainable Finance Week 2022.

In 2022, we launched the 'Pressure is mounting: Can alternative investment funds accelerate the transition to net zero?' research report exploring the pace of adoption, benefits and barriers to setting science based targets in the alternative investment funds industry. The primary research was conducted with input from 125 key industry influencers. The aim of the research was to better understand the challenges our customers face when setting decarbonisation targets so that we may continue to support their transition to net zero.

RBSI is aligned with the NWG ambition to be net zero by 2050 across our financed emissions and full operational value chain. Refer to the NatWest Group 2022 Climate-related Disclosures Report, section 1.2 for further detail.

Auditor

NWG last tendered the 2016 audit and is required to undertake a tender for this work on a ten-year frequency. In June 2022 NWG announced the start of a selection process for the statutory auditor. In October 2022 NWG announced its intention to appoint PricewaterhouseCoopers LLP (PwC) as its auditor for the financial year ending 31 December 2026, subject to shareholder approval at the 2026 Annual General Meeting.

Ernst & Young LLP (EY), our current auditor, will continue in its role and, subject to shareholder approval at the relevant Annual General Meetings, will undertake the statutory audit for the 2022-2025 financial years.

Ernst & Young LLP, has expressed its willingness to continue as auditor and will continue in office.

Going concern

The RBSI Group's and the Bank's business activities and financial position, together with the factors likely to affect their future development, performance and position are set out in the Report of the directors.

Having reviewed the RBSI Group and Bank forecasts, projections and other relevant evidence, the directors have a reasonable expectation that the RBSI Group and the Bank will continue in operational existence for a period of 12 months from the date of this report. Accordingly, the financial statements of the RBSI Group and the Bank have been prepared on a going concern basis.

Dividends

The Bank's directors declared an ordinary dividend of £210 million (2021: £54 million) to RBSIH. An interim dividend of £160m paid during the year (2021: nil). A paid-in equity dividend of £20 million (2021: £20 million) was paid to NWG.

RBSIH directors declared an interim dividend of £169 million (2021: nil) and ordinary dividend of £210 million (2021: £76 million) to NWG.

Post balance sheet events

Post balance sheet events are described in note 21 to the financial statements.

By order of the Board:

Oliver Holbourn
Chief Executive Officer
Date: 15 February 2023


Dominic Simpson
Director
Date: 15 February 2023

Statement of directors' responsibilities

The directors of The Royal Bank of Scotland International Limited and the directors of The Royal Bank of Scotland International (Holdings) Limited are responsible for preparing the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the IASB. The financial statements are required by law to give a true and fair view of the state of affairs of the Group and Bank and of the profit or loss of the Group and Bank for that period. In preparing these financial statements, the directors are required to:

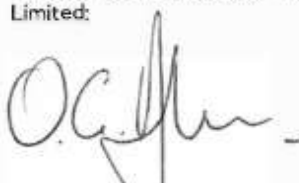
- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the financial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

The directors of The Royal Bank of Scotland International (Holdings) Limited are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991.

The directors of The Royal Bank of Scotland International Limited are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Bank and enable them to ensure that the Annual Report and Accounts complies with the Companies (Jersey) Law 1991, the Banking Business (Jersey) Law 1991, the Financial Services (General Insurance Mediation Business (Accounts, Audits, Reports and Solvency)) (Jersey) Order 2005, the Financial Services (Trust Company and Investment Business (Accounts, Audits and Reports)) (Jersey) Order 2007 and the Financial Services (Fund Services Business (Accounts, Audits and Reports)) (Jersey) Order 2007, the Financial Services (Jersey) Law 1998 and their Codes of Practice.

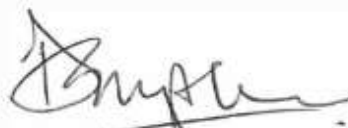
The directors of The Royal Bank of Scotland International (Holdings) Limited and the directors of The Royal Bank of Scotland International Limited are responsible for safeguarding the assets of the Group and Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors confirm they have discharged those responsibilities.

By order of the Boards of The Royal Bank of Scotland International Limited and The Royal Bank of Scotland International (Holdings) Limited:



Oliver Holbourn
Chief Executive Officer

Date: 15 February 2023



Dominic Simpson
Director

Date: 15 February 2023

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF THE ROYAL BANK OF SCOTLAND INTERNATIONAL (HOLDINGS) LIMITED**

Opinion

We have audited the financial statements of The Royal Bank of Scotland International (Holdings) Limited (the "company") and its subsidiaries (the "group") for the year ended 31 December 2022 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement, and the related notes 1 to 21, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards.

In our opinion, the financial statements:

- ▶ give a true and fair view of the state of the group's affairs as at 31 December 2022 and of the group's profit for the year then ended;
- ▶ have been properly prepared in accordance with International Financial Reporting Standards; and
- ▶ have been properly prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

Basis for opinion

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

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and company's ability to continue as a going concern for a period up to 15 February 2024 being not less than 12 months from when the financial statements are authorised for issue.

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

Other information

The other information comprises the information included in the Annual Report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the Annual Report.

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

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF THE ROYAL BANK OF SCOTLAND INTERNATIONAL (HOLDINGS) LIMITED
(continued)**

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

- ▶ proper accounting records have not been kept by the company, or proper 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 company's accounting records and returns; or
- ▶ we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the Statement of directors' responsibilities set out on page 14, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company'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 group or the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

- ▶ We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant are those that relate to reporting framework, namely;
 - o The Companies (Jersey) Law 1991

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF THE ROYAL BANK OF SCOTLAND INTERNATIONAL (HOLDINGS) LIMITED
(continued)**

- ▶ We understood how the group is complying with those frameworks by making enquiries of management, internal audit and those responsible for legal and compliance matters and corroborated this by reviewing supporting documentation. We also reviewed minutes of the Board and gained an understanding of the group's governance framework;
- ▶ We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur by considering the controls established to address risks identified to prevent or detect fraud. We identified the risk of management override associated to impairment provisions and the risk associated with the revenue recognition of manual and partly manual revenue streams to be a fraud risk. When performing our fraud procedures, we identified other areas that we considered, such as cybersecurity, the impact of remote working and the appropriateness of sources used when performing confirmation testing on accounts such as cash, loans and securities: and
- ▶ Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved reading Board minutes, complaints register, compliance reports, and inquiries of internal legal counsel, those charged with governance, executive management, compliance and internal audit, and the performance of journal entry testing meeting our defined risk criteria and our understanding of the business.

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.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. 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.



Steven Robb
for and on behalf of Ernst & Young LLP
Jersey, Channel Islands
Date: 15 February 2023

Notes:

1. The maintenance and integrity of the Company's 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 Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE ROYAL BANK OF SCOTLAND INTERNATIONAL LIMITED

Opinion

We have audited the financial statements of The Royal Bank of Scotland International Limited (the "company") for the year ended 31 December 2022 which comprise Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the related notes 1 to 21, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards.

In our opinion, the financial statements:

- ▶ give a true and fair view of the state of the Company's affairs as at 31 December 2022 and of its profit for the year then ended;
- ▶ have been properly prepared in accordance with International Financial Reporting Standards;
- ▶ have been properly prepared in accordance with the requirements of the Companies (Jersey) Law 1991;
- ▶ have been prepared in accordance with the requirements of the Banking Business (Jersey) Law 1991;
- ▶ have been prepared in accordance with the requirements of the Financial Services (Trust Company and Investment Business (Accounts Audits and Reports)) (Jersey) Order 2007;
- ▶ have been prepared in accordance with the requirements of the Financial Services (Fund Services Business (Accounts, Audits and Reports)) (Jersey) Order 2007; and
- ▶ have been prepared in accordance with the requirements of the Financial Services (General Insurance Mediation Business (Accounts, Audits, Reports and Solvency)) (Jersey) Order 2005.

Basis for opinion

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

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period up to 15 February 2024 being not less than twelve months from when the financial statements are authorised for issue.

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

Other information

The other information comprises the information included in the Annual Report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the Annual Report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE ROYAL BANK OF SCOTLAND INTERNATIONAL LIMITED (continued)

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

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

- ▶ proper accounting records have not been kept by the company, or proper 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 company's accounting records and returns; or
- ▶ we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the Statement of directors' responsibilities set out on page 14, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company'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 company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

- ▶ We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are those that relate to the financial reporting framework, namely;
 - the Companies (Jersey) Law 1991;
 - the Banking Business (Jersey) Law 1991; and
 - the Financial Services (Jersey) Law 1998;

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF THE ROYAL BANK OF SCOTLAND INTERNATIONAL LIMITED (continued)**

- ▶ We understood how the company is complying with those frameworks by making enquiries of management, internal audit and those responsible for legal and compliance matters and corroborated this by reviewing supporting documentation. We also read correspondence between the Company and the Jersey Financial Services Commission, read minutes of the Board, and gained an understanding of the Company's governance framework;
- ▶ We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by considering the controls established to address risks identified to prevent or detect fraud. We identified the risk of management override associated to impairment provisions and the risk associated with the revenue recognition of manual and partly manual revenue streams to be a fraud risk. When performing our fraud procedures, we identified other areas that we considered, such as cybersecurity, the impact of remote working and the appropriateness of sources used when performing confirmation testing on accounts such as cash, loans and securities;
- ▶ Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved reading Board minutes, complaints register, compliance reports, and inquiries of internal legal counsel, those charged with governance, executive management, compliance and internal audit, and the performance of journal entry testing meeting our defined risk criteria and our understanding of the business;
- ▶ The Company operates in the banking industry which is a highly regulated environment. As such the Audit Partner considered the experience and expertise of engagement team to ensure that the team had the appropriate competence and capabilities, which included use of specialists where appropriate.

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

Use of our report

This report is made solely to the company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. 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.



Steven Robb
for and on behalf of Ernst & Young LLP
Jersey, Channel Islands
Date: 15 February 2023

Notes:

1. The maintenance and integrity of the Company's 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 Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Income statement for the year ended 31 December 2022

	Note	Group		Bank	
		2022 £m	2021 £m	2022 £m	2021 £m
Interest receivable		818	438	818	438
Interest payable		(182)	(54)	(183)	(54)
Net interest income	1	636	384	635	384
Fees and commissions receivable		135	125	94	85
Fees and commissions payable		(26)	(1)	(26)	(1)
Other operating income		65	41	66	40
Non-interest income	2	174	165	134	124
Total income		810	549	769	508
Staff costs		(120)	(117)	(104)	(103)
Premises and equipment		(17)	(24)	(15)	(22)
Other administrative expenses		(132)	(96)	(119)	(87)
Depreciation and amortisation		(15)	(14)	(15)	(14)
Operating expenses	3	(284)	(251)	(253)	(226)
Profit before impairment losses/releases		526	298	516	282
Impairment (losses)/releases	8	(2)	52	(2)	53
Operating profit before tax		524	350	514	335
Tax charge	5	(84)	(54)	(82)	(52)
Profit for the year		440	296	432	283

The accompanying notes on pages 32 to 96 and the accounting policies on pages 26 to 31 form an integral part of these financial statements.

Statement of comprehensive income for the year ended 31 December 2022

	Note	Group		Bank	
		2022 £m	2021 £m	2022 £m	2021 £m
Profit for the year		440	296	432	283
Items that do not qualify for reclassification					
Remeasurement of retirement benefit schemes	4	(200)	34	(200)	34
Tax	5	20	(3)	20	(3)
		(180)	31	(180)	31
Items that do qualify for reclassification					
FVOCI financial assets		(18)	8	(17)	8
Cash flow hedges ⁽¹⁾		(279)	(41)	(279)	(41)
Tax	5	30	3	30	3
		(267)	(30)	(266)	(30)
Other comprehensive (loss)/income after tax		(447)	1	(446)	1
Total comprehensive (loss)/income for the year		(7)	297	(14)	284

(1) The unrealised losses on cash flow hedge reserves is mainly driven by deferment of losses on GBP net received fixed swaps as interest rates have increased.

The accompanying notes on pages 32 to 96 and the accounting policies on pages 26 to 31 form an integral part of these financial statements.

Balance sheet as at 31 December 2022

		Group		Bank	
	Note	2022 £m	2021 £m	2022 £m	2021 £m
Assets					
Cash and balances at central banks	7	17,012	17,220	17,012	17,220
Derivatives	6,7	172	158	172	158
Loans to banks - amortised cost	7	1,648	1,305	1,625	1,278
Loans to customers - amortised cost	7	16,360	15,463	16,360	15,463
Amounts due from holding companies and fellow subsidiaries	7	549	579	567	586
Other financial assets	7,9	3,271	5,923	3,271	5,923
Other assets	7,11	205	358	166	333
Total assets		39,217	41,006	39,173	40,961
Liabilities					
Bank deposits	7	327	266	327	266
Customer deposits	7	34,637	37,539	34,637	37,539
Derivatives	6,7	411	117	411	117
Other financial liabilities	7,12	839	476	839	476
Amounts due to holding companies and fellow subsidiaries	7	1,028	242	1,094	308
Other liabilities	7,14	164	149	157	143
Total liabilities		37,406	38,789	37,465	38,849
Equity attributable to controlling interests		1,811	2,217	1,708	2,112
Total liabilities and equity		39,217	41,006	39,173	40,961

The accompanying notes on pages 32 to 96 and the accounting policies on pages 26 to 31 form an integral part of these financial statements.

The accounts were approved by the Board of directors on 15 February 2023 and signed on its behalf by:


 Oliver Holbourn
 Chief Executive Officer


 Dominic Simpson
 Director

Statement of changes in equity for the year ended 31 December 2022

		Group		Bank	
	Note	2022 £m	2021 £m	2022 £m	2021 £m
Called up share capital - at 1 January and 31 December	15	311	311	97	97
Paid-in equity - at 1 January and 31 December	15	300	300	300	300
Share premium account - at 1 January and 31 December		499	499	5	5
FVOCI reserve - at 1 January		12	5	11	5
Unrealised (losses)/gains ⁽²⁾		(64)	6	(63)	5
Realised losses		46	2	46	2
Tax		2	(1)	2	(1)
At 31 December		(4)	12	(4)	11
Cash flow hedging reserve - at 1 January		(36)	1	(36)	1
Amount recognised in equity ⁽³⁾		(298)	(40)	(298)	(40)
Amount transferred from equity to earnings		19	(1)	19	(1)
Tax		28	4	28	4
At 31 December		(287)	(36)	(287)	(36)
Retained earnings - at 1 January		1,131	900	1,735	1,495
Profit attributable to ordinary shareholders and other equity owners		440	296	432	283
Ordinary dividends paid ⁽¹⁾		(379)	(76)	(370)	(54)
Paid-in equity dividends paid ⁽¹⁾		(20)	(20)	(20)	(20)
Remeasurement of retirement benefit schemes					
- gross	4	(200)	34	(200)	34
- tax	4	20	(3)	20	(3)
At 31 December		992	1,131	1,597	1,735
Equity attributable to controlling interests at 31 December		1,811	2,217	1,708	2,112

(1) The total distributable reserves for the Bank is £1,306 million (2021-£1,698 million).

(2) Certain assets within this category have been hedged with derivatives which are not in an accounting hedge relationship. The effect of this creates a temporary difference between other comprehensive income and the income statement due to the difference in recognition criteria. This temporary difference is expected to reverse through the income statement over the duration of the hedge.

(3) The unrealised losses on cash flow hedge reserves is mainly driven by deferment of losses on GBP net received fixed swaps as interest rates have increased.

The accompanying notes on pages 32 to 96 and the accounting policies on pages 26 to 31 form an integral part of these financial statements.

Cash flow statement for the year ended 31 December 2022

	Note	Group		Bank	
		2022	2021	2022	2021
		£m	£m	£m	£m
Cash flows from operating activities					
Operating profit before tax		524	350	514	335
Adjustments for:					
Impairment losses/(releases)		2	(52)	2	(53)
Impairment (releases)/losses of financial assets		(7)	13	(7)	13
Defined benefit pension schemes		3	7	3	7
Depreciation and amortisation		15	14	15	14
Change in fair value taken to profit or loss on other financial assets		(78)	96	(78)	96
Elimination of foreign exchange differences		(575)	(11)	(578)	(10)
Charges and releases on provisions		(3)	4	(3)	4
Loss on sale of other financial assets		46	2	46	2
Profit on sale of net assets/liabilities		(1)	(1)	(1)	(1)
Interest payable on subordinated liabilities		3	—	3	—
Interest receivable on other financial assets		(40)	(38)	(40)	(38)
Other non-cash items		19	(3)	19	(4)
Net cash flows from trading activities		(92)	381	(105)	365
Decrease in loans to banks		—	1	—	1
Increase in loans to customers		(899)	(2,185)	(899)	(2,185)
Decrease in amounts due from holding companies and fellow subsidiaries		77	10	66	3
Increase in derivative assets		(312)	(157)	(312)	(157)
Decrease/(increase) in other assets		8	(24)	10	(20)
Increase/(decrease) in derivative liabilities		294	(9)	294	(9)
Increase in banks deposits		61	262	61	262
(Decrease)/increase in customer deposits		(2,902)	6,259	(2,902)	6,259
Increase/(decrease) in other financial liabilities		363	(68)	363	(68)
Increase/(decrease) in amounts due to holding companies and fellow subsidiaries		492	6	492	(14)
Decrease in other liabilities		(11)	(23)	(9)	(26)
Changes in operating assets and liabilities		(2,829)	4,072	(2,836)	4,046
Income taxes paid		(49)	(41)	(46)	(38)
Net cash flows from operating activities ⁽¹⁾		(2,970)	4,412	(2,987)	4,373
Cash flows from investing activities					
Sale and maturity of other financial assets		3,606	1,570	3,606	1,570
Purchase of other financial assets		(867)	(2,234)	(867)	(2,234)
Interest received on other financial assets		40	38	40	38
Sale of property, plant and equipment		2	5	2	5
Purchase of property, plant and equipment		(11)	(12)	(9)	(12)
Net assets and liabilities sold		—	35	—	35
Cash expenditure on intangible assets		(20)	(15)	(10)	(7)
Net cash flows from investing activities		2,750	(613)	2,762	(605)
Cash flows from financing activities					
Issue of subordinated liabilities	18	300	—	300	—
Dividends paid		(399)	(96)	(390)	(74)
Net cash flows from financing activities		(99)	(96)	(90)	(74)
Effects of exchange on cash and cash equivalents		501	12	501	12
Net increase in cash and cash equivalents		182	3,715	186	3,706
Cash and cash equivalents at 1 January		19,014	15,299	18,987	15,281
Cash and cash equivalents at 31 December	19	19,196	19,014	19,173	18,987

(1) Includes interest received of £771 million (2021: £434 million) and interest paid of £153 million (2021: £56 million). Cash flows from operating activities also include interest and repayment of lease liabilities of £4 million (2021: £4 million).

The accompanying notes on pages 32 to 96 and the accounting policies on pages 26 to 31 form an integral part of these financial statements.

Accounting policies

1. Presentation of accounts

The accounts, set out on pages 21 to 96, including these accounting policies on pages 26 to 31, and Risk management sections on pages 57 to 93, are prepared on a going concern basis (refer to the Report of the directors, page 4) in accordance with IFRS as issued by the IASB. The significant accounting policies and related judgments are set out below. The policies apply to both the Group and the Bank.

RBSIH and RBSI are registered in Jersey, Channel Islands. The registered and head office is Royal Bank House, 71 Bath Street, St Helier, Jersey, JE2 4SU.

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

With the exception of certain financial instruments as described in Accounting policies on pages 26 to 31, the accounts are presented on a historical cost basis.

Accounting policies are generally considered on an overall basis within RBSI Group such that common accounting policies, assumptions and estimates apply across RBSI Group. Therefore, for the most part, the accounting policies, assumptions, and estimates reflect those in RBSI Group as relevant for the businesses and operations in the Bank and reference to RBSI Group in the notes refers to Bank unless otherwise stated.

The effect of the amendments to IFRS effective from 1 January 2022 on our financial statements was immaterial.

Basis of consolidation

The consolidated accounts incorporate the financial statements of the Group and entities that give access to variable returns and that are controlled by the Group. Control is assessed by reference to our ability to enforce our will on the other entity, typically through voting rights.

All intergroup balances, transactions, income and expenses are eliminated on consolidation. The consolidated accounts are prepared under uniform accounting policies.

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, the effective part of any related accounting hedging instruments, and finance lease income recognised at a constant periodic rate of return before tax on the net investment. Negative effective interest accruing to financial assets is presented in interest payable and negative interest on financial liabilities is presented in interest receivable. Other interest relating to financial instruments measured at fair value is recognised as part of the movement in fair value.

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 pricing base is usually known and always determinable.

3. Employee benefits

Short-term employee benefits, such as salaries, paid absences, and other benefits are accounted for on an accrual 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 the NWG or by NWG plc shares. The Group operates a number of share-based compensation schemes under which it awards NWG 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 as employee service costs accrue.

For defined benefit pension schemes, the net of the recognisable scheme assets and obligations is reported in the balance sheet. The defined benefit obligation is measured on an actuarial basis. The charge to profit or loss for pension costs (mainly the service cost and the net interest on the net defined benefit asset or liability) is recognised in operating expenses.

Actuarial gains and losses (i.e. gains and/or losses on re-measuring the net defined benefit asset or liability) are recognised in other comprehensive income in full in the period in which they arise. The difference between scheme assets and scheme liabilities, the net defined benefit asset or liability, is recognised in the balance sheet subject to the asset ceiling test which requires the net defined benefit surplus to be limited to the present value of any economic benefits available to the Group in the form of refunds from the plan or reduced contributions to it.

4. Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for separately.

Depreciation is charged to the income statement on a straight-line basis so as to write off the depreciable amount of property, plant and equipment (including assets owned and let on operating leases) over their estimated useful lives. The depreciable amount is the cost of an asset less its residual value. Freehold land is not depreciated.

The estimated useful lives are as follows:

Freehold and long leasehold buildings	50 years
Short leaseholds	unexpired period of the lease
Computer equipment	up to 5 years
Property adaptation costs	10 years
Other equipment	5 to 15 years

The residual value and useful life of property, plant and equipment are reviewed at each balance sheet date and updated for any changes to previous estimates.

5. Intangible assets and goodwill

Intangible assets acquired by the Group are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to profit or loss over the assets estimated useful economic lives using methods that best reflect the pattern of economic benefits and is included in depreciation and amortisation. These estimated useful economic lives are:

Computer software	3 to 12 years
Other acquired intangibles	5 to 10 years
Expenditure on internally generated goodwill and brands is written-off as incurred. Direct costs relating to the development of internal-use computer software are capitalised once technical feasibility and economic viability have been established. These costs include payroll, the costs of materials	

and services, and directly attributable overheads. Capitalisation of costs ceases when the software is capable of operating as intended. During and after development, accumulated costs are reviewed for impairment against the benefits that the software is expected to generate. Costs incurred prior to the establishment of technical feasibility and economic viability are expensed as incurred as are all training costs and general overheads. The costs of licences to use computer software that are expected to generate economic benefits beyond one year are also capitalised.

Goodwill on the acquisition of a subsidiary is the excess of the fair value of the consideration transferred, the fair value of any existing interest in the subsidiary and the amount of any non-controlling interest measured either at fair value or at its share of the subsidiary's net assets over the net fair value of the subsidiary's identifiable assets, liabilities and contingent liabilities.

Goodwill is measured at initial cost less any subsequent impairment losses. The gain or loss on the disposal of a subsidiary includes the carrying value of any related goodwill.

6. Impairment of non-financial assets

At each balance sheet date, the Group assesses whether there is any indication that its intangible assets, right of use assets or property, plant and equipment are impaired. If any such indication exists, the Group estimates the recoverable amount of the asset and the impairment loss if any. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

The recoverable amount of an asset that does not generate cash flows that are independent from those of other assets or groups of assets, is determined as part of the cash-generating unit to which the asset belongs. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. For the purposes of impairment testing, goodwill acquired in a business combination is allocated to each of the Group's cash-generating units or groups of cash-generating units expected to benefit from the combination. The recoverable amount of an asset or cash-generating unit is the higher of its fair value less cost to sell or its value in use. Value in use is the present value of future cash flows from the asset or cash-generating unit discounted at a rate that reflects market interest rates adjusted for risks specific to the asset or cash-generating unit that have not been taken into account in estimating future cash flows.

An impairment loss is recognised if the recoverable amount of an intangible or tangible asset is less than its carrying value. The carrying value of the asset is reduced by the amount of the loss and a charge recognised in profit or loss. A reversal of an impairment loss on intangible assets (excluding goodwill) or property, plant and equipment can be recognised when an increase in service potential arises provided the increased carrying value is not greater than it would have been had no impairment loss been recognised. Impairment losses on goodwill are not reversed.

7. Foreign currencies

Transactions in foreign currencies are recorded in the functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the relevant functional currency at the foreign exchange rates ruling at the balance sheet date. Foreign exchange differences arising on the settlement of foreign currency transactions and from the translation of monetary assets and liabilities are

reported in income from trading activities except for differences arising on cash flow hedges (see accounting policy 17).

Non-monetary items denominated in foreign currencies that are stated at fair value are translated into the relevant functional currency at the foreign exchange rates ruling at the dates the values are determined. Translation differences arising on non-monetary items measured at fair value are recognised in profit or loss except for differences arising on non-monetary financial assets classified as fair value through other comprehensive income (OCI), for example equity shares, which are recognised in other comprehensive income unless the asset is the hedged item in a fair value hedge.

Assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into Sterling at foreign exchange rates ruling at the balance sheet date. Income and expenses of foreign operations are translated into Sterling at average exchange rates unless these do not approximate to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on translation of foreign operations are recognised in other comprehensive income. The amount accumulated in equity is reclassified from equity to profit or loss on disposal of a foreign operation.

8. Leases

As lessor

Finance lease contracts are those which transfer substantially all the risks and rewards of ownership of an asset to a customer. All other contracts with customers to lease assets are classified as operating leases.

Loans to customers include finance lease receivables measured at the net investment in the lease, comprising the minimum lease payments and any unguaranteed residual value discounted at the interest rate implicit in the lease.

Interest receivable includes finance lease income recognised at a constant periodic rate of return before tax on the net investment. Unguaranteed residual values are subject to regular review; if there is a reduction in their value, income allocation is revised and any reduction in respect of amounts accrued is recognised immediately.

Rental income from operating leases is recognised in other operating income on a straight-line basis over the lease term unless another systematic basis better represents the time pattern of the asset's use.

Operating lease assets are included within Property, plant and equipment and depreciated over their useful lives.

As lessee

On entering into a new lease contract, the Group recognises a right of use asset and a lease liability to pay future rentals. The liability is measured at the present value of future lease payments discounted at the applicable incremental borrowing rate. The right of use asset is depreciated over the shorter of the term of the lease and the useful economic life, subject to review for impairment.

Short term and low value leased assets are expensed on a systematic basis.

9. Provisions and contingent liabilities

The Group recognises a provision for a present obligation resulting from a past event when it is more likely than not that it will be required to transfer economic benefits to settle the obligation and the amount of the obligation can be estimated reliably.

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

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

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

10. 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 or to equity as appropriate. The tax consequences of servicing equity instruments are recognised in 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 the Group has a legally enforceable right to offset and where they relate to income taxes levied by the same taxation authority either on an individual Group company or on 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. The 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.

11. Financial instruments

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

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

- **amortised cost** measured under the effective interest rate method;
- **fair value through other comprehensive income (FVOCI)** measured at fair value, interest on effective interest rate method and change in fair value through other comprehensive income;
- **mandatory fair value through profit or loss** measured at fair value through profit or loss; or
- **designated at fair value through profit or loss** measured at fair value through profit or loss.

Classification by business model reflects how NatWest Group manages its financial assets to generate cash flows. A business model assessment helps determine the measurement approach depending on whether cash flows result from holding financial assets to collect the contractual cash flows, from selling those financial assets, or both.

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

The contractual terms of a financial asset; any leverage features; prepayment and extension terms; and triggers that might reset the effective rate of interest; are considered in determining whether cash flows comprise solely payments of principal and interest.

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

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

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

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

Financial liabilities are classified into one of following measurement categories:

- **amortised cost** measured under the effective interest rate method;
- **held for trading** measured at fair value through profit or loss; or

- **designated at fair value through profit or loss** measured at fair value through profit or loss with the changes in fair value attributable to the credit risk component recognised in other comprehensive income. These are not subject to recycling to profit or loss.

12. Impairment: expected credit losses (ECL)

At each balance sheet date each financial asset or portfolio of loans measured at amortised cost or at fair value through other comprehensive income, issued financial guarantee and loan commitment is assessed for impairment and presented as impairments in the income statement. Loss allowances are forward looking, based on 12 month expected credit losses where there has not been a significant increase in credit risk (SICR) rating (refer Note 16 for details), 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 reduction in the net present value of expected cash flows. On a significant increase in credit risk, ECL are adjusted from 12 months to lifetime. This will lead to a higher impairment charge.

Judgment is exercised as follows:

- **Models** – in certain low default portfolios, Basel parameter estimates are also applied for IFRS 9.
- **Non-modelled portfolios**, RBSI Retail remains Basel standardised for Risk Weighted Assets, therefore modelled Probability of Default (PDs) and Loss Given Default (LGDs) are not available for calculating stage 1 and stage 2 ECLs. Instead this is undertaken by sourcing the equivalent product PD & LGD from within NatWest UK, which was identified as the closest comparable portfolio to RBSI Retail. The PD and LGD benchmarks are then used, along with the known exposure, to calculate an account level ECL.
- **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.

Impaired loans are written off and therefore derecognised from the balance sheet when the Group 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 Group's collectively-assessed portfolios are:

- Retail mortgages: write off usually occurs within five years, or when an account is closed if earlier.
- 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 typically exceed five years.
- Business loans are generally written off within five years.

13. 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 the Group retains substantially all the risks and rewards of ownership. If substantially all the risks and rewards have been neither retained nor transferred, the Group 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 cancelled, or expires.

14. Sale and repurchase transactions

Securities subject to sale and repurchase agreement under which substantially all the risks and rewards of ownership are retained by the Group continue to be shown on the balance sheet and the sale proceeds recorded as a financial liability. Securities acquired in a reverse sale and repurchase transaction under which the Group is not exposed to substantially all the risks and rewards of ownership are not recognised on the balance sheet and the consideration paid is recorded as a financial asset. Where Collateral supporting the transaction is received in the form of cash, deposit is recorded. Sale and repurchase transactions that are not accounted for at fair value through profit or loss are measured at amortised cost. The difference between the consideration paid or received and the repurchase or resale price is treated as interest and recognised in interest income or interest expense over the life of the transaction.

15. Netting

Financial assets and financial liabilities are offset and the net amounts presented in the balance sheet when, and only when, the Group 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. The Group 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.

16. Capital instruments

The Group classifies a financial instrument that it issues as a liability if it is a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities on potentially unfavourable terms and as equity if it evidences a residual interest in the assets of the Group after the deduction of liabilities.

17. Derivatives and hedging

Derivative financial instruments are initially recognised, and subsequently measured, at fair value. The Group's approach to determining the fair value of financial instruments is set out in the Critical accounting policies and key sources of estimation uncertainty entitled Fair value - financial instruments; further details are given in Note 7 on the accounts.

A derivative embedded in a financial liability contract is accounted for as a stand-alone derivative if its economic characteristics are not closely related to the economic characteristics of the host contract; unless the entire contract is measured at fair value with changes in fair value recognised in profit or loss.

Gains and losses arising from changes in the fair value of derivatives that are not the hedging instrument in a qualifying hedge are recognised as they arise in profit or loss. Gains and losses are recorded in Income from trading activities except for gains and losses on those derivatives that are managed together with financial instruments designated at fair value; these gains and losses are included in Other operating income. The Group enters into three types of hedge relationship: hedges of changes in the fair value of a recognised asset or liability or unrecognised firm commitment (fair value hedges); hedges of the variability in cash flows from a recognised asset or liability or a highly probable forecast transaction (cash flow hedges); and hedges of the net investment in a foreign operation (net investment hedges).

Hedge relationships are formally designated and documented at inception in line with the requirements of IAS 39 Financial instruments – Recognition and measurement. The documentation identifies the hedged item, the hedging instrument and details the risk that is being hedged and the way in which effectiveness will be assessed at inception and during the period of the hedge. If the hedge is not highly effective in offsetting changes in fair values or cash flows attributable to the hedged risk, consistent with the documented risk management strategy, hedge accounting is discontinued. Hedge accounting is also discontinued if RBSI Group revokes the designation of a hedge relationship.

Fair value hedge - in a fair value hedge, the gain or loss on the hedging instrument is recognised in profit or loss. The gain or loss on the hedged item attributable to the hedged risk is recognised in profit or loss and, where the hedged item is measured at amortised cost, adjusts the carrying amount of the hedged item. Hedge accounting is discontinued if the hedge no longer meets the criteria for hedge accounting; or if the hedging instrument expires or is sold, terminated or exercised; or if hedge designation is revoked. If the hedged item is one for which the effective interest rate method is used, any cumulative

adjustment is amortised to profit or loss over the life of the hedged item using a recalculated effective interest rate.

Cash flow hedge - in a cash flow hedge, the effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income and the ineffective portion in profit or loss. When the forecast transaction results in the recognition of a financial asset or financial liability, the cumulative gain or loss is reclassified from equity to profit or loss in the same periods in which the hedged forecast cash flows affect profit or loss. Otherwise the cumulative gain or loss is removed from equity and recognised in profit or loss at the same time as the hedged transaction. Hedge accounting is discontinued if the hedge no longer meets the criteria for hedge accounting; if the hedging instrument expires or is sold, terminated or exercised; if the forecast transaction is no longer expected to occur; or if hedge designation is revoked. On the discontinuation of hedge accounting (except where a forecast transaction is no longer expected to occur), the cumulative unrealised gain or loss is reclassified from equity to profit or loss when the hedged cash flows occur or, if the forecast transaction results in the recognition of a financial asset or financial liability, when the hedged forecast cash flows affect profit or loss. Where a forecast transaction is no longer expected to occur, the cumulative unrealised gain or loss is reclassified from equity to profit or loss immediately.

Hedge of net investment in a foreign operation - in the hedge of a net investment in a foreign operation, the portion of foreign exchange differences arising on the hedging instrument determined to be an effective hedge is recognised in other comprehensive income. Any ineffective portion is recognised in profit or loss. Non-derivative financial liabilities as well as derivatives may be the hedging instrument in a net investment hedge. On disposal or partial disposal of a foreign operation, the amount accumulated in equity is reclassified from equity to profit or loss.

18. 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.

19. Depositary assets

Assets and liabilities held in a fiduciary capacity are not included in these financial statements.

Critical accounting policies and key sources of estimation uncertainty

The reported results of the Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its accounts. IFRS require the directors, in preparing the Group's financial statements, to select suitable accounting policies, apply them consistently and make judgments and estimates that are reasonable and prudent. In the absence of 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 judgments and assumptions involved in the Group's accounting policies that are considered by the Board to be the most important to the portrayal of its financial condition are discussed below.

Consideration of this source of estimation uncertainty has been set out in the notes below:

Critical accounting policy	Note
Pensions	4
Fair value - financial instruments	7
Loan impairment provisions	8
Provisions for liabilities and charges	14

Future Accounting developments**International Financial Reporting Standards****Effective 1 January 2023**

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

Effective 1 January 2024

- Classification of Liabilities as Current or Non-current (Amendments to IAS 1);
- Non-current Liabilities with Covenants (Amendments to IAS 1);
- Lease Liability in a sale and Leaseback (Amendments to IFRS 16).

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

Notes to the accounts

1. Net interest income

	Group		Bank	
	2022 £m	2021 £m	2022 £m	2021 £m
Interest receivable on assets:				
Balances at central banks and loans to banks- amortised cost	203	14	203	14
Loans to customers - amortised cost	530	338	530	338
Amounts due from holding company and fellow subsidiaries	15	2	15	2
Other financial assets - debt securities	43	38	43	38
Interest receivable on liabilities:				
Customer deposits	27	44	27	44
Other financial liabilities - debt securities	—	2	—	2
Interest receivable ⁽¹⁾	818	438	818	438
Interest payable on liabilities:				
Balances with banks	(14)	(1)	(14)	(1)
Customer deposits: demand	(34)	(1)	(34)	(1)
Customer deposits: savings	(50)	(9)	(50)	(9)
Customer deposits: other time	(51)	(6)	(51)	(6)
Lease liabilities	(3)	—	(3)	—
Amounts due to holding company and fellow subsidiaries	(16)	(5)	(17)	(5)
Interest payable on assets:				
Loans to banks - amortised cost	(14)	(31)	(14)	(31)
Amounts due to holding company and fellow subsidiaries	—	(1)	—	(1)
Interest payable ⁽¹⁾	(182)	(54)	(183)	(54)
Net interest income	636	384	635	384

(1) Negative interest on loans to banks is classed as interest payable and on customer deposits and debt securities 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. Finance lease income included in interest receivable was £3.5 million (2021: £3.7 million).

Interest receivable on loans to customers includes amortisation of arrangement fees of £40.9 million (2021: £43 million).

2. Non-interest income

	Group		Bank	
	2022	2021	2022	2021
	£m	£m	£m	£m
Fees and commissions receivable				
- Payment services	21	19	21	18
- Credit & debit card fees	7	2	7	2
- Lending (credit facilities)	55	51	55	52
- Trade finance	4	3	4	3
- Investment management	45	45	4	5
- Other services	3	5	3	5
Fees and commissions payable ⁽¹⁾	(26)	(1)	(26)	(1)
Other operating income ⁽²⁾	65	41	66	40
Total Non- interest income	174	165	134	124

(1) Fees and commissions payable primarily includes intercompany balances for revenue sharing.

(2) Other operating income primarily includes dealing profits.

3. Operating expenses

	Group		Bank	
	2022	2021	2022	2021
	£m	£m	£m	£m
Wages, salaries and other staff costs	90	82	78	72
Temporary and contractor costs ⁽¹⁾	13	15	11	14
Social security costs	7	7	6	6
Restructure costs	1	1	1	1
Pension costs:				
- defined benefit schemes (see note 4)	3	7	3	7
- defined contribution schemes (see note 4)	6	5	5	3
Staff costs	120	117	104	103
Premises and equipment	17	21	15	19
Provision for property costs	—	3	—	3
Depreciation, impairment and amortisation:				
- Property, plant and equipment	13	13	13	13
- Intangible assets	2	1	2	1
Other administrative expenses	132	96	119	87
Administrative expenses	164	134	149	123
Total operating expenses	284	251	253	226

(1) Temporary and contractor costs for 2022 are net of £1.1 million recharged to NatWest Group as supporting group wide programmes (2021: £2.4 million)

	Group		Bank	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Auditor's remuneration				
Fees payable for:				
- the audit of RBSI Group's annual accounts	41	40	—	—
- the audit of RBSIH subsidiaries	1,271	1,240	1,139	1,074
- audit-related assurance services	304	294	106	97
- Other services	26	49	26	49
	1,642	1,623	1,271	1,220

Staff

The average number of persons employed by the RBSI Group during the year, excluding temporary staff was 1,486 (2021: 1,398). The average number of temporary employees during 2022 was 238 (2021: 206).

4. Pensions

Defined contribution schemes

The RBSI Group made contributions of £6 million to its own defined contribution schemes in 2022 (2021: £5 million).

Eligible employees of the RBSI Group can participate in membership of NWG operated pension schemes. Employees are members of The Royal Bank of Scotland Retirement Savings Plan, a defined contribution pension scheme. Detailed disclosure of the NWG pension schemes is available in the NWG Annual Report and Accounts 2022.

Defined benefit schemes

The RBSI Group sponsors two defined benefit pension schemes: one in Jersey and one in the UK. The most significant of these is The Royal Bank of Scotland International Pension Trust (RBSIPT). The assets of these schemes are independent of the RBSI Group's finances, and the schemes are each overseen by a board of trustees.

Pension fund trustees are appointed to operate each fund and ensure benefits are paid in accordance with the scheme and national law. The trustees are the legal owners of a scheme's assets, and have a duty to act in the best interest of all scheme members.

The RBSIPT operates under Jersey trust law and is managed and administered on behalf of its members in accordance with the terms of the trust deed, the scheme rules and the Jersey legislation and, where applicable, that of its constituent plans (primarily in Guernsey and the Isle of Man). There is no pension scheme funding legislation in Jersey, Guernsey or the Isle of Man.

However, statutory debt rules do apply in respect of the Isle of Man liabilities of the RBSIPT such that a debt may be due on an employer if it becomes insolvent, the scheme winds up, or, in the case of a multi-employer scheme, stops participating in the scheme while the scheme continues.

The RBSIPT's corporate trustee is RBS International Employees' Pension Trustees Limited ("RBSIEPTL"), a subsidiary of The Royal Bank of Scotland International (Holdings) Limited. RBSIEPTL is the legal owner of the RBSIPT's assets which are held separately from the assets of RBS International.

The Board of RBSIEPTL comprises two trustee directors nominated by members selected from eligible active staff and pensioner members who apply; four directors appointed by the RBSI Group; and one independent Trustee. The Board is responsible for operating the scheme in line with its formal rules and pensions law. It has a duty to act in the best interests of all scheme members, including pensioners and those who are no longer employed by RBSI, but who still have benefits in the scheme.

Investment strategy

The assets of both schemes are invested in a diversified portfolio of quoted equities, government and corporate fixed-interest and index-linked bonds. The RBSIPT equity holdings are held in passive pooled funds managed by State Street. The Trustee's investment benchmark is for the majority to be invested in global developed markets, with a small proportion invested in emerging markets.

The RBSIPT employs physical, derivative and non-derivative instruments to achieve a desired asset class exposure and to reduce the scheme's interest rate, inflation and currency risk. This means that the net funding position is considerably less sensitive to changes in market conditions than the value of the assets or liabilities in isolation. In particular, the Trustee hedges movements in interest rates and inflation.

Over the year, increases in bond yields resulted in many pension schemes in the UK having to raise additional collateral to support Liability-driven investments positions held as part of their hedging strategies. Liability-driven investments refer to assets that are expected to move broadly in line with liabilities on a specific basis. RBSIPT was able to raise the collateral needed from existing assets, with no additional support needed from NatWest Group. The level of collateral held was increased over the year, to ensure the ability to withstand further large rises in gilt yields if required.

	Group and Bank					
	2022			2021		
Major classes of plan assets as a weighted percentage of total plan assets of the schemes	Quoted %	Unquoted %	Total %	Quoted %	Unquoted %	Total %
Equities	1.3	-	1.3	23.4	-	23.4
Index-linked bonds	32.9	-	32.9	47.1	-	47.1
Government fixed interest bonds	24.2	-	24.2	10.6	-	10.6
Corporate and other bonds	29.3	-	29.3	16.4	-	16.4
Hedge funds	-	-	-	-	-	-
Property	-	-	-	-	-	-
Derivatives	-	0.3	0.3	-	-	-
Cash and other assets	-	12.0	12.0	-	2.5	2.5
	87.7	12.3	100.0	97.5	2.5	100.0

4. Pensions continued

	Group and Bank			
	All schemes			
	Fair value of plan assets £m	Present value of defined benefit obligations ⁽¹⁾ £m	Asset Ceiling ⁽²⁾ £m	Net pension asset £m
Changes in value of net pension asset/(liability)				
At 1 January 2021	1,076	(864)	(40)	172
Income statement - operating expenses	18	(25)	—	(7)
Other comprehensive income	38	(18)	14	34
Contributions by employer	7	—	—	7
Benefits paid	(57)	57	—	—
At 1 January 2022	1,082	(850)	(26)	206
Currency translation and other adjustments	—	—	—	—
Income statement - operating expenses				
Interest income	19	—	—	19
Interest expense	—	(15)	—	(15)
Current service cost	—	(6)	—	(6)
Expenses	—	(1)	—	(1)
	19	(22)	—	(3)
Other comprehensive income				
Return on plan assets excluding recognised interest income ⁽⁴⁾	(576)	—	—	(576)
Experience gains and losses	—	(33)	—	(33)
Effect of changes in actuarial financial assumptions ⁽⁴⁾	—	410	—	410
Effect of changes in actuarial demographic assumptions	—	(4)	—	(4)
Asset ceiling adjustment	—	—	3	3
	(576)	373	3	(200)
Contributions by employer	10	—	—	10
Benefits paid	(35)	35	—	—
Intra group transfers	1	(1)	—	—
At 31 December 2022	501	(465)	(23)	13

(1) Defined benefit obligations are subject to annual valuation by independent actuaries.

(2) In recognising the net surplus or deficit of a pension scheme, the funded status of each scheme is adjusted to reflect any minimum funding requirement imposed on the sponsor and any ceiling on the amount that the sponsor has an unconditional right to recover from a scheme.

(3) The RBSI Group expects to make contributions to the RBSIPT of £5.5 million in 2023.

(4) Changes in market conditions during 2022 resulted in a particularly large increase in discount rate, which is the key driver of the effect of changes in actuarial financial assumptions. Given the level of hedging in place, there was a corresponding reduction in the value of plan assets over the period. The experience losses shown are mainly as a result of inflation over the year being higher than expected.

4. Pensions continued

	Group and Bank	
	2022	2021
Amounts recognised on the balance sheet	£m	£m
Fund assets at fair value	501	1,082
Present value of fund liabilities	(465)	(850)
Funded status	36	232
Asset ceiling	(23)	(26)
	13	206

	Group and Bank	
	2022	2021
Net pension asset/(liability) comprises	£m	£m
Net assets of schemes in surplus - IPT	13	206
Net assets of schemes in surplus - UK Scheme	23	26
Asset ceiling - UK Scheme	(23)	(26)
	13	206

Funding and contributions by the RBSI Group

In the UK, the Trustees of defined benefit pension schemes are required to perform funding valuations every three years. The Trustees and the sponsor, with the support of the scheme actuary, agree the assumptions used to value the liabilities and determine further contribution requirements. The funding assumptions incorporate a margin for prudence over and above the expected cost of providing the benefits promised to members, taking into account the sponsor's covenant and the investment strategy of the scheme.

The last triennial funding valuation of the RBSIPT was as at 31 March 2021. This determined the funding level of the RBSIPT to be 101%, based on pension liabilities of £894 million. No further deficit contributions are due.

Critical accounting policy: Pensions

The assets of defined benefit schemes are measured at their fair value at the balance sheet date. Scheme liabilities are measured using the projected unit method, which takes account of projected earnings increases, using actuarial assumptions that give the best estimate of the future cash flows that will arise under the scheme liabilities. These cash flows are discounted at an interest rate based on the yields of high-quality corporate bonds of appropriate duration, with high-quality almost universally understood to mean AA-rated.

The choice of discount rate is a source of estimation uncertainty, due to a lack of appropriate UK denominated AA-rated bonds of equivalent duration to the pension schemes' liabilities.

The approach used is to fit a yield curve to an appropriate dataset of AA bonds, and derive the discount rate from that curve.

To increase the number of reference bonds available at the end of the reporting period, equivalent AA yields were extrapolated for longer dated A and AAA rated bonds by applying a credit spread adjustment to their actual yields. These were then included in the dataset used to create the yield curve.

Accounting assumptions

Placing a value on the RBSI Group's defined benefit pension schemes' liabilities requires the RBSI Group's management to make a number of assumptions, with the support of independent actuaries who provide advice and guidance. In determining the value of scheme liabilities, financial and demographic assumptions are made as to price inflation, pension increases, earnings growth and employee life expectancy. A range of assumptions could be adopted in valuing the schemes' liabilities. The ultimate cost of the defined benefit obligations to the RBSI Group will depend upon actual future events and the assumptions made are unlikely to be exactly borne out in practice, meaning the final cost may be higher or lower than expected.

A year end valuation of the RBSI Group's pension schemes was prepared to 31 December 2022 by independent actuaries, using the following assumptions for the material pension schemes:

	Group and Bank ⁽¹⁾	
	2022	2021
Discount rate	5.00%	1.80%
Rate of increase in salaries	1.75%	1.75%
Rate of increase in pensions in payment	3.15%	3.25%
Rate of increase in deferred pensions	3.55%	3.65%
Inflation assumption	3.55%	3.65%

	Group and Bank	
	2022	2021
Post-retirement mortality assumptions		
Longevity at age 60 for current pensioners aged 60 (years)		
Males	28.3	28.7
Females	30.0	30.0
Longevity at age 60 for future pensioners currently aged 40 (years)		
Males	29.7	30.2
Females	31.4	31.5

(1) The above financial assumptions are long term assumptions set with reference to the period over which the obligations are expected to be settled

4. Pensions continued

These post-retirement mortality assumptions are derived from standard mortality tables used by the scheme actuary to value the liabilities for the main scheme.

The weighted average duration of the RBSI Group's defined benefit obligation is 17.7 years (2021: 22.6 years).

Discount rate

The IAS 19 valuation uses a single discount rate set by reference to the yield on a basket of 'high quality' sterling corporate bonds. Significant judgment is required when setting the criteria for bonds to be included in the basket of bonds that determines the discount rate used in the IAS 19 valuations. The criteria include issue size, quality of pricing and the exclusion of outliers. Judgment is also required in determining the shape of the yield curve at long durations: a constant credit spread relative to gilts is assumed. Sensitivity to the main assumptions is presented below:

	Group and Bank			
	(Decrease)/increase in pension cost for the year		(Decrease)/increase in obligation at 31 December	
	2022 £m	2021 £m	2022 £m	2021 £m
0.25% increase in the discount rate ⁽¹⁾	(2)	(2)	(18)	(42)
0.25% increase in inflation	1	1	12	29
0.25% additional rate of increase in pensions in payment	1	1	13	30
0.25% additional rate of increase in deferred pensions	—	—	5	12
0.25% additional rate of increase in salaries	—	—	—	1
Longevity increase of one year	1	1	12	33

(1) A 0.5% increase in the discount rate would have led to a decrease of £3.4m in the pension cost for the year and a £34.5m decrease in obligation at 31 December 2022

Pension liabilities are calculated on the central assumptions and under the relevant sensitivity scenarios. The sensitivity to pension liabilities is the difference between these calculations. Note the longevity sensitivities quoted above reflect the impact of a one year increase to single life annuities.

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the changes in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

The experience history of the scheme is shown below.

History of defined benefit schemes	Group and Bank				
	2022 £m	2021 £m	2020 £m	2019 £m	2018 £m
Fair value of plan assets	501	1,082	1,076	969	786
Present value of plan obligations	(465)	(850)	(864)	(780)	(672)
Fund status	36	232	212	189	114
Asset ceiling	(23)	(26)	(39)	(42)	(49)
Net surplus	13	206	173	147	65
Experience (losses)/gains on plan liabilities	(33)	13	5	(2)	32
Experience gains/(losses) on plan assets	(576)	38	141	106	(53)
Actual return on pension scheme assets	(557)	56	160	128	(33)

5. Tax

	Group		Bank	
	2022	2021	2022	2021
	£m	£m	£m	£m
Current tax:				
Charge for the year	87	54	85	51
Over provision in respect of prior years	(3)	(3)	(3)	(2)
	84	51	82	49
Deferred tax:				
Charge for the year	—	3	—	3
Prior year adjustment	—	—	—	—
Tax charge for the year	84	54	82	52

The actual tax charge differs from the expected tax charge computed by applying the standard rate of income tax as follows: (Jersey, Guernsey, Isle of Man 10% (2021 10%) Gibraltar 12.5% (2021 10% to 31/07/2021 then 12.5% thereafter), London 27% (2021 27%), Luxembourg 24.94% (2021 24.94%) & NWTDS 19% (2021 19%)

	Group		Bank	
	2022	2021	2022	2021
	£m	£m	£m	£m
Expected tax charge	52	36	51	33
Non-deductible items	1	—	1	—
Deferred tax	—	—	—	—
Rate differences on current tax	34	21	33	21
Adjustments in respect of prior years	(3)	(3)	(3)	(2)
Actual tax charge	84	54	82	52

Deferred tax

	Group and Bank	
	2022	2021
	£m	£m
Deferred tax assets	33	5
Deferred tax liabilities	(3)	(24)
Net deferred tax liabilities	30	(19)

	Group and Bank			
	Pension	Accelerated capital allowances	Other	Total
	£m	£m	£m	£m
At 1 January 2021	(17)	(2)	3	(16)
Charge to income statement	—	—	(3)	(3)
Charge to other comprehensive income	(4)	—	4	—
At 1 January 2022	(21)	(2)	4	(19)
Charge to other comprehensive income	20	—	29	49
At 31 December 2022	(1)	(2)	33	30

6. Derivatives

Companies within the RBSI Group transact derivatives as principal to manage balance sheet foreign exchange and interest rate risk.

	Group and Bank					
	2022			2021		
	Notional £m	Assets £m	Liabilities £m	Notional £m	Assets £m	Liabilities £m
Exchange rate contracts						
Spots and forwards - NatWest Group	4,448	26	63	6,098	18	42
Spots and forwards - third party	702	9	11	699	9	5
Interest rate swaps						
NatWest Group	8,675	137	337	5,477	131	70
	13,825	172	411	12,274	158	117

The RBSI Group applies hedge accounting to reduce the accounting mismatch caused in the income statement by using derivatives to hedge interest rate risk and exchange rate risk.

RBSI Group's interest rate hedging relate to the management of non-trading structural interest rate risk, caused by the mismatch between fixed interest rates and floating interest rates. The RBSI Group 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 USD LIBOR, SOFR, EURIBOR, SONIA 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 the RBSI Group. 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 USD LIBOR, SOFR, EURIBOR and SONIA. This risk component is identified using the risk management systems of the group. This risk component comprises the majority of the hedged items fair value risk.

Exchange rate risk also arises in the RBSI Group where payments are denominated in currencies other than the functional currency. Residual risk positions are hedged with forward foreign exchange contracts, fixing the exchange rate the payments will be settled in.

For all cash flow hedging and fair value hedge relationships the RBSI Group 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 ineffectiveness is measured and recognised in the income statement as it arises.

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

	Group and Bank							
	2022				2021			
	Notional £m	Assets £m	Liabilities £m	Changes in fair value value for hedge ineffectiveness (1) £m	Notional £m	Assets £m	Liabilities £m	Changes in fair value value for hedge ineffectiveness (1) £m
Fair value hedging								
Interest rate contracts	1,183	125	2	328	2,074	96	26	138
Cash flow hedging								
Interest rate contracts	4,676	—	334	(281)	1,379	—	38	(40)
	5,859	125	336	47	3,453	96	64	98

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

6. Derivatives continued

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

	Group and Bank						
	0-12 months £m	1-3 years £m	3-5 years £m	5-10 years £m	10-20 years £m	> 20 years £m	Total £m
2022							
Fair Value hedging							
Hedging assets - interest rate risk	131	256	265	16	95	130	893
Hedging liabilities - interest rate risk	—	290	—	—	—	—	290
Cash flow hedging							
Hedging assets - interest rate risk	270	1,814	2,210	382	—	—	4,676
Average fixed interest rate (%)	0.85	2.51	0.93	2.11	1.59	—	1.58

	Group and Bank						
	0-12 months £m	1-3 years £m	3-5 years £m	5-10 years £m	10-20 years £m	> 20 years £m	Total £m
2021							
Fair Value hedging							
Hedging assets - interest rate risk	106	308	288	108	579	685	2,074
Hedging liabilities - interest rate risk	—	—	—	—	—	—	—
Cash flow hedging							
Hedging assets - interest rate risk	—	185	1,009	185	—	—	1,379
Average fixed interest rate (%)	—	0.29	0.29	0.48	—	—	0.32

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

	Group and Bank		
	Carrying value of hedged assets and liabilities £m	Impact on hedged items included in carrying value £m	Change in fair value used as a basis to determine ineffectiveness (1) £m
2022			
Fair value hedging - interest rate			
Loans to customers - amortised cost	566	(30)	(36)
Other financial assets - securities	212	(95)	(290)
Total	778	(125)	(326)
Other financial liabilities - subordinated liabilities	297	3	(3)
Cash flow hedging - interest rate			
Loans to customers - amortised cost	4,676	—	279
2021			
Fair value hedging - interest rate			
Loans to customers - amortised cost	651	7	(15)
Other financial assets - securities	1,631	(81)	(123)
Total	2,282	(74)	(138)
Cash flow hedging - interest rate			
Loans to customers - amortised cost	1,395	—	40

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

6. Derivatives continued

The following shows analysis of cash flow hedging reserve:

	Group and Bank	
	2022 £m	2021 £m
Continuing - Cash flow hedging - interest rate risk	(318)	(40)

	Group and Bank	
	2022 £m	2021 £m
Interest rate risk		
Amount recognised in equity	(298)	(40)
Amount transferred from equity to net interest income	19	(1)

Hedge ineffectiveness recognised in other operating income comprises:

	Group and Bank	
	2022 £m	2021 £m
Fair value hedging		
Loss on the hedged items attributable to the hedged risk	(329)	(138)
Gain on the hedging instruments	328	138
Fair value hedging ineffectiveness	(1)	—
Cash flow hedging		
- interest rate risk	(2)	—
Total	(3)	—

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).

7. Financial instruments – classification

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

2022	Group				
	MFVTPL £m	FVOCI £m	Amortised cost £m	Other assets £m	Total £m
Assets					
Cash and balances at central banks			17,012		17,012
Derivatives	172				172
Loans to banks - amortised cost ⁽¹⁾			1,648		1,648
Loans to customers - amortised cost ^{(1) (2)}			16,360		16,360
Amounts due from holding companies and fellow subsidiaries	—	—	538	11	549
Other financial assets	—	295	2,976		3,271
Other assets				205	205
	172	295	38,534	216	39,217

	Held-for- trading £m	Amortised cost £m	Other liabilities £m	Total £m
Liabilities				
Banks deposits ⁽¹⁾		327		327
Customer deposits ⁽¹⁾		34,637		34,637
Derivatives	411			411
Other financial liabilities	—	839		839
Amounts due to holding companies and fellow subsidiaries	—	992	36	1,028
Other liabilities ⁽³⁾		37	127	164
	411	36,832	163	37,406

2021	MFVTPL £m	FVOCI £m	Amortised cost £m	Other assets £m	Total £m
Assets					
Cash and balances at central banks			17,220		17,220
Derivatives	158				158
Loans to banks - amortised cost ⁽¹⁾			1,305		1,305
Loans to customers - amortised cost ^{(1) (2)}			15,463		15,463
Amounts due from holding companies and fellow subsidiaries	—	—	579	—	579
Other financial assets	—	3,134	2,789		5,923
Other assets				358	358
	158	3,134	37,356	358	41,006

	Held-for- trading £m	Amortised cost £m	Other liabilities £m	Total £m
Liabilities				
Banks deposits ⁽¹⁾		266		266
Customer deposits ⁽¹⁾		37,539		37,539
Derivatives	117			117
Other financial liabilities	17	459		476
Amounts due to holding companies and fellow subsidiaries	—	242	—	242
Other liabilities ⁽³⁾		38	111	149
	134	38,544	111	38,789

Refer to the following page for footnotes.

7. Financial instruments – classification continued

2022	Bank				
	MFVTPL £m	FVOCI £m	Amortised cost £m	Other assets £m	Total £m
Assets					
Cash and balances at central banks			17,012		17,012
Derivatives	172				172
Loans to banks - amortised cost ⁽¹⁾			1,625		1,625
Loans to customers - amortised cost ^{(1) (2)}			16,360		16,360
Amounts due from holding companies and fellow subsidiaries	—	—	539	28	567
Other financial assets	—	295	2,976		3,271
Other assets				166	166
	172	295	38,512	194	39,173
2021					
	MFVTPL £m	FVOCI £m	Amortised cost £m	Other assets £m	Total £m
Assets					
Cash and balances at central banks			17,220		17,220
Derivatives	158		—		158
Loans to banks - amortised cost ⁽¹⁾			1,278		1,278
Loans to customers - amortised cost ^{(1) (2)}			15,463		15,463
Amounts due from holding companies and fellow subsidiaries	—	—	579	7	586
Other financial assets		3,134	2,789		5,923
Other assets				333	333
	158	3,134	37,329	340	40,961
2021					
	MFVTPL £m	FVOCI £m	Amortised cost £m	Other assets £m	Total £m
Liabilities					
Banks deposits ⁽¹⁾			266		266
Customer deposits ⁽¹⁾			37,539		37,539
Derivatives		117			117
Other financial liabilities		17	459		476
Amounts due to holding companies and fellow subsidiaries		—	308	—	308
Other liabilities ⁽³⁾			38	105	143
		134	38,610	105	38,849

(1) The RBSI Group and the Bank balance sheet lines include instruments that are subject to IAS 32 netting, or contracts covered by legally enforceable master netting agreements with the right to offset assets and liabilities with the same counterparty, subject to certain conditions. Netting applied primarily relates to IAS 32 netting for reverse repo and repo contracts. Total netting adjustments recorded are:

- Loans to banks and bank deposits: £1,221 million (2021: £1,262 million).
- Loans to customers and customer deposits: £353 million (2021: £264 million).

(2) Includes RBSI Group and Bank finance lease receivables of £55 million (2021: £59 million).

(3) Includes RBSI Group and Bank lease liabilities of £35 million (2021: £37 million), held at amortised cost.

7. Financial instruments – classification continued

Additional information on finance lease receivables

The following table shows the reconciliation of undiscounted finance lease receivables to net investment in finance leases:

	Group and Bank	
	2022 £m	2021 £m
Amount receivable under finance leases		
Within 1 year	21	8
1 to 2 years	6	20
2 to 3 years	6	6
3 to 4 years	6	6
4 to 5 years	6	6
After 5 years	23	32
Lease payments total	68	78
Unearned income	(13)	(19)
Present value of lease payments	55	59
Impairments	—	—
Net investment in finance leases	55	59

Interest rate benchmark reform

The RBSI Group continues to work on the transition of USD IBOR exposures to risk free rates in advance of the cessation date of 30 June 2023. Derivatives are expected to transition during April and May 2023 and other exposures in line with fallback provisions or deferred switches using widely accepted methodologies. The instruments yet to transition reflect an insignificant element of the RBSI Group's exposures. Instruments with exposures to other rates transitioned at the end of 2021, or at the first contractual reset date, or at a date agreed with the counterparty.

The level of exposures without explicit or agreed conversion provisions in the preceding year as follows:

	Group and Bank			
	Rate subject to IBOR reform			
2021	GBP LIBOR £m	USD IBOR £m	Other IBOR £m	Total £m
Loans to customers - amortised cost	2,132	68	261	2,461
Loan commitments ⁽¹⁾	30	407	—	437

(1) Certain loan commitments are multi-currency facilities. Where these are fully undrawn, they are allocated to the principal currency of the facility. Where the facilities are partly drawn, the remaining loan commitment is allocated to the currency with the largest drawn amount.

7. Financial instruments - valuation

Critical accounting policy: Fair value - financial instruments

In accordance with accounting policies 11 and 17, financial instruments classified as mandatory fair value through profit or loss and financial assets classified as fair value through other comprehensive income are recognised in the financial statements at fair value. All derivatives are measured at fair value.

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. A fair value measurement takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. It also uses the assumptions that market participants would use when pricing the asset or liability. In determining fair value the RBSI Group maximises the use of relevant observable inputs and minimises the use of unobservable inputs.

Modelled approaches may be used to measure instruments classed as level 2 or 3. Estimation expertise is required in the selection, implementation and calibration of appropriate models. The resulting modelled valuations are considered for accuracy and reliability. Portfolio level adjustments consistent with IFRS 13 are raised to incorporate counterparty credit risk, funding and margining risks. Expert judgment is used in the initial measurement of modelled products by control teams.

Where the RBSI Group manages a group of financial assets and financial liabilities on the basis of its net exposure to either market risks or credit risk, it measures the fair value of a group of financial assets and financial liabilities on the basis of the price that it would receive to sell a net long position (i.e. an asset) for a particular risk exposure or to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction at the measurement date under current market conditions.

Credit valuation adjustments are made when valuing derivative financial assets to incorporate counterparty credit risk. Adjustments are also made when valuing financial liabilities measured at fair value to reflect the RBSI Group's own credit standing.

Where the market for a financial instrument is not active, fair value is established using a valuation technique. These valuation techniques involve a degree of estimation, the extent of which depends on the instrument's complexity and the availability of market-based data. Further details about the valuation methodologies and the sensitivity to reasonably possible alternative assumptions of the fair value of financial instruments valued using techniques where at least one significant input is unobservable are given below.

Fair Value Hierarchy

Financial instruments carried at fair value have been classified under the IFRS fair value hierarchy as follows:

Level 1 – Instruments valued using unadjusted quoted prices in active and liquid markets, for identical financial instruments. Examples include government bonds, listed equity shares and certain exchange-traded derivatives.

Level 2 - Instruments valued using valuation techniques that have observable inputs. Examples include most government agency securities, investment-grade corporate bonds, certain mortgage products, including collateralised loan obligations (CLO), most bank loans, repos and reverse repos, less liquid listed equities, state and municipal obligations, most notes issued, certain money market securities, loan commitments and most over-the-counter (OTC) derivatives.

Level 3 - Instruments valued using a valuation technique where at least one input, which could have a significant effect on the instrument's valuation, is not based on observable market data. Examples include cash instruments which trade infrequently, certain syndicated and commercial mortgage loans, certain emerging markets and derivatives with unobservable model inputs.

Valuation techniques

The RBSI Group derives fair value of its instruments differently depending on whether the instrument is a non-modelled or a modelled product.

Non-modelled products are valued directly from a price input typically on a position by position basis and include cash, equities and most debt securities.

Modelled products valued using a pricing model range in complexity from comparatively vanilla products such as interest rate swaps and options (e.g. interest rate caps and floors) through to more complex derivatives. The valuation of modelled products requires an appropriate model and inputs into this model. Sometimes models are also used to derive inputs (e.g. to construct volatility surfaces). The RBSI Group uses a number of modelling methodologies.

7. Financial instruments – valuation continued

	Group and Bank					
	2022			2021		
	Level 1 £m	Level 2 £m	Total £m	Level 1 £m	Level 2 £m	Total £m
Assets						
Derivatives	—	172	172	—	158	158
Other financial assets - securities	295	—	295	3,134	—	3,134
Total financial assets at fair value	295	172	467	3,134	158	3,292
Liabilities						
Bank deposits	—	—	—	—	11	11
Customer deposits	—	—	—	—	6	6
Derivatives	—	411	411	—	117	117
Total financial liabilities at fair value	—	411	411	—	134	134

Inputs to valuation models

Values between and beyond available data points are obtained by interpolation and extrapolation. When utilising valuation techniques, the fair value can be significantly affected by the choice of valuation model and by underlying assumptions concerning factors such as the amounts and timing of cash flows, discount rates and credit risk. The principal inputs to these valuation techniques are as follows:

Bond prices - quoted prices are generally available for government bonds, certain corporate securities and some mortgage-related products.

Credit spreads - where available, these are derived from prices of credit default swaps or other credit based instruments, such as debt securities. For others, credit spreads are obtained from third party benchmarking services.

Interest rates - these are principally benchmark interest rates and quoted interest rates in the swap, bond and futures.

Equity and equity index prices - quoted prices are generally readily available for equity shares listed on the world's major stock exchanges major indices on such shares.

Commodity prices - many commodities are actively traded in spot and forward contracts and futures on exchanges in London, New York and other commercial centres.

Price volatilities and correlations - volatility is a measure of the tendency of a price to change with time. Correlation measures the degree which two or more prices or other variables are observed to move together.

Prepayment rates - the fair value of a financial instrument that can be prepaid by the issuer or borrower differs from that of an instrument that cannot be prepaid. In valuing prepayable instruments that are not quoted in active markets, the RBSI Group considers the value of the prepayment option.

Recovery rates/loss given default - these are used as an input to valuation models and reserves for asset-backed securities and other credit products as an indicator of severity of losses on default. Recovery rates are primarily sourced from market data providers or inferred from observable credit spreads.

7. Financial instruments – valuation continued

Fair value of Financial Instruments not carried at fair value

The following table shows the carrying values and the fair values of financial instruments on the balance sheet carried at amortised cost. All assets and liabilities carried at amortised cost on the balance sheet fall within level 3 (except other financial assets that fall within level 1, and other financial liabilities that fall within level 2), of the valuation methodologies.

	Group			
	2022		2021	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial assets				
Cash and balances at central banks	17,012	17,012	17,220	17,220
Loans to banks - amortised cost	1,648	1,648	1,305	1,305
Loans to customers - amortised cost	16,360	16,399	15,463	15,336
Amounts due from holding companies and fellow subsidiaries	538	538	579	579
Other financial assets	2,976	2,760	2,789	2,793
Financial liabilities				
Bank deposits	327	327	266	266
Customer deposits	34,637	34,637	37,539	37,539
Other financial liabilities	839	839	459	459
Amounts due to holding companies and fellow subsidiaries	992	992	242	242

	Bank			
	2022		2021	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial assets				
Cash and balances at central banks	17,012	17,012	17,220	17,220
Loans to banks - amortised cost	1,625	1,625	1,278	1,278
Loans to customers - amortised cost	16,360	16,399	15,463	15,336
Amounts due from holding companies and fellow subsidiaries	539	539	577	577
Other financial assets	2,976	2,760	2,789	2,793
Financial liabilities				
Bank deposits	327	327	266	266
Customer deposits	34,637	34,637	37,539	37,539
Other financial liabilities	839	839	459	459
Amounts due to holding companies and fellow subsidiaries	1,053	1,053	308	308

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. Changes in these assumptions would significantly affect estimated fair values. The fair values reported would not necessarily be realised in an immediate sale or settlement.

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

Short term financial instruments

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

Loans to banks and customers

In estimating the fair value of net loans to customers and banks measured at amortised cost, the RBSI Group's loans are segregated into appropriate portfolios reflecting the characteristics of the constituent loans.

Two principal methods are used to estimate fair value:

- Contractual cash flows are discounted using a market discount rate that incorporates the current spread for the borrower or where that is not observable, the spread for borrowers of a similar credit standing.
- Expected cash flows (unadjusted for credit losses) are discounted at the current offer rate for the same or similar products.

Other financial assets

The majority of other financial assets consist of debt securities which are valued using quoted prices in active markets, or using quoted prices for similar assets in active markets. Fair values of the rest are determined using discounted cash flow valuation techniques.

Deposits by banks and customer accounts

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

Debt securities in issue

Fair values are determined using quoted prices for similar liabilities where available or by reference to valuation techniques, adjusting for own credit spreads where appropriate.

7. Financial instruments - maturity analysis

Remaining maturity

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

	Group					
	2022			2021		
	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	17,012	—	17,012	17,220	—	17,220
Derivatives	39	133	172	25	133	158
Loans to banks - amortised cost	1,648	—	1,648	1,305	—	1,305
Loans to customers - amortised cost	7,958	8,402	16,360	6,906	8,557	15,463
Amounts due from holding companies and fellow subsidiaries	538	—	538	579	—	579
Other financial assets	904	2,367	3,271	2,160	3,763	5,923
Liabilities						
Banks deposits	327	—	327	266	—	266
Customer deposits	34,637	—	34,637	37,536	3	37,539
Derivatives	74	337	411	46	71	117
Other financial liabilities	839	—	839	476	—	476
Lease liabilities	5	30	35	4	33	37
Amounts due to holding companies and fellow subsidiaries	620	372	992	242	—	242
	Bank					
	2022			2021		
	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	17,012	—	17,012	17,220	—	17,220
Derivatives	39	133	172	25	133	158
Loans to banks - amortised cost	1,625	—	1,625	1,278	—	1,278
Loans to customers - amortised cost	7,958	8,402	16,360	6,906	8,557	15,463
Amounts due from holding companies and fellow subsidiaries	539	—	539	579	—	579
Other financial assets	904	2,367	3,271	2,160	3,763	5,923
Liabilities						
Banks deposits	327	—	327	266	—	266
Customer deposits	34,637	—	34,637	37,536	3	37,539
Derivatives	74	337	411	46	71	117
Other financial liabilities	839	—	839	476	—	476
Lease liabilities	5	30	35	4	33	37
Amounts due to holding companies and fellow subsidiaries	681	372	1,053	308	—	308

7. Financial instruments - maturity analysis continued

Assets and liabilities by contractual cash flows up to 20 years

The tables on the following page, show the contractual undiscounted cash flows receivable and payable, up to a period of 20 years, including future receipts and payments of interest of financial assets and liabilities by contractual maturity. The balances in the following tables do not agree directly with the balance sheet, as the tables include all cash flows relating to principal and future coupon payments, presented on an undiscounted basis. The tables have been prepared on the following basis:

Financial assets have been reflected in the time band of the latest date on which they could be repaid, unless earlier repayment can be demanded by the RBSI Group. 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 the repayment of a financial instrument is triggered by, or is subject to, specific criteria such as market price hurdles being reached, the asset is included in the time band that contains the latest date on which it can be repaid, regardless of early repayment.

The liability is included in the time band that contains the earliest possible date on which the conditions could be fulfilled, without considering the probability of the conditions being met.

For example, if a structured note is automatically prepaid 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. The settlement date of debt securities in issue depends on when cash flows are received from the securitised assets. Where these assets are prepayable, the timing of the cash outflow relating to securities assumes that each asset will be prepaid at the earliest possible date. As the repayments of assets and liabilities are linked, the repayment of assets in securitisations is shown on the earliest date that the asset can be prepaid, as this is the basis used for liabilities.

The principal amounts of financial assets and liabilities that are repayable after 20 years or where the counterparty has no right to repayment of the principal are excluded from the table, as are 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 the RBSI Group's liquidity position.

MFVTPL assets of £172 million (2021 - £158 million) and HFT liabilities of £411 million (2021 - £134 million) have been excluded from the following tables.

7. Financial instruments - maturity analysis continued

2022	Group					
	0-3 months	3-12 months	1-3 years	3-5 years	5-10 years	10-20 years
	£m	£m	£m	£m	£m	£m
Assets by contractual maturity up to 20 years						
Cash and balances at central banks	17,012	—	—	—	—	—
Loans to banks - amortised cost	1,648	—	—	—	—	—
Loans to customers - amortised cost	1,986	6,362	5,240	1,493	2,171	80
Finance lease	16	8	16	14	18	—
Amounts due from holding companies and fellow subsidiaries	538	—	—	—	—	—
Other financial assets	230	676	1,116	833	438	58
Liabilities by contractual maturity up to 20 years						
Bank deposits	327	0	—	—	—	—
Customer deposits	32,649	2,038	—	—	—	—
Other financial liabilities	598	245	—	—	—	—
Lease liabilities	1	3	8	6	11	11
Amounts due to holding companies and fellow subsidiaries	620	100	338	—	—	—
Guarantees and commitments notional amount						
Guarantees ⁽¹⁾	409	—	—	—	—	—
Commitments ⁽²⁾	9,081	—	—	—	—	—

2021	Group					
	0-3 months	3-12 months	1-3 years	3-5 years	5-10 years	10-20 years
	£m	£m	£m	£m	£m	£m
Assets by contractual maturity up to 20 years						
Cash and balances at central banks	17,220	—	—	—	—	—
Loans to banks - amortised cost	1,305	—	—	—	—	—
Loans to customers - amortised cost	2,172	4,925	5,134	998	780	1,340
Finance lease	2	9	29	14	23	2
Amounts due from holding companies and fellow subsidiaries	489	90	—	—	—	—
Other financial assets	13	2,191	926	893	790	749
Liabilities by contractual maturity up to 20 years						
Bank deposits	266	—	—	—	—	—
Customer deposits	37,124	416	—	—	—	—
Other financial liabilities	295	166	—	—	—	—
Lease liabilities	1	3	9	7	12	12
Amounts due to holding companies and fellow subsidiaries	220	21	—	—	—	—
Guarantees and commitments notional amount						
Guarantees ⁽¹⁾	263	—	—	—	—	—
Commitments ⁽²⁾	9,350	—	—	—	—	—

7. Financial instruments - maturity analysis continued

	Bank					
	0-3 months £m	3-12 months £m	1-3 years £m	3-5 years £m	5-10 years £m	10-20 years £m
2022						
Assets by contractual maturity up to 20 years						
Cash and balances at central banks	17,012	—	—	—	—	—
Loans to banks - amortised cost	1,625	—	—	—	—	—
Loans to customers - amortised cost	1,986	6,362	5,240	1,493	2,171	80
Finance lease	16	8	16	14	18	—
Amounts due from holding companies and fellow subsidiaries	539	—	—	—	—	—
Other financial assets	230	676	1,116	833	438	58
Liabilities by contractual maturity up to 20 years						
Bank deposits	327	—	—	—	—	—
Customer deposits	32,649	2,038	—	—	—	—
Other financial liabilities	598	245	—	—	—	—
Lease liabilities	1	3	8	6	11	11
Amounts due to holding companies and fellow subsidiaries	681	100	338	—	—	—
Guarantees and commitments notional amount						
Guarantees ⁽¹⁾	409	—	—	—	—	—
Commitments ⁽²⁾	9,081	—	—	—	—	—
2021						
	Bank					
	0-3 months £m	3-12 months £m	1-3 years £m	3-5 years £m	5-10 years £m	10-20 years £m
Assets by contractual maturity up to 20 years						
Cash and balances at central banks	17,220	—	—	—	—	—
Loans to banks - amortised cost	1,278	—	—	—	—	—
Loans to customers - amortised cost	2,172	4,925	5,134	998	780	1,340
Finance lease	2	9	29	14	23	2
Amounts due from holding companies and fellow subsidiaries	481	96	—	—	—	—
Other financial assets	13	2,191	926	893	790	749
Liabilities by contractual maturity up to 20 years						
Bank deposits	266	—	—	—	—	—
Customer deposits	37,124	416	—	—	—	—
Other financial liabilities	295	166	—	—	—	—
Lease liabilities	1	3	9	7	12	12
Amounts due to holding companies and fellow subsidiaries	286	21	—	—	—	—
Guarantees and commitments notional amount						
Guarantees ⁽¹⁾	263	—	—	—	—	—
Commitments ⁽²⁾	9,350	—	—	—	—	—

(1) The RBSI Group is only called upon to satisfy a guarantee when the guaranteed party fails to meet its obligations. The RBSI Group expects most guarantees it provides to expire unused.

(2) The RBSI Group 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. The RBSI Group does not expect all facilities to be drawn, and some may lapse before drawdown.

8. Loan impairment provisions

Loan exposure and impairment metrics

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

	Group		Bank	
	31 December 2022 £m	31 December 2021 £m	31 December 2022 £m	31 December 2021 £m
Loans - amortised cost				
Stage 1	17,104	16,185	17,081	16,158
Stage 2	865	477	865	477
Stage 3	131	162	131	162
Inter- group ⁽¹⁾	538	579	539	577
Total	18,638	17,403	18,616	17,374
Loans impairment provisions				
ECL provisions				
-Stage 1	16	8	16	8
-Stage 2	9	23	9	23
-Stage 3	30	24	30	24
Total	55	55	55	55
ECL provision coverage ^(2,3)				
-Stage 1 (%)	0.09	0.05	0.09	0.05
-Stage 2 (%)	1.04	4.82	1.04	4.82
-Stage 3 (%)	22.90	14.81	22.90	14.81
	0.30	0.33	0.30	0.33
Impairment losses/(releases)				
ECL charge	2	(52)	2	(53)
ECL (release)/loss rate - annualised (basis points) ⁽⁴⁾	—	(0.3)	—	(0.3)
Amounts written off	2	28	2	28

(1) Amounts due from holding companies and fellow subsidiaries (Inter-Group) are all considered as Stage 1.

(2) ECL provisions coverage is 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) ECL loss rate is calculated as annualised third party ECL charge divided by loans - amortised cost.

(5) The table shows gross loans only and excludes amounts that are outside the scope of the ECL framework. Other financial assets within the scope of the IFRS 9 ECL framework were cash and balances at central banks totalling £17 billion (2021: £17.2 billion) and debt securities of £3.4 billion (2021: £6.0 billion).

8. Loan impairment provisions continued

Credit risk enhancement and mitigation

For information on credit risk enhancement and mitigation held as security, refer to Risk management – credit risk.

Critical accounting estimates

The loan impairment provisions have been established in accordance with IFRS 9. Accounting policy 12 sets out how the expected loss approach is applied. At 31 December 2022, customer loan impairment provisions amounted to £55 million (2021: £55 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.

There is a risk that customers and counterparties fail to meet their contractual obligation to settle outstanding amounts, known as expected credit losses ('ECL'). The calculation of ECL considers historic, current and forward-looking information to determine the amount we do not expect to recover. ECL is recognised on current and potential exposures, and contingent liabilities.

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

The measurement of credit impairment under the IFRS expected loss model depends on management's assessment of any potential deterioration in the creditworthiness of the borrower, its modelling of expected performance and the application of economic forecasts. All three elements require judgments that are potentially significant to the estimate of impairment losses. For further information and sensitivity analysis, refer to Risk management Note 16.

IFRS 9 ECL model design principles

To meet IFRS 9 requirements for ECL estimation, Probability Of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD) used in the 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; and
- For the life of the loan - all models produce a term structure 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 current probability of default over the remaining lifetime) 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 (unlike in the case of PD and some LGD models) be sufficiently explained by the Credit-Cycle Index ('CCI') measure 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. For more details refer note 16.

Approach for multiple economic scenarios (MES)

The base scenario plays a greater part in the calculation of ECL than the approach to MES. This is discussed further in Note 16.

9. Other financial assets

	Group and Bank			
	Debt securities			
	Central and local government			Total £m
	UK £m	US £m	Other £m	
2022				
Fair value through other comprehensive income	120	84	91	295
Amortised cost	1,674	937	365	2,976
Total	1,794	1,021	456	3,271
2021				
Fair value through other comprehensive income	1,459	640	1,035	3,134
Amortised cost	2,240	156	393	2,789
Total	3,699	796	1,428	5,923

10. Investments in subsidiaries

The table below shows the details of the wholly owned subsidiaries of RBSIH:

Name of subsidiary	Place of incorporation	Ownership	Principal activities
The Royal Bank of Scotland International Limited	Jersey	100%	The main activity of the Company is the provision of banking services, including the taking of deposits and lending.
NatWest Trustee and Depositary Services Limited (NWTDS)	UK	100%	The main activity of the Company is the provision of depositary services.
RBS International Depositary Services S.A	Luxembourg	100%	The main activity of the Company is the provision of depositary services.
Coutts & Co Cayman Limited	Cayman Islands	100%	Since 2020, entity is inactive.
Tilba Limited (formerly known as Isle of Man Bank Limited)	Isle of Man	100%	Since 2019, entity is inactive.

11. Other assets

	Group		Bank	
	2022	2021	2022	2021
	£m	£m	£m	£m
Property plant and equipment	80	80	78	80
Intangible assets	46	28	22	14
Prepayments	3	3	2	3
Accrued income	22	21	11	11
Other assets	8	15	7	14
Current and deferred tax (refer Note 5)	33	5	33	5
Retirement benefit assets (refer Note 4)	13	206	13	206
	205	358	166	333

12. Other financial liabilities

	Group and Bank	
	2022	2021
	£m	£m
Bank deposits - held for trading	—	11
Customer deposits - held for trading	—	6
Debt securities in issue - amortised cost	839	459
	839	476

13. Subordinated liabilities

Following table analyses intercompany subordinated liabilities. These balances are included in amounts due to holding companies and fellow subsidiaries within balance sheet.

	Group and Bank	
	2022	2021
	£m	£m
Dated loan capital	294	-
	294	-
	2022	2021
	£m	£m
Dated loan capital		
\$350 million	294	-
	294	—

The loans are unsecured and subordinated to the claims of senior creditors. The loan capital is available to absorb losses and ranks ahead of other existing capital in the event of liquidation. The Bank has a contractual obligation to pay interest.

14. Other liabilities

	Group		Bank	
	2022	2021	2022	2021
	£m	£m	£m	£m
Lease liabilities	35	37	35	37
Provisions for liabilities and charges	14	19	14	19
Accruals	26	26	24	23
Deferred income	41	40	41	40
Current tax and deferred tax (refer Note 5)	35	21	33	18
Other liabilities	13	6	10	6
	164	149	157	143

The following amounts are included within provisions:

	Group and Bank				
	Provision for property (1)	Integration restructuring divested provision (2)	ECL provision (3)	Others (4)	Total
	£m	£m	£m	£m	£m
At 1 January 2021	13	15	6	—	34
Charged to the income statement	—	2	—	3	5
Released during the year	—	(1)	—	—	(1)
Other movements	—	—	(4)	—	(4)
Utilised in year	(1)	(14)	—	—	(15)
At 1 January 2022	12	2	2	3	19
Charged to the income statement	—	1	—	—	1
Released during the year	(1)	—	—	(2)	(3)
Utilised in year	(1)	(2)	—	—	(3)
At 31 December 2022	10	1	2	1	14

(1) Provision for Property - The property provisions represent costs related to closure of properties.

(2) Integration restructuring divested provision - The restructuring provisions principally comprise redundancy costs.

(3) ECL provision - ECL provision is made up of provisions on contingent liabilities and commitments, as calculated in accordance with IFRS 9.

(4) Others - Other provisions is made up of contingent liabilities relating to conduct. This includes amount for potential fines and customer redress.

For accounting policy information see Accounting policies note 9.

Critical accounting policy: Provisions for liabilities

The key judgment is involved in determining whether a present obligation exists. There is often a high degree of uncertainty and judgment is based on the specific facts and circumstances relating to individual events in determining whether there is a present obligation. Judgment is also involved in estimation of the probability, timing and amount of any outflows. Where the RBSI Group can look to another party such as an insurer to pay some or all of the expenditure required to settle a provision, any reimbursement is recognised when, and only when, it is virtually certain that it will be received.

Estimates - Provisions are liabilities of uncertain timing or amount and are recognised when there is a present obligation as a result of a past event, the outflow of economic benefit is probable and the outflow can be estimated reliably. Any difference between the final outcome and the amounts provided will affect the reported results in the period when the matter is resolved.

15. Share capital and other equity

	Group			
	2022	2021	Number of shares	
			2022	2021
Allotted, called up and fully paid	£m	£m	000s	000s
<i>Equity shares:</i>				
A' Ordinary shares of £1	176	176	175,445	175,445
B' Ordinary shares of £1	135	135	135,290	135,290
	311	311	310,735	310,735

The RBSI Group has two classes of ordinary shares which carry no right to fixed income. There are no differences in the rights attached to the 'A' and 'B' ordinary shares.

	Bank			
	2022	2021	Number of shares	
			2022	2021
Allotted, called up and fully paid	£m	£m	000s	000s
<i>Equity shares:</i>				
Ordinary shares of £1	97	97	96,540	96,540
	97	97	96,540	96,540

The whole of the issued share capital of the Bank comprises one class of Ordinary Share held by its holding company, RBSIH and its nominee, each share being entitled to one vote.

Paid-in equity

Paid-in equity comprises equity instruments issued by RBSI to NWG other than those legally constituted as shares.

	Group and Bank	
	31 December 2022	31 December 2021
	£m	£m
<i>Additional Tier 1 capital notes:</i>		
£300m 6.604% notes repayable from September 2025	300	300
	300	300

The coupons on this instrument are non-cumulative and payable at the RBSI Group's discretion. In the event of winding up, any amounts outstanding on the loan will be subordinated. While taking the legal form of debt, these notes are classified as equity under IFRS.

16. Risk management

Presentation of information

Risk and capital management is generally conducted on an overall basis within NatWest Group such that common policies, procedures, frameworks and models apply across NatWest Group. Therefore, for the most part, discussion on these qualitative aspects reflects those in NatWest Group as relevant for the businesses and operations in RBSI Group and Bank.

Risk management framework

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

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

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

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

Culture

Risk culture is at the heart of the risk management framework and its risk management practice. In 2022, the approach to risk culture was refreshed under the new banner of Intelligent Risk Taking to re-intensify focus on robust risk management behaviours and practices. RBSI Group expects leaders to act as role models for strong risk behaviours and practices building clarity, developing capability and motivating employees to reach the required standards set out in the Intelligent Risk Taking approach.

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

Training

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

Our Code

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

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

Where appropriate, if conduct falls short of NatWest Group's required standards, the accountability review process is used to assess how this should be reflected in pay outcomes for the individuals concerned. Any employee falling short of the expected standards would also be subject to internal disciplinary policies and procedures. If appropriate, the relevant authority would be notified.

Three lines of defence

RBSI Group uses the industry-standard three lines of defence model to articulate accountabilities and responsibilities for managing risk. This supports the embedding of effective risk management throughout the organisation.

The first line of defence incorporates most roles in RBSI Group, including those in the customer-facing businesses, Technology and Services as well as support functions such as People and Transformation, Legal and Finance. The first line of defence is empowered to take risks within the constraints of the risk management framework, policies, risk appetite statements set by NatWest Group and measures set by the Board. The first line of defence is responsible for managing its direct risks, and with the support of specialist functions, it is also responsible for managing its consequential risks, by identifying, assessing, mitigating, monitoring and reporting risks.

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

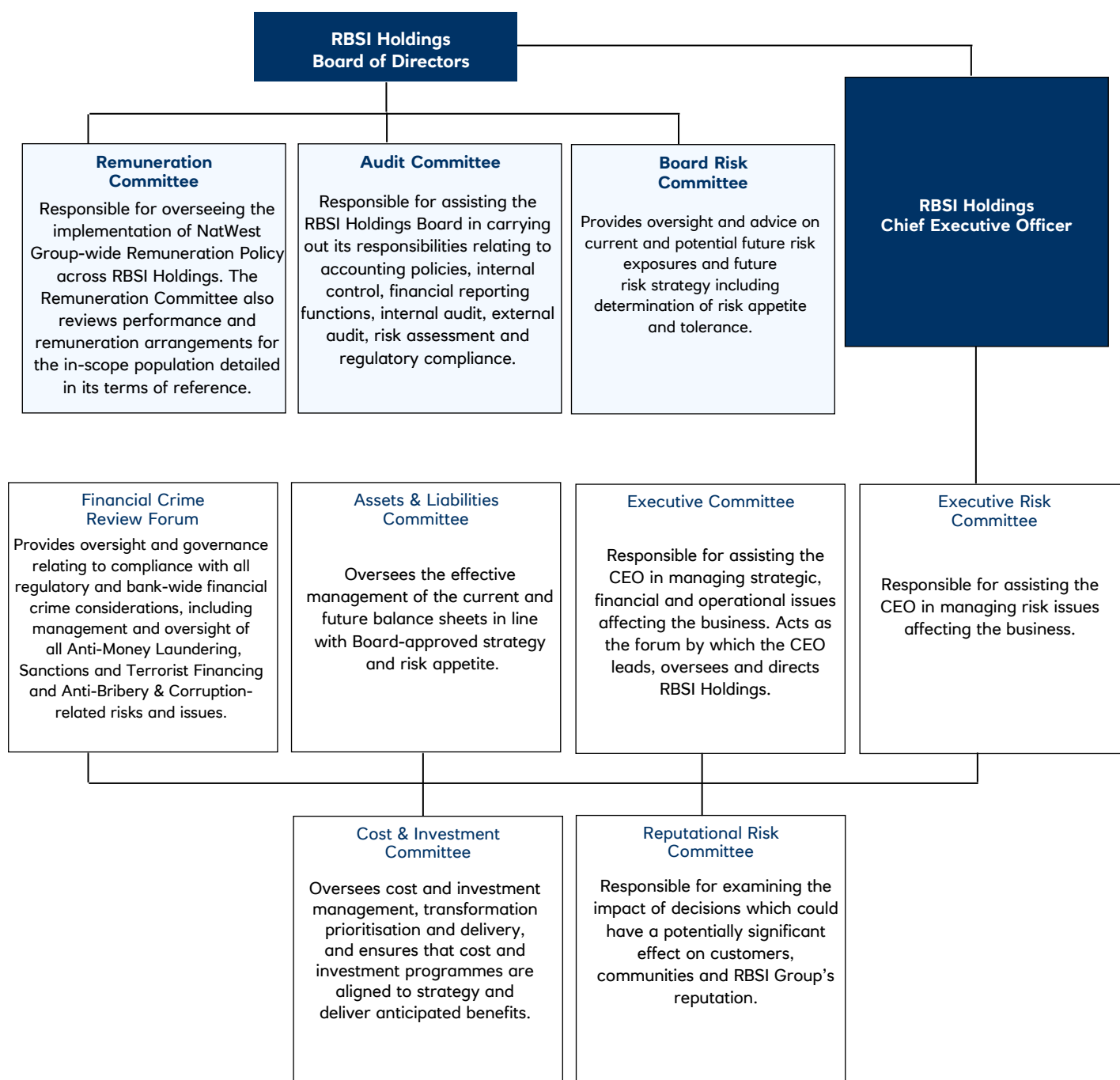
The third line of defence is the Internal Audit function and is independent of the first and second lines. The third line of defence is responsible for providing independent assurance to the NatWest Group Board, its subsidiary legal entity boards and executive management on the overall design and operating effectiveness of the risk management framework and its components. This includes the adequacy and effectiveness of key internal controls, governance and the risk management in place to monitor, manage and mitigate the principal risks to NatWest Group and its subsidiary companies achieving their objectives. The third line of defence executes its duties freely and objectively in accordance with the Chartered Institute of Internal Auditors' Code of Ethics and International Standards on independence and objectivity.

16. Risk management continued

Governance

Committee structure

The diagram shows RBSI Group's risk committee structure in 2022 and the main purposes of each committee.



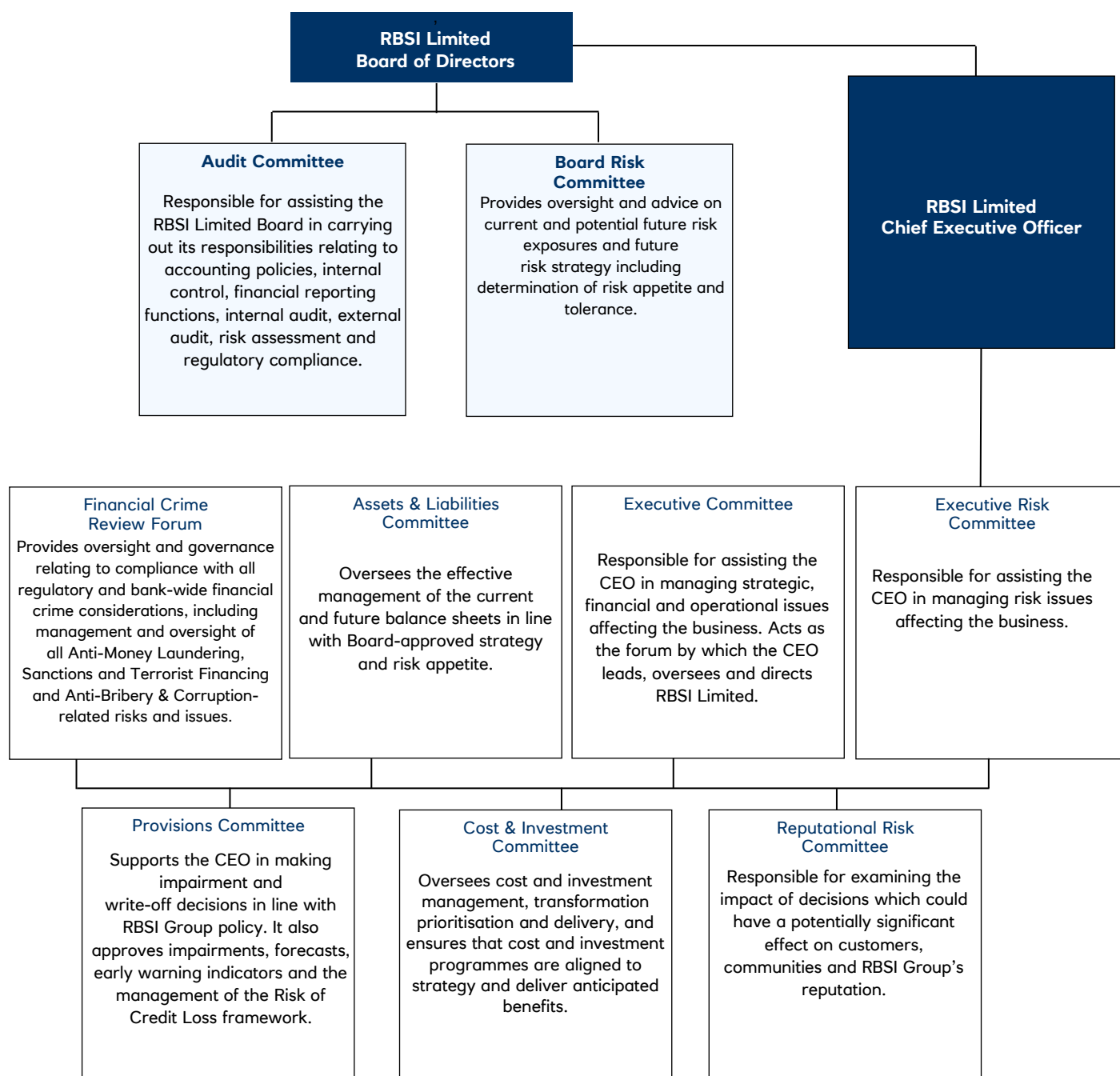
- (1) RBSI Holdings is a Jersey incorporated holding company. It has three principal operating subsidiaries: The Royal Bank of Scotland International Limited, a Jersey incorporated and regulated bank; NatWest Trustee and Depositary Services Limited, a company incorporated in England and Wales; and RBS International Depositary Services S.A., a company incorporated in Luxembourg.
- (2) The chart does not show all management-level committees, only material committees which consider risk are shown.
- (3) The NatWest Holdings Group Risk function provides risk management services across NatWest Group, including – where agreed – to the RBSI Holdings Chief Risk Officer. These services are managed, as appropriate, through service level agreements.

16. Risk management continued

Governance

Committee structure

The diagram shows the Bank's risk committee structure in 2022 and the main purposes of each committee.



(1) The Royal Bank of Scotland International Limited is one of the principal operating subsidiaries of RBSI Holdings.

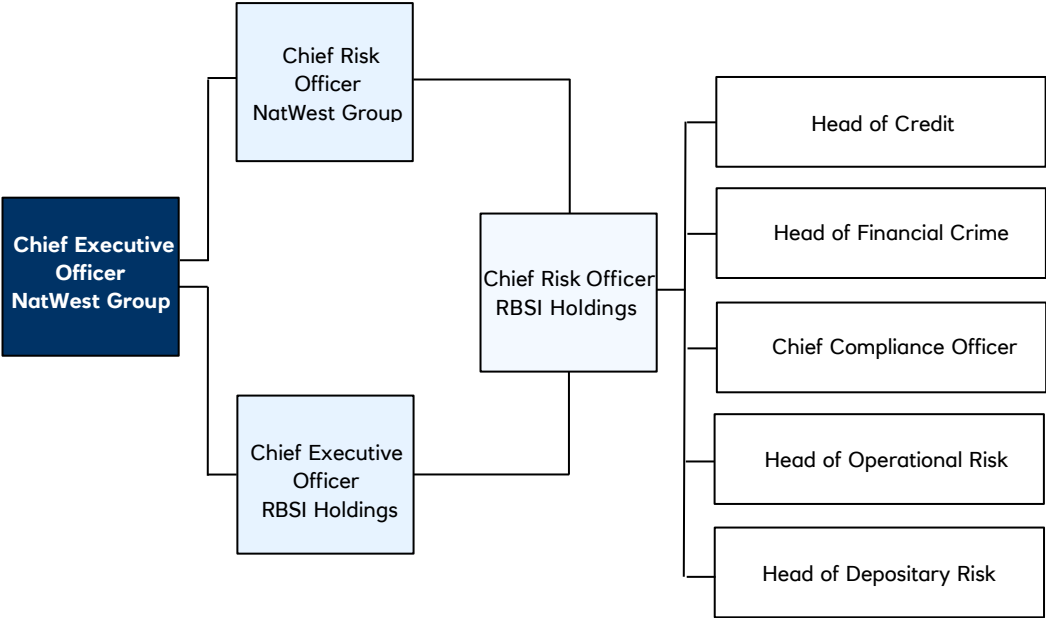
(2) The chart does not show all management-level committees, only material committees which consider risk are shown.

(3) The NWH Group Risk function provides risk management services across NatWest Group, including – where agreed – to the RBSI Limited Chief Risk Officer. These services are managed, as appropriate, through service level agreements.

16. Risk management continued

Risk management structure

The diagram shows RBSI Group’s risk management structure in 2022.



(1) The RBSI Holdings Chief Risk Officer reports directly to the RBSI Holdings Chief Executive Officer and the NatWest Group Chief Risk Officer. The RBSI Holdings Chief Risk Officer also has an additional reporting line to the chair of the RBSI Holdings Board Risk Committee, and a right of access to the committee.

16. Risk management continued

Risk appetite

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

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

Risk appetite framework

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

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

- Assessing the adequacy of the framework compared to internal and external expectations.
- Ensuring the framework remains effective and acts as a strong control environment for risk appetite.
- Assessing the level of embedding of risk appetite across the organisation.

The Board reviews and approves the risk appetite framework annually.

Establishing risk appetite

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

Risk appetite statements consist of qualitative statements of appetite supported by risk limits and triggers that operate as a defence against excessive risk-taking. Risk measures and their associated limits are an integral part of the risk appetite approach and a key part of embedding risk appetite in day-to-day risk management decisions. A clear tolerance for each principal risk is set in alignment with business activities.

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

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

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

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

Identification and measurement

Identification and measurement within the risk management process comprises:

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

The financial and non-financial risks that RBSI Group faces are detailed in the NatWest Group risk directory. This provides a common risk language to ensure consistent terminology is used across RBSI Group. The NatWest Group risk directory is subject to annual review to ensure it continues to fully reflect the risks that RBSI Group faces.

Mitigation

Mitigation is a critical aspect of ensuring that risk profile remains within risk appetite. Risk mitigation strategies are discussed and agreed within RBSI Group.

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

Testing and monitoring

Specific activities relating to compliance and conduct, credit and financial crime risks are subject to testing and monitoring by the Risk function. This confirms to both internal and external stakeholders – including the Board, senior management, Internal Audit and RBSI Group's regulators – that risk policies and procedures are being correctly implemented and that they are operating adequately and effectively. Selected key controls are also reviewed for adequacy and effectiveness. Thematic reviews and targeted reviews are also carried out where relevant to ensure appropriate customer outcomes.

Independent testing and monitoring is also completed on principal risk processes and controls – including controls within the scope of Section 404 of the Sarbanes-Oxley Act 2002.

16. Risk management continued

Stress testing – capital management

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

Stress testing includes:

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

The process for stress testing consists of four broad stages:

Define scenarios	<ul style="list-style-type: none"> – Identify specific macro RBSI Group vulnerabilities and risks. – Define and calibrate scenarios to examine risks and vulnerabilities. – Formal governance process to agree scenarios.
Assess impact	<ul style="list-style-type: none"> – Translate scenarios into risk drivers. – Assess impact to current and projected P&L and balance sheet across RBSI Group.
Calculate results and assess implications	<ul style="list-style-type: none"> – Aggregate impacts into overall results. – Results form part of the risk management process. – Scenario results are used to inform RBSI Group's business and capital plans.
Develop and agree management actions	<ul style="list-style-type: none"> – Scenario results are analysed by subject matter experts. Appropriate management actions are then developed. – Scenario results and management actions are reviewed by the relevant Executive Risk Committees and the Board Risk Committees and, agreed by the relevant Boards.

Stress testing is used widely across NatWest Group. Specific areas that involve capital management include:

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

Reverse stress testing is also carried out in order to identify and assess scenarios that would cause RBSI Group's business model to become unviable. 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 incorporate economic variables and key assumptions on balance sheet and P&L drivers, such as impairments, to demonstrate that RBSI Group maintains sufficient capital. A range of future states are tested. In particular, capital requirements are assessed:

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

The examination of capital requirements under normal economic and adverse market conditions enables RBSI Group to determine whether its projected business performance meets internal plans 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 RBSI Group but also by the regulators to set specific capital buffers. RBSI Group takes part in NatWest Group stress tests run by regulatory authorities to test industry-wide vulnerabilities under crystallising global and domestic systemic risks.

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

Internal assessment of capital adequacy

In the Bank, an internal assessment of material risks is carried out 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 Bank's 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 Bank's ICAAP is approved by the Board and submitted to the Jersey Financial Services Commission (JFSC).

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

Governance

Capital management is subject to substantial review and governance. The Boards of both the Bank and RBSI Group approve 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.

16. Risk management continued

Stress testing – liquidity

Liquidity risk monitoring and contingency planning

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

Internal assessment of liquidity

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

Type	Description
Idiosyncratic scenario	The market perceives RBSI 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. RBSI 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.

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

Stress testing – recovery and resolution planning

The Bank, NatWest Trustee and Depositary Services and RBSI Depositary Services each maintain a recovery plan. These form part of the overall NatWest Group Recovery Framework. The recovery plans explain how RBSI 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.
- Carrying out ‘fire drills’ to practise responding to recovery events.

The plan is intended to enable RBSI Group to maintain critical services and products it provides to its customers, maintain its core business lines and operate within risk appetite while restoring RBSI 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 JFSC each year.

Resolution would be implemented if NatWest Group or RBSI Group was assessed by the UK or Jersey authorities to have failed and the appropriate authority put it into resolution. The Bank (Recovery and Resolution) (Jersey) Law 2017 (the Law) came into force on 31 January 2022. The Law provides a new bank resolution regime for Jersey which is broadly consistent with the European Union Bank Recovery and Resolution Directive (2014/59) and the United Kingdom Banking Act 2009 (as amended). Specifically, it established the Jersey Resolution Authority which has been granted administrative powers to stabilise and/or resolve distressed banks.

Stress testing – non-traded market risk

RBSI Group produces an internal scenario analysis as part of its financial planning cycles.

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

16. Risk management continued

Credit risk

Definition

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

Sources of risk

RBSI Group has exposure to entities by making placements and advances to those counterparties. The Board reviews the placement of deposits to other legal entities in NatWest Group.

RBSI Group also has exposure to the Bank of England, the Central Bank of Luxembourg, US correspondent banks and the UK, US and various eurozone governments through cash deposits and holding government bonds in its liquid asset portfolio. These exposures are also reviewed by the Board of Directors.

Governance

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

- Defining credit risk appetite measures for the management of concentration risk and credit policy to establish the key causes of risk in the process of providing credit and the controls that must be in place to mitigate them.
- Approving and monitoring operational limits for business segments and credit limits for customers.
- Oversight of the first line of defence to ensure that credit risk remains within the appetite set by the Board and that controls are being operated adequately and effectively.
- Assessing the adequacy of expected credit loss (ECL) provisions including approving key IFRS 9 inputs (such as significant increase in credit risk (SICR) thresholds) and any necessary in-model and post model adjustments through the Provisions Committee.

Risk appetite

Credit risk appetite aligns to the strategic risk appetite set by the Board and is set and monitored through risk appetite frameworks.

Personal

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

Wholesale

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

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

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

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

Identification and measurement

Credit stewardship

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

Asset quality

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

Counterparty credit risk

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

16. Risk management continued

Credit risk continued

Mitigation

Mitigation techniques, as set out in the appropriate credit policies and transactional acceptance standards, are used in the management of credit portfolios across RBSI Group. 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, the use of credit derivatives including credit default swaps, credit-linked debt instruments and securitisation structures, and the use of guarantees and similar instruments (for example, credit insurance) from related and third parties. Property is used to mitigate credit risk across a number of portfolios, in particular residential mortgage lending and commercial real estate (CRE).

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

Residential mortgages – RBSI Group takes collateral in the form of residential property to mitigate the credit risk arising from mortgages. RBSI Group values residential property during the loan underwriting process by appraising properties individually. Properties securing loans greater than €3 million are revalued every three years.

Commercial real estate valuations – RBSI Group has an actively managed panel of chartered surveying firms that cover the spectrum of geography and property sectors in which RBSI Group takes collateral. Suitable valuers for particular assets are typically contracted through a service agreement to ensure consistency of quality and advice.

Assessment and monitoring

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

Personal

Personal customers are served through a lending approach that entails offering a large number of small-value loans. To ensure that these lending decisions are made consistently, RBSI Group analyses internal credit information as well as external data supplied by credit reference agencies (including historical debt servicing behaviour of customers with respect to both RBSI Group and other lenders). RBSI Group 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 residential mortgage lending, 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 are grouped by industry sectors and geography as well as by product/asset class and are managed on an individual basis. Customers are aggregated as a single risk when sufficiently interconnected.

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

In response to COVID-19, a new framework was introduced to categorise clients in a consistent manner across the Wholesale portfolio, based on the effect of COVID-19 on their financial position and outlook in relation to the sector risk appetite. This framework has been retained, updated and aligned with the Risk of Credit Loss framework (further details below) to consider viability impacts more generally beyond those directly related to COVID-19 and classification via the framework is now mandatory and must be refreshed at least annually. The framework extends to all Wholesale borrowing customers in assessing whether customers exhibit a SICR, if support is considered to be granting forbearance and the time it would take for customers to return to operating within transactional acceptance standards.

Transactional acceptance standards provide detailed 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.

PD and loss given default (LGD) are reviewed and if appropriate reappraised 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 RBSI Group's data, and external using information from credit reference agencies, where applicable. Proactive contact is then made with the customer to establish if they require help with managing their finances. By adopting this approach, the aim is to prevent a customer's financial position deteriorating which may then require intervention from the Collections and Recoveries teams.

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

16. Risk management continued

Credit risk continued

Collections

When a customer exceeds an agreed limit or misses a regular monthly payment the customer is contacted by RBSI Group and requested to remedy the position. If the situation is not regularised then, where appropriate, the Collections team will become more involved and the customer will be supported by skilled debt management staff who endeavour to provide customers with bespoke solutions. Solutions include short-term account restructuring, refinance loans and forbearance which can include interest suspension and 'breathing space'. All treatments available to customers experiencing financial difficulties are reviewed to ensure they remain appropriate for customers impacted by current economic conditions. In the event that an affordable and sustainable agreement with a customer cannot be reached, the debt will transition to the Recoveries team. For provisioning purposes, under IFRS 9, exposure to customers managed by the Collections team is categorised as Stage 2 and subject to a lifetime loss assessment, unless it is 90 days past due or has triggered any other unlikelihood to pay indicators, in which case it is categorised as Stage 3.

Recoveries

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

Wholesale

Early problem identification

Each 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. Broader macro-economic trends including commodity prices, foreign exchange rates and consumer and government spend are also tracked, helping inform decisions on sector risk appetite. Customer level early warning indicators are regularly reviewed to ensure alignment with prevailing economic conditions, ensuring both the volume and focus of alerts is aligned to the point-in-time risk within each sector.

The aligned Risk of Credit Loss and viability framework

This framework focuses on all Wholesale customers to provide early identification of credit deterioration, support intelligent risk-taking, ensure fair and consistent customer outcomes and provide key insights into Wholesale lending portfolios. Expert judgment is applied by experienced credit risk officers to classify cases into categories that reflect progressively deteriorating credit risk to RBSI Group. There are two classifications in the framework that apply to non-defaulted customers who are in financial stress – Heightened Monitoring and Risk of Credit Loss. For the purposes of provisioning, all exposures categorised as Heightened Monitoring or Risk of Credit Loss are categorised as Stage 2 and subject to a lifetime loss assessment. The framework also applies to those customers that have met RBSI 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. 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 RBSI Group in the next 12 months should mitigating action not be taken or not be successful.

Once classified as either Heightened Monitoring or Risk of Credit Loss, a number of mandatory actions are taken in accordance with policies. Actions include a review of the customer's credit grade, facility and security documentation and the valuation of security. Depending on the severity of the financial difficulty and the size of the exposure, the customer relationship strategy is reassessed by credit officers, by specialist credit risk or relationship management units in the relevant business, or by Restructuring.

Restructuring

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

Forbearance

Forbearance takes place when a concession is made on the contractual terms of a loan/debt in response to a customer's financial difficulties. The aim of forbearance is to support and restore the customer to financial health while minimising risk. To ensure that forbearance is appropriate for the needs of the customer, minimum standards are applied when assessing, recording, monitoring and reporting forbearance.

A credit exposure may be forborne more than once, generally where a temporary concession has been granted and circumstances warrant another temporary or permanent revision of the loan's terms. Loans are reported as forborne until they meet the exit criteria as detailed in the appropriate regulatory guidance.

Types of forbearance

Personal

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

16. Risk management continued

Credit risk continued

Wholesale

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

Monitoring of forbearance

Personal

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

Wholesale

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

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

Credit grading models

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

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

Impairment, provisioning and write-offs

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

The approach that RBSI Group adopts in relation to the calculation of ECL within Personal includes the use of PD and LGD benchmarks. Refer to Personal non-modelled portfolio for further details.

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

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

Model build:

- The determination of economic indicators that have most influence on credit loss for each portfolio and the severity of impact (this leverages existing stress testing models which are reviewed annually).
- The build of term structures to extend the determination of the risk of loss beyond 12 months that will influence the impact of lifetime loss for exposures in Stage 2.

Model application:

- The assessment of the SICR and the formation of a framework capable of consistent application.
- The determination of asset lifetimes that reflect behavioural characteristics while also representing management actions and processes (using historical data and experience).
- The choice of forward-looking economic scenarios and their respective probability weights.

IFRS 9 ECL model design principles

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

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

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

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

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

PD estimates

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

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

LGD estimates

The general approach for the IFRS 9 LGD models is to leverage corresponding IRB LGD models with bespoke adjustments to ensure estimates are unbiased and, where relevant, forward-looking. Forward-looking economic information is incorporated into Wholesale 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.

16. Risk management continued

Credit risk continued

EAD estimates

Personal

EAD is calculated as the maximum of the balance exposure, or limit which has been factored up by a credit conversion factor sourced from the benchmarked modelled portfolio.

Wholesale

For Wholesale, EAD values are projected using product specific credit conversion factors (CCFs), closely following the product segmentation and approach of the respective Basel model. However, the CCFs are estimated over multi-year time horizons and contain no regulatory conservatism or downturn assumptions.

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

Governance and post model adjustments

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

- **Economic uncertainty** – ECL adjustments primarily arising from uncertainties associated with the high inflation environment as well as supply chain disruption, along with the residual effect of COVID-19 and government support schemes. In all cases, management judged that additional ECL was required until further credit performance data became available as the full effects of these issues matures.
- **Other adjustments** – ECL adjustments where it was judged that the modelled ECL required amendment.

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

ECL post model adjustments

The table below shows ECL post model adjustments.

	2022 £m	2021 £m
Economic uncertainty	1	17
Other adjustments	3	3
Total	4	20
Of which:		
– Stage 1	2	2
– Stage 2	2	18

Significant increase in credit risk (SICR)

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

The framework comprises the following elements:

- **IFRS 9 lifetime PD assessment (the primary driver)** – on modelled portfolios the assessment is based on the relative deterioration in forward-looking lifetime PD and is assessed monthly. To assess whether credit deterioration has occurred, the residual lifetime PD at balance sheet date (which PD is established at date of initial recognition) is compared to the current PD. If the current lifetime PD exceeds the residual origination PD by more than a threshold amount, deterioration is assumed to have occurred and the exposure transferred into Stage 2 for a lifetime loss assessment. For Wholesale, a doubling of PD would indicate a SICR subject to a minimum PD uplift of 0.1%. For Personal portfolios, the criteria vary by risk band, with lower risk exposures needing to deteriorate more than higher risk exposures.
- **Qualitative high-risk backstops** – the PD assessment is complemented with the use of qualitative high-risk backstops to further inform whether significant deterioration in lifetime risk of default has occurred. The qualitative high-risk backstop assessment includes the use of the mandatory 30+ days past due backstop, as prescribed by IFRS 9 guidance, and other features such as forbearance support, Wholesale exposures managed within the Risk of Credit Loss framework, and adverse credit bureau results for Personal customers.

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

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

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

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.

16. Risk management continued

Credit risk continued

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

The loan would continue to be reported as forborne until it meets the exit criteria set out by the appropriate regulatory guidance.

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

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

Wholesale

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

Wholesale loans granted forbearance are individually credit assessed in most cases. Performing loans subject to forbearance treatment are categorised as Stage 2 and subject to a lifetime loss assessment. Forbearance may result in the value of the outstanding debt exceeding the present value of the estimated future cash flows. This difference will lead to a customer being classified as non-performing.

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

The transfer of Wholesale loans from impaired to performing status follows assessment by relationship managers and credit. When no further losses are anticipated and the customer is expected to meet the loan's revised terms, any provision is written-off or released and the balance of the loan can be returned to performing status once exit criteria, as set out by regulatory guidance, is met.

Asset lifetimes

The choice of initial recognition and asset duration is another critical judgment in determining the quantum of lifetime losses that apply. The date of initial recognition reflects the date that a transaction (or account) was first recognised on the balance sheet; the PD recorded at that time provides the baseline used for subsequent determination of SICR as detailed above. For asset duration, the approach applied for term lending (in line with IFRS 9 requirements) is the contractual maturity date, reduced for behavioural trends where appropriate (such as, expected prepayment and amortisation).

Personal non-modelled portfolio

RBSI Personal remains Basel standardised for risk-weighted assets, therefore modelled PDs and LGDs are not available for calculating Stage 1 and Stage 2 ECLs. Instead, this is performed by sourcing the equivalent product PD and LGD from elsewhere in NatWest Group, which was identified as the closest comparable portfolio to RBSI Personal. The PD and LGD benchmarks are then used, along with the known exposure, to calculate an account level ECL.

In order to identify accounts showing Stage 2 the RBSI Personal Watch classification is applied where accounts are identified as having clear signs of credit deterioration, increased risk of default or have been given forbearance, with days past due being checked as supplementary back stop.

Economic loss drivers

Introduction

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

The most material economic loss drivers for the Personal portfolios include unemployment rate, house price index, and base rate for the UK, and these are applied to credit portfolios across all jurisdictions.

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

Economic scenarios

At 31 December 2022, the range of anticipated future economic conditions was defined by a set of four internally developed scenarios and their respective probabilities. In addition to the base case, they comprised upside, downside and extreme downside scenarios. The scenarios primarily reflected the current risks faced by the economy, particularly related to high inflation resulting in a fall in real household income, economic slowdown, a rise in unemployment and asset price declines.

For 2022, the four scenarios were deemed appropriate in capturing the uncertainty in economic forecasts and the non-linearity in outcomes under different scenarios. These four scenarios were developed to provide sufficient coverage across potential rises in unemployment, inflation, asset price declines and the degree of permanent damage to the economy, around which there remains pronounced levels of uncertainty.

Upside – This scenario assumes a robust growth through 2023 as consumers dip into excess savings built up since the COVID-19 pandemic and further helped by fiscal support and strong business investment. The labour market remains resilient, with the unemployment rate remaining below pre-COVID-19 levels. Inflation retraces sharply and that does not necessitate significantly more tightening. The housing market slows down compared to the previous year but still remains robust.

16. Risk management continued

Credit risk continued

Base case – High inflation and significant monetary policy tightening leads to a mild recession in 2023. Fiscal support remains key in containing the impact. Unemployment rate rises modestly but job losses are contained. Inflation moderates over medium-term and falls to the target levels in 2024. Housing market experiences price decline and lower activity but the extent of the decline is lower than that experienced during prior stresses.

Since 31 December 2021, the outlook has deteriorated as energy prices surged and cost of living crisis intensified. As a result, the base case is more pessimistic. The mild recession in 2023 contrasts with last year's assumption of a muted growth. House price correction contrasts with previous year's assumptions of a modest growth. In previous scenario, unemployment rate was expected to increase very modestly while inflation and interest rate rises last year were also relatively muted.

Downside – Inflation rises on the back of further energy price spikes. The high inflation environment leads to the economy falling under recession. As demand dries up, inflation rapidly declines. Policy rates are raised initially but then quickly eased to assist in recovery. Unemployment is more than the base case scenario while house prices experience declines comparable to previous episodes of stress.

Extreme downside – This scenario assumes high and persistent inflation. Households see the highest recorded decline in real income. Policy rate rises to levels last seen in early 2000. Resulting economic recession is deep and leads to widespread job losses. House prices lose approximately a third of their value while unemployment rate rises to level above those seen during the 2008 financial crisis.

The previous year's extreme downside also included a deep recession, labour market deterioration and asset price falls, but the current scenario explores these risks in a high inflation, high rates environment.

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

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

Main macroeconomic variables

	2022					2021				
	Upside	Base case	Downside	Extreme downside	Weighted average	Upside	Base case	Downside	Extreme downside	Weighted average
Five-year summary	%	%	%	%	%	%	%	%	%	%
GDP - CAGR	1.6	0.8	0.2	(0.2)	0.7	2.4	1.7	1.4	0.6	1.8
Unemployment - average	3.9	4.6	5.1	7.2	5.0	3.5	4.2	4.8	6.7	4.2
House price index - total change	21.5	(1.3)	(6.0)	(22.4)	(1.3)	22.7	12.1	4.3	(5.3)	12.8
Bank of England base rate - average	2.6	3.3	1.5	4.9	3.1	1.5	0.8	0.7	(0.5)	0.9
Commercial real estate price - total change	(0.1)	(14.4)	(17.2)	(38.3)	(16.1)	18.2	7.2	5.5	(6.4)	9.5
Consumer price index - CAGR	2.4	3.0	3.1	7.0	3.6	2.7	2.5	3.1	1.5	2.6
UK stock price index - total change	22.6	13.9	1.8	(8.5)	9.5	36.6	24.9	12.5	0.2	24.7
World GDP - CAGR	3.7	3.3	1.6	1.0	2.7	3.5	3.2	2.6	0.6	3.1
Probability weight	18.6	45.0	20.8	15.6		30.0	45.0	20.0	5.0	

(1) The five year period starts after Q3 2022 for 31 December 2022 and Q3 2021 for 31 December 2021.

(2) CAGR and total change figures are not comparable with 31 December 2021 data, as the starting quarters are different.

Probability weightings of scenarios

A subjective approach for assigning probability weights was used during COVID-19 due to the scale of the economic effect of COVID-19 and the range of recovery paths. Similarly, a subjective approach was used at 30 September 2022, to reflect the deteriorating outlook and shifting balance of risks in the given set of scenarios. However, RBSI Group's quantitative approach to IFRS 9 multiple economic scenarios (MES) involves selecting a suitable set of discrete scenarios to characterise the distribution of risks in the economic outlook and assigning appropriate probability weights. This quantitative approach has been reinstated and is used for 31 December 2022.

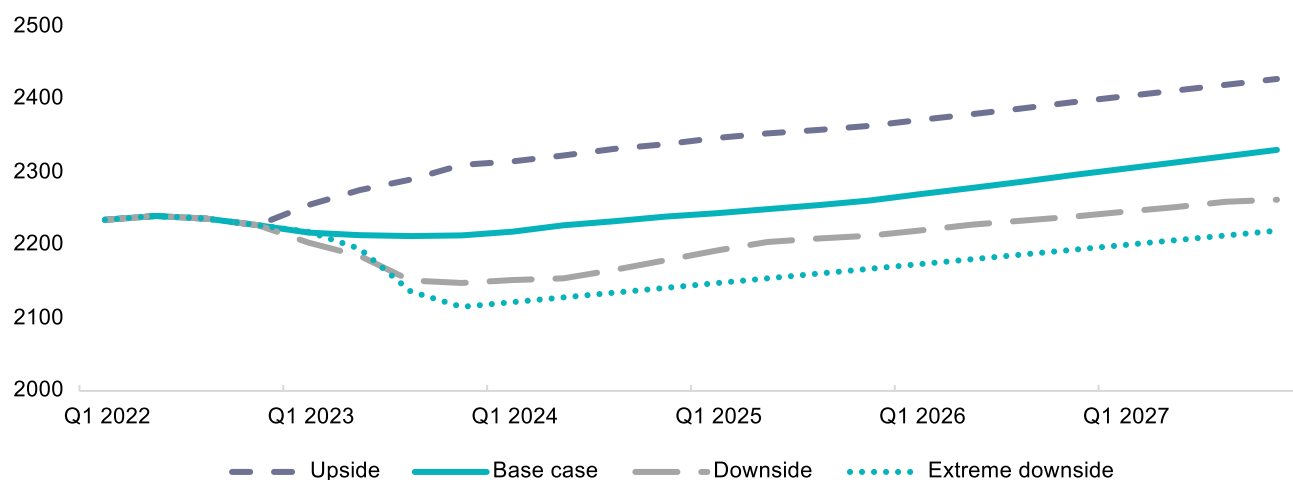
The approach involves comparing UK GDP paths for RBSI Group's scenarios against a set of 1,000 model runs, following which, a percentile in the distribution is established that most closely corresponded to the scenario. Probability weight for base case is set first based on judgement, while probability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

The assigned probability weights were judged to be aligned with the subjective assessment of balance of the risks in the economy. Since 31 December 2021, high inflation posed significant challenge to the economy and there is considerable uncertainty to the economic outlook, with respect to persistence and range of outcomes on inflation and its subsequent effects on household real income and economic activity. Given that backdrop, RBSI Group judges it appropriate to assign higher probability weights on downside-biased scenarios than at 31 December 2021. It presents good coverage to the range of outcomes assumed in the scenarios, including the potential for a robust recovery on the upside and exceptionally challenging outcomes on the downside. A 18.6% weighting was applied to the upside scenario, a 45.0% weighting applied to the base case scenario, a 20.8% weighting applied to the downside scenario and a 15.6% weighting applied to the extreme downside scenario. Compared to 30 June 2022, the probability weights were broadly similar, but with additional modest downside skew.

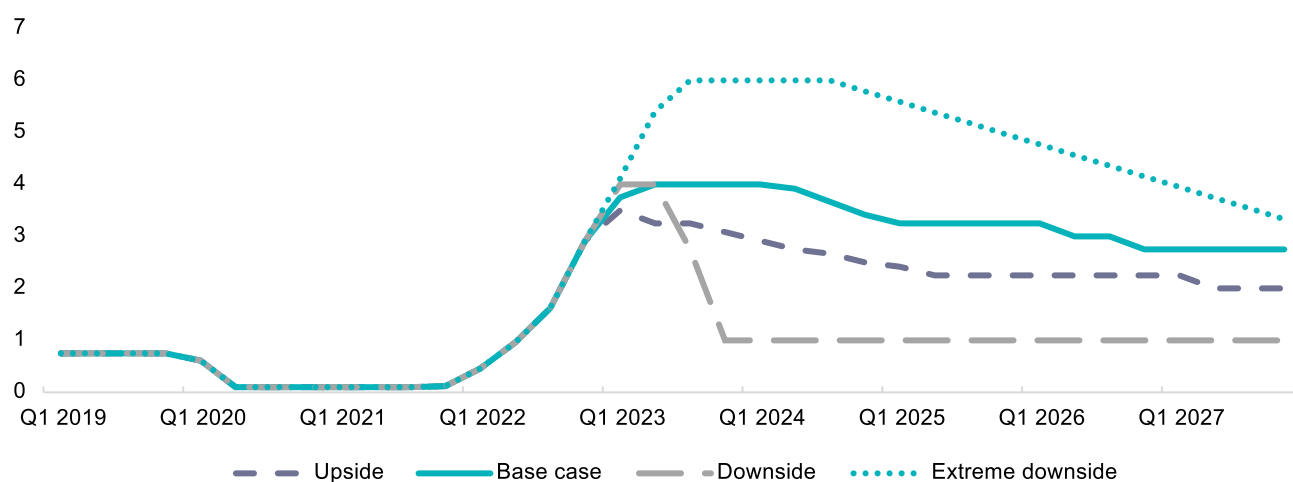
16. Risk management continued

Credit risk continued

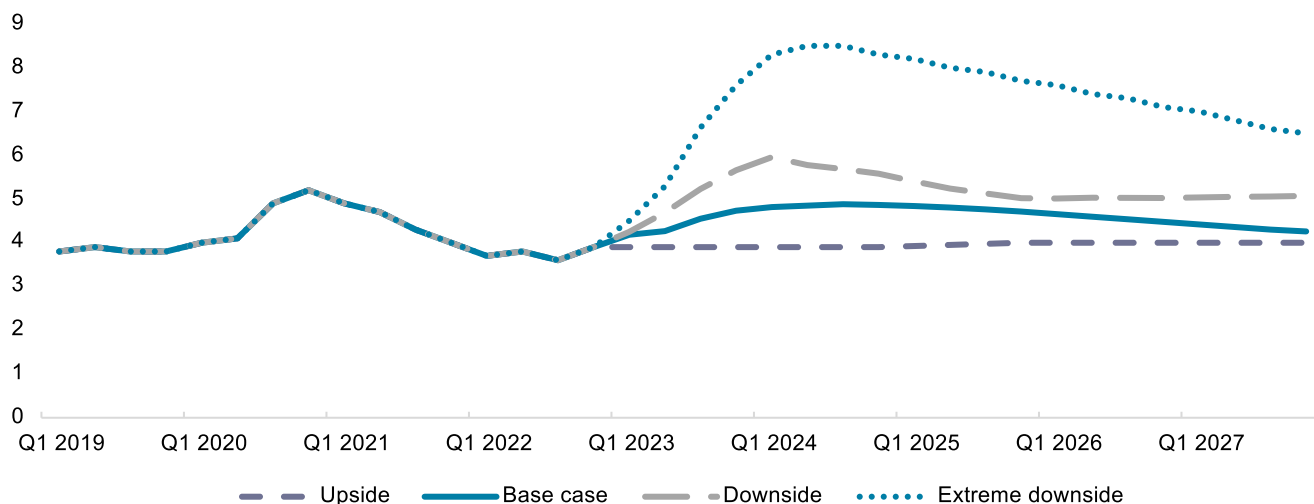
UK gross domestic product (£bn)



Bank of England base rate (%)



UK unemployment rate (%)



16. Risk management continued

Credit risk continued

GDP - annual growth

	Upside	Base case	Downside	Extreme downside	Weighted average
	%	%	%	%	%
2022	4.4	4.4	4.4	4.4	4.4
2023	2.2	(0.9)	(2.8)	(3.1)	(1.1)
2024	1.9	0.7	(0.4)	(1.6)	0.4
2025	1.2	1.0	1.9	1.2	1.3
2026	1.2	1.4	1.2	1.2	1.3
2027	1.4	1.5	1.1	1.2	1.4

Commercial real estate price - four quarter change

	Upside	Base case	Downside	Extreme downside	Weighted average
	%	%	%	%	%
2022	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)
2023	2.1	(8.4)	(19.7)	(22.4)	(11.0)
2024	1.9	(0.5)	2.8	(29.1)	(3.2)
2025	2.7	1.3	3.7	6.7	2.6
2026	2.2	1.0	3.8	8.5	2.6
2027	0.6	1.0	2.3	8.6	2.0

Unemployment rate - annual average

	Upside	Base case	Downside	Extreme downside	Weighted average
	%	%	%	%	%
2022	3.8	3.8	3.8	3.8	3.8
2023	3.9	4.4	5.0	6.0	4.7
2024	3.9	4.9	5.7	8.4	5.4
2025	4.0	4.8	5.2	8.0	5.2
2026	4.0	4.6	5.0	7.4	5.0
2027	4.0	4.3	5.1	6.7	4.8

Consumer price index - four quarter change

	Upside	Base case	Downside	Extreme downside	Weighted average
	%	%	%	%	%
2022	11.2	11.2	11.2	11.2	11.2
2023	2.2	3.7	6.0	17.0	6.0
2024	1.0	2.7	1.0	8.8	3.1
2025	2.0	2.0	2.0	2.7	2.1
2026	2.0	1.9	2.0	2.3	2.0
2027	2.0	1.9	2.0	2.0	2.0

House price index - four quarter change

	Upside	Base case	Downside	Extreme downside	Weighted average
	%	%	%	%	%
2022	6.9	6.9	6.9	6.9	6.9
2023	7.5	(7.8)	(13.7)	(10.4)	(6.6)
2024	4.5	(0.9)	(7.7)	(15.2)	(3.2)
2025	3.0	2.9	4.8	(8.3)	1.8
2026	3.5	3.4	8.3	7.2	4.8
2027	3.4	3.4	6.3	6.6	4.3

UK stock price index - four quarter change

	Upside	Base case	Downside	Extreme downside	Weighted average
	%	%	%	%	%
2022	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)
2023	9.1	4.1	(20.6)	(45.0)	(7.8)
2024	4.0	1.9	9.7	24.9	5.9
2025	4.5	4.0	8.8	16.7	6.4
2026	4.9	4.4	7.0	11.0	5.8
2027	4.0	4.3	6.6	9.9	5.4

Bank of England base rate - annual average

	Upside	Base case	Downside	Extreme downside	Weighted average
	%	%	%	%	%
2022	1.49	1.49	1.49	1.49	1.49
2023	3.27	3.94	2.94	5.38	3.83
2024	2.71	3.75	1.00	5.95	3.33
2025	2.29	3.25	1.00	5.28	2.92
2026	2.25	3.00	1.00	4.46	2.67
2027	2.06	2.75	1.00	3.64	2.40

16. Risk management continued

Credit risk continued

Worst points

	31 December 2022					31 December 2021				
	Downside %	Quarter	Extreme downside %	Quarter	Weighted average %	Downside %	Quarter	Extreme downside %	Quarter	Weighted average %
GDP	(3.9)	Q4 2023	(5.4)	Q4 2023	(1.5)	(1.8)	Q1 2022	(7.9)	Q1 2022	—
Unemployment rate (peak)	6.0	Q1 2024	8.5	Q3 2024	5.4	5.4	Q1 2023	9.4	Q4 2022	4.5
House price index	(21.3)	Q1 2025	(31.7)	Q3 2025	(10.6)	(3.0)	Q3 2023	(26.0)	Q2 2023	—
Bank of England base rate	4.0	Q1 2023	6.0	Q1 2024	4.1	1.5	Q4 2022	(0.5)	Q2 2022	1.2
Commercial real estate price	(26.8)	Q4 2023	(50.3)	Q3 2024	(21.8)	(2.5)	Q1 2022	(29.8)	Q3 2022	—
Consumer price index	15.7	Q1 2023	17.0	Q4 2023	11.7	7.9	Q4 2022	4.3	Q1 2022	5.5
UK stock price index	(24.0)	Q4 2023	(47.3)	Q4 2023	(11.7)	(12.2)	Q1 2022	(37.1)	Q2 2022	(1.2)

(1) For the unemployment rate, the figures show the peak levels. For the Bank of England base rate, the figures show highest or lowest levels. For the consumer price index, the figures show the highest annual percentage change. For other parameters, the figures show falls relative to the starting period. The calculations are performed over five years, with a starting point of Q3 2022 for 31 December 2022 scenarios.

Use of the scenarios in Personal lending

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

Use of the scenarios in Wholesale lending

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

The individual economic scenarios are translated into forward-looking projections of CCIs using a set of econometric models. Subsequently the CCI projections for the individual scenarios are averaged into a single central CCI projection according to the given scenario probabilities. The central CCI projection is then overlaid with an additional mean reversion assumption to gradually revert to the long-run average CCI value of zero in the outer years of the projection horizon.

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

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

UK economic uncertainty

The high inflation environment and supply chain disruption are presenting significant headwinds for some businesses and sectors. These are a result of various factors and in many cases are compounding and look set to remain a feature of the economic environment into 2023. RBSI Group has considered where these are most likely to affect the customer base. Furthermore, the rising cost of borrowing during 2022 for both businesses and consumers presents an additional affordability challenge for many borrowers.

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

16. Risk management continued

Credit risk continued

Model monitoring and enhancement

Throughout 2022, default rates moderately increased but remained generally at, or somewhat below, pre-COVID-19 levels. This is based on a normalised view removing the effects of the new definition of default, introduced from 1 January 2022, in accordance with new prudential regulation. As in 2021, model recalibrations to adjust for overprediction have been deferred where applicable, based on the judgment that default rate actuals may still be suppressed as a result of government support provided throughout COVID-19.

The suite of IFRS 9 PD models and some LGD models were redeveloped in 2022 removing the need for a number of previously applied post model ECL adjustments to account for model weaknesses.

The economic response models do not include direct inflation drivers, due to low inflation seen throughout the data history available for modelling (typically starting in early 2000s with some variation across products).

The effect of inflation is deemed to be partially reflected through other drivers present in the models, especially in lending, where new models with a higher weight on stock price indices were introduced for the most material portfolios.

As detailed in the Governance and post model adjustments section, ECL adjustments were applied where management judged inflation risk was not fully reflected through the models.

The use of direct inflation drivers in the economic response models will be reviewed considering additional credit outcome data in 2023.

Measurement uncertainty and ECL sensitivity analysis

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

The focus of the simulations is on ECL provisioning requirements on performing exposures in Stage 1 and Stage 2. The simulations are run on a stand-alone basis and are independent of each other; the potential ECL impacts reflect the simulated impact at 31 December 2022. Scenario impacts on SICR should be considered when evaluating the ECL movements of Stage 1 and Stage 2. In all scenarios the total exposure was the same but exposure by stage varied in each scenario.

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

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

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

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

16. Risk management continued

Credit risk continued

2022	Group and Bank				
	Actual	Base case	Upside	Downside	Extreme Downside
Stage 1 modelled exposure (£m)					
Commercial	15,440	15,646	15,935	14,846	12,577
Stage 1 modelled ECL (£m)					
Commercial	13	9	6	16	20
Stage 1 coverage (%)					
Commercial	0.08%	0.06%	0.04%	0.11%	0.16%
Stage 2 modelled exposure (£m)					
Commercial	827	622	332	1,421	3,691
Stage 2 modelled ECL (£m)					
Commercial	8	6	4	12	50
Stage 2 coverage (%)					
Commercial	0.97%	0.96%	1.20%	0.84%	1.36%
Stage 1 and Stage 2 modelled exposure (£m)					
Commercial	16,268	16,268	16,268	16,268	16,268
Stage 1 and Stage 2 modelled ECL (£m)					
Commercial	21	15	10	28	70
Stage 1 and Stage 2 coverage (%)					
Commercial	0.13%	0.09%	0.06%	0.17%	0.43%
Reconciliation to Stage 1 and Stage 2 ECL (£m)					
ECL on modelled exposures	21	15	10	28	70
ECL on non-modelled exposures	4	4	4	4	4
Total Stage 1 and Stage 2 ECL	25	19	14	32	74
Variance to actual total Stage 1 and Stage 2 ECL		(6)	(11)	7	49

(1) Reflects ECL for all modelled exposure in scope for IFRS 9. The analysis excludes non-modelled portfolios and exposure relating to bonds and cash.

(2) All simulations are run on a stand-alone basis and are independent of each other, with the potential ECL impact reflecting the simulated impact as at 31 December 2022.

(3) Refer to the Economic loss drivers section for details of economic scenarios.

(4) Refer to the RBSI Group 2022 Annual Report and Accounts for 2022 comparatives.

Measurement uncertainty and ECL adequacy

The changes in the economic outlook and scenarios used in the IFRS 9 MES framework at 31 December 2022 resulted in an increase in modelled ECL. Given that continued uncertainty remains due to the high inflation environment and supply chain disruption, RBSI Group utilised a framework of quantitative and qualitative measures to support the directional change and levels of ECL coverage, including economic data, credit performance insights and problem debt trends. This was particularly important for consideration of post model adjustments.

As the effects of the high inflation environment and supply chain disruption evolve during 2022 and into 2023 and government support schemes have to be serviced, there is a risk of credit deterioration. However, the income statement effect of this will be mitigated by the forward-looking provisions retained on the balance sheet at 31 December 2022.

There are a number of key factors that could drive further downside to impairments, through deteriorating economic and credit metrics and increased stage migration as credit risk increases for more customers. Such factors would include an adverse deterioration in GDP and unemployment in the economies in which RBSI Group operates.

16. Risk management continued

Credit risk continued

Financial instruments within the scope of the IFRS 9 ECL framework

Refer to Note 7 to the accounts for balance sheet analysis of financial assets that are classified as amortised cost or fair value through other comprehensive income (FVOCI), the starting point for IFRS 9 ECL framework assessment.

Financial assets

	Group					
	31 December 2022			31 December 2021		
	Gross £m	ECL £m	Net £m	Gross £m	ECL £m	Net £m
Balance sheet total gross amortised cost and FVOCI	38,342	—	—	39,963	—	—
In scope of IFRS 9 ECL framework	38,428	—	—	39,980	—	—
% in scope	100%			100%		
Loans to customers - in scope - amortised cost	16,452	53	16,399	15,519	54	15,465
Loans to customers - in scope - FVOCI	—	—	—	—	—	—
Loans to banks - in scope - amortised cost	1,648	—	1,648	1,305	—	1,305
Total loans - in scope	18,100	53	18,047	16,824	54	16,770
Stage 1	17,104	15	17,089	16,185	7	16,178
Stage 2	865	8	857	477	23	454
Stage 3	131	30	101	162	24	138
Other financial assets - in scope - amortised cost	19,933	—	19,933	19,954	1	19,953
Other financial assets - in scope - FVOCI	395	—	395	3,202	—	3,202
Total other financial assets - in scope	20,328	—	20,328	23,156	1	23,155
Stage 1	20,328	—	20,328	23,156	1	23,155
Stage 2	—	—	—	—	—	—
Stage 3	—	—	—	—	—	—
Out of scope of IFRS 9 ECL framework	(86)	na	(86)	(17)	na	(17)
Loans to customers - out of scope - amortised cost	(40)	na	(40)	(3)	na	(3)
Loans to banks - out of scope - amortised cost	—	na	—	—	na	—
Other financial assets - out of scope - amortised cost	55	na	55	54	na	54
Other financial assets - out of scope - FVOCI	(101)	na	(101)	(68)	na	(68)

na = not applicable

16. Risk management continued

Credit risk continued

	Bank					
	31 December 2022			31 December 2021		
	Gross £m	ECL £m	Net £m	Gross £m	ECL £m	Net £m
Balance sheet total gross amortised cost and FVOCI	38,320	—	—	39,936	—	—
In scope of IFRS 9 ECL framework	38,405	—	—	39,953	—	—
% in scope	100%			100%		
Loans to customers - in scope - amortised cost	16,452	53	16,399	15,519	54	15,465
Loans to customers - in scope - FVOCI	—	—	—	—	—	—
Loans to banks - in scope - amortised cost	1,625	—	1,625	1,278	—	1,278
Total loans - in scope	18,077	53	18,024	16,797	54	16,743
Stage 1	17,081	15	17,066	16,158	7	16,151
Stage 2	865	8	857	477	23	454
Stage 3	131	30	101	162	24	138
Other financial assets - in scope - amortised cost	19,933	—	19,933	19,954	1	19,953
Other financial assets - in scope - FVOCI	395	—	395	3,202	—	3,202
Total other financial assets - in scope	20,328	—	20,328	23,156	1	23,155
Stage 1	20,328	—	20,328	23,156	1	23,155
Stage 2	—	—	—	—	—	—
Stage 3	—	—	—	—	—	—
Out of scope of IFRS 9 ECL framework	(85)	na	(85)	(17)	na	(17)
Loans to customers - out of scope - amortised cost	(40)	na	(40)	(3)	na	(3)
Loans to banks - out of scope - amortised cost	—	na	—	—	na	—
Other financial assets - out of scope - amortised cost	55	na	55	54	na	54
Other financial assets - out of scope - FVOCI	(100)	na	(100)	(68)	na	(68)

na = not applicable

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

- Settlement balances, items in the course of collection, cash balances and other non-credit risk assets of £(81) million (2021 – £(17) million). These were assessed as having no ECL unless there was evidence that they were defaulted.
- Equity shares of nil (2021 – nil) as not within the IFRS 9 ECL framework by definition.

In scope assets also include £538 million (2021 – £579 million) of inter-Group assets not shown in the Group table above and £539 million (2021 – £577 million) of inter-Group assets not shown in the Bank table above.

Contingent liabilities and commitments

In addition to contingent liabilities and commitments disclosed in Note 17 to the accounts, reputationally-committed limits were also included in the scope of the IFRS 9 ECL framework. Total contingent liabilities (including financial guarantees) and commitments within IFRS 9 ECL scope were £10,293 million (2021 – £9,613 million), comprised Stage 1 £9,755 million (2021 – £9,390 million); Stage 2 £537 million (2021 – £222 million); and Stage 3 £1 million (2021 – £1 million).

The total ECL in the remainder of the credit risk section of £55 million included ECL for both on and off balance sheet exposures.

16. Risk management continued

Credit risk continued

Flow statements

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

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

	Group							
	Stage 1		Stage 2		Stage 3		Total	
	Loans £m	ECL £m	Loans £m	ECL £m	Loans £m	ECL £m	Loans £m	ECL £m
RBS International								
At 1 January 2022	39,372	7	557	23	121	24	40,050	54
Currency translation and other adjustments	940	1	2	—	1	—	943	1
Transfers from Stage 1 to Stage 2	(1,866)	(2)	1,866	2	—	—	—	—
Transfers from Stage 2 to Stage 1	1,193	8	(1,193)	(8)	—	—	—	—
Transfers to Stage 3	(9)	—	(43)	(1)	52	1	—	—
Transfers from Stage 3	16	—	7	—	(23)	—	—	—
Income statement (releases)/charges	460	2	(326)	(7)	(17)	7	117	2
Amounts written-off	—	—	—	—	(2)	(2)	(2)	(2)
At 31 December 2022	40,106	16	870	9	132	30	41,108	55
Net carrying amount	40,090	—	861	—	102	—	41,053	—
At 1 January 2021	29,310	14	2,073	74	213	48	31,596	136
2021 movements	10,062	(7)	(1,516)	(51)	(92)	(24)	8,454	(82)
At 31 December 2021	39,372	7	557	23	121	24	40,050	54
Net carrying amount	39,365	—	534	—	97	—	39,996	—

	Bank							
	Stage 1		Stage 2		Stage 3		Total	
	Loans £m	ECL £m	Loans £m	ECL £m	Loans £m	ECL £m	Loans £m	ECL £m
RBS International								
At 1 January 2022	39,372	7	557	23	121	24	40,050	54
Currency translation and other adjustments	940	1	2	—	1	—	943	1
Transfers from Stage 1 to Stage 2	(1,866)	(2)	1,866	2	—	—	—	—
Transfers from Stage 2 to Stage 1	1,193	8	(1,193)	(8)	—	—	—	—
Transfers to Stage 3	(9)	—	(43)	(1)	52	1	—	—
Transfers from Stage 3	16	—	7	—	(23)	—	—	—
Income statement (releases)/charges	437	2	(326)	(7)	(17)	7	94	2
Amounts written-off	—	—	—	—	(2)	(2)	(2)	(2)
At 31 December 2022	40,083	16	870	9	132	30	41,085	55
Net carrying amount	40,067	—	861	—	102	—	41,030	—
At 1 January 2021	29,310	14	2,046	74	213	48	31,569	136
2021 movements	10,062	(7)	(1,489)	(51)	(92)	(24)	8,481	(82)
At 31 December 2021	39,372	7	557	23	121	24	40,050	54
Net carrying amount	39,365	—	534	—	97	—	39,996	—

(1) Related financial asset movements are one month in arrears relative to the balance sheet reporting dates, as these are the balances used to calculate the modelled ECL (i.e. reported financial assets at 1 January 2022 in the flow statements reflect 30 November 2021 positions, and 31 December 2022 reported figures reflect 30 November 2022 positions).

16. Risk management continued

Credit risk continued

Stage 2 decomposition – arrears status and contributing factors

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

31 December 2022	Property		Corporate		FI		Wholesale	
	Loans £m	ECL £m	Loans £m	ECL £m	Loans £m	ECL £m	Loans £m	ECL £m
Wholesale								
Currently in arrears (>30 DPD)	1	—	1	—	—	—	2	—
Currently up-to-date	231	3	88	2	502	3	822	8
- PD deterioration	218	3	45	1	460	2	723	6
- Other driver (forbearance, Risk of Credit Loss etc.)	13	—	43	1	42	1	99	2
Total Stage 2	232	3	89	2	502	3	824	8
31 December 2021	Property		Corporate		FI		Wholesale	
	Loans £m	ECL £m	Loans £m	ECL £m	Loans £m	ECL £m	Loans £m	ECL £m
Wholesale								
Currently in arrears (>30 DPD)	16	—	1	—	—	—	17	—
Currently up-to-date	240	17	119	5	52	—	411	22
- PD deterioration	100	8	55	3	37	—	192	11
- Other driver (forbearance, Risk of Credit Loss etc.)	140	9	64	2	15	—	219	11
Total Stage 2	256	17	120	5	52	—	428	22

16. Risk management continued

Credit risk continued

Credit risk enhancement and mitigation

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

	Gross exposure £m	ECL £m	Group								
			Maximum credit risk		CREM by type ⁽³⁾			CREM coverage		Exposure post CREM	
			Total £m	Stage 3 £m	Financial ⁽¹⁾ £m	Property £m	Other ⁽²⁾ £m	Total £m	Stage 3 £m	Total £m	Stage 3 £m
2022											
Financial assets											
Cash and balances at central banks	16,957	—	16,957	—	—	—	—	—	—	16,957	—
Loans - amortised cost	18,100	53	18,047	100	600	4,387	53	5,040	97	13,007	3
Personal	2,555	16	2,539	34	—	2,308	—	2,308	34	231	—
Wholesale	15,545	37	15,508	66	600	2,079	53	2,732	63	12,776	3
Debt securities	3,371	—	3,371	—	—	—	—	—	—	3,371	—
Total financial assets	38,428	53	38,375	100	600	4,387	53	5,040	97	33,335	3
Contingent liabilities and commitments											
Personal	423	—	423	—	—	—	—	—	—	423	—
Wholesale	9,870	2	9,868	1	387	204	59	650	—	9,218	1
Total off-balance sheet	10,293	2	10,291	1	387	204	59	650	—	9,641	1
Total exposure	48,721	55	48,666	101	987	4,591	112	5,690	97	42,976	4
2021											
Financial assets											
Cash and balances at central banks	17,165	—	17,165	—	—	—	—	—	—	17,165	—
Loans - amortised cost	16,824	52	16,772	138	727	4,326	27	5,080	87	11,692	51
Personal	2,753	13	2,740	47	257	2,394	—	2,651	45	89	2
Wholesale	14,071	39	14,032	91	470	1,932	27	2,429	42	11,603	49
Debt securities	5,991	1	5,990	—	—	—	—	—	—	5,990	—
Total financial assets	39,980	53	39,927	138	727	4,326	27	5,080	87	34,847	51
Contingent liabilities and commitments											
Personal	215	—	215	—	—	—	—	—	—	215	—
Wholesale	9,398	2	9,396	1	430	286	63	779	—	8,617	1
Total off-balance sheet	9,613	2	9,611	1	430	286	63	779	—	8,832	1
Total exposure	49,593	55	49,538	139	1,157	4,612	90	5,859	87	43,679	52

16. Risk management continued

Credit risk continued

2022	Bank										
	Gross exposure	ECL	Maximum credit risk		CREM by type ⁽³⁾			CREM coverage		Exposure post CREM	
	£m	£m	Total £m	Stage 3 £m	Financial ⁽¹⁾ £m	Property £m	Other ⁽²⁾ £m	Total £m	Stage 3 £m	Total £m	Stage 3 £m
Financial assets											
Cash and balances at central banks	16,957	—	16,957	—	—	—	—	—	—	16,957	—
Loans - amortised cost	18,077	53	18,024	100	600	4,387	53	5,040	97	12,984	3
Personal	2,555	16	2,539	34	—	2,308	—	2,308	34	231	—
Wholesale	15,522	37	15,485	66	600	2,079	53	2,732	63	12,753	3
Debt securities	3,371	—	3,371	—	—	—	—	—	—	3,371	—
Total financial assets	38,405	53	38,352	100	600	4,387	53	5,040	97	33,312	3
Contingent liabilities and commitments											
Personal	423	—	423	—	—	—	—	—	—	423	—
Wholesale	9,870	2	9,868	1	387	204	59	650	—	9,218	1
Total off-balance sheet	10,293	2	10,291	1	387	204	59	650	—	9,641	1
Total exposure	48,698	55	48,643	101	987	4,591	112	5,690	97	42,953	4

2021	Bank										
	Gross exposure	ECL	Maximum credit risk		CREM by type ⁽³⁾			CREM coverage		Exposure post CREM	
	£m	£m	Total £m	Stage 3 £m	Financial ⁽¹⁾ £m	Property £m	Other ⁽²⁾ £m	Total £m	Stage 3 £m	Total £m	Stage 3 £m
Financial assets											
Cash and balances at central banks	17,165	—	17,165	—	—	—	—	—	—	17,165	—
Loans - amortised cost	16,797	52	16,745	138	727	4,326	27	5,080	87	11,665	51
Personal	2,753	13	2,740	47	257	2,394	—	2,651	45	89	2
Wholesale	14,044	39	14,005	91	470	1,932	27	2,429	42	11,576	49
Debt securities	5,991	1	5,990	—	—	—	—	—	—	5,990	—
Total financial assets	39,953	53	39,900	138	727	4,326	27	5,080	87	34,820	51
Contingent liabilities and commitments											
Personal	215	—	215	—	—	—	—	—	—	215	—
Wholesale	9,398	2	9,396	1	430	286	63	779	—	8,617	1
Total off-balance sheet	9,613	2	9,611	1	430	286	63	779	—	8,832	1
Total exposure	49,566	55	49,511	139	1,157	4,612	90	5,859	87	43,652	52

(1) Includes cash and securities collateral.

(2) Includes guarantees.

(3) The Group holds collateral in respect of individual loans. This collateral includes mortgages over property (both personal and commercial). Property valuations are capped at the loan value.

16. Risk management continued

Credit risk continued

Credit risk asset quality

The asset quality analysis presented below is based on RBSI Group's internal asset quality ratings which have ranges for the PD, as set out below. Customers are assigned credit grades, based on various credit grading models that reflect the key drivers of default for the customer type. All credit grades across RBSI Group map to both an asset quality scale, used for external financial reporting, and a master grading scale for Wholesale exposures used for internal management reporting across portfolios.

The table that follows details the relationship between asset quality (AQ) bands and external ratings published by Standard & Poor's (S&P), for illustrative purposes only. This relationship is established by observing S&P's default study statistics, notably the one year default rates for each S&P rating grade. A degree of judgment is required to relate the PD ranges associated with the master grading scale to these default rates given that, for example, the S&P published default rates do not increase uniformly by grade and the historical default rate is nil for the highest rating categories.

Internal asset quality band	PD Minimum %	PD Maximum %	Indicative S&P rating
AQ1	0.000	0.034	AAA to AA
AQ2	0.034	0.048	AA to AA-
AQ3	0.048	0.095	A+ to A
AQ4	0.095	0.381	BBB+ to BBB-
AQ5	0.381	1.076	BB+ to BB
AQ6	1.076	2.153	BB- to B+
AQ7	2.153	6.089	B+ to B
AQ8	6.089	17.222	B- to CCC+
AQ9	17.222	100.000	CCC to C
AQ10	100.000	100.000	D

The mapping to the S&P ratings is used by RBSI Group as one of several benchmarks for its Wholesale portfolios, depending on customer type and the purpose of the benchmark. The mapping is based on all issuer types rated by S&P. It should therefore be considered illustrative and does not, for instance, indicate that exposures reported against S&P ratings either have been or would be assigned those ratings if assessed by S&P. In addition, the relationship is not relevant for Personal portfolios, smaller corporate exposures or specialist corporate segments given that S&P does not typically assign ratings to such entities.

16. Risk management continued

Credit risk continued

Portfolio summary - sector analysis

The table below shows financial assets and off-balance sheet exposures gross of ECL, related ECL provisions, impairment and past due by sector, asset quality and geographical region.

	Group			Bank		
	Personal £m	Wholesale £m	Total £m	Personal £m	Wholesale £m	Total £m
2022						
Loans by geography	2,555	15,545	18,100	2,555	15,522	18,077
- UK ⁽¹⁾	2,555	9,621	12,176	2,555	9,604	12,159
- RoI	—	1	1	—	1	1
- Other Europe	—	3,979	3,979	—	3,979	3,979
- RoW	—	1,944	1,944	—	1,938	1,938
Loans by asset quality	2,555	15,545	18,100	2,555	15,522	18,077
- AQ1	27	6,854	6,881	27	6,854	6,881
- AQ2	—	1,483	1,483	—	1,483	1,483
- AQ3	—	2,801	2,801	—	2,801	2,801
- AQ4	—	2,821	2,821	—	2,798	2,798
- AQ5	—	767	767	—	767	767
- AQ6	—	268	268	—	268	268
- AQ7 ⁽³⁾	2,482	408	2,890	2,482	408	2,890
- AQ8	—	49	49	—	49	49
- AQ9	—	9	9	—	9	9
- AQ10	46	85	131	46	85	131
Loans by stage	2,555	15,545	18,100	2,555	15,522	18,077
- Stage 1	2,468	14,636	17,104	2,468	14,613	17,081
- Stage 2	41	824	865	41	824	865
- Stage 3	46	85	131	46	85	131
Loans - past due analysis	2,555	15,545	18,100	2,555	15,522	18,077
- Not past due	2,485	15,474	17,959	2,485	15,451	17,936
- Past due 1-30 days	20	51	71	20	51	71
- Past due 31-90 days	10	13	23	10	13	23
- Past due 91-180 days	20	1	21	20	1	21
- Past due >180 days	20	6	26	20	6	26
Loans - Stage 2	41	824	865	41	824	865
- Not past due	17	820	837	17	820	837
- Past due 1-30 days	17	3	20	17	3	20
- Past due 31-90 days	7	1	8	7	1	8
ECL provisions by stage	16	39	55	16	39	55
- Stage 1	3	13	16	3	13	16
- Stage 2	1	8	9	1	8	9
- Stage 3	12	18	30	12	18	30
ECL provisions coverage (%)	0.6	0.3	0.3	0.6	0.3	0.3
- Stage 1 (%)	0.1	0.1	0.1	0.1	0.1	0.1
- Stage 2 (%)	2.4	1.0	1.0	2.4	1.0	1.0
- Stage 3 (%)	26.1	21.2	22.9	26.1	21.2	22.9
ECL charge	4	(2)	2	4	(2)	2
- UK	4	(3)	1	4	(3)	1
- Other Europe	—	1	1	—	1	1
ECL loss rate (%)	0.2	—	—	0.2	—	—
Amounts written-off	2	—	2	2	—	2
Other financial assets by asset quality	—	20,328	20,328	—	20,328	20,328
- AQ1-AQ4	—	20,328	20,328	—	20,328	20,328
- AQ5-AQ8	—	—	—	—	—	—
Off-balance sheet	423	9,870	10,293	423	9,870	10,293
- Loan commitments	423	9,434	9,857	423	9,434	9,857
- Financial guarantees ⁽²⁾	—	436	436	—	436	436
Off-balance sheet by asset quality	423	9,870	10,293	423	9,870	10,293
- AQ1-AQ4	115	9,375	9,490	115	9,375	9,490
- AQ5-AQ8	308	493	801	308	493	801
- AQ9	—	1	1	—	1	1
- AQ10	—	1	1	—	1	1

(1) UK includes exposures in Jersey, Guernsey, Isle of Man and Gibraltar.

(2) All Financial guarantees are considered as Stage 1.

(3) Due to the non-modelled nature of the retail portfolio in RBSI, most of the asset quality defaults to AQ7.

16. Risk management continued

Credit risk continued

	Group			Bank		
	Personal £m	Wholesale £m	Total £m	Personal £m	Wholesale £m	Total £m
2021						
Loans by geography	2,753	14,071	16,824	2,753	14,044	16,797
- UK ⁽¹⁾	2,753	9,628	12,381	2,753	9,611	12,364
- RoI	—	2	2	—	2	2
- Other Europe	—	2,842	2,842	—	2,842	2,842
- RoW	—	1,599	1,599	—	1,589	1,589
Loans by asset quality	2,753	14,071	16,824	2,753	14,044	16,797
- AQ1	49	6,415	6,464	49	6,415	6,464
- AQ2	—	1,970	1,970	—	1,970	1,970
- AQ3	—	1,575	1,575	—	1,575	1,575
- AQ4	—	2,430	2,430	—	2,403	2,403
- AQ5	—	673	673	—	673	673
- AQ6	—	374	374	—	374	374
- AQ7	2,648	419	3,067	2,648	419	3,067
- AQ8	—	99	99	—	99	99
- AQ9	—	10	10	—	10	10
- AQ10	56	106	162	56	106	162
Loans by stage	2,753	14,071	16,824	2,753	14,044	16,797
- Stage 1	2,648	13,537	16,185	2,648	13,510	16,158
- Stage 2	49	428	477	49	428	477
- Stage 3	56	106	162	56	106	162
Loans - past due analysis	2,753	14,071	16,824	2,753	14,044	16,797
- Not past due	2,668	13,983	16,651	2,668	13,956	16,624
- Past due 1-29 days	19	66	85	19	66	85
- Past due 30-89 days	14	16	30	14	16	30
- Past due 90-180 days	25	1	26	25	1	26
- Past due >180 days	27	5	32	27	5	32
Loans - Stage 2	49	428	477	49	428	477
- Not past due	20	410	430	20	410	430
- Past due 1-29 days	18	1	19	18	1	19
- Past due 30-89 days	11	17	28	11	17	28
ECL provisions by stage	13	42	55	13	42	55
- Stage 1	2	6	8	2	6	8
- Stage 2	1	22	23	1	22	23
- Stage 3	10	14	24	10	14	24
ECL provisions coverage (%)	0.5	0.3	0.3	0.5	0.3	0.3
- Stage 1 (%)	0.1	0.0	0.1	0.1	0.0	0.1
- Stage 2 (%)	2.0	5.1	4.8	2.0	5.1	4.8
- Stage 3 (%)	17.9	13.2	14.8	17.9	13.2	14.8
ECL charge	—	(52)	(52)	—	(52)	(52)
- UK	—	(51)	(51)	—	(51)	(51)
- Other Europe	—	(1)	(1)	—	(1)	(1)
ECL loss rate (%)	—	(0.4)	(0.3)	—	(0.4)	(0.3)
Amounts written-off	1	27	28	1	27	28
Other financial assets by asset quality	—	23,156	23,156	—	23,156	23,156
- AQ1-AQ4	—	23,156	23,156	—	23,156	23,156
Off-balance sheet	215	9,423	9,638	215	9,423	9,638
- Loan commitments	215	9,146	9,361	215	9,146	9,361
- Financial guarantees ⁽²⁾	—	277	277	—	277	277
Off-balance sheet by asset quality	215	9,423	9,638	215	9,423	9,638
- AQ1-AQ4	—	8,604	8,604	—	8,604	8,604
- AQ5-AQ8	215	818	1,033	215	818	1,033
- AQ10	—	1	1	—	1	1

(1) UK includes exposures in Jersey, Guernsey, Isle of Man and Gibraltar.

(2) All Financial guarantees are considered as Stage 1.

16. Risk management continued

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

The key sources of non-traded market risk are credit spread risk, interest rate risk and foreign exchange risk.

Credit spread risk

Credit spread risk arises from the potential adverse economic impact of a change in the spread between bond yields and swap rates, where the bond portfolios are accounted at fair value through other comprehensive income.

RBSI Group's bond portfolios primarily comprise high-quality securities maintained as a liquidity buffer to ensure it can continue to meet its obligations in the event that access to wholesale funding markets is restricted.

Credit spread risk is monitored daily through sensitivities and VaR measures. The dealing authorities in place for the bond portfolios further mitigate the risk by imposing constraints by duration, asset class and credit rating. Exposures and limit utilisations are reported to senior management on a daily basis.

Interest rate risk

Non-traded interest rate risk 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.

RBSI Group has the benefit of a pool of stable, non and low interest-bearing liabilities, principally comprising equity and money transmission accounts. These balances are hedged, either by the use of interest rate swaps, generally booked as cash flow hedges of floating-rate assets, or by investing directly in longer-term fixed-rate assets (primarily fixed-rate mortgages or UK government gilts), in order to provide a consistent and predictable revenue stream.

Foreign exchange risk

Non-traded foreign exchange risk exposure arises principally due to investments in overseas operations. Movements in the exchange rates of the operational currency of the overseas investment will impact the balance sheet and the income statement unless the investment is financed by borrowings in the same currency.

All transactional (or non-structural) currency exposure risk is managed by Treasury and there remains an immaterial open position which is measured on a daily basis within set limits. The principal non-sterling currencies in which RBSI Group has transactional currency exposure are the US dollar and the Euro.

Value-at-risk (VaR)

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.

RBSI Group's standard VaR metrics – which assume a time horizon of one trading day and a confidence level of 99% – are based on interest rate repricing gaps at the reporting date. Daily rate moves are modelled using observations from the last 500 business days. These incorporate customer products plus associated funding and hedging transactions as well as non-financial assets and liabilities. Behavioural assumptions are applied as appropriate.

The non-traded interest rate risk VaR metrics for RBSI Group's personal and commercial banking activities are included in the banking book VaR table presented below. The VaR captures the risk resulting from mismatches in the repricing dates of assets and liabilities.

It includes any mismatch between structural hedges and stable non and low interest-bearing liabilities such as equity and money transmission accounts as regards their interest rate repricing behavioural profile.

RBSI Group manages market risk through VaR limits as well as stress testing, position and sensitivity limits. The table below shows one-day internal banking book VaR at a 99% confidence level. VaR values for each year are calculated based on one-day values for each of the 12 month-end reporting dates.

Credit spread VaR decreased during 2022 reflecting sustained bond disposals. In addition, the heightened market volatility in March 2020, resulting from the onset of COVID-19, dropped out of the rolling window for the VaR calculation during H1 2022.

	Group and Bank			
	31 December 2022 £m	Maximum £m	Minimum £m	Average £m
Interest rate	1.4	1.4	0.5	0.9
Credit spread	1.7	15.6	1.5	5.3
Diversification ⁽¹⁾	(0.7)			(0.5)
Value-at-risk	2.4	15.7	2.3	5.7
	31 December 2021 £m	Maximum £m	Minimum £m	Average £m
Interest rate	0.2	3.2	0.2	2.0
Credit spread	16.9	17.9	12.8	14.3
Diversification ⁽¹⁾	(0.2)			(1.8)
Value-at-risk	16.9	17.8	12.4	14.5

(1) RBSI Group 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.

16. Risk management continued

Liquidity risk

Liquidity risk is the risk of being unable to meet financial obligations as and when they fall due. 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.

RBSI Group manages its liquidity risk taking-into-account regulatory, legal and other constraints to ensure sufficient liquidity resources are available to cover liquidity stresses. In line with NatWest Group, RBSI Group maintains a prudent approach to the definition of liquidity resources comprised of cash and balances at central banks, treasury bills and other high quality government and US agency bonds.

The contractual maturity of balance sheet assets and liabilities reflects the maturity transformation role banks perform. In practice, the behavioural profiles of many liabilities generally exhibit greater stability and longer maturity than the contractual maturity. This is particularly true of many types of retail and corporate deposits which, despite being repayable on demand or at short notice, have demonstrated very stable characteristics even in periods of stress. To assess and manage asset and liability maturity gaps RBSI Group determines the expected customer behaviour through qualitative and quantitative techniques, incorporating observed customer behaviours over long periods of time. Procedures for determining expected behaviour are subject to regulatory and internal requirements and are stressed according to these requirements.

The policy and key inputs for managing maturity and behavioural analysis are subject to governance through the RBSI Group Asset and Liability Management Committee as well as the NatWest Group Asset and Liability Management Committee. Financial assets have been reflected in the time band of the latest date on which they could be repaid unless earlier repayment can be demanded by RBSI Group. 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 the repayment of a financial asset or liability is triggered by, or is subject to, specific criteria such as market price hurdles being reached, the asset is included in the latest date on which it can repay regardless of early repayment, whereas the liability is included at the earliest possible date that the conditions could be fulfilled without considering the probability of the conditions being met.

16. Risk management continued

Contractual maturity

This table shows the residual maturity of financial instruments, based on contractual date of maturity. Derivatives are included in the relevant maturity bands.

	Group								
	Banking activities								
	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
2022									
Cash and balances at central banks	17,012	—	—	—	17,012	—	—	—	17,012
Derivatives	14	11	10	6	41	17	32	82	172
Loans to banks	1,648	—	—	—	1,648	—	—	—	1,648
Loans to customers ⁽¹⁾	1,066	833	1,796	4,315	8,010	4,987	1,388	2,027	16,412
Personal	254	17	35	60	366	233	255	1,781	2,635
Corporate	192	98	187	690	1,167	763	697	228	2,855
Financial institutions excluding banks	620	718	1,574	3,565	6,477	3,991	436	18	10,922
Other financial assets	209	—	—	694	903	1,013	808	547	3,271
Total financial assets	19,949	844	1,806	5,015	27,614	6,017	2,228	2,656	38,515
2021									
Total financial assets	19,486	1,216	1,938	5,030	27,670	5,828	1,711	4,913	40,122
2022									
Bank deposits	313	14	—	—	327	—	—	—	327
Customer deposits	27,778	4,864	1,067	928	34,637	—	—	—	34,637
Personal	6,311	562	564	593	8,030	—	—	—	8,030
Corporate	6,465	1,770	156	137	8,528	—	—	—	8,528
Financial institutions excluding banks	15,002	2,532	347	198	18,079	—	—	—	18,079
Derivatives	40	18	10	6	74	113	161	63	411
Other financial liabilities	82	515	48	194	839	—	—	—	839
Lease liabilities	—	1	1	2	4	8	5	18	35
Total financial liabilities	28,213	5,412	1,126	1,130	35,881	121	166	81	36,249
2021									
Total financial liabilities	30,984	6,758	281	305	38,328	17	33	57	38,435

16. Risk management continued

	Bank								
	Banking activities								
	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
2022									
Cash and balances at central banks	17,012	—	—	—	17,012	—	—	—	17,012
Derivatives	14	11	10	6	41	17	32	82	172
Loans to banks	1,625	—	—	—	1,625	—	—	—	1,625
Loans to customers	1,066	833	1,796	4,315	8,010	4,987	1,388	2,027	16,412
Personal	254	17	35	60	366	233	255	1,781	2,635
Corporate	192	98	187	690	1,167	763	697	228	2,855
Financial institutions excluding banks	620	718	1,574	3,565	6,477	3,991	436	18	10,922
Other financial assets	209	—	—	694	903	1,013	808	547	3,271
Total financial assets	19,926	844	1,806	5,015	27,591	6,017	2,228	2,656	38,492
2021									
Total financial assets	19,459	1,216	1,938	5,030	27,643	5,828	1,711	4,913	40,095
2022									
Bank deposits	261	14	—	—	275	—	—	—	275
Bank repos	52	—	—	—	52	—	—	—	52
Customer deposits	27,778	4,864	1,067	928	34,637	—	—	—	34,637
Personal	6,311	562	564	593	8,030	—	—	—	8,030
Corporate	6,465	1,770	156	137	8,528	—	—	—	8,528
Financial institutions excluding banks	15,002	2,532	347	198	18,079	—	—	—	18,079
Derivatives	40	18	10	6	74	113	161	63	411
Other financial liabilities	82	515	48	194	839	—	—	—	839
Lease liabilities	—	1	1	2	4	8	5	18	35
Total financial liabilities	28,213	5,412	1,126	1,130	35,881	121	166	81	36,249
2021									
Total financial liabilities	30,984	6,758	281	305	38,328	17	33	57	38,435

(1) Excludes £52 million for Group (2021 - £53 million) and £52 million for Bank (2021 - £53 million) of impairment provision.

Capital risk

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 management ensures that there is sufficient capital and other loss-absorbing instruments to operate effectively including meeting minimum regulatory requirements, operating within Board-approved risk appetite, maintaining its credit rating and supporting its strategic goals.

RBSI Group is required to report its total capital ratio and Common Equity Tier 1 (CET1) capital ratio to its lead regulator, the JFSC, on a periodic basis. The ratios are calculated as total capital to total risk-weighted assets, expressed as a percentage and CET1 capital to total risk-weighted assets, expressed as a percentage. The JFSC has established the Codes of Practice for Deposit-taking Business and includes that a registered person's total capital ratio minimum is 10% and CET1 capital ratio minimum is 8.5%.

Constituents of capital

The determination of what instruments and financial resources are eligible to be counted as capital is laid down in applicable regulation. Capital is categorised by applicable regulation under two tiers (1 and 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 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. CET1 capital absorbs losses before other types of capital and any loss absorbing instruments.
- Additional Tier 1 (AT1) capital is the second form 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 a pre-specified CET1 ratio is reached. Coupons on AT1 issuances are discretionary and may be cancelled at the discretion of the issuer at any time. AT1 capital must have a minimum original maturity of five years.
- Tier 2 capital is RBSI Group's supplementary capital and provides loss absorption on a gone concern basis. Tier 2 capital absorbs losses after Tier 1 capital. RBSI Group has not issued any Tier 2 instruments.

16. Risk management continued

Pension risk

Definition

Pension risk is defined in a consistent manner to the regulatory definition as the inability to meet contractual obligations and other liabilities to the established employee or related company pension scheme.

Sources of risk

The main source of pension risk for RBSI Group is through its largest scheme, the International Pensions Trust (IPT). Further detail on RBSI Group's pension obligations can be found in Note 4 to the accounts.

RBSI Group is exposed to the risk that the schemes' assets, together with future investment returns and additional future contributions, are estimated to be insufficient to meet liabilities as they fall due. In such circumstances, RBSI Group could be obliged (or might choose) to make additional contributions to the schemes, or be required to hold additional capital to mitigate such risk.

Key developments in 2022

- During 2022, there were significant movements in UK gilt markets. In particular, the 'mini budget' announced by the UK government on 23 September 2022, caused rapid sales of government bonds which further depressed gilt markets. Gilt yields remained higher than they were prior to the mini budget. This resulted in a decrease in the value of RBSI Group's IPT scheme assets. Its liabilities also decreased but not to the same extent.
- The IPT scheme holds a liability driven investment portfolio, which requires collateral. The scheme holds sufficient liquid assets to meet liquidity requirements, even in times of market stress.

Governance, risk appetite and controls

The RBSI Pension Forum receives authority from the Board and is responsible for taking decisions or making recommendations in relation to the financial, compliance, policy and operational structure of RBSI Group's pension arrangements. Where authority is not delegated, the Forum makes recommendations to RBSI Group's Chief Financial Officer or the Board, depending on the materiality of the issue. The Board retains ultimate authority for decision making.

Monitoring and measurement

The RBSI Pension Forum formulates RBSI Group view of pension risk and provides a governance framework for all RBSI Group's pension schemes.

RBSI Group calculates stochastic stresses on its material defined benefit pension schemes each year. The stress calculations form the basis of the pension risk Pillar 2 charge in the Bank's ICAAP.

Mitigation

The trustee board of the IPT is solely responsible for the investment of scheme assets which are held separately from the assets of RBSI Group. The trustee board has taken measures to mitigate risk including adopting a diversified investment strategy and investing in liability driven investments, so that changes in the value of the liabilities will be partially matched by changes in the asset values, thus reducing volatility of the scheme's funding position.

In managing the assets of the IPT, the trustee board also takes account of, and gives consideration to, the ability of investment managers to effectively deal with environmental, social and governance issues.

Compliance & conduct risk

Definition

Regulatory compliance risk is the risk that RBSI Group fails to observe the letter and spirit of all relevant laws, codes, rules, regulations and standards of good market practice.

Conduct risk is the risk of inappropriate behaviour towards customers, or in the markets in which RBSI Group operates, which leads to unfair or inappropriate customer outcomes.

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

Sources of risk

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

Key developments in 2022

- New investments in the compliance and conduct and financial crime teams in Risk were announced in March: the new roles created were filled by the year-end. Risk oversight and reporting was enhanced over the course of the year, for instance with the development of a strengthened compliance monitoring capability.
- From a conduct risk perspective, the focus on consumer protection increased significantly during 2022, given cost-of-living challenges and their impact on customers in vulnerable situations. The FCA's increased expectations under its consumer duty initiative was also a key development, and the establishment of the consumer duty 'One Bank' programme will ensure continued focus upon the required 'paradigm shift' in the levels of consumer protection.
- More generally, work is also ongoing to further enhance the conduct and compliance risk framework so that it is aligned to a wider programme of work on the overall risk management framework.

Governance

RBSI 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 the Board Risk Committee.

Risk appetite

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

A range of controls are operated to ensure the business delivers good customer outcomes and are conducted in accordance with legal and regulatory requirements. A suite of policies addressing compliance and conduct risks set appropriate standards across RBSI Group. Examples include policies relating to customers in vulnerable situations, complaints management, cross-border activities and market abuse. Continuous monitoring and targeted assurance are carried out as appropriate.

16. Risk management continued

Monitoring and measurement

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

Mitigation

Activity to mitigate the most material compliance and conduct risks is carried out across RBSI 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, conflicts of interest management, market conduct surveillance, complaints management, mapping of priority regulatory requirements and independent monitoring activity. Internal policies help support a strong customer focus across RBSI Group.

Financial crime risk

Definition

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

Sources of risk

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

Key developments in 2022

- Significant investment made to support delivery of the multi-year transformation plan across financial crime risk management, supported by strengthened first and second line RBSI Financial Crime focused teams.
- Enhancements were made to technology and data analytics to improve the effectiveness of systems used to monitor customers and transactions.
- A financial crime and fraud goal was rolled out to all RBSI Group colleagues
- Financial crime roadshows were held throughout the year to further embed financial crime risk management culture and behaviours.

Governance

The Financial Crime Review Forum is the principal financial crime risk management forum. The forum reviews and, where appropriate, escalates material financial crime risks and issues across RBSI Group. It is represented by all three lines of defence.

Risk appetite

There is no appetite to operate in an environment where systems and controls do not enable the effective identification, assessment, monitoring, management and mitigation of financial crime risk. RBSI Group's systems and controls must be comprehensive and proportionate to the nature, scale and complexity of its businesses.

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

Monitoring and measurement

Financial crime risks are identified and reported through continuous risk management and regular monthly reporting to the Financial Crime Risk Forum and other risk governance committees. Quantitative and qualitative data is reviewed and assessed to measure whether financial crime risk is within risk appetite.

Mitigation

Through the financial crime framework, relevant policies, systems, processes and controls are used to mitigate and manage financial crime risk. This includes the use of dedicated screening and monitoring systems and controls to identify people, organisations, transactions and behaviours that may require further investigation or other actions. Centralised RBSI Group expertise is available to detect and disrupt threats to RBSI Group and its customers.

Intelligence is shared with law enforcement, regulators and government bodies to strengthen national and international defences against those who would misuse the financial system for criminal motives.

Climate risk

Definition

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

Sources of risk

Physical risks may arise from climate and weather-related events such as heatwaves, droughts, floods, storms and sea level rises. They can potentially result in financial losses, impairing asset values and the creditworthiness of borrowers. RBSI Group could be exposed to physical risks directly by the effects on its property portfolio and, indirectly, by the impacts on the wider economy as well as on the property and business interests of its customers.

Transition risks may arise from the process of adjustment towards a low-carbon economy. Changes in policy, technology and sentiment could prompt reassessment of customers' financial risk and may lead to falls in the value of a large range of assets. RBSI Group could be exposed to transition risks directly through the costs of adaptation within economic sectors and markets as well as supply chain disruption leading to financial impacts on it and its customers. Potential indirect effects include the erosion of RBSI Group's competitiveness, profitability, reputational damage and liability risk.

16. Risk management continued

Key developments in 2022

- The enhancement of scenario generation capability, building on our internal scenario analysis capability developed over 2021 that supported risk management and participation in the PRA Climate Biennial Exploratory Scenario (CBES).
- To support the management of credit risk, the application of first generation qualitative climate risk scorecards within customer conversations, and initiation of testing of enhanced scorecards including quantitative elements.
- Improved oversight of management of climate-related risk through regular reporting and review of climate risk appetite measures and key risk indicator trends informing monthly risk committee updates.
- The preparation of an initial iteration of the NatWest Group Climate Transition plan including identification and analysis of potential impacts associated with proposed actions.

Governance

The Board is responsible for monitoring and overseeing climate-related risk within RBSI Group's overall business strategy and risk appetite. The Board Risk Committee and the Board received regular strategic updates.

The Environmental, Social and Governance Steering Group (ESG SG) was established to oversee delivery of the climate strategy and discuss emerging risks as they present themselves. The ESG SG is chaired by the Senior Responsible Officer for climate, who is also a member of the executive management team.

The ESG SG has identified four focus areas: energise colleagues; driven by data; safeguard our future; and shape sustainable outcomes. The focus areas sharpen priorities across RBSI Group and cover both climate-related risk and opportunity initiatives.

Risk appetite

Work continued in 2022 to mature NatWest Group's climate-related risk capabilities in accordance with the risk management framework. In December 2022, the NatWest Group Board approved the adoption of enhanced climate risk appetite measures into the enterprise-wide risk management framework, which are designed to provide a heightened focus on balance sheet exposure to financed emissions.

NatWest Group focused on developing the capabilities to use scenario analysis to identify the most material climate risks and opportunities for its customers, seeking to harness insights to inform risk management practices and maximise the opportunities arising from a transition to a low carbon economy. As part of NatWest Group, RBSI Group leverages these capabilities to inform its strategy for climate-related opportunities and risk management.

Monitoring and measurement

RBSI Group regularly considers existing and emerging regulatory requirements related to climate change. The identification of climate regulation has been incorporated into the existing upstream risk management process. As part of NatWest Group, RBSI Group is a founding signatory of the United Nations Principles for Responsible Banking.

RBSI Group also regularly engages in climate consultations across local jurisdictions, recently providing a response to the draft Jersey Carbon Neutral Roadmap.

Operational risk

Definition

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

Sources of risk

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

Key developments in 2022

- A review of the NatWest Group Risk Directory was completed, allowing greater risk visibility and improved risk reporting.
- The NatWest Group Impact Classification Matrix was updated and implemented to align to industry materiality, ensuring focus on the most material risks.
- An enhanced Early Event Escalation Process was implemented to ensure material events are escalated in a timely manner.
- A payments review has been initiated by NatWest Group in late 2022 to assess control enhancements in response to manual payment risk.

Governance

The risk governance arrangements in place for operational risk are aligned to the requirements set out in the RBSIH risk management framework and Operational Risk policy, and are consistent with achieving safety, soundness and sustainable risk outcomes. Relevant issues are escalated into the RBSIH Executive Risk Committee and Board Risk Committee.

Risk appetite

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

Risk appetite for operational risk is set at RBSI Group 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.

Mitigation

The Control Environment Certification (CEC) process is a half-yearly self-assessment by the RBSI CEO. It provides a consistent and comparable view on the adequacy and effectiveness of the internal control environment. CEC covers material risks and the underlying key controls, including financial, operational and compliance controls, as well as supporting risk management frameworks. The CEC outcomes, including forward-looking assessments for the next two half-yearly cycles and progress on control environment improvements, are reported to RBSIH Board Risk Committee.

16. Risk management continued

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

Monitoring and measurement

Risk and control assessments are used across all business areas and support functions to identify and assess material operational and conduct risks and key controls.

All risks and controls are mapped to the NatWest Group's Risk Directory. Risk assessments are refreshed at least annually to ensure they remain relevant and capture any emerging risks and also ensure risks are reassessed.

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

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

Reputational risk

Definition

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

Sources of risk

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

Key developments in 2022

- A new reputational risk policy was implemented to manage reputational risk at an organisational level.
- The NatWest Group Reputational Risk Register was further embedded into the organisation, the results of which are reported to the NatWest Group Reputational Risk Committee and shared quarterly with the RBSIH Board Risk Committee.

Governance

A reputational risk policy is in place to support the management of reputational risk issues that could pose a threat to RBSI Group's public image. The RBSIH Reputational Risk Committee oversees decisions that could have a significant reputation implication for the Bank. Relevant issues are escalated through the NatWest Group Reputational Risk Committee and RBSIH Board Risk Committee as appropriate.

Risk Appetite

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

A 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 from

RBSI Group's Reputational Risk Committee to the NatWest Group Reputational Risk Committee.

In addition, RBSI hold a Reputational Risk Register which captures all the current and emerging RBSI reputational risks that have been assessed as major or significant in accordance with the reputational risk impact classification matrix and these are reported quarterly to RBSI Board Risk Committee, RBSI Reputational Risk Committee and NatWest Group Reputational Risk Committee.

Monitoring and measurement

Relevant internal and external factors are monitored through regular reporting to the RBSIH Reputational Risk Committee and escalated, where appropriate, to the NatWest Group Reputational Risk Committee or NatWest Group Board Risk Committee.

Management information is also maintained on cases that go through the RBSIH Reputational Risk Committee and this is reported quarterly to RBSI Board Risk Committee, together with a dashboard showing a holistic view of RBSI Reputational Risk.

Mitigation

The level of risk is managed through standards of conduct, risk appetite, policies and the overall reputational risk framework.

RBSI have a fully embedded reputational risk framework which reflects our Purpose and captures a more complete view of reputational risk at a strategic level.

External events that could cause reputational damage are identified and mitigated through RBSI Group's Top and Emerging Threats process.

Model risk

Definition

Model risk is the risk of inaccurate financial assessments or decisions made as a result of incorrect or misused model outputs and reports. Under the Model Risk policy, a model is defined as a quantitative method, system, or approach that applies statistical, economic, financial, accounting, mathematical or data science theories, techniques and assumptions to process input data into quantitative estimates.

Sources of risk

RBSI Group uses a variety of models in the course of its business activities. Examples include the use of model outputs to support customer decisioning, measuring and assessing risk exposures. A governance framework is in place to ensure policies and processes relating to models are appropriate and effective.

Key developments in 2022

- RBSI Group's model risk management practices continued to evolve, driven through a dedicated NatWest Group Model Management Programme. This delivered an enhanced NWG model management committee structure, new model risk governance team operating model and an improved model inventory.
- Aligned to the implementation of the enterprise-wide risk management framework, new model risk management procedures were approved to support the identification, assessment and monitoring of model risk.
- NatWest Group provided a comprehensive response to the PRA's Consultation Paper on Model Risk Management (CP6/22). A self-assessment of NatWest Group's current Model Risk Policy compared to the PRA's draft Supervisory Statement was completed and gaps identified. A programme of work will be established in 2023 to continue to evolve the bank's model risk management framework in line with regulatory expectations and industry best practice.

16. Risk management continued

Governance

A governance framework is in place to ensure policies and processes relating to models are appropriate and effective. Relevant issues are escalated through the NatWest Group Model Risk Oversight Committee and RBSIH Executive Risk Committee and, where applicable, onwards to the RBSIH Board Risk Committee.

Risk appetite

Model usage exposes the RBSI Group to model risk that cannot be entirely eliminated due to all models having a degree of uncertainty. Model risk is managed by ensuring the level of model uncertainty is understood and appropriate controls are used to ensure residual risk exposure is balanced with the benefits of model use.

Model risk appetite is set at Board level to limit the level of model risk that RBSI Group is willing to accept in the course of its business activities.

Monitoring and measurement

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

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

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

Mitigation

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

If a model risk issue arises due to an operational control weakness (and the residual risk meets the operational risk thresholds), then an operational risk issue would be raised.

17. Memorandum items

The amounts shown in the table below are intended only to provide an indication of the volume of business outstanding at 31 December 2022. Although the RBSI Group 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 the RBSI Group's expectation of future losses.

	Group and Bank	
	2022 £m	2021 £m
Guarantees	409	262
Other contingent liabilities	26	15
Standby facilities, credit lines and other commitments	9,441	9,336
Contingent liabilities and commitments	9,876	9,613

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. The RBSI Group's maximum exposure to credit loss, in the event of non-performance by the other party and where all counterclaims, collateral or security proves valueless, is represented by the contractual nominal amount of these instruments included in the table. These commitments and contingent obligations are subject to the RBSI Group's normal credit approval processes.

Guarantees

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

Contingent liabilities

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

Commitments

These are loan commitments, the RBSI Group 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.

Litigation and regulatory matters

As a participant in the financial services industry, RBSI Group operates in a highly regulated environment. At any moment in time it is likely that RBSI Group will be party to legal proceedings and involved in regulatory matters, including as the subject of investigations and other regulatory and government action ('Matters') in the jurisdictions it operates in. Such Matters are subject to many uncertainties and their outcome is often difficult to predict, particularly in the early stages.

The directors of the RBSI Group have reviewed actual, threatened and known potential claims and proceedings and, after consulting with the relevant legal advisers are satisfied that the outcome of these claims and proceedings will not have a material adverse effect on RBSI Group's consolidated net assets, results of operations or cash flows. The RBSI Group recognises a provision for a liability in relation to such 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 such Matters, it is not possible to determine whether any loss is probable or to estimate reliably the amount of any loss, either as a direct consequence of the relevant proceedings and regulatory matters or as a result of adverse impacts or restrictions on the Group's reputation, business and operations.

RBSI Group is co-operating fully with the matter(s) described below.

Isle of Man Financial Services Authority (IOM FSA) inspection report and referral to enforcement

The IOM FSA undertook an inspection at the Isle of Man branch of the Bank in 2021, following which it issued an inspection report. The inspection was in relation to anti-money laundering and counter-terrorist financing controls and procedures relating to specific RBSI customers. In May 2022, the FSA notified the Bank that it had been referred to its Enforcement Division in relation to certain issues identified in the inspection report.

The Bank received verbal notification in January 2023 that the JFSC has referred the Bank to its Enforcement Division in relation to its reliance regime. Formal notification is awaited and no provision has been raised at this early stage.

18. Analysis of changes in financing during the year

	Group				Bank			
	Share capital, share premium and paid-in equity		Subordinated liabilities ⁽¹⁾		Share capital, share premium and paid-in equity		Subordinated liabilities ⁽¹⁾	
	2022 £m	2021 £m	2022 £m	2021 £m	2022 £m	2021 £m	2022 £m	2021 £m
At 1 January	1,110	1,110	-	-	402	402	-	-
Issue of subordinated liabilities			300	-			300	-
Net cash flows from financing activities	-	-	300	-	-	-	300	-
Interest accrued on subordinated liabilities			3	-			3	-
Effects of foreign exchange	-	-	(9)	-	-	-	(9)	-
At 31 December	1,110	1,110	294	-	402	402	294	-

(1) The subordinated liabilities represent lending from NatWest Group plc. This is intended to contribute toward the Bank's future minimum requirement for own funds and eligible liabilities (MREs) expected to be set by the relevant resolution authority.

19. Analysis of cash and cash equivalents

	Group		Bank	
	2022 £m	2021 £m	2022 £m	2021 £m
At 1 January				
- cash	17,220	13,531	17,220	13,531
- cash equivalents	1,794	1,768	1,767	1,750
	19,014	15,299	18,987	15,281
Net increase in cash and cash equivalents	182	3,715	186	3,706
At 31 December	19,196	19,014	19,173	18,987

Comprising:

Cash and balances at central banks	17,012	17,220	17,012	17,220
Loans to banks	2,184	1,794	2,161	1,767
	19,196	19,014	19,173	18,987

The RBSI Group is required by law or regulation to maintain balances with the Central banks which are included in Cash and cash equivalents, and not available for use by the RBSI Group. These are set out below.

	2022 £m	2021 £m	2022 £m	2021 £m
Central Bank of Luxembourg	108	123	108	123
Bank of England	10	17	10	17
Total	118	140	118	140

20. Related parties

The RBSI Group's immediate parent company is NWG.

The RBSI Group's ultimate holding company, and the parent of the largest group into which the RBSI Group is consolidated into is NWG.

The Bank's immediate parent company is The Royal Bank of Scotland International (Holdings) Limited.

The Bank's ultimate holding company, and the parent of the largest group into which the Bank is consolidated into is NWG.

UK Government

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

The RBSI Group enters into transactions with many of these bodies on an arm's length basis. Transactions include the payment of: taxes – principally UK corporation tax (paid through London branch) and value added tax; national insurance contributions; and regulatory fees and levies together with banking transactions such as loans and deposits undertaken in the normal course of banker-customer relationships.

Increase in deposits from NatWest Group entities primarily represents £0.8bn lending from NatWest Group Holdings (2021 £nil). Of this, £0.3bn represents subordinated debt as highlighted in notes 13 and 18.

Bank of England facilities

The RBSI Group may participate in a number of schemes operated by the Bank of England in the normal course of business.

Members of the RBSI Group that are UK authorised institutions are required to maintain non-interest bearing (cash ratio) deposits with the Bank of England amounting to 0.403% of their average eligible liabilities in excess of £600 million.

20. Related parties continued

(a) Transactions with key management

For the purposes of IAS 24 'Related Party Disclosure', key management comprise directors of the RBSI Group and members of the Executive Committee Offshore. The following amounts are attributable, in aggregate, to key management:

	Group and Bank	
	2022 £'000	2021 £'000
Loans and advances to customers	1,423	1,514
Customer accounts	452	414
Interest received	12	20

Key management have banking relationships with NWG entities 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.

(b) Related party transactions

	Group		Bank	
	2022 £m	2021 £m	2022 £m	2021 £m
Assets				
Loans and advances to banks:				
NatWest Group entities	549	579	567	586
Liabilities				
Deposits by banks:				
NatWest Group entities	1,028	242	1,094	308
Income				
Interest received:				
NatWest Group entities	15	2	15	2
Expenses				
Interest paid:				
NatWest Group entities	16	6	17	6

Operating expenses includes inter-group cost recharges of £89 million (2021: £72 million) from NWG.

An interim dividend of £169 million (2021: nil) and an ordinary dividend of £210 million (2021: £76 million) were paid to NatWest Group by RBSIH. A paid in equity dividend of £20 million (2021: £20 million) was paid to NatWest Group by RBSI. An interim dividend of £160m (2021: nil) and an ordinary dividend of £210 million (2021: £54 million) was paid from RBSI to RBSIH during the year.

Increase in deposits from NatWest Group entities primarily represents £0.8 billion lending from NatWest Group Holdings (2021 £nil). Of this, £0.3 billion represents subordinated debt as highlighted in notes 13 and 18.

(c) Compensation of key management

The aggregate remuneration of directors and other members of key management during the year was as follows:

	Group and Bank	
	2022 £'000	2021 £'000
Short-term benefits	2,977	3,076
Share-based payments	1,079	1,039
Post-employment benefits	131	109
	4,187	4,224

21. Post Balance sheet events

There have been no significant events between the financial year end and the date of approval of the financial statements which would require a change to or additional disclosure in the financial statements.