



NatWest
Group

**The Royal Bank
of Scotland
International
(Holdings) Limited
and The Royal Bank
of Scotland
International
Limited**

2024 Annual Report and Accounts

Contents

	Page
Board of directors and secretary	3
Report of the directors	4
Statement of directors' responsibilities	9
Independent auditor's report to the members of the Royal Bank of Scotland International (Holdings) Limited	10
Independent auditor's report to the members of The Royal Bank of Scotland International Limited	13
Financial statements	16
Risk factors	102

Board of directors and secretary

Chair

James McConville (appointed non-executive director 20 March 2024, appointed Chair 1 April 2024)

Executive directors

Oliver Holbourn
Chief Executive Officer

Robert Horrocks
Chief Financial Officer

Non-executive directors

Christine Ashton
Bruce Cannon
Aaron Le Cornu
Carinne Withey

Company Secretary

Rachael Pocklington

Board changes

Philip Brewster (resigned 31 March 2024)

Auditor

Ernst & Young LLP
Churchill Place
London
E14 5EY

Registered office and Head office

Royal Bank House
71 Bath Street
St Helier
Jersey
JE4 8PJ

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 (RBSI Ltd) and The Royal Bank of Scotland International (Holdings) Limited (RBSIH) present the Annual Report for RBSI Ltd, together with audited consolidated financial statements of RBSIH and its subsidiaries (together RBSI Group) for the year ended 31 December 2024.

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 of RBSI Group and RBSI Ltd are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB). RBSI Group and RBSI Ltd publish their financial statements in the functional currency, pounds 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.

Principal activities

RBSIH is a wholly owned subsidiary of NatWest Group plc, positioned within its Commercial & Institutional segment. RBSIH is the holding company of RBSI Ltd and NatWest Trustee and Depository Services Limited (NWTDS), owning the entire issued share capital of both entities.

RBSI Ltd is among the largest banks operating in the Channel Islands, Isle of Man and Gibraltar with wholesale branches in Luxembourg and the United Kingdom (UK). Our position outside the UK ring-fencing regime allows us to gather deposits and lend to retail, corporate and commercial customers and financial institutions.

We offer a range of financial products and services through our International Retail & Commercial Banking (IRCB) and Institutional Banking (IB) customer segments. IRCB acts as a trusted banking provider to personal, private, business and commercial customers. IB offers expert services to European fund asset managers, fund administrators and corporate service providers, helping them to look after their money and manage risk.

NWTDS is the largest provider of independent trustee and depositary services in the UK. It oversees the management of funds in both the traditional and alternative fund markets.

The directors do not anticipate any material change in the type of activities of RBSI Ltd or RBSI Group as part of the current business strategy.

Copies of the NatWest Group plc Annual Report and Accounts 2024 can be obtained from Corporate Governance and Regulatory Affairs, NatWest, Gogarburn, Edinburgh EH12 1HQ, the Registrar of Companies or through the NatWest Group website at natwestgroup.com.

Performance Review

Performance key metrics and ratios	RBSI Group		RBSI Ltd	
	2024	2023	2024	2023
Total Income	£1,042m	£1,062m	£1,004m	£1,004m
Operating profit before tax	£627m	£659m	£626m	£636m
Loans and advances to customers	£15.6bn	£14.5bn	£15.6bn	£14.5bn
Customer deposits	£32.3bn	£32.9bn	£32.3bn	£32.9bn
Net interest margin	2.34%	2.25%	2.33%	2.25%
Loan: deposit ratio	48%	44%	48%	44%
Depository assets and assets held in a fiduciary capacity	£495bn	£437bn	£2.9bn	£2.5bn
Return on tangible equity (RoTE)	34.9%	36.5%	36.6%	37.1%
Non-financial metrics				
Net promoter score (NPS)	46	44		
Purposeful leadership scores	81%	79%		
Culture scores	75%	73%		
IRCB financial health checks	11,296	8,893		
Climate and sustainable funding and financing	£1.6bn	£2.3bn		
RBSI Ltd regulatory metrics				
Liquidity portfolio			£19.5bn	£20.3bn
Risk-weighted assets (RWAs)			£7.4bn	£7.7bn
Common Equity Tier 1 (CET1) ratio			17.5%	17.5%
Tier 1 capital ratio			21.5%	21.4%
Leverage exposure			£40.5bn	£41.3bn
Leverage ratio (1)			3.9%	4.0%
Net stable funding ratio (NSFR)			149%	148%
Liquidity coverage ratio (LCR)			131%	146%

(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 Ltd typically holds in high quality liquid assets. Excluding unencumbered central bank balances would result in a ratio of 6.05%.

RBSI Group's operating profit before tax was £627 million compared with an operating profit before tax of £659 million in 2023. Return on tangible equity was 34.9% (31 December 2023 - 36.5%).

RBSI Ltd's operating profit before tax was £626 million compared with an operating profit before tax of £636 million in 2023.

RBSI Group and RBSI Ltd's financial performance are presented in the income statement on page 17. The results demonstrate the stability of our underlying business and balance sheet whilst we invest for growth, support our customers, and deliver sustainable returns to our shareholder.

The RBSI Ltd results are also presented in the RBSI factbook, which is available on the RBSI website.

Income

RBSI Group income decreased by 2% to £1,042 million predominantly due to the non-repeat of 2023 other operating income following the sale of RBSI Depository Services SA to The Royal Bank of Scotland Holdings N.V. (RBSH N.V.). RBSI Ltd income was in line with 2023, with a reduction in non-interest income offset by increased net interest income. RBSI Ltd net interest margin was 2.33% compared to 2.25% in 2023.

Operating expenses

RBSI Group operating expenses increased by 9% or £34 million to £423 million reflecting investment in colleagues, technology, financial crime controls and the impact of inflation.

Impairments

Net impairment releases of £8 million reflected the improved economic outlook on our performing book as well as the continued low level of delinquencies. We continue to carefully monitor the uncertain economic outlook. The expected credit losses (ECL) coverage ratio was 0.37% (2023 - 0.42%).

Loans and advances to customers

Loans and advances to customers increased by £1.1 billion during 2024 to £15.6 billion which reflected a return to growth within our Institutional Banking segment.

Customer L&A	2024	2023
IRCB	£3.7bn	£3.7bn
o/w buy to let mortgages	£0.7bn	£0.7bn
o/w residential mortgages	£1.4bn	£1.4bn
IB	£11.9bn	£10.8bn
o/w funds: subscription lines & NAV lines	£9.2bn	£8.0bn

Customer deposits

Customer deposits at £32.3 billion represent RBSI Ltd's primary funding source. Year end deposit balances decreased by £0.6 billion driven by outflows from our Institutional Banking customers.

Customer Deposits	2024	2023
IRCB	£11.2bn	£11.1bn
IB	£21.1bn	£21.8bn

Capital and liquidity management

RBSI Group's capital and liquidity positions continued to reflect the stability of the entity throughout 2024. As RBSI is not a regulated entity, the capital and liquidity metrics of RBSI Ltd are included in this report.

As at 31 December 2024 the CET1 ratio was 17.5% (2023 - 17.5%) and the LCR was 131% (2023 - 146%).

CET1 ratio of 17.5% was in line with 31 December 2023 as the impacts of attributable profit and reduced RWAs were offset by the impact of total distributions.

RWAs decreased £0.3 billion to £7.4 billion mainly driven by capital efficiency initiatives.

LCR of 131% remained robust and above our management target.

Customer deposits represent our primary funding source and we continued to focus on retaining our core operational deposits as well as attracting and retaining term products. As part of our ongoing funding diversification plan we increased wholesale funding over 2024 to £2.2 billion (2023 - £1.7 billion). This comprises commercial paper issuance (£1.0 billion), syndicated loans (£1.0 billion) and private placement issuance (£0.2 billion).

RBSI Ltd held securities of £5.4 billion which are highly liquid and comprised primarily of UK Gilts, US Treasuries and Multilateral Development Banks.

Depository assets and assets held in a fiduciary capacity

RBSI Group reports assets held in a fiduciary capacity within key performance metrics and these assets are not included on the balance sheet within 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 increased over 2024 reflecting equity market movements and underlying growth in fund values.

Credit ratings

RBSI Ltd had the following Credit Ratings at 31 December 2024:

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

Moody's Deposit rating. Senior Unsecured Debt rating is A2.

Fitch raised the outlook to Positive from Stable in the year alongside the NatWest Group outlook, driven by its view that continued profitability should confirm the structural improvement in NatWest Group's business profile. There were no changes to ratings during the year and the outlooks from S&P and Moody's remain stable.

Accounting policies

The reported results of RBSI Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. Details of RBSI Group's accounting policies and key sources of judgemental uncertainty are included within the accounting policies on pages 22 to 27.

Strategic Progress

RBSI Group is a part of the Commercial & Institutional segment and the wider NatWest Group with a track record of profitability each year since inception in 1996.

In 2024, RBSI Group recorded total income of £1,042 million and an operating profit of £627 million, which represented 17% of Commercial & Institutional operating profit.

We made effective progress against our five strategic priorities, set out at the beginning of 2024. These align closely to the wider Commercial & Institutional approach, whilst maintaining a clear focus on strengthening our foundations to support our future sustainable growth.

- **Customer Journeys & Platforms** – Further enhance customer journeys and platforms, to provide an improved customer experience.
- **Go-to-Market Propositions** – Accelerate go-to-market propositions through improved products and services to continue to meet evolving customer needs at pace.
- **Balance Sheet Management** – Active management of the balance sheet to proactively respond to emerging trends.
- **Power of Colleagues** – Harnessing the power of colleagues to support RBSI Group and deliver a high-quality customer experience.
- **Firmer Foundations** – Building firmer foundations to enable the long-term sustainability of the business.

Customer journeys & platforms

- NPS remained strong at +46, representing a year-on-year increase of 2 points. NPS, along with continued in-person feedback, indicate the importance of our colleagues in delivering well for customers.
- We focused on improving signature customer journeys, including account opening and onboarding. In Business Banking, we launched our electronic account opening platform (eOBAO), reducing average account opening times to 22 days. We also reduced the average time taken to open accounts in Retail Banking to just over 10 days and to 34 days for IB customers.
- We continued with our technology transformation including process automation, adoption of platforms common to NatWest Group, and addressing end-of-life systems to serve customers more effectively. By way of example, we leveraged NatWest Group capabilities through the completion of a common colleague technology platform, and our integration with the Group Financial Crime hubs is making good progress. We continue to explore outsourcing opportunities to NatWest Group where appropriate, to maximise customer benefits.
- NWTDS continued its significant investment in new technology using the latest Cloud based solutions to support its growing client base and record assets under depository.
- Our sustainable growth strategy aims to address climate change by supporting our customers in their own transition to net zero. RBSI Group, as part of NatWest Group, published 2030 sector targets validated by the Science Based Targets initiative (SBTi) as science-based. These targets have been assessed by the SBTi against the latest available climate science and have been used in the development of our climate transition plan, which demonstrates how we plan to reduce the climate impact of our financing activity.
- In addition to the Environmental, Social and Governance (ESG) resources and reading material published on the RBSI Group website, in 2024 we continued the third series of our podcast 'A Just Transition', including episodes on nature and biodiversity, governance, and anticipated trends in ESG for 2024.

Go-to-market propositions

- We continued to focus on deepening our relationship with customers, supporting IRCB customers with their financial wellbeing, with 11,296 Financial Health Checks completed in 2024, and carrying out 174 Business Reviews in Institutional Banking.
 - As part of collaboration across the Commercial & Institutional segment, RBSI Ltd delivered £1.6 billion of climate and sustainable funding and financing to contribute to the delivery of a key NatWest Group wide target.
 - To support our customers in achieving their ESG ambitions we continued providing sustainable finance options, including the provision of Sustainability Linked Loans (SLLs) which offers them a financial benefit when sustainability performance targets are met. Additionally, we provided Green Loans to our Institutional Banking customers, which finance eligible green projects that meet the criteria within the LMA Green Loan Principles.
 - We continued to provide our Green Mortgage product, which offers a lower interest rate for UK customers purchasing, porting or re-mortgaging a property with an Energy Performance Certificate ('EPC') rating of A or B.
 - We made further progress against our Climate Risk Maturity plan, in line with the wider NatWest Group approach. The plan supports the business to further embed climate and nature considerations in its approach to risk and demonstrates how we plan to reduce the climate impact of our financing activity. Refer to the 2024 NatWest Group Sustainability Report for further detail.
- Within RBSI Group, strong progress was made in further developing leadership capability and change skills, with the Senior Leadership Team completing a year-long learning programme focused on leading well and empathically through change.
 - We also continued to invest in talent development, with colleagues identified as 'Rising Stars' and potential future leaders, undergoing a targeted development programme. Early talent remains of importance with a new cohort of graduates having joined the business in 2024 and a local partnership launched with University College Jersey to provide apprentice opportunities.
 - Our bi-annual colleague engagement survey continued to provide valuable feedback for our leaders. Against two of our key measures, the latest survey showed that 81% of colleagues experience purposeful leadership and 75% believe there is a healthy culture across our business.
 - In 2024, we focused on diversity, equity, and inclusion for our 2,149 colleagues. We increased women's representation in the top three layers to 37.7%. We increased ethnic minority representation in the top four layers of UK based colleagues to 12.6%, up by 3.7% since December 31 2023. Starting in 2025, NatWest Group, including RBSI Group, will adopt a new approach to diversity targets. More details are available in the 'Responsible business - diversity, equity and inclusion' section of the NatWest Group 2024 Annual Reports and Accounts.
 - We continued to play a key role in the communities we support by sponsoring Channel Island Pride events in Jersey and Guernsey as well as enabling our colleagues to dedicate time volunteering with causes that make a difference to society.
 - For more details on NatWest Group colleagues including gender and ethnicity pay gap and profiles by level, refer to the NatWest Group non-financial information datasheet at natwestgroup.com

Balance sheet management

- RBSI Group performance remained strong with operating profit of £627 million and RoTE of 34.9%. This success was underpinned by our robust balance sheet and capital management.
- Risk-weighted assets (RWAs) at £7.4 billion were well managed throughout the year, reflecting the diligence on our lending book.
- We supported our customers' ambitions by providing lending solutions across our business, with lending to our institutional customers increasing over 2024.
- We continued to strengthen and diversify our funding base and support our liquidity, including securing an additional £400 million funding via a Syndicated Loan Facility (SLF) - building on the successful execution of the SLF and US Private Placement funding secured in 2023.
- We continued to provide secure and attractive savings options, with £6.4 billion of balances from our IRCB customers.
- We supported customers in the UK, Jersey, Guernsey, the Isle of Man and Gibraltar with £0.3 billion of gross new mortgage lending.

Power of colleagues

- Our people policies and procedures are, wherever possible, aligned to NatWest Group. Further information can be found in the 'Colleagues' section of the NatWest Group 2024 Annual Report and Accounts.
- NatWest Group launched 'Beyond' in 2024, a refreshed approach for performance management across the bank, designed for colleagues. RBSI Group are aligned to the 'Beyond' framework, focused on driving a culture of performance to deliver an improved experience for customers and colleagues.
- We improved our non-financial risk and control environment; meeting an important target set by our Board to manage our non-financial risks in a better and more sustainable way. We made strong progress against our financial crime prevention agenda, with a focus on Customer Due Diligence, demonstrating a clear commitment to safeguarding customers.
- We continued to focus on improving data culture to support insight-led decision making, with an emphasis on data ownership and accountability.
- During 2024 we proactively explored advancements in new technologies including cloud data platforms, machine learning capabilities and data specialist resources. We also commenced piloting generative artificial intelligence tools for colleagues.
- We developed an improved change delivery capability, helping to realise investment benefits and drive continuous improvement.
- We continued regular and transparent engagement with our regulators, with a focus on clarity over plans, success criteria, and meeting key commitments.
- Colleagues can report concerns relating to instances of wrong-doing or misconduct through our whistleblowing service, Speak Up. Our colleagues feel safe to speak up and understand how they can do this as evidenced through our 2024 colleague listening survey with an above financial services industry score and an increase to 22 reports in 2024 (from 14 in 2023).

Firmer foundations

Governance

The Board

The Board is collectively responsible for the long-term success of RBSI Group; approving the strategic priorities and delivering sustainable value to its shareholder. It monitors and maintains the consistency of RBSI Group's activities within the strategic direction of NatWest Group. It reviews and approves risk appetite for strategic and material risks in accordance with NatWest Group Risk Appetite Framework and it monitors performance against risk appetite for RBSI Group. It approves RBSI Group's key financial objectives and keeps the capital and liquidity positions of RBSI Group under review. The Board is also responsible for purpose and culture, which underpins all of RBSI Group's activities and its long-term sustainability.

The Board would like to thank Philip Brewster for his significant contribution to the RBSI Group during his 7 years as Chair of the Board.

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

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 RBSI Group. It also reviews its systems and standards of internal controls and monitors RBSI Group's processes for internal and external audit.

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

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

There are several 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 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.

By order of the Board:

Oliver Holbourn
Chief Executive Officer
Date: 12 February 2025

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 Chair and CEO are distinct and separate, with a clear division of responsibilities. The Chair 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 judgement, and they provide independent challenge to the executive directors and leadership team.

Auditor

NatWest Group is required to undertake a tender for audit work on a ten-year frequency. In October 2022 NatWest Group 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, 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 2024-2025 financial years.

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

Going concern

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

Dividends

RBSI Ltd paid ordinary dividends of £555 million (2023 - £650 million) to RBSIH and a paid-in equity dividend of £20 million (2023 - £20 million) was paid to NatWest Group.

RBSIH paid ordinary dividends of £583 million (2023 - £652 million) to NatWest Group.

Post balance sheet events

Post balance sheet events are described in Note 22 to the financial statements.

Robert Horrocks
Chief Financial Officer
Date: 12 February 2025

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 RBSIH and RBSI Ltd and of the profit or loss of RBSIH and RBSI Ltd for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements 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 RBSIH and RBSI Ltd 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 RBSIH 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 RBSI Ltd 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, the Banking Business (Accounts, Auditors and Reports) (Jersey) Order 2023 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 RBSIH and RBSI Ltd 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: 12 February 2025

Robert Horrocks
Chief Financial Officer

Date: 12 February 2025

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 ("RBSIH") and its subsidiaries (the "RBSI Group") for the year ended 31 December 2024 which comprise the 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 22 on pages 28 to 101, including a summary of material 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 RBSI Group's affairs as at 31 December 2024 and of the RBSI 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 RBSI 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 RBSI Group's and RBSIH's ability to continue as a going concern for a period of 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 RBSI Group's and RBSIH'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.

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.

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

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 RBSIH, 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 RBSIH'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 15, 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 RBSI Group's and RBSIH'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 RBSI Group or RBSIH 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 RBSIH and management.

- ▶ We obtained an understanding of the legal and regulatory frameworks that are applicable to the RBSI Group and determined that the most significant are those that relate to reporting framework, namely:
 - ▶ The Companies (Jersey) Law 1991
- ▶ We understood how the RBSI 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 RBSI Group's governance framework;

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

- ▶ We assessed the susceptibility of the RBSI 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 RBSIH'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 RBSIH'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 RBSIH and RBSIH'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
London, United Kingdom
Date: 12 February 2025

Notes:

1. The maintenance and integrity of RBSIH'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 ("RBSI Ltd") for the year ended 31 December 2024 which comprise the 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 22 on page 28 to 101, including a summary of material 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 RBSI Ltd's affairs as at 31 December 2024 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;
- ▶ have been prepared in accordance with the requirements of the Financial Services (General Insurance Mediation Business (Accounts, Audits, Reports and Solvency)) (Jersey) Order 2005; and
- ▶ have been prepared in accordance with the requirements of the Banking Business (Accounts, Auditors and Reports (Jersey) Order 2023

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 RBSI Ltd 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 RBSI Ltd's ability to continue as a going concern for a period of 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 RBSI Ltd'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 RBSI Ltd, 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 RBSI Ltd'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 15, 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 RBSI Ltd'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 RBSI Ltd 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 RBSI Ltd and management.

- ▶ We obtained an understanding of the legal and regulatory frameworks that are applicable to RBSI Ltd 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 RBSI Ltd 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 RBSI Ltd and the Jersey Financial Services Commission, read minutes of the Board, and gained an understanding of RBSI Ltd's governance framework;
- ▶ We assessed the susceptibility of RBSI Ltd'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;
- ▶ RBSI Ltd 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 RBSI Ltd'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 RBSI Ltd'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 RBSI Ltd and RBSI Ltd'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
London, United Kingdom
Date: 12 February 2025

Notes:

1. The maintenance and integrity of RBSI Ltd's website 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.

Contents	Page
Income statements	17
Statements of comprehensive income	18
Balance sheets	19
Statements of changes in equity	20
Cash flow statements	21
Accounting policies	22
Notes to the accounts	28

Income statements

For the year ended 31 December 2024

	Note	RBSI Group		RBSI Ltd	
		2024 £m	2023 £m	2024 £m	2023 £m
Interest receivable		1,896	1,730	1,895	1,729
Interest payable		(1,027)	(873)	(1,030)	(875)
Net interest income	1	869	857	865	854
Fees and commissions receivable		136	130	102	90
Fees and commissions payable		(37)	(30)	(37)	(30)
Other operating income		74	105	74	90
Non-interest income	2	173	205	139	150
Total income		1,042	1,062	1,004	1,004
Staff costs		(174)	(150)	(157)	(133)
Premises and equipment		(23)	(26)	(21)	(24)
Other administrative expenses		(199)	(189)	(181)	(173)
Depreciation and amortisation		(27)	(24)	(26)	(24)
Operating expenses	3	(423)	(389)	(385)	(354)
Profit before impairment releases		619	673	619	650
Impairment releases/(losses)	8	8	(14)	7	(14)
Operating profit before tax		627	659	626	636
Tax charge	5	(109)	(100)	(109)	(98)
Profit for the year		518	559	517	538

The accompanying notes on pages 28 to 101 and the accounting policies on pages 22 to 27 form an integral part of these financial statements.

Statements of comprehensive income

For the year ended 31 December 2024

	Note	RBSI Group		RBSI Ltd	
		2024 £m	2023 £m	2024 £m	2023 £m
Profit for the year		518	559	517	538
Items that do not qualify for reclassification					
Remeasurement of retirement benefit schemes	4	(5)	(12)	(5)	(12)
Tax	5	-	1	-	1
		(5)	(11)	(5)	(11)
Items that do qualify for reclassification					
FVOCI financial assets		(3)	(11)	(3)	(11)
Cash flow hedges		30	162	30	162
Tax	5	4	(15)	4	(15)
		31	136	31	136
Other comprehensive profit after tax		26	125	26	125
Total comprehensive income for the year		544	684	543	663

The accompanying notes on pages 28 to 101 and the accounting policies on pages 22 to 27 form an integral part of these financial statements.

Balance sheets

As at 31 December 2024

	Note	RBSI Group		RBSI Ltd	
		2024 £m	2023 £m	2024 £m	2023 £m
Assets					
Cash and balances at central banks	7	14,264	17,697	14,264	17,697
Derivatives	6,7	221	169	221	169
Loans to banks - amortised cost	7	927	1,228	914	1,214
Loans to customers - amortised cost	7	15,621	14,500	15,621	14,500
Amounts due from holding companies and fellow subsidiaries	7	806	1,023	813	1,028
Other financial assets	7,9	5,410	2,934	5,410	2,934
Other assets	7,12	212	228	173	192
Total assets		37,461	37,779	37,416	37,734
Liabilities					
Bank deposits	7	1,185	844	1,185	844
Customer deposits	7	32,305	32,939	32,305	32,939
Derivatives	6,7	280	414	280	414
Other financial liabilities	7,13	1,273	1,114	1,273	1,114
Amounts due to holding companies and fellow subsidiaries	7	418	410	474	494
Other liabilities	7,15	236	235	230	228
Total liabilities		35,697	35,956	35,747	36,033
Equity attributable to controlling interests		1,764	1,823	1,669	1,701
Total liabilities and equity		37,461	37,779	37,416	37,734

The accompanying notes on pages 28 to 101 and the accounting policies on pages 22 to 27 form an integral part of these financial statements.

The accounts were approved by the Board of directors on 12 February 2025 and signed on its behalf by:

Oliver Holbourn
Chief Executive Officer

Robert Horrocks
Chief Financial Officer

Statements of changes in equity

For the year ended 31 December 2024

	Note	RBSI Group		RBSI Ltd	
		2024 £m	2023 £m	2024 £m	2023 £m
Called-up share capital - at 1 January and 31 December	16	311	311	97	97
Paid-in equity - at 1 January and 31 December	16	300	300	300	300
Share premium account - at 1 January and 31 December		499	499	5	5
FVOCI reserve - at 1 January		(14)	(4)	(14)	(4)
Unrealised losses		(5)	(11)	(5)	(11)
Realised losses		2	-	2	-
Tax		1	1	1	1
At 31 December		(16)	(14)	(16)	(14)
Cash flow hedging reserve - at 1 January		(141)	(287)	(141)	(287)
Amount recognised in equity (2)		(119)	27	(119)	27
Amount transferred from equity to earnings (3)	6	149	135	149	135
Tax		3	(16)	3	(16)
At 31 December		(108)	(141)	(108)	(141)
Retained earnings - at 1 January		868	992	1,454	1,597
Profit attributable to ordinary shareholders and other equity owners		518	559	517	538
Paid-in equity dividends paid		(20)	(20)	(20)	(20)
Ordinary dividends paid		(583)	(652)	(555)	(650)
Remeasurement of the retirement benefit schemes					
- gross	4	(5)	(12)	(5)	(12)
- tax	4	-	1	-	1
At 31 December		778	868	1,391	1,454
Equity attributable to controlling interests at 31 December		1,764	1,823	1,669	1,701

(1) The distributable reserves for RBSIH is £26 million (2023 – £52 million) and for RBSI Ltd is £1,267 million (2023 - £1,299 million)

(2) The change in the cash flow hedging reserve is driven by realised accrued interest transferred into the income statement and an increase in swap rates in the year. The portfolio of hedging instruments is predominantly receive fixed swaps.

(3) As referred to in Note 6, the amount transferred from equity to the income statement is mostly recorded within net interest income mainly within loans to banks and customers – amortised cost and balances at central banks.

The accompanying notes on pages 28 to 101 and the accounting policies on pages 22 to 27 form an integral part of these financial statements.

Cash flow statements

For the year ended 31 December 2024

	Note	RBSI Group		RBSI Ltd	
		2024 £m	2023 £m	2024 £m	2023 £m
Cash flows from operating activities					
Operating profit before tax		627	659	626	636
Adjustments for:					
Non-cash and other items	18	508	366	507	378
Changes in operating assets and liabilities	18	(1,553)	348	(1,584)	386
Income taxes paid		(102)	(63)	(100)	(61)
Net cash flows from operating activities (1)		(520)	1,310	(551)	1,339
Cash flows from investing activities					
Sale and maturity of other financial assets		878	854	878	854
Purchase of other financial assets		(3,366)	(533)	(3,366)	(533)
Income received on other financial assets		58	35	58	35
Purchase of property, plant and equipment		(4)	(10)	(4)	(12)
Net assets and liabilities sold		-	27	-	-
Cash expenditure on intangible assets		(24)	(25)	(20)	(18)
Net cash flows from investing activities		(2,458)	348	(2,454)	326
Cash flows from financing activities					
Interest paid on subordinated liabilities	19	(20)	(21)	(20)	(21)
Dividends paid		(603)	(672)	(575)	(670)
Net cash flows from financing activities		(623)	(693)	(595)	(691)
Effects of exchange rate changes on cash and cash equivalents		(351)	(218)	(351)	(218)
Net (decrease)/increase in cash and cash equivalents		(3,952)	747	(3,951)	756
Cash and cash equivalents at 1 January		19,943	19,196	19,929	19,173
Cash and cash equivalents at 31 December	20	15,991	19,943	15,978	19,929

(1) Includes interest received of £1,894 million (2023 - £1,697 million) and interest paid of £1,033 million (2023 - £790 million). The total cash outflow for leases is £3 million (2023 - £4 million), including payment of principal amount of £2 million (2023 - £3 million) which are included in the operating activities in the cash flow statement.

The accompanying notes on pages 28 to 101 and the accounting policies on pages 22 to 27 form an integral part of these financial statements.

Accounting policies

1. Presentation of accounts

The accounts, set out on pages 17 to 21 including these accounting policies on pages 22 to 27 and Risk management sections on pages 54 to 92, are prepared on a going concern basis in accordance with IFRS as issued by the IASB (refer to the Report of the directors on pages 4 to 8). The material accounting policies and related judgements are set out below. The policies apply to both RBSI Group and RBSI Ltd.

RBSIH and RBSI Ltd are registered in Jersey, Channel Islands. The registered and head office is Royal Bank House, 71 Bath Street, St Helier, Jersey, JE4 8PJ.

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

With the exception of certain financial instruments as described in Accounting policies on pages 24 and 25, 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.

The effect of the amendments to IFRS effective from 1 January 2024 on our financial statements was immaterial.

In 2021, the OECD published the Global Anti-Base Erosion Model Rules (Pillar Two). These rules will impose a top-up tax on the profits of subsidiaries and permanent establishments that are taxed at a Pillar Two effective tax rate of less than 15 per cent. Top-up taxes are expected to arise in respect of RBSI's profits in Jersey, Guernsey, Isle of Man and Gibraltar. In the absence of an enacted Qualifying Domestic Minimum Top Up Tax ("QDMTT") in these jurisdictions, the top-up tax will be borne by NatWest Group plc in the United Kingdom.

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

Basis of consolidation

The consolidated accounts incorporate the financial statements of RBSI Group and entities that give access to variable returns and that are controlled by RBSI 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 are recognised in the income statement using the effective interest rate method for: all financial instruments measured at amortised cost, debt instruments classified as fair value through OCI using the effective interest rate method and the effective part of any related accounting hedging instruments. Finance lease income is 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 fixed and always determinable.

3. Staff Costs

Staff costs, such as salaries, paid absences, and other benefits are recognised 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 NatWest Group or by NatWest Group plc shares. Such awards are generally subject to vesting conditions.

Variable compensation that is settled in cash or debt instruments is charged to the income statement 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 the income statement 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 the income statement 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 due to changes in actuarial measurement assumptions) 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 if the criteria of the asset ceiling test are met. This requires the net defined benefit surplus to be limited to the present value of any economic benefits available to RBSI 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 are identifiable non-monetary assets without physical substance acquired or developed by RBSI Group and are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the income statement 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 10 years
Other acquired intangibles	3 to 5 years

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 when such transactions occur.

6. Impairment of non-financial assets

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

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 our 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 considered 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 the income statement. A reversal of an impairment loss on intangible assets (excluding goodwill) or property, plant and equipment can be recognised in the income statement provided the increased carrying value is not greater than it would have been had no impairment loss been recognised.

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 and hedges of net investments in foreign operations.

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 the income statement except for differences arising on non-monetary financial assets classified as fair value through other comprehensive income (OCI).

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 the income statement 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, RBSI 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

We recognise a provision for a present obligation resulting from a past event when it is more likely than not that we will be required to pay to settle the obligation and the amount of the obligation can be estimated reliably.

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

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

10. Tax

Income tax, comprising current tax and deferred tax, is recorded in the income statement except income tax on items recognised outside the income statement 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 the income statement, other comprehensive income or equity. Provision is made for current tax at rates enacted or substantively enacted at the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable in respect of temporary differences between the carrying amount of an asset or liability for accounting purposes and 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.

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

Current and deferred tax assets are only recognised where their recovery is deemed probable and current and deferred tax liabilities are recognised at the amount that represents the best estimate of the probable outcome having regard to their acceptance by the tax authorities.

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 (MFVTPL)** 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 RBSI 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.

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

Regular way purchases 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 the income statement 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

At each balance sheet date each financial asset or portfolio of loans measured at amortised cost or at FVOCI, issued financial guarantee and loan commitment (other than those classified as held for trading) is assessed for impairment and presented as impairments in the income statement. Loss allowances are forward looking, based on 12 month expected credit losses (ECL) where there has not been a significant increase in credit risk (SICR) rating (refer to Note 10 for details), otherwise allowances are based on lifetime expected losses.

ECL is 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 rebased from 12 month to lifetime expectations. This will lead to a higher impairment charge.

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

Judgement is exercised as follows:

- **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.

- **SICR** - 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 we conclude 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 RBSI 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.
- Uncollateralised impaired business loans are generally written off within five years.

13. Sale and repurchase transactions

Securities subject to sale and repurchase agreement under which substantially all the risks and rewards of ownership are retained by RBSI 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 repurchased transaction under which RBSI 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.

14. Netting

Financial assets and financial liabilities are offset and the net amounts presented in the balance sheet when, and only when, we have a legally enforceable right to set off the recognised amounts and we intend either to settle on a net basis, or to realise the asset and settle the liability simultaneously. RBSI Group is party to a number of arrangements, including master netting agreements, that give us the right to offset financial assets and financial liabilities but where we do not intend to settle the amounts net or simultaneously the assets and liabilities concerned are presented gross.

15. Capital instruments

We classify 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 RBSI Group after the deduction of liabilities. Incremental costs and related tax that are directly attributable to an equity transaction are deducted from equity.

16. Derivatives and hedging

Derivative financial instruments are initially recognised, and subsequently measured, at fair value. Our 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 the income statement.

We use derivatives as part of our trading activities, to manage our own risk such as interest rate, foreign exchange, or credit risk or in certain customer transactions. Not all derivatives used to manage risk are in hedge accounting relationships (an IFRS method to reduce accounting mismatch from changes in the fair value of the derivatives reported in the income statement).

Gains and losses arising from changes in the fair value of derivatives that are not in hedge relationships are recognised as they arise in Income from trading activities unless those derivatives are managed together with financial instruments designated at fair value; these gains and losses are included in Other operating income.

Hedge accounting 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.

We enter into three types of hedge relationships:

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

Cash flow hedge - the effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income and the ineffective portion in the income statement. 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 the income statement in the same periods in which the hedged forecast cash flows affect the income statement.

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 the income statement. Non-derivative financial liabilities as well as derivatives may designated as a hedging instrument in a net investment hedge.

Discontinuation of hedge accounting – 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 the income statement over the life of the hedged item using a recalculated effective interest rate.

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

For cash flow hedging the cumulative unrealised gain or loss is reclassified from equity to the income statement when the hedged cash flows occur or, if the forecast transaction results in the recognition of a financial asset or financial liability, when the hedged forecast cash flows affect the income statement. Where a forecast transaction is no longer expected to occur, the cumulative unrealised gain or loss is reclassified from equity to the income statement immediately.

For net investment hedging on disposal or partial disposal of a foreign operation, the amount accumulated in equity is reclassified from equity to the income statement.

17. 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.

18. Depository 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 RBSI Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its accounts. IFRS require the directors, in preparing RBSI Group's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent. In the absence of an applicable standard or interpretation, IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' requires management to develop and apply an accounting policy that results in relevant and reliable information in the light of the requirements and guidance in IFRS dealing with similar and related issues and the IASB's 'Conceptual Framework for Financial Reporting'.

The judgements and assumptions involved in RBSI 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 these sources of estimation uncertainty have 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	15

Future Accounting developments

International Financial Reporting Standards

Effective 1 January 2026

- Amendments to the Classification and Measurement of Financial Instruments (Amendments to IFRS 9 and IFRS 7 – Issued May 2024)

Effective 1 January 2027

- Presentation and Disclosures in Financial Statements (IFRS 18 – Issued April 2024)
- Subsidiaries without Public Accountability (IFRS 19 – Issued May 2024)

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

	Page
1. Net interest income	29
2. Non-interest income	30
3. Operating expenses	30
4. Pensions	31
5. Tax	35
6. Derivatives	36
7. Financial instruments	40
8. Loan impairment provisions	52
9. Other financial assets	53
10. Risk management	54
11. Investments in subsidiaries	93
12. Other assets	93
13. Other financial liabilities	93
14. Subordinated liabilities	93
15. Other liabilities	94
16. Share capital and other equity	95
17. Memorandum items	96
18. Non-cash and other items	97
19. Analysis of changes in financing through the year	97
20. Analysis of cash and cash equivalents	98
21. Related parties	99
22. Post balance sheet events	101

1 Net interest income

	RBSI Group		RBSI Ltd	
	2024	2023	2024	2023
	£m	£m	£m	£m
Interest receivable on assets:				
Balances at central banks and loans to banks - amortised cost	789	740	789	740
Loans to customers - amortised cost	957	915	956	914
Amounts due from holding company and fellow subsidiaries	41	23	41	23
Other financial assets - debt securities	109	52	109	52
Interest receivable	1,896	1,730	1,895	1,729
Interest payable on liabilities:				
Bank deposits	(110)	(68)	(110)	(68)
Customer deposits: demand	(272)	(254)	(272)	(254)
Customer deposits: savings	(252)	(209)	(252)	(209)
Customer deposits: other time	(316)	(264)	(316)	(264)
Other financial liabilities	(51)	(45)	(51)	(45)
Amounts due to holding company and fellow subsidiaries	(26)	(33)	(29)	(35)
Interest payable	(1,027)	(873)	(1,030)	(875)
Net interest income	869	857	865	854

Interest income on financial instruments measured at amortised cost and debt instruments classified as FVOCI is measured using the effective interest rate method, 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 £2.4 million (2023 - £2.6 million).

Interest receivable on loans to customers includes amortisation of arrangement fees of £45.9 million (2023 - £41.7 million).

2 Non-interest income

	RBSI Group		RBSI Ltd	
	2024	2023	2024	2023
	£m	£m	£m	£m
Fees and commissions receivable				
- payment services	33	21	33	21
- credit & debit card fees	9	7	9	7
- lending (credit facilities)	48	50	48	50
- trade finance	6	6	6	6
- investment management	38	44	4	4
- other services	2	2	2	2
Fees and commissions payable (1)	(37)	(30)	(37)	(30)
Other operating income (2)	74	105	74	90
Total non-interest income	173	205	139	150

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

(2) Other operating income primarily includes income from economic hedging activity, impacted by mark to market movements.

3 Operating expenses

	RBSI Group		RBSI Ltd	
	2024	2023	2024	2023
	£m	£m	£m	£m
Wages, salaries and other staff costs	124	106	113	94
Temporary and contractor costs	22	22	20	20
Social security costs	11	9	10	8
Restructure costs	4	3	3	3
Pension costs:				
- defined benefit schemes (Note 4)	4	3	4	3
- defined contribution schemes (Note 4)	9	7	7	5
Staff costs	174	150	157	133
Premises and equipment (1)	23	26	21	24
Depreciation, impairment and amortisation:				
- property, plant and equipment	18	13	17	13
- intangible assets	9	11	9	11
Other administrative expenses (2)	199	189	181	173
Administrative expenses	249	239	228	221
Total operating expenses	423	389	385	354

(1) Premises and equipment includes investment in technology infrastructure.

(2) Other administrative expenses include £121 million (2023 - £113 million) recharges from NatWest Group companies and £27 million (2023 - £28 million) remediation spend.

The average number of persons employed by RBSI Group during the year, excluding temporary staff was 1,876 (2023 - 1,679). The average number of temporary employees during 2024 was 211 (2023 - 249).

	RBSI Group		RBSI Ltd	
	2024	2023	2024	2023
	£'000	£'000	£'000	£'000
Auditor's remuneration				
Fees payable for:				
- the audit of RBSI Group's annual accounts	44	41	-	-
- the audit of RBSIH subsidiaries	1,512	1,528	1,430	1,341
- audit-related assurance services	450	334	244	106
- Other services	140	197	140	197
	2,146	2,100	1,814	1,644

4 Pensions

Defined contribution schemes

RBSI Group made contributions of £9 million to its own defined contribution schemes in 2024 (2023 - £7 million).

Eligible employees of RBSI Group can participate in membership of defined contribution NatWest Group operated pension schemes. Detailed disclosure of the NatWest Group pension schemes is available in the NatWest Group Annual Report and Accounts 2024.

Defined benefit schemes

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 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 includes trustee directors nominated by members selected from eligible staff and pensioner members who apply, alongside independent and bank appointed trustee directors. 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 Group, 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 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.

	RBSI Group and RBSI Ltd					
	2024			2023		
Major classes of plan assets as a weighted percentage of total plan assets of the schemes	Quoted %	Unquoted %	Total %	Quoted %	Unquoted %	Total %
Equities	23	-	23	2	-	2
Index-linked bonds	26	-	26	46	-	46
Government fixed interest bonds	14	-	14	6	-	6
Corporate and other bonds	34	-	34	31	-	31
Derivatives	-	1	1	-	1	1
Cash and other assets	-	2	2	-	14	14
	97	3	100	85	15	100

4 Pensions continued

RBSI Group and RBSI Ltd				
All schemes				
	Fair value of plan assets	Present value of defined benefit obligations (1)	Asset Ceiling (2)	Net pension asset
	£m	£m	£m	£m
Changes in value of net pension asset/(liability)				
At 1 January 2023	501	(465)	(23)	13
Income statement - operating expenses	25	(27)	(1)	(3)
Other comprehensive income	1	(14)	1	(12)
Contributions by employer	9	-	-	9
Benefits paid	(23)	23	-	-
Intra group transfers	1	(1)	-	-
At 1 January 2024	514	(484)	(23)	7
Currency translation and other adjustments				
Income statement - operating expenses				
Interest income	24	-	-	24
Interest expense	-	(23)	(1)	(24)
Current service cost	-	(2)	-	(2)
Expenses	-	(2)	-	(2)
	24	(27)	(1)	(4)
Other comprehensive income				
Return on plan assets excluding recognised interest income (4)	(57)	-	-	(57)
Experience gains and losses	-	(7)	-	(7)
Effect of changes in actuarial financial assumptions (4)	-	46	-	46
Effect of changes in actuarial demographic assumptions	-	6	-	6
Asset ceiling adjustment	-	-	7	7
	(57)	45	7	(5)
Contributions by employer (3)	8	-	-	8
Benefits paid	(23)	23	-	-
At 31 December 2024 (4)	466	(443)	(17)	6

(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) RBSI Group expects to make contributions to the RBSIPT of £2.5 million in 2025.

(4) During 2024, the Court of Appeal upheld the initial High Court ruling in respect of Virgin Media v NTL Pension Trustees II Limited (and others), calling into question the validity of rule amendments made between 1997 and 2016. In 2023, a selection of amendments from the relevant period judged as material, were reviewed. While uncertainties remain, the review indicated the risk of a change in the defined benefit obligation (DBO) was remote, so no adjustment was made to the DBO value. This position is unchanged at year end.

	RBSI Group and RBSI Ltd	
	2024	2023
	£m	£m
Amounts recognised on the balance sheet		
Fund assets at fair value	466	514
Present value of fund liabilities	(443)	(484)
Funded status	23	30
Asset ceiling	(17)	(23)
	6	7

	RBSI Group and RBSI Ltd	
	2024	2023
	£m	£m
Net pension asset/(liability) comprises		
Net assets of schemes in surplus - IPT	6	7
Net assets of schemes in surplus - UK Scheme	17	23
Asset ceiling - UK Scheme	(17)	(23)
	6	7

4 Pensions continued

Funding and contributions by 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 109%, based on pension liabilities of £826 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.

Accounting assumptions

Placing a value on RBSI Group's defined benefit pension schemes' liabilities requires 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 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 RBSI Group's pension schemes was prepared to 31 December 2024 by independent actuaries, using the following assumptions for the material pension schemes:

	RBSI Group and RBSI Ltd (1)	
	2024	2023
Discount rate	5.55%	4.80%
Rate of increase in salaries	1.75%	1.75%
Rate of increase in pensions in payment	2.79%	3.10%
Rate of increase in deferred pensions	3.55%	3.45%
Inflation assumption	3.55%	3.45%
Post-retirement mortality assumptions		
Longevity at age 60 for current pensioners aged 60 (years)		
Males	27.1	27.7
Females	28.8	29.5
Longevity at age 60 for future pensioners currently aged 40 (years)		
Males	28.5	29.2
Females	30.3	30.9

(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 RBSI Group's defined benefit obligation is 17.8 years (2023 - 17.7 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 judgement 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. Judgement 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:

	RBSI Group and RBSI Ltd			
	(Decrease)/increase in pension cost for the year		(Decrease)/increase in obligation at 31 December	
	2024	2023	2024	2023
	£m	£m	£m	£m
0.5% increase in the discount rate	(2)	(2)	(27)	(36)
0.25% increase in inflation	1	1	11	13
0.25% additional rate of increase in pensions in payment	1	1	11	13
0.25% additional rate of increase in deferred pensions	-	-	3	6
0.25% additional rate of increase in salaries	-	-	-	-
Longevity increase of one year	-	1	11	13

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.

	RBSI Group and RBSI Ltd				
	2024	2023	2022	2021	2020
	£m	£m	£m	£m	£m
Experience history of defined benefit schemes					
Fair value of plan assets	466	514	501	1,082	1,076
Present value of plan obligations	(443)	(484)	(465)	(850)	(864)
Fund status	23	30	36	232	212
Asset ceiling	(17)	(23)	(23)	(26)	(39)
Net surplus	6	7	13	206	173
Experience (losses)/gains on plan liabilities	(7)	(14)	(33)	13	5
Experience (losses)/gains on plan assets	(57)	1	(576)	38	141
Actual return on pension scheme assets	(33)	26	(557)	56	160

5 Tax

	RBSI Group		RBSI Ltd	
	2024	2023	2024	2023
	£m	£m	£m	£m
Current tax:				
Charge for the year	103	100	103	98
Over provision in respect of prior years	6	-	6	-
	109	100	109	98
Deferred tax:				
Charge for the year	-	-	-	-
Prior year adjustment	-	-	-	-
Tax charge for the year	109	100	109	98

The actual tax charge differs from the expected tax charge computed by applying the standard rate of income tax as follows: (Jersey, Guernsey 10% (2023 - 10%), Isle of Man 13.75% (2023 - 10%), Gibraltar 13.75% (2023 - 12.5%), UK 28% (2023 until 5 April 2023 then 28% thereafter), Luxembourg 24.94% (2023 - 24.94%) & NWTDS 25% (2023 - 19% until 5 April then 25% thereafter).

	RBSI Group		RBSI Ltd	
	2024	2023	2024	2023
	£m	£m	£m	£m
Expected tax charge	63	64	63	63
<i>Factors affecting the charge for the year:</i>				
Non-deductible items	3	2	3	2
Non-taxable items	-	-	-	-
Deferred tax	-	-	-	-
Rate differences on current tax	37	34	37	33
Adjustments in respect of prior years	6	-	6	-
Actual tax charge	109	100	109	98

Global minimum top-up tax

The Group is subject to the global minimum top-up tax under Pillar 2 tax legislation. The operations of The Royal Bank of Scotland International Limited in Jersey, Guernsey, Isle of Man and Gibraltar trigger a top-up tax. For the period ended 31 December 2024, this top-up tax is levied on NatWest Group plc under the Income Inclusion Rule. NatWest Group plc has recognised a current tax expense of £20 million related to the top-up tax (2023 - nil).

In October 2024, Jersey enacted new tax legislation to implement a domestic minimum top-up tax, which is effective from 1 January 2025. As a result, from 2025, The Royal Bank of Scotland International Limited will be liable for the top-up tax in relation to its operations instead of NatWest Group plc.

Deferred tax

	RBSI Group and RBSI Ltd	
	2024	2023
	£m	£m
Deferred tax assets	22	18
Deferred tax liabilities	(3)	(3)
Net deferred tax assets	19	15

	RBSI Group and RBSI Ltd			
	Pension	Accelerated capital allowances		Other
		£m	£m	
At 1 January 2023	(1)	(2)	33	30
Charge to income statement	-	-	-	-
Charge to other comprehensive income	-	-	(15)	(15)
At 1 January 2024	(1)	(2)	18	15
Charge to income statement	-	-	-	-
Charge to other comprehensive income	-	-	4	4
At 31 December 2024	(1)	(2)	22	19

6 Derivatives

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

	RBSI Group and RBSI Ltd					
	2024			2023		
	Notional £m	Assets £m	Liabilities £m	Notional £m	Assets £m	Liabilities £m
Exchange rate contracts						
Spots and forwards - NatWest Group	4,149	71	15	4,219	12	81
Spots and forwards - Third party	403	9	4	511	4	7
Interest rate swaps						
NatWest Group	13,644	141	261	11,285	153	326
Total	18,196	221	280	16,015	169	414

Hedge accounting using derivatives

RBSI Group applies hedge accounting to reduce the accounting mismatch caused in the income statement by using derivatives to hedge the following risks: interest rate, foreign exchange and the foreign exchange risk associated with net investment in foreign operations.

RBSI Group's interest rate hedging relates to the management of RBSI Group's non-trading structural interest rate risk, caused by the mismatch between fixed interest rates and floating interest rates on its financial instruments. RBSI Group manages this risk within approved limits. Residual risk positions are hedged with derivatives, principally interest rate swaps.

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

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

Fair value hedges of interest rate risk involve interest rate swaps transforming the fixed interest rate risk in financial assets and financial liabilities to floating. The hedged risk is the risk of changes in the hedged item's fair value attributable to changes in the interest rate risk component of the hedged item. The significant interest rates identified as risk components are SOFR and SONIA. These risk components are identified using the risk management systems of RBSI Group and encompass the majority of the hedged item's fair value risk.

For all cash flow hedging and fair value hedge relationships RBSI Group determines that there is an economic relationship between the hedged item and hedging instrument via assessing the initial and ongoing effectiveness by comparing movements in the fair value of the expected highly probable forecast interest cash flows/ fair value of the hedged item attributable to the hedged risk with movements in the fair value of the expected changes in cash flows from the hedging instrument. The method used for comparing movements is either regression testing, or the dollar offset method. The method for testing effectiveness and the period over which the test is performed depends on the applicable risk management strategy and is applied consistently to each risk management strategy. Hedge effectiveness is assessed on a cumulative basis and the determination of effectiveness is in line with the requirements of IAS 39.

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

6 Derivatives continued

Derivatives in hedge accounting relationships

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

	RBSI Group and RBSI Ltd							
	2024				2023			
	Notional £m	Assets £m	Liabilities £m	Changes in fair value used for hedge ineffectiveness (1) £m	Notional £m	Assets £m	Liabilities £m	Changes in fair value used for hedge ineffectiveness (1) £m
Fair value hedging								
Interest rate contracts	2,965	108	14	48	1,791	109	38	(63)
Cash flow hedging								
Interest rate contracts	6,868	28	213	5	4,797	33	229	158
Total	9,833	136	227	53	6,588	142	267	95

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

Hedge ineffectiveness

Hedge ineffectiveness recognised in other operating income comprises.

	RBSI Group and RBSI Ltd	
	2024 £m	2023 £m
Fair value hedging		
(Loss)/gain on hedged items attributable to the hedged risk	(47)	64
Gain/(loss) on the hedging instruments	48	(63)
Fair value hedging ineffectiveness	1	1
Cash flow hedging		
Interest rate risk	-	1
Cash flow hedging ineffectiveness	-	1
Total	1	2

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).

6 Derivatives continued

Maturity of notional hedging contracts

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

		RBSI Group and RBSI Ltd						
		0-3 months	3-12 months	1-3 years	3-5 years	5-10 years	Over 10 years	Total
		£m	£m	£m	£m	£m	£m	£m
2024								
Fair value hedging								
Interest rate risk								
	Hedging assets	5	229	769	622	488	339	2,452
	Hedging liabilities	-	279	168	66	-	-	513
2023								
Fair value hedging								
Interest rate risk								
	Hedging assets	157	55	284	140	174	474	1,284
	Hedging liabilities	-	-	441	66	-	-	507
2024								
Cash flow hedging								
Interest rate risk								
	Hedging assets	450	507	2,440	2,016	672	-	6,085
	Hedging liabilities	-	-	783	-	-	-	783
2023								
Cash flow hedging								
Interest rate risk								
	Hedging assets	290	260	1,795	1,958	494	-	4,797
	Hedging liabilities	-	-	-	-	-	-	-

Average fixed interest rates

The following table shows the average fixed rate for cash flow hedges, interest rate risk, for RBSI Group and RBSI Ltd.

		0-3 months	3-12 months	1-3 years	3-5 years	5-10 years	Over 10 years	Total
		%	%	%	%	%	%	%
2024								
Average fixed interest rate								
	Hedging assets	0.48	3.79	2.08	3.61	2.58	-	2.67
	Hedging liabilities	-	-	4.29	-	-	-	4.29
2023								
Average fixed interest rate								
	Hedging assets	0.95	1.54	1.42	3.09	2.14	-	2.15
	Hedging liabilities	-	-	-	-	-	-	-

6 Derivatives continued

Analysis of hedged items and related hedging instruments

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

	RBSI Group and RBSI Ltd		
	Carrying value of hedged assets and liabilities £m	Impact on hedged items included in carrying value £m	Changes in fair value used as a basis to determine ineffectiveness (1) £m
2024			
Fair value hedging - interest rate			
Loans to banks and customers - amortised cost	188	(8)	4
Other financial assets - securities	2,157	(81)	(55)
Total	2,345	(89)	(51)
Other financial liabilities - debt securities in issue	235	(2)	3
Subordinated liabilities	283	1	1
Total	518	(1)	4
2023			
Fair value hedging - interest rate			
Loans to banks and customers - amortised cost	419	(12)	17
Other financial assets - securities	784	(52)	43
Total	1,203	(64)	60
Other financial liabilities - debt securities in issue	235	(1)	2
Subordinated liabilities	279	2	2
Total	514	1	4
2024			
Cash flow hedging - interest rate			
Loans to banks and customers - amortised cost	6,085		(4)
Bank and customer deposits	783		(1)
2023			
Cash flow hedging - interest rate			
Loans to banks and customers - amortised cost	4,797		(157)
Bank and customer deposits	-		-

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

Analysis of cash flow and foreign exchange hedge reserve

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

	RBSI Group and RBSI Ltd	
	2024 £m	2023 £m
Continuing - Cash flow hedging - Interest rate risk	(107)	(112)
De-designated - Cash flow hedging - Interest rate risk	(19)	(45)
Total	(126)	(157)
	RBSI Group and RBSI Ltd	
	2024 £m	2023 £m
Interest rate risk		
Amount recognised in equity	(119)	27
Amount transferred from equity to earnings		
Interest rate risk to net interest income	149	135

7 Financial instruments – classification

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

	RBSI Group				
	MFVTPL	FVOCI	Amortised cost	Other assets	Total
2024	£m	£m	£m	£m	£m
Assets					
Cash and balances at central banks			14,264		14,264
Derivatives	221				221
Loans to banks - amortised cost (1)			927		927
Loans to customers - amortised cost (1,2)			15,621		15,621
Amounts due from holding companies and fellow subsidiaries	50	-	750	6	806
Other financial assets	-	3,657	1,753		5,410
Other assets				212	212
	271	3,657	33,315	218	37,461

	Held-for-trading	Amortised cost	Other liabilities	Total
	£m	£m	£m	£m
Liabilities				
Banks deposits (1,3)		1,185		1,185
Customer deposits (1)		32,305		32,305
Derivatives	280			280
Other financial liabilities (4)	-	1,273		1,273
Amounts due to holding companies and fellow subsidiaries	-	374	44	418
Other liabilities (5)		30	206	236
	280	35,167	250	35,697

	MFVTPL	FVOCI	Amortised cost	Other assets	Total
	£m	£m	£m	£m	£m
2023					
Assets					
Cash and balances at central banks			17,697		17,697
Derivatives	169				169
Loans to banks - amortised cost (1)			1,228		1,228
Loans to customers - amortised cost (1,2)			14,500		14,500
Amounts due from holding companies and fellow subsidiaries	252	-	766	5	1,023
Other financial assets	-	784	2,150		2,934
Other assets				228	228
	421	784	36,341	233	37,779

	Held-for-trading	Amortised cost	Other liabilities	Total
	£m	£m	£m	£m
Liabilities				
Banks deposits (1,3)		844		844
Customer deposits (1)		32,939		32,939
Derivatives	414			414
Other financial liabilities (4)	-	1,114		1,114
Amounts due to holding companies and fellow subsidiaries	-	376	34	410
Other liabilities (5)		34	201	235
	414	35,307	235	35,956

Refer to the following page for footnotes.

7 Financial instruments – classification continued

2024	RBSI Ltd				
	MFVTPL £m	FVOCI £m	Amortised cost £m	Other assets £m	Total £m
Assets					
Cash and balances at central banks			14,264		14,264
Derivatives	221				221
Loans to banks – amortised cost (1)			914		914
Loans to customers – amortised cost (1,2)			15,621		15,621
Amounts due from holding companies and fellow subsidiaries	50	-	750	13	813
Other financial assets	-	3,657	1,753		5,410
Other assets				173	173
	271	3,657	33,302	186	37,416

2024	RBSI Ltd				
	Held-for- trading £m	Amortised cost £m	Other liabilities £m	Total £m	
Liabilities					
Banks deposits (1,3)		1,185		1,185	
Customer deposits (1)		32,305		32,305	
Derivatives	280			280	
Other financial liabilities (4)	-	1,273		1,273	
Amounts due to holding companies and fellow subsidiaries	-	435	39	474	
Other liabilities (5)		30	200	230	
	280	35,228	239	35,747	

2023	RBSI Ltd				
	MFVTPL £m	FVOCI £m	Amortised cost £m	Other assets £m	Total £m
Assets					
Cash and balances at central banks			17,697		17,697
Derivatives	169				169
Loans to banks – amortised cost (1)			1,214		1,214
Loans to customers – amortised cost (1,2)			14,500		14,500
Amounts due from holding companies and fellow subsidiaries	252	-	766	10	1,028
Other financial assets	-	784	2,150		2,934
Other assets				192	192
	421	784	36,327	202	37,734

2023	RBSI Ltd				
	Held-for- trading £m	Amortised cost £m	Other liabilities £m	Total £m	
Liabilities					
Banks deposits (1,3)		844		844	
Customer deposits (1)		32,939		32,939	
Derivatives	414			414	
Other financial liabilities (4)	-	1,114		1,114	
Amounts due to holding companies and fellow subsidiaries	-	460	34	494	
Other liabilities (5)		34	194	228	
	414	35,391	228	36,033	

(1) RBSI Group and RBSI Ltd 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:

a. Loans to banks and bank deposits: £970 million (2023 – £855 million).

b. Loans to customers and customer deposits: £273 million (2023 – £221 million).

(2) Includes RBSI Group and RBSI Ltd finance lease receivables of £31 million (2023 – £39 million).

(3) Includes RBSI Group and RBSI Ltd syndicated loans of £997 million (2023 – £588 million).

(4) Includes RBSI Group and RBSI Ltd private placements of £234 million (2023 – £232 million) and commercial paper issuance of £1,037 million (2023 – £879 million).

(5) Includes RBSI Group and RBSI Ltd lease liabilities of £29 million (2023 – £32 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 which are presented under Loans to customers-amortised cost on the balance sheet:

	RBSI Group and RBSI Ltd	
	2024	2023
	£m	£m
Amount receivable under finance leases		
Within 1 year	2	7
1 to 2 years	6	6
2 to 3 years	6	6
3 to 4 years	6	6
4 to 5 years	6	6
After 5 years	18	18
Lease payments total	44	49
Unearned income	(13)	(10)
Present value of lease payments	31	39
Impairments	-	-
Net investment in finance leases	31	39

7 Financial instruments - valuation

Critical accounting policy: Fair value - financial instruments

Financial instruments classified as mandatory fair value through profit or loss; held-for-trading; designated fair value through profit or loss and 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 considers the characteristics of the asset or liability and the assumptions that a market participant would consider when pricing the asset or liability.

RBSI Group manages some portfolios of financial assets and financial liabilities based on its net exposure to either market or credit risk. In these cases, the fair value is derived from the net risk exposure of that portfolio with portfolio level adjustments applied to incorporate bid-offer spreads, counterparty credit risk, and funding costs.

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. The complexity and uncertainty in the financial instrument's fair value is categorised using the fair value hierarchy.

For accounting policy information refer to Accounting policies 11 and 16.

Fair Value Hierarchy

Financial instruments carried at fair value are classified under the fair value hierarchy. The classification ranges from level 1 to level 3, with more expert judgement and price uncertainty for those classified at level 3.

The determination of an instrument's level cannot be made at a global product level as a single product type can be in more than one level. For example, a single name corporate credit default swap could be in level 2 or level 3 depending on the level of market activity for the referenced entity.

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. Observable inputs are those that are readily available with limited adjustments required. Examples include most government agency securities, investment-grade corporate bonds, certain mortgage products - including collateralised loan obligations (CLOs,) most bank loans, repos and reverse repos, 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 non-derivative instruments which trade infrequently, certain syndicated and commercial mortgage loans, private equity, and derivatives with unobservable model inputs.

Valuation techniques

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. Examples include equities and most debt securities. Non-modelled products can fall into any fair value levelling hierarchy depending on the observable market activity, liquidity, and assessment of valuation uncertainty of the instruments. The assessment of fair value and the classification of the instrument to a fair value level is subject to the valuation controls discussed in the Valuation control section.

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 (e.g., balance guaranteed swaps).

For modelled products the fair value is derived using the model and the appropriate model inputs or parameters, as opposed to a cash price equivalent. Model inputs are taken either directly or indirectly from available data, where some inputs are also modelled.

Fair value classification of modelled instruments is either level 2 or level 3, depending on the product/model combination, the observability and quality of input parameters and other factors. All these must be assessed to classify a position. The modelled product is assigned to the lowest fair value hierarchy level of any significant input used in that valuation.

Inputs to valuation models

When using valuation techniques, the fair value can be significantly affected by the choice of valuation model and underlying assumptions. Factors considered include the cashflow amounts and timing of those cashflows, and application of appropriate discount rates, incorporating both funding and credit risk. Values between and beyond available data points are obtained by interpolation and extrapolation. 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/margins - these reflect credit default swap levels or the return required over a benchmark rate or index to compensate for the referenced credit risk. Where available, these are derived from the price of credit default swaps or other credit-based instruments, such as debt securities. When direct prices are not available; credit spreads/margins are determined with reference to available prices of entities with similar characteristics.

Interest rates - these are principally based on interest rate swap prices referencing interest rates. Interest rates include SONIA (Sterling Overnight Interbank Average Rate). Other quoted interest rates may also be used from both the bond, and futures markets.

Foreign currency exchange rates - there are observable prices both for spot and forward contracts and futures in the world's major currencies.

7 Financial instruments - valuation

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

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 variables are observed to move together. Variables that move in the same direction show positive correlation; those that move in opposite directions are negatively correlated.

Prepayment rates - rates used to reflect how fast a pool of assets prepay. 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. When valuing prepayable instruments, the value of this prepayment option is considered.

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 the value of the underlying collateral.

Valuation control

RBSI Group's control environment for the determination of the fair value of financial instruments includes formalised procedures for the review and validation of fair values. The review of market prices and inputs is performed by an independent price verification (IPV) team.

IPV is a key element of the control environment. Valuations are first performed by the business which entered into the transaction. These valuations are then reviewed by the IPV team, independent of those trading the financial instruments, in light of available pricing evidence.

Independent pricing data is collated from a range of sources. Each source is reviewed for quality and the independent data applied in the IPV processes using a formalised input quality hierarchy. Consensus services are one source of independent data and encompass interest rate, currency, credit, and bond markets, providing comprehensive coverage of vanilla products and a wide selection of exotic products.

Where measurement differences are identified through the IPV process these are grouped by the quality hierarchy of the independent data. If the size of the difference exceeds defined thresholds, an adjustment is made to bring the valuation to within the independently calculated fair value range.

IPV takes place at least monthly, for all fair value financial instruments. The IPV control includes formalised reporting and escalation of any valuation differences in breach of established thresholds.

The quality and completeness of the information gathered in the IPV process gives an indication as to the liquidity and valuation uncertainty of an instrument and forms part of the information considered when determining fair value hierarchy classifications.

Initial fair value level classification of a financial instrument is carried out by the IPV team. These initial classifications are subject to senior management review. Particular attention is paid to instruments transferring from one level to another, new instrument classes or products, instruments where the transaction price is significantly different from the fair value and instruments where valuation uncertainty is high.

Valuation Committees are made up of valuation specialists and senior business representatives from various functions and oversee pricing, reserving and valuations issues. These committees meet monthly to review and ratify any methodology changes. The Executive Valuation Committee meets quarterly to address key material and subjective valuation issues, to review items escalated by Valuation Committees and to discuss other relevant industry matters. Our model risk policy sets the policy for model documentation, testing and review. Governance of the model risk policy is carried out by the model risk oversight committee, which comprises model risk owners and independent model experts. All models are required to be independently validated in accordance with the Model Risk Policy.

Key areas of judgement

Over the years the business has simplified, with most products classified as level 1 or 2 of the fair value hierarchy. Level 3 indicates a significant level of pricing uncertainty, where expert judgement is used. As such, extra disclosures are required in respect of level 3 instruments.

In general, the degree of expert judgement used and hence valuation uncertainty depends on the degree of liquidity of an instrument or input.

Where markets are liquid, little judgement is required. However, when the information regarding the liquidity in a particular market is not clear, a judgement may need to be made. For example, for an equity traded on an exchange, daily volumes of trading can be seen, but for an OTC derivative, assessing the liquidity of the market with no central exchange is more challenging.

A key related matter is where a market moves from liquid to illiquid or vice versa. Where this movement is considered temporary, the fair value level is not changed. For example, if there is little market trading in a product on a reporting date but at the previous reporting date and during the intervening period the market has been liquid. In this case, the instrument will continue to be classified at the same level in the hierarchy.

This is to provide consistency so that transfers between levels are driven by genuine changes in market liquidity and do not reflect short term or seasonal effects. Material movements between levels are reviewed quarterly by the business and IPV.

The breadth and depth of the IPV data allows for a rules-based quality assessment to be made of market activity, liquidity, and pricing uncertainty, which assists with the process of allocation to an appropriate level. Where suitable independent pricing information is not readily available, the quality assessment will result in the instrument being assessed as level 3.

7 Financial instruments – valuation continued

The table below shows the assets and liabilities held by RBSI Group split by fair value hierarchy level. Level 1 are considered the most liquid instruments, and level 3 the most illiquid, valued using expert judgement and so carry the most significant price uncertainty.

	RBSI Group and RBSI Ltd					
	2024			2023		
	Level 1 £m	Level 2 £m	Total £m	Level 1 £m	Level 2 £m	Total £m
Assets						
Derivatives	-	221	221	-	169	169
Amounts due from holding companies and fellow subsidiaries	-	50	50	-	252	252
Other financial assets - securities	2,692	965	3,657	784	-	784
Total financial assets at fair value	2,692	1,236	3,928	784	421	1,205
As % of total fair value assets	69%	31%		65%	35%	
Liabilities						
Derivatives	-	280	280	-	414	414
Total financial liabilities at fair value	-	280	280	-	414	414
As % of total fair value liabilities	-	100%		-	100%	

Fair value of Financial Instruments not carried at fair value

The following tables show the carrying values and the fair values of financial instruments on the balance sheet carried at amortised cost.

	RBSI Group					
	Carrying value £m	Fair value £m	Fair value hierarchy level			Items where fair value approximates carrying value £m
			Level 1 £m	Level 2 £m	Level 3 £m	
2024						
Financial assets						
Cash and balances at central banks	14,264	14,264	-	-	-	14,264
Loans to banks	927	927	-	-	-	927
Loans to customers	15,621	16,529	-	-	16,529	-
Amounts due from holding company and fellow subsidiaries	750	750	-	-	750	-
Other financial assets - securities	1,753	1,655	1,655	-	-	-
2023						
Financial assets						
Cash and balances at central banks	17,697	17,697	-	-	-	17,697
Loans to banks	1,228	1,228	-	-	-	1,228
Loans to customers	14,500	14,536	-	-	14,536	-
Amounts due from holding company and fellow subsidiaries	766	766	-	-	766	-
Other financial assets - securities	2,150	2,004	2,004	-	-	-
2024						
Financial liabilities						
Bank deposits	1,185	1,185	-	-	1,040	145
Customer deposits	32,305	32,305	-	-	10,415	21,890
Other financial liabilities						
Debt securities in issue	1,273	1,273	-	1,273	-	-
Amounts due to holding company and fellow subsidiaries	374	374	-	-	374	-
2023						
Financial liabilities						
Bank deposits	844	844	-	-	666	178
Customer deposits	32,939	32,939	-	-	11,080	21,859
Other financial liabilities						
Debt securities in issue	1,114	1,114	-	1,114	-	-
Amounts due to holding company and fellow subsidiaries	376	376	-	-	376	-

7 Financial instruments – valuation continued

Fair value of Financial Instruments not carried at fair value continued

	RBSI Ltd						Items where fair value approximates carrying value
	Carrying value	Fair value	Fair value hierarchy level			Level 3	
			Level 1	Level 2	Level 3		
	£m	£m	£m	£m	£m	£m	
2024							
Financial assets							
Cash and balances at central banks	14,264	14,264	-	-	-	-	14,264
Loans to banks	914	914	-	-	-	-	914
Loans to customers	15,621	16,529	-	-	16,529	-	-
Amounts due from holding companies and fellow subsidiaries	750	750	-	-	750	-	-
Other financial assets - securities	1,753	1,655	1,655	-	-	-	-
2023							
Financial assets							
Cash and balances at central banks	17,697	17,697	-	-	-	-	17,697
Loans to banks	1,214	1,214	-	-	-	-	1,214
Loans to customers	14,500	14,536	-	-	14,536	-	-
Amounts due from holding companies and fellow subsidiaries	766	766	-	-	766	-	-
Other financial assets - securities	2,150	2,004	2,004	-	-	-	-
2024							
Financial liabilities							
Bank deposits	1,185	1,185	-	-	1,040	-	145
Customer deposits	32,305	32,305	-	-	10,415	-	21,890
Other financial liabilities							
Debt securities in issue	1,273	1,273	-	1,273	-	-	-
Amounts due to holding companies and fellow subsidiaries	435	435	-	-	435	-	-
2023							
Financial liabilities							
Bank deposits	844	844	-	-	666	-	178
Customer deposits	32,939	32,939	-	-	11,080	-	21,859
Other financial liabilities							
Debt securities in issue	1,114	1,114	-	1,114	-	-	-
Amounts due to holding companies and fellow subsidiaries	460	460	-	-	460	-	-

7 Financial instruments – valuation continued

Fair value of Financial Instruments not carried at fair value

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 judgements 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, 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:

- (a) 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.
- (b) 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.

	RBSI Group					
	2024			2023		
	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	14,264	-	14,264	17,697	-	17,697
Derivatives	83	138	221	26	143	169
Loans to banks - amortised cost	927	-	927	1,228	-	1,228
Loans to customers - amortised cost	9,095	6,526	15,621	6,942	7,558	14,500
Amounts due from holding companies and fellow subsidiaries	800	-	800	1,018	-	1,018
Other financial assets	2,402	3,008	5,410	395	2,539	2,934
Liabilities						
Banks deposits	185	1,000	1,185	253	591	844
Customer deposits	32,043	262	32,305	32,920	19	32,939
Derivatives	63	217	280	108	306	414
Other financial liabilities	1,038	235	1,273	879	235	1,114
Lease liabilities	4	25	29	4	28	32
Amounts due to holding companies and fellow subsidiaries	23	351	374	23	353	376

	RBSI Ltd					
	2024			2023		
	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	14,264	-	14,264	17,697	-	17,697
Derivatives	83	138	221	26	143	169
Loans to banks - amortised cost	914	-	914	1,214	-	1,214
Loans to customers - amortised cost	9,095	6,526	15,621	6,942	7,558	14,500
Amounts due from holding companies and fellow subsidiaries	800	-	800	1,018	-	1,018
Other financial assets	2,402	3,008	5,410	395	2,539	2,934
Liabilities						
Banks deposits	185	1,000	1,185	253	591	844
Customer deposits	32,043	262	32,305	32,920	19	32,939
Derivatives	63	217	280	108	306	414
Other financial liabilities	1,038	235	1,273	879	235	1,114
Lease liabilities	4	25	29	4	28	32
Amounts due to holding companies and fellow subsidiaries	84	351	435	107	353	460

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 are prepared on the following basis:

Financial assets are 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 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 RBSI Group's liquidity position.

MFVTPL assets of £271 million (2023 - £421 million) and HFT liabilities of £280 million (2023 - £414 million) have been excluded from the following tables.

7 Financial instruments - maturity analysis continued

	RBSI Group					
	0-3	3-12	1-3	3-5	5-10	10-20
	months	months	years	years	years	years
2024	£m	£m	£m	£m	£m	£m
Assets by contractual maturity up to 20 years						
Cash and balances at central banks	14,264	-	-	-	-	-
Loans to banks - amortised cost	927	-	-	-	-	-
Loans to customers - amortised cost	2,808	7,721	4,610	991	1,815	-
Finance lease	2	4	14	12	10	-
Amounts due from holding companies and fellow subsidiaries	499	259	-	-	-	-
Other financial assets	596	1,934	1,406	1,122	590	254
Liabilities by contractual maturity up to 20 years						
Bank deposits	185	-	1,000	-	-	-
Customer deposits	29,468	2,642	195	67	-	-
Other financial liabilities	329	734	185	70	-	-
Lease liabilities	1	3	6	5	12	9
Amounts due to holding companies and fellow subsidiaries	43	372	-	-	-	-
Guarantees and commitments notional amount (1)						
Guarantees (2)	267	-	-	-	-	-
Commitments (3)	9,853	-	-	-	-	-

	RBSI Group					
	0-3	3-12	1-3	3-5	5-10	10-20
	months	months	years	years	years	years
2023	£m	£m	£m	£m	£m	£m
Assets by contractual maturity up to 20 years						
Cash and balances at central banks	17,697	-	-	-	-	-
Loans to banks - amortised cost	1,228	-	-	-	-	-
Loans to customers - amortised cost	1,950	5,494	4,800	1,355	2,019	107
Finance lease	2	6	15	13	15	-
Amounts due from holding companies and fellow subsidiaries	264	518	-	-	-	-
Other financial assets	144	304	1,208	651	504	377
Liabilities by contractual maturity up to 20 years						
Bank deposits	254	-	591	-	-	-
Customer deposits	30,101	2,906	19	-	-	-
Other financial liabilities	565	338	192	73	-	-
Lease liabilities	1	3	7	6	11	11
Amounts due to holding companies and fellow subsidiaries	-	28	12	280	73	-
Guarantees and commitments notional amount (1)						
Guarantees (2)	337	-	-	-	-	-
Commitments (3)	9,646	-	-	-	-	-

Refer to the following page for footnotes.

7 Financial instruments - maturity analysis continued

	RBSI Ltd					
	0-3	3-12	1-3	3-5	5-10	10-20
	months	months	years	years	years	years
2024	£m	£m	£m	£m	£m	£m
Assets by contractual maturity up to 20 years						
Cash and balances at central banks	14,264	-	-	-	-	-
Loans to banks - amortised cost	914	-	-	-	-	-
Loans to customers - amortised cost	2,808	7,721	4,610	991	1,815	-
Finance lease	2	4	14	12	10	-
Amounts due from holding companies and fellow subsidiaries	499	259	-	-	-	-
Other financial assets	596	1,934	1,406	1,122	590	254
Liabilities by contractual maturity up to 20 years						
Bank deposits	185	-	1,000	-	-	-
Customer deposits	29,468	2,642	195	67	-	-
Other financial liabilities	329	734	185	70	-	-
Lease liabilities	1	3	6	5	12	9
Amounts due to holding companies and fellow subsidiaries	103	372	-	-	-	-
Guarantees and commitments notional amount (1)						
Guarantees (2)	267	-	-	-	-	-
Commitments (3)	9,853	-	-	-	-	-

	RBSI Ltd					
	0-3	3-12	1-3	3-5	5-10	10-20
	months	months	years	years	years	years
2023	£m	£m	£m	£m	£m	£m
Assets by contractual maturity up to 20 years						
Cash and balances at central banks	17,697	-	-	-	-	-
Loans to banks - amortised cost	1,214	-	-	-	-	-
Loans to customers - amortised cost	1,950	5,494	4,800	1,355	2,019	107
Finance lease	2	6	15	13	15	-
Amounts due from holding companies and fellow subsidiaries	264	518	-	-	-	-
Other financial assets	144	304	1,208	651	504	377
Liabilities by contractual maturity up to 20 years						
Bank deposits	254	-	591	-	-	-
Customer deposits	30,101	2,906	19	-	-	-
Other financial liabilities	565	338	192	73	-	-
Lease liabilities	1	3	7	6	11	11
Amounts due to holding companies and fellow subsidiaries	84	28	12	280	73	-
Guarantees and commitments notional amount (1)						
Guarantees (2)	337	-	-	-	-	-
Commitments (3)	9,646	-	-	-	-	-

(1) Refer to Note 17 Memorandum items – Contingent liabilities and commitments.

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

(3) 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. 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.

	RBSI Group		RBSI Ltd	
	2024	2023	2024	2023
	£m	£m	£m	£m
Loans - amortised cost				
-Stage 1	16,190	15,049	16,177	15,035
-Stage 2	302	634	302	634
-Stage 3	141	132	141	132
Inter-Group (1)	750	766	750	766
Total	17,383	16,581	17,370	16,567
Loans impairment provisions				
ECL provisions				
-Stage 1	11	16	11	16
-Stage 2	6	12	6	12
-Stage 3	44	39	44	39
Total	61	67	61	67
ECL provision coverage (2)				
-Stage 1 (%)	0.07	0.11	0.07	0.11
-Stage 2 (%)	1.99	1.89	1.99	1.89
-Stage 3 (%)	31.21	29.55	31.21	29.55
	0.37	0.42	0.37	0.42
Impairment losses				
ECL charge	(8)	14	(7)	14
Third Party	(8)	14	(8)	14
Inter-Group	-	-	1	-
Amounts written off	2	2	2	2

(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 third party loans - amortised cost.

(3) 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 £14.2 billion (2023 - £17.7 billion) and debt securities of £5.5 billion (2023 - £2.9 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 – Note 10.

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 2024, impairment provisions amounted to £61 million (2023 - £67 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 judgements that are potentially significant to the estimate of impairment losses. For further information and sensitivity analysis, refer to Risk management Note 10.

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 10.

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 10.

9 Other financial assets

	RBSI Group and RBSI Ltd				
	Debt securities				
	Central and local government			Other debt	Total
	UK	US	Other		
	£m	£m	£m	£m	£m
2024					
Fair value through other comprehensive income	2,571	121	-	965	3,657
Amortised cost	984	500	17	252	1,753
Total	3,555	621	17	1,217	5,410
2023					
Fair value through other comprehensive income	492	-	-	292	784
Amortised cost	1,162	647	35	306	2,150
Total	1,654	647	35	598	2,934

10 Risk management

	Page
Risk management framework	54
Culture	54
Three lines of defence	54
Governance	55
Risk appetite	58
Identification and measurement	60
Mitigation	60
Stress testing	60
Credit risk	62
Definition and sources of risk	62
Governance and risk appetite	62
Identification and measurement	63
Mitigation	63
Assessment and monitoring	63
Problem debt management	63
Forbearance	64
Impairment, provisioning and write-offs	65
Governance and post model adjustments	66
Significant increase in credit risk and asset lifetimes	66
Economic loss drivers	67
Measurement uncertainty and ECL sensitivity analysis	72
Measurement uncertainty and ECL adequacy	73
Banking activities	74
Non-traded market risk	83
Liquidity risk	84
Capital risk	86
Pension risk	87
Compliance and conduct risk	87
Financial crime and fraud risk	88
Climate and nature risk	88
Operational risk	89
Model risk	90
Reputational risk	91

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 risks, which are those which could have a significant negative impact on RBSI Group's ability to meet its strategic objectives. Both top and emerging risks are reported to the Board on a regular basis alongside reporting on the principal risks.

Risk appetite, supported by a robust set of principles, policies and practices, defines the levels of tolerance for 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

The approach to risk culture, under the banner of intelligent risk-taking, ensures a focus on robust risk management behaviours and practices. This underpins the strategy and values across all three lines of defence, enables RBSI Group to support better customer outcomes, develop a stronger and more sustainable business and deliver an improved cost base.

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.

Any employee falling short of the expected standards would be subject to internal disciplinary policies and procedures and if appropriate, the relevant authority would be notified. The accountability review process is used to assess how this should be reflected in variable pay outcomes for the individuals concerned.

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.

10 Risk management continued

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.

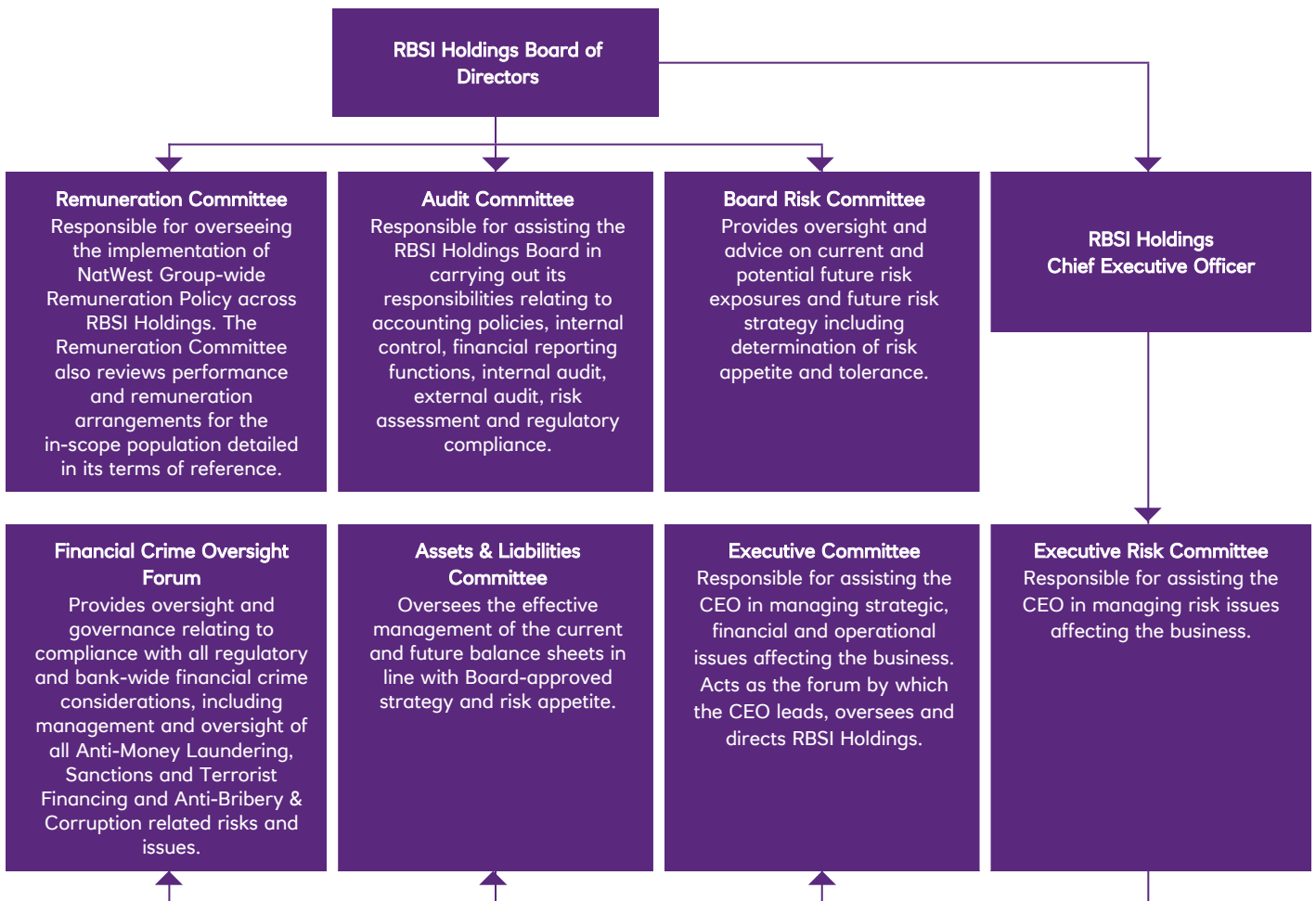
The second line of defence comprises the Risk function and is independent of the first line. The second line of defence is empowered to design and maintain the risk management framework and its components. It undertakes proactive risk oversight and continuous monitoring activities to confirm that RBSI 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 of defence, 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. 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.

Governance

Committee structure

The diagram shows RBSI Group's risk committee structure in 2024 and the main purposes of each committee.



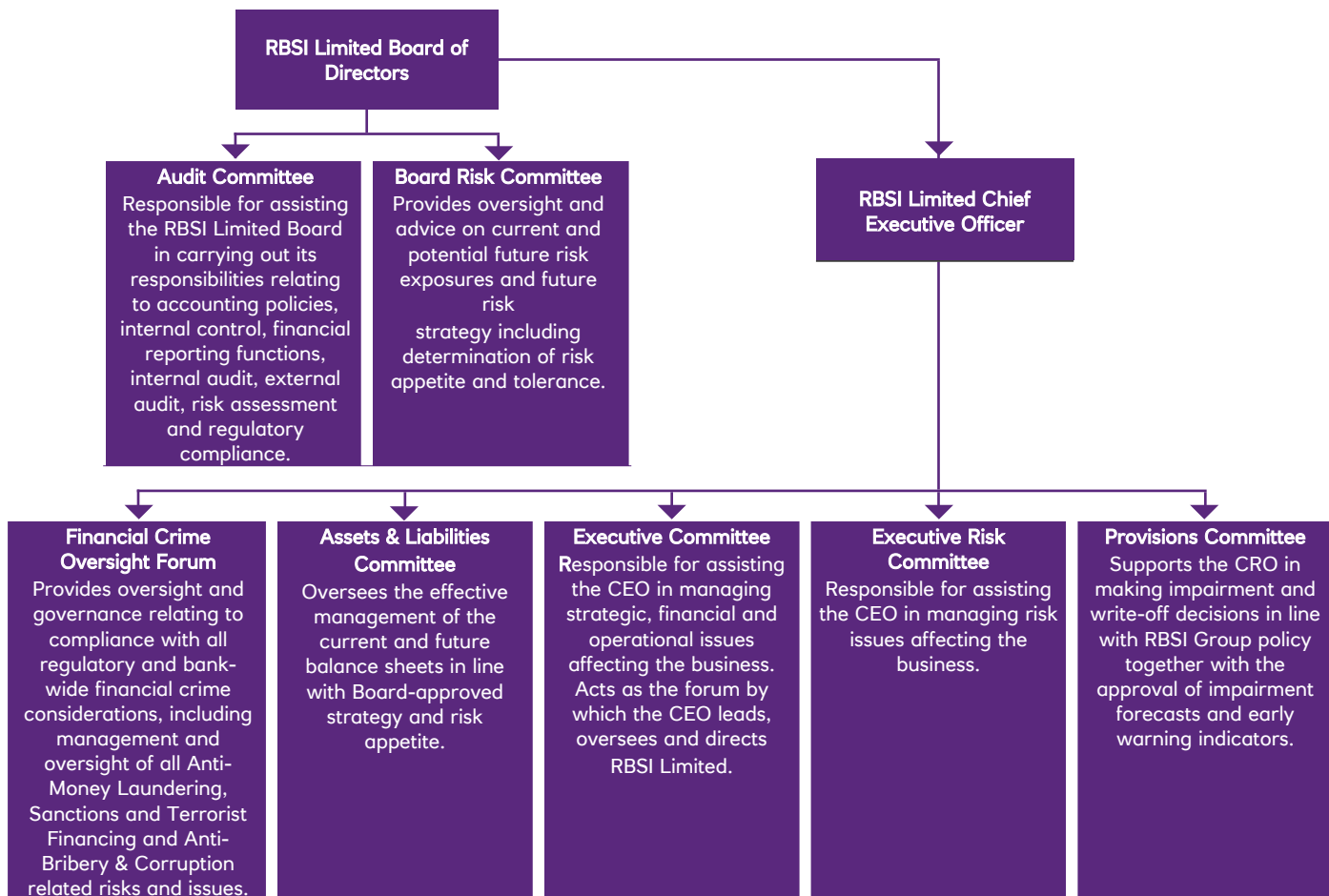
- (1) The chart does not show all management-level committees, only material committees which consider risk are shown.
- (2) RBSI Holdings is a Jersey incorporated holding company. It has two principal operating subsidiaries: The Royal Bank of Scotland International Limited, a Jersey incorporated and regulated bank and NatWest Trustee and Depository Services Limited, a company incorporated in England and Wales.
- (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.

10 Risk management continued

Governance

Committee structure

The diagram shows RBSI Ltd's risk committee structure in 2024 and the main purposes of each committee.

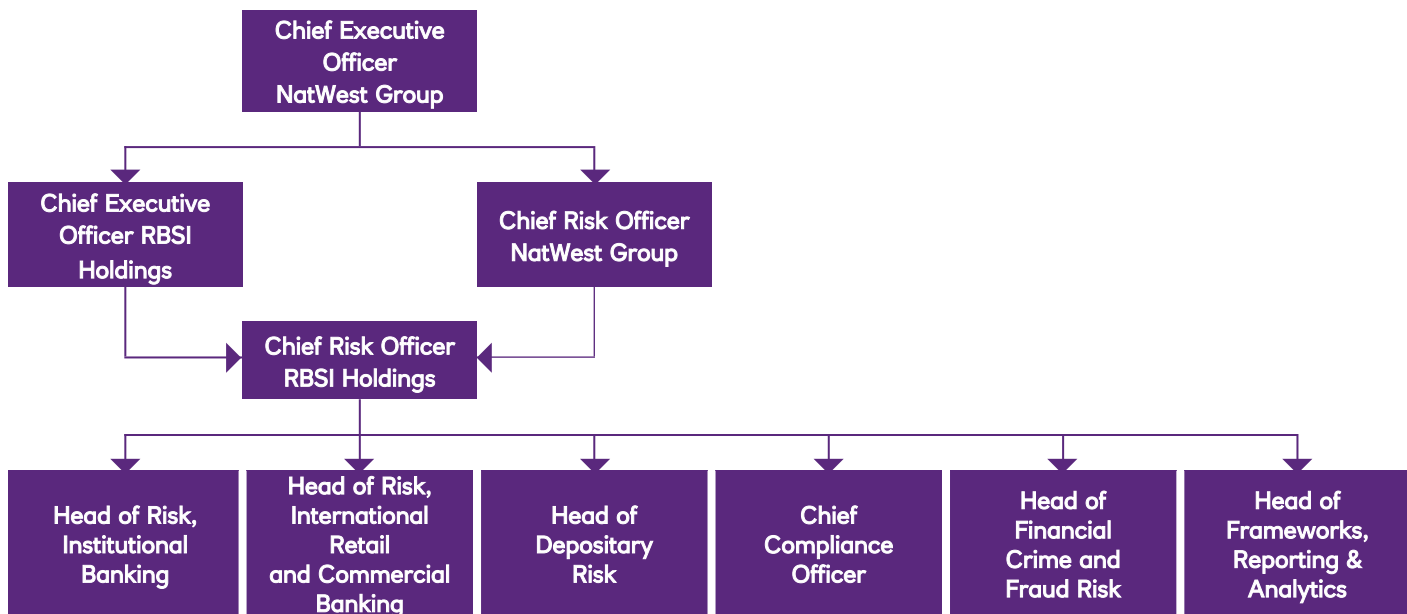


- (1) The Royal Bank of Scotland International Limited is one of the principal operating subsidiaries of RBSI Holdings.
- (2) The chart does not show all management-level committees, only material committees which consider risk are shown.
- (3) The NWH Group Risk function provides risk management services across NatWest Group, including – where agreed – to the RBSI Limited Chief Risk Officer. These services are managed, as appropriate, through service level agreements.

10 Risk management continued

Risk management structure

The diagram shows RBSI Group's risk management structure in 2024.



(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.

10 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 at least 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 risks and risk-taking activities that might be out of appetite are identified, assessed, escalated and addressed in a timely manner.

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

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

Establishing risk appetite

In line with the risk appetite framework, risk appetite is maintained across 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. As a subsidiary, RBSI Group's risk appetite statements and measures must be consistent with NatWest Group's. Under no circumstances should RBSI Group's risk appetite or profile exceed that of NatWest Group.

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

The Board sets risk appetite for all principal risks to help ensure 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.

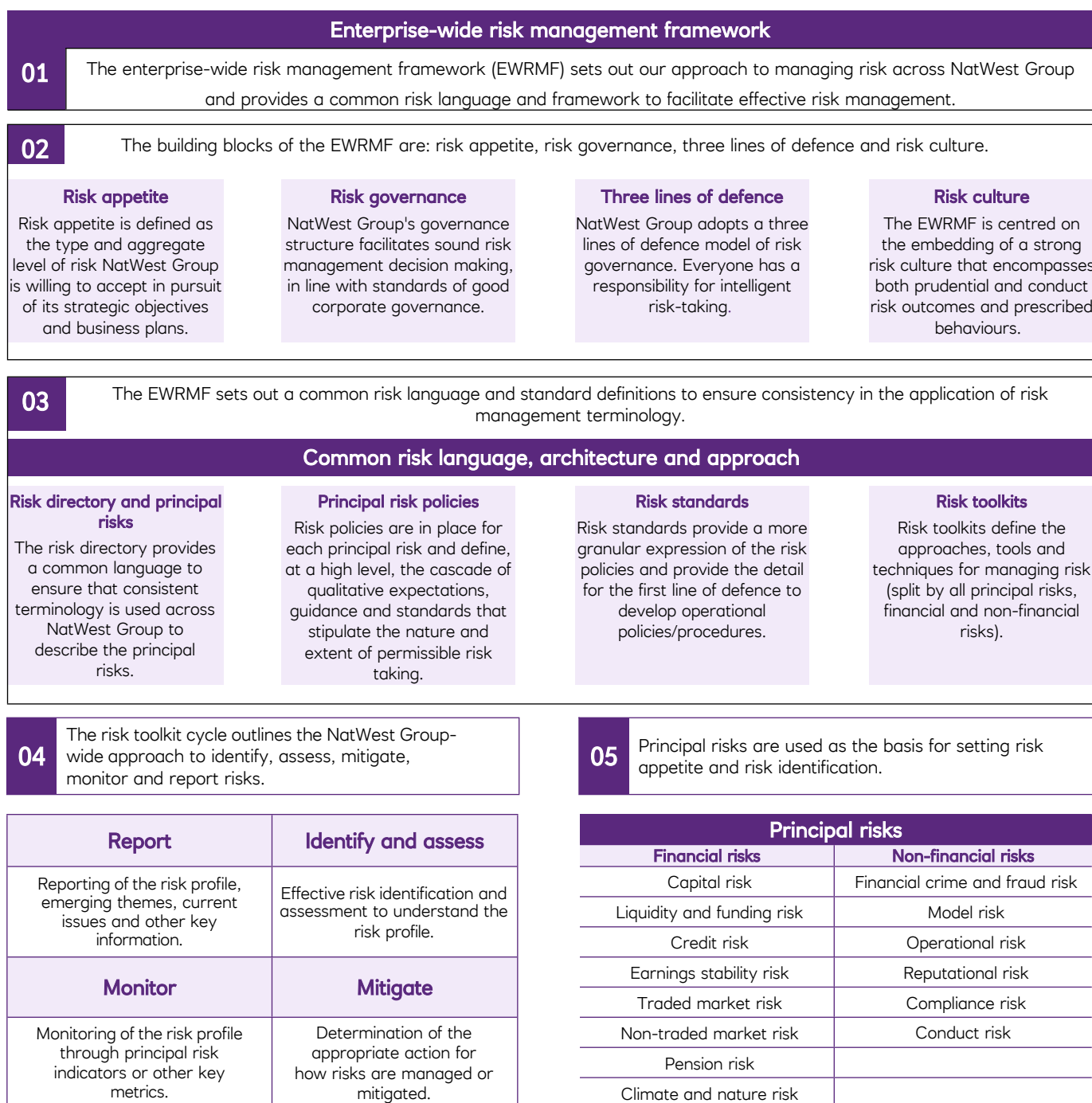
Risk appetite statements and associated measures are reviewed and approved at least annually by the Board on the Board Risk Committee's recommendation to ensure they remain appropriate and aligned to strategy.

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 risks that may correlate to them. Risk profile relative to risk appetite is reported regularly to executive management and the Board.

NatWest Group's key risk policies define at a high level the qualitative expectations, guidance and standards that stipulate the nature and extent of permissible risk taking across all principal risks. They form part of the qualitative expression of risk appetite and are consistently applied across NatWest Group and its subsidiaries. Key risk policies are reviewed and approved by the Board Risk Committee at least annually.

10 Risk management continued

The following diagram illustrates NatWest Group's EWRMF.



10 Risk management continued

Identification and measurement

Identification and measurement within the risk management process comprises:

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

The financial and non-financial risks that 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 risks that could affect future results and performance are also closely monitored. Action is taken to mitigate potential risks as and when required. Further in-depth analysis, including the stress testing of exposures, is also carried out.

Testing and monitoring

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. Thematic reviews and targeted reviews are also carried out where relevant to ensure appropriate customer outcomes.

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 profit and loss 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"> – Stress 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 recommended to the Board for approval.

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.

10 Risk management continued

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 profit and loss 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 both normal and adverse economic and 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 RBSI Ltd, 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). RBSI Ltd'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. RBSI Ltd'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.

In the UK, the regulatory expectations for the Investment Firms Prudential Regime (IFPR) are set out in the FCA's Prudential Sourcebook for MiFID Investment Firms (MiFIDPRU) which includes the production of a report that reviews NWTDS' Internal Capital and Risk Assessment (ICARA) and outlines the processes and analysis from which those results were derived. It provides a quantitative evaluation of NWTDS's aggregate risk profile and corresponding capital needs, i.e. it provides a risk-based estimate of the amount of capital needed to ensure NWTDS can meet its liabilities as they fall due. This includes assessing NWTDS' ability to absorb various identified material risks. This analysis provides a view of the adequacy of capital level and risk management approaches to meet IFPR requirements.

Governance

Capital management is subject to substantial review and governance. The Boards of both RBSI Ltd 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.

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

RBSI Ltd and NatWest Trustee and Depositary Services each maintain a recovery plan. This forms 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.

10 Risk management continued

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 while restoring RBSI Group's financial health. It is assessed for appropriateness on an ongoing basis and reviewed and approved by the Board prior to submission to the JFSC.

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. RBSI Ltd (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 and Liability Management Committee.

Credit risk

Definition

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

Sources of risk

RBSI Group has exposure to entities by making placements and advances to those counterparties.

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.

Governance

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

- Defining and proposing credit risk appetite measures for Board approval.
- Establishing credit risk policy, standards and toolkits which set out the mandatory limits and parameters required to ensure that credit risk is managed within risk appetite and which provide the minimum standards for the identification, assessment, management, monitoring and reporting of credit risk.
- Oversight of the first line of defence to ensure that credit risk remains within the appetite set by the Board and that it is being managed adequately and effectively.
- Assessing the adequacy of expected credit loss (ECL) and any necessary in-model and post model adjustments through the Provisions Committee.
- Providing regular reporting on credit risk to the Board Risk Committee.

Risk appetite

Credit risk appetite is approved by the Board and is set and monitored through risk appetite frameworks. Risk appetite statements and associated measures are reviewed and approved at least annually to ensure they remain appropriate and aligned to strategy.

Personal

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

Non-Personal

For Non-Personal 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.

The framework is used to manage concentrations of risk which may arise across four lenses – single name, sector, country and product and asset classes.

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

10 Risk management continued

Identification and measurement

Credit stewardship

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

Asset quality

All credit grades map to an asset quality (AQ) scale, used for financial reporting. This AQ scale is based on Basel probability of defaults (PDs). Performing loans are defined as AQ1-AQ9 (where the 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.

Mitigation

Mitigation techniques, as set out in the appropriate credit risk toolkits and transactional acceptance standards, are used in the management of credit portfolios across 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 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 Non-Personal 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.

Non-Personal

Non-Personal 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 to the extent that a failure of one could lead to the failure of another.

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

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, 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.

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 supported to ensure they receive appropriate support for their circumstances.

10 Risk management continued

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

Collections

When a customer exceeds an agreed limit or misses a regular monthly payment the customer is contacted by RBSI Group and requested to remedy the position. If the situation is not resolved then, where appropriate, the Collections team will become 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.

Non-Personal

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 Wholesale Problem Debt Management 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 Wholesale Problem Debt Management framework

This framework focuses on Non-Personal customers to provide early identification of credit deterioration, support intelligent risk-taking, ensure fair and consistent customer outcomes and provide key insights into Non-Personal lending portfolios. Expert judgement 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 have lending exposure above £1 million, and meet specific referral criteria, relationships are supported by the NatWest Group Restructuring team. Restructuring works 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 of 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, loan rescheduling (including extensions in contractual maturity), charging simple interest and capitalisation of arrears. Forbearance support is provided for both mortgages and unsecured lending.

10 Risk management continued

Non-Personal

In the Non-Personal 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.

Non-Personal

In the Non-Personal 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 demanding repayment of facilities, and in the event repayment does not take place, the enforcement of security, insolvency proceedings or both, although these are options of last resort.

Provisioning for forbearance

Personal

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

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

The loan would 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.

Non-Personal

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.

Non-Personal 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. In line with regulatory guidance, forbearance may 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 Non-Personal 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 the exit criteria, as set out by regulatory guidance, are met.

Credit grading models

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

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

Impairment, provisioning and write-offs

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 internal ratings based (IRB) models as a starting point, incorporate term structures and economic forecasts. Regulatory conservatism within the IRB models has been removed as appropriate to comply with the IFRS 9 requirement for unbiased ECL estimates.

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

Model build

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

Model application

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

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 IRB counterparts in the following aspects:

- **Unbiased** – 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.

10 Risk management continued

- **Economic forecasts** – IFRS 9 PD estimates and, where appropriate, EAD and LGD estimates reflect forward-looking economic conditions.
- **Lifetime measurement** – IFRS 9 PD, LGD and EAD are provided as multi-period term structures up to exposure lifetimes instead of over a fixed one-year horizon.

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

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

PD estimates

Non-Personal 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 PDs are extended to lifetime PDs using a conditional transition matrix approach and economic forecasts.

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, include economic forecasts.

Economic forecasts are incorporated into Non-Personal LGD estimates using the existing point-in-time/through-the-cycle framework. For low default portfolios, including sovereigns and banks, loss data is too scarce to substantiate estimates that vary with economic conditions. Consequently, for these portfolios, LGD estimates are assumed to be constant throughout the projection horizon.

EAD estimates

Personal

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.

Non-Personal

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

No explicit economic forecasts are incorporated, on the basis of analysis showing the movement 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 review, challenge and approval through model or provisioning committees.

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 Personal and Non-Personal) that are likely to be more susceptible to high inflation, high interest rates and supply chain disruption.

ECL post model adjustments

	2024 £m	2023 £m
Deferred model calibrations	1	3
Economic uncertainty	4	7
Other adjustments	-	1
Total	5	11
Of which:		
-Stage 1	3	5
-Stage 2	2	6

The table below shows ECL post model adjustments.

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 Non-Personal, 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, Non-Personal exposures managed within the Wholesale Problem Debt Management framework, and adverse credit bureau results for Personal customers.

10 Risk management continued

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

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

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

Asset lifetimes

The choice of initial recognition and asset duration is another critical judgement in determining the quantum of lifetime losses that apply. The date of initial recognition reflects the date that a transaction (or account) was first recognised on the balance sheet; the PD recorded at that time provides the baseline used for subsequent determination of SICR as detailed above. For asset duration, the approach applied 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 follows the approach used in stress testing. The stress 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, that best explain the movements in portfolio loss rates. The process to select economic loss drivers involves empirical analysis and expert judgement.

The most significant economic loss drivers for the most material 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 Non-Personal portfolios.

Economic scenarios

At 31 December 2024, 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. This approach was similar to that used at 31 December 2023.

For 31 December 2024, 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.

Since 31 December 2023, the economic outlook has evolved. The economy came out of post-COVID-19 stagnation with an upswing in the first half of 2024 as household income recovered. The growth lost momentum in the second half of 2024 and the outlook remains that of moderate growth. Inflation declined over the year, although the progress is slower than expected and inflation is likely to take longer to reach the target of 2%. As a result, rates are expected to remain higher-for-longer than previously expected. The unemployment rate increased modestly but it is underpinned by a still resilient labour market. There was emerging risk to the labour market due to higher tax burdens, but the impact is likely to be moderate. However, the higher interest rate environment poses a risk to the recovery.

10 Risk management continued

Headline macro variables: what are the risks and where are they captured?

Mini narratives – potential developments, vulnerabilities and risks

		Upside	Base case	Downside	Extreme downside
Growth	Outperformance sustained – economy remains close to H1 2024 pace on strong consumer	█			
	Steady growth – staying close to trend pace from H2 2024 and beyond		█		
	Stalling – 2024 strength proves fleeting, lagged effect of higher rates and cautious consumer stalls the rebound			█	
Inflation	Extreme stress – extreme fall in GDP, with policy support to facilitate sharp recovery				█
	Close to deflation – inflationary pressures diminish amidst pronounced weakness in demand				█
	Battle won – continued downward drift in services inflation, ensuring 2% target is met on sustained basis		█		
	Sticky – strong growth and/or wage policies and/or interest rate cuts keep services inflation well above target	█			
Labour market	Structural factors – sustained bouts of energy, food and goods price inflation on geopolitics/deglobalisation			█	
	Tighter, still – job growth rebounds strongly, pushing unemployment back down to sub-3.5%	█			
	Cooling continues – gradual loosening prompts a gentle rise in unemployment (but remains low), job growth recovers		█		
	Job shedding – prolonged weakness in economy prompts redundancies, reduced hours, building slack			█	
	Depression – unemployment hits levels close to previous peaks amid severe stress				█
Rates short-term	Limited cuts – higher growth and inflation keeps the MPC cautious	█			
	Steady – approximately one cut per quarter		█		
	Mid-cycle quickening – sharp declines through 2025 to support recovery			█	
Rates long-term	Sharp drop – drastic easing in policy to support a sharp deterioration in the economy				█
	Above consensus – 4%	█			
	Middle – 3-3.5%		█		
	Close to 2010s – 1-2%/2.5%			█	█

10 Risk management continued

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

Main macroeconomic variables

	31 December 2024					31 December 2023				
	Base		Extreme		Weighted average	Base		Extreme		Weighted average
	Upside	case	Downside	downside		Upside	case	Downside	downside	
Five-year summary	%	%	%	%	%	%	%	%	%	%
GDP	2.0	1.3	0.5	(0.2)	1.1	1.8	1.0	0.5	(0.3)	0.9
Unemployment rate	3.6	4.3	5.0	6.7	4.6	3.5	4.6	5.2	6.8	4.8
House price index	5.8	3.5	0.8	(4.3)	2.7	3.9	0.3	(0.4)	(5.7)	0.3
Commercial real estate price	5.4	1.2	(1.0)	(5.7)	1.1	3.1	(0.2)	(2.0)	(6.8)	(0.6)
Consumer price index	2.4	2.2	3.5	1.6	2.4	1.7	2.6	5.2	1.8	2.8
Bank of England base rate	4.4	4.0	3.0	1.6	3.6	3.8	3.7	5.6	2.9	4.0
Stock price index	6.3	5.0	3.4	1.1	4.5	4.8	3.3	1.2	(0.4)	2.8
World GDP	3.8	3.2	2.5	1.6	3.0	3.7	3.2	2.7	1.8	3.0
Probability weight	23.2	45.0	19.1	12.7		21.2	45.0	20.4	13.4	

(1) The five-year summary runs from 2024-28 for 31 December 2024 and from 2023-27 for 31 December 2023.

(2) The table shows CAGR for annual GDP, average levels for the unemployment rate and Bank of England base rate and Q4 to Q4 CAGR for other parameters.

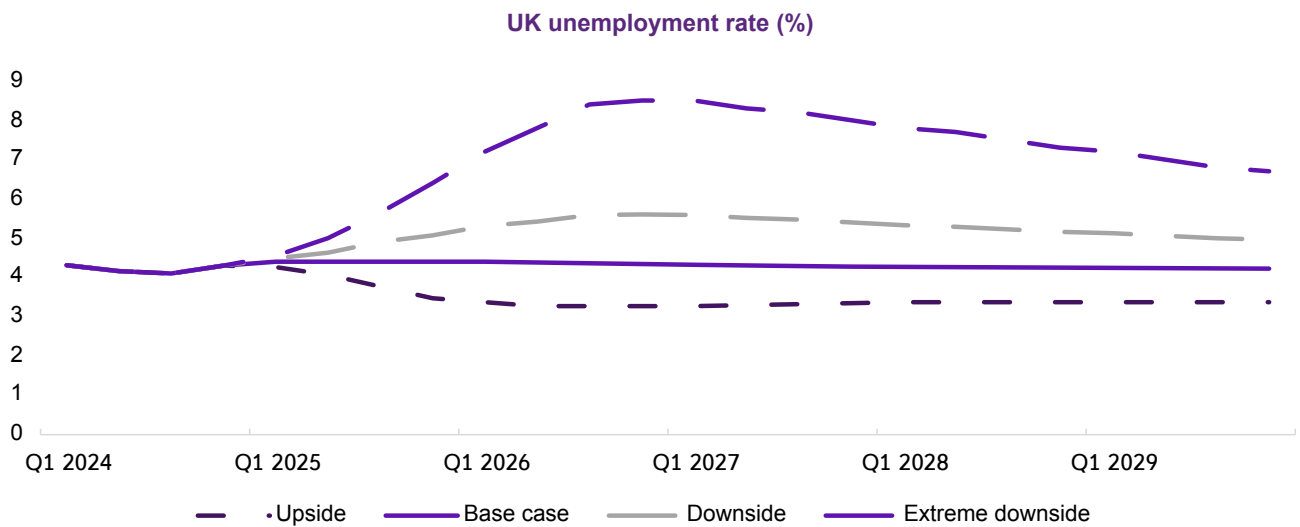
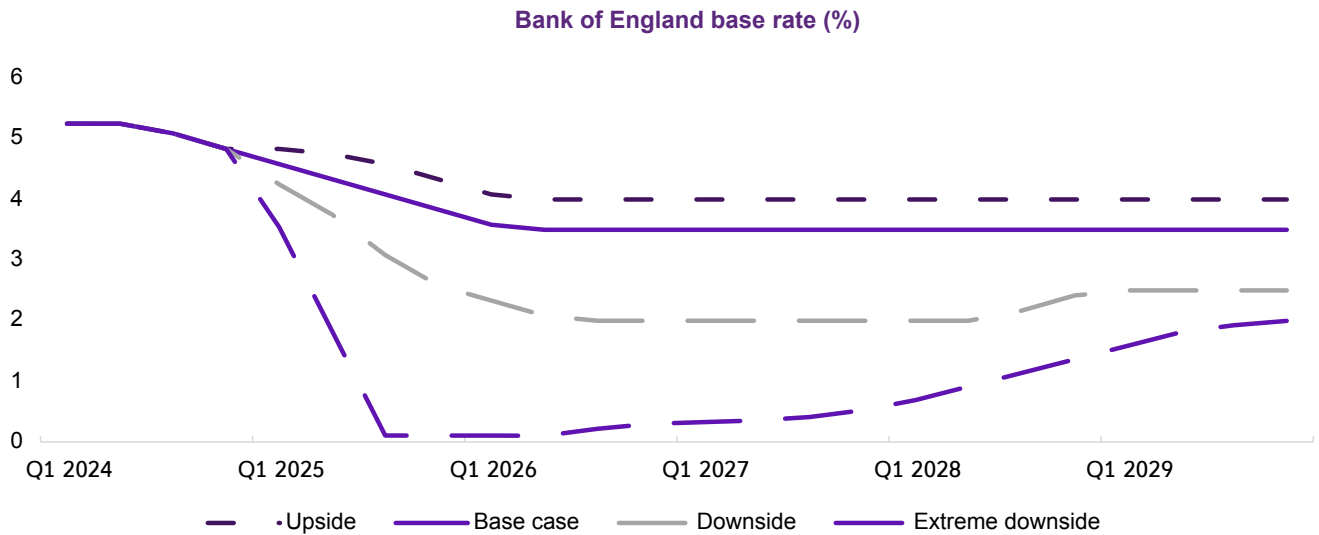
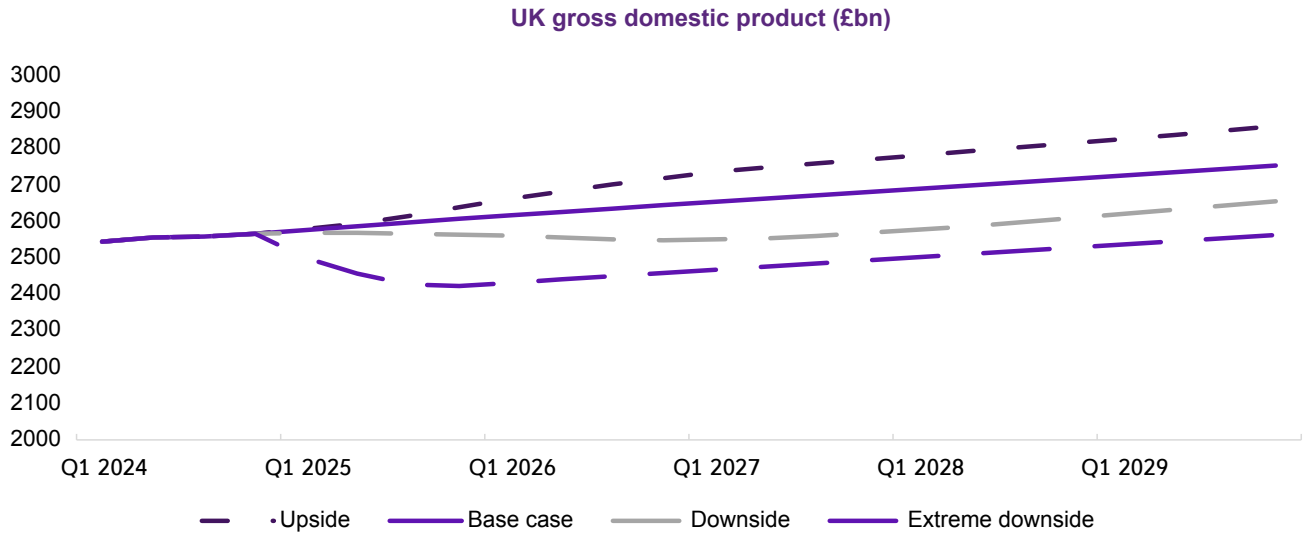
Probability weightings of scenarios

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 is used for 31 December 2024.

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. The probability weight for base case is set first based on judgement, while probability weights for the alternate scenarios are assigned based on these percentiles scores.

The assigned probability weights were judged to be aligned with the subjective assessment of balance of the risks in the economy. The weights were marginally less downside skewed compared to those used at 31 December 2023. The downside risks associated with a materially high inflation have reduced, with inflation lower at the end of 2024 compared to a year ago. However, the economic outlook is still subject to considerable uncertainty especially with respect to persistence of inflation, restrictive trade policies and various geopolitical flashpoints. Given that backdrop, RBSI Group judges it appropriate that downside-biased scenarios have higher combined probability weights than the upside-biased scenario. It presents good coverage to the range of outcomes assumed in the scenarios, including the potential for a robust recovery on the upside and exceptionally challenging outcomes on the downside. A 23.2% weighting was applied to the upside scenario, a 45.0% weighting applied to the base case scenario, a 19.1% weighting applied to the downside scenario and a 12.7% weighting applied to the extreme downside scenario.

10 Risk management continued



10 Risk management continued

GDP - annual growth

	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
2024	0.9	0.9	0.9	0.9	0.9
2025	2.0	1.4	0.4	(4.1)	0.6
2026	3.2	1.5	(0.5)	(0.3)	1.3
2027	2.3	1.4	0.2	1.4	1.4
2028	1.6	1.4	1.3	1.4	1.4
2029	1.6	1.4	1.7	1.4	1.5

Consumer price index - four quarter change

	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
2024	2.4	2.4	2.4	2.4	2.4
2025	2.9	2.3	5.8	0.6	2.9
2026	2.4	2.1	4.2	1.1	2.4
2027	2.1	2.0	2.6	1.8	2.1
2028	2.0	2.0	2.4	2.0	2.1
2029	2.0	2.0	2.5	2.0	2.1

Unemployment rate - annual average

	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
2024	4.2	4.2	4.2	4.2	4.2
2025	3.9	4.4	4.8	5.4	4.5
2026	3.3	4.4	5.5	8.0	4.8
2027	3.3	4.3	5.5	8.3	4.8
2028	3.4	4.3	5.3	7.6	4.7
2029	3.4	4.2	5.0	6.9	4.5

Bank of England base rate - annual average

	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
2024	5.11	5.11	5.11	5.11	5.11
2025	4.63	4.21	3.42	1.40	3.80
2026	4.02	3.52	2.10	0.18	2.94
2027	4.00	3.50	2.00	0.40	2.94
2028	4.00	3.50	2.15	1.03	3.04
2029	4.00	3.50	2.50	1.83	3.21

House price index - four quarter change

	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
2024	3.5	3.5	3.5	3.5	3.5
2025	7.8	3.5	(1.2)	(7.6)	2.2
2026	7.2	3.4	(2.8)	(14.7)	1.1
2027	5.1	3.4	0.1	(8.0)	2.2
2028	5.4	3.4	4.4	6.9	4.4
2029	5.6	3.4	4.2	6.3	4.4

Stock price index - four quarter change

	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
2024	11.6	11.6	11.6	11.6	11.6
2025	8.1	3.4	(10.5)	(35.0)	(3.0)
2026	5.1	3.4	5.8	15.1	5.3
2027	3.5	3.4	5.8	13.1	4.8
2028	3.5	3.4	5.8	11.6	4.7
2029	3.0	3.4	5.8	10.4	4.5

Commercial real estate price - four quarter change

	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
2024	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)
2025	14.1	2.4	(6.8)	(23.7)	0.1
2026	4.4	1.5	(2.5)	(12.7)	0.2
2027	5.5	1.4	2.8	6.7	3.3
2028	4.2	1.5	2.6	5.7	2.8
2029	2.7	1.4	2.5	5.4	2.3

10 Risk management continued

Worst points

	31 December 2024					31 December 2023				
	Downside		Extreme downside		Weighted average	Downside		Extreme downside		Weighted average
	%	Quarter	%	Quarter	%	%	Quarter	%	Quarter	%
GDP	-	Q1 2024	(4.1)	Q4 2025	-	(1.2)	Q3 2024	(4.5)	Q4 2024	0.3
Unemployment rate - peak	5.6	Q4 2026	8.5	Q1 2027	4.9	5.8	Q1 2025	8.5	Q2 2025	5.2
House price index	(1.9)	Q2 2027	(25.6)	Q3 2027		(12.5)	Q4 2025	(31.7)	Q2 2026	(6.5)
Commercial real estate price	(10.5)	Q2 2026	(35.0)	Q3 2026	(1.8)	(16.6)	Q1 2025	(39.9)	Q3 2025	(10.2)
Consumer price index - highest four quarter change	6.1	Q1 2026	3.5	Q1 2024	3.5	10.3	Q1 2023	10.3	Q1 2023	10.3
Bank of England base rate - extreme level	2.0	Q1 2024	0.1	Q1 2024	2.9	6.5	Q4 2024	5.3	Q4 2023	5.3
Stock price index	(0.2)	Q4 2025	(27.4)	Q4 2025	-	(14.3)	Q4 2024	(39.3)	Q4 2024	(2.4)

(1) The figures show falls relative to the starting period for GDP, house price index, commercial real estate price and stock price index. For unemployment rate, it shows highest value through the scenario horizon. For consumer price index, it shows highest annual percentage change. For Bank of England base rate, it shows highest or lowest value through the horizon. The calculations are performed over five years, with a starting point of Q4 2023 for 31 December 2024 scenarios and Q4 2022 for 31 December 2023 scenarios.

Measurement uncertainty and ECL sensitivity analysis

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

The impact arising from the base case, upside, downside and extreme downside scenarios was simulated. 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 judgemental in nature, primarily those for deferred model calibrations and economic uncertainty, were not (refer to the Governance and post model adjustments section) on the basis these would be re-evaluated by management through ECL governance for any new economic scenario outlook and not be subject to an automated calculation. As expected, the scenarios create differing impacts on ECL by portfolio and the impacts are deemed reasonable. In this simulation, it is assumed that existing modelled relationships between key economic variables and loss drivers hold, but in practice other factors would also have an impact, for example, potential customer behaviour changes and policy changes by lenders that might impact on the wider availability of credit.

The focus of the simulations is on ECL provisioning requirements on performing exposures in Stage 1 and Stage 2. The simulations are run on a stand-alone basis and are independent of each other; the potential ECL impacts reflect the simulated impact at 31 December 2024. 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.

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

10 Risk management continued

2024	RBSI Group and RBSI Ltd				
	Actual	Base case	Upside	Downside	Extreme Downside
Stage 1 modelled exposure (£m)					
Commercial	14,021	14,032	14,048	14,020	13,046
Stage 1 modelled ECL (£m)					
Commercial	9	7	6	9	18
Stage 1 coverage (%)					
Commercial	0.06%	0.05%	0.04%	0.06%	0.14%
Stage 2 modelled exposure (£m)					
Commercial	291	280	264	292	1,266
Stage 2 modelled ECL (£m)					
Commercial	5	5	5	6	15
Stage 2 coverage (%)					
Commercial	1.72%	1.79%	1.89%	2.05%	1.18%
Stage 1 and Stage 2 modelled exposure (£m)					
Commercial	14,312	14,312	14,312	14,312	14,312
Stage 1 and Stage 2 modelled ECL (£m)					
Commercial	14	12	11	15	33
Stage 1 and Stage 2 coverage (%)					
Commercial	0.10%	0.08%	0.08%	0.10%	0.23%
Reconciliation to Stage 1 and Stage 2 ECL (£m)					
ECL on modelled exposures	14	12	11	15	33
ECL on non-modelled exposures	3	3	3	3	3
Total Stage 1 and Stage 2 ECL (£m)	17	15	14	18	36
Variance to actual total Stage 1 and Stage 2 ECL (£m)		(2)	(3)	1	19

- (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 2024.
(3) Refer to the Economic loss drivers section for details of economic scenarios.
(4) Refer to the RBSI Group 2023 Annual Report and Accounts for 2023 comparatives.

Measurement uncertainty and ECL adequacy

- Given the continued economic uncertainty, RBSI Group utilised a framework of quantitative and qualitative measures to support the levels of ECL coverage. This included economic data, credit performance insights and problem debt trends. This was particularly important for consideration of post model adjustments.
- As the effects of these economic risks evolve into 2025, there is a risk of further credit deterioration. However, the income statement effect of this should be mitigated by the forward-looking provisions retained on the balance sheet at 31 December 2024.
- There are a number of key factors that could drive further downside to impairments, through deteriorating economic and credit metrics and increased stage migration as credit risk increases for more customers. Such factors which could impact the IFRS 9 models, include an adverse deterioration in unemployment, GDP and stock price index in which RBSI Group operates.

10 Risk management 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

	RBSI Group					
	31 December 2024			31 December 2023		
	Gross £m	ECL £m	Net £m	Gross £m	ECL £m	Net £m
Balance sheet - total gross amortised cost and FVOCI	36,282			36,425	-	-
In scope of IFRS 9 ECL framework	36,356			36,399	-	-
% in scope	100%			100%		
Loans to customers - in scope - amortised cost	15,706	61	15,645	14,587	67	14,520
Loans to customers - in scope - FVOCI	-	-	-	-	-	-
Loans to banks - in scope - amortised cost	927	-	927	1,228	-	1,228
Total loans - in scope	16,633	61	16,572	15,815	67	15,748
Stage 1	16,190	11	16,179	15,049	16	15,033
Stage 2	302	6	296	634	12	622
Stage 3	141	44	97	132	39	93
Other financial assets - in scope - amortised cost	15,965	-	15,965	19,800	-	19,800
Other financial assets - in scope - FVOCI	3,758	-	3,758	784	-	784
Total other financial assets - in scope	19,723	-	19,723	20,584	-	20,584
Stage 1	19,723	-	19,723	20,584	-	20,584
Stage 2	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-
Out of scope of IFRS 9 ECL framework	(74)	na	(74)	26	na	26
Loans to customers - out of scope - amortised cost	(26)	na	(26)	(22)	na	(22)
Loans to banks - out of scope - amortised cost	-	na	-	-	na	-
Other financial assets - out of scope - amortised cost	52	na	52	48	na	48
Other financial assets - out of scope - FVOCI	(100)	na	(100)	-	na	-

na = not applicable

10 Risk management continued

	RBSI Ltd					
	31 December 2024			31 December 2023		
	Gross £m	ECL £m	Net £m	Gross £m	ECL £m	Net £m
Balance sheet - total gross amortised cost and FVOCI	36,269			36,410	-	-
In scope of IFRS 9 ECL framework	36,343			36,384	-	-
% in scope	100%			100%		
Loans to customers - in scope - amortised cost	15,706	61	15,647	14,586	65	14,521
Loans to customers - in scope - FVOCI	-	-	-	-	-	-
Loans to banks - in scope - amortised cost	914	-	914	1,214	-	1,214
Total loans - in scope	16,620	61	16,561	15,800	65	15,735
Stage 1	16,177	11	16,168	15,034	15	15,019
Stage 2	302	6	296	634	11	623
Stage 3	141	44	97	132	39	93
Other financial assets - in scope - amortised cost	15,965	-	15,965	19,800	-	19,800
Other financial assets - in scope - FVOCI	3,758	-	3,758	784	-	784
Total other financial assets - in scope	19,723	-	19,723	20,584	-	20,584
Stage 1	19,723	-	19,723	20,584	-	20,584
Stage 2	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-
Out of scope of IFRS 9 ECL framework	(74)	na	(74)	26	na	26
Loans to customers - out of scope - amortised cost	(26)	na	(26)	(22)	na	(22)
Loans to banks - out of scope - amortised cost	-	na	-	-	na	-
Other financial assets - out of scope - amortised cost	52	na	52	47	na	47
Other financial assets - out of scope - FVOCI	(100)	na	(100)	-	na	-

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 £34.6 million (2023 – £30.2 million). These were assessed as having no ECL unless there was evidence that they were defaulted.

In scope assets also include £750 million (2023 – £766 million) of inter-Group assets not shown in the Group table above and £750 million (2023 – £766 million) of Inter-Group assets not shown in RBSI Ltd 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 £10,196 million (2023 – £10,251 million), comprised Stage 1 £10,163 million (2023 – £9,937 million); Stage 2 £31 million (2023 – £312 million); and Stage 3 £2 million (2023 – £2 million).

The total ECL in the remainder of the Credit risk section of £61 million included ECL for both on and off-balance sheet exposures.

10 Risk management 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.
- 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.

	RBSI Group							
	Stage 1		Stage 2		Stage 3		Total	
	Financial assets £m	ECL £m	Financial assets £m	ECL £m	Financial assets £m	ECL £m	Financial assets £m	ECL £m
At 1 January 2024	37,110	16	721	12	128	39	37,959	67
Currency translation and other adjustments	(129)	1	(3)	(1)	-	9	(132)	9
Transfers from Stage 1 to Stage 2	(509)	(1)	509	1	-	-	-	-
Transfers from Stage 2 to Stage 1	356	5	(356)	(5)	-	-	-	-
Transfers to Stage 3	(3)	-	(32)	(1)	35	1	-	-
Transfers from Stage 3	3	-	4	1	(7)	(1)	-	-
Exp change & income statement (releases)/charges	672	(10)	(507)	(1)	(12)	3	153	(8)
Amounts written-off	-	-	-	-	(2)	(2)	(2)	(2)
Unwinding of discount	-	-	-	-	-	(5)	-	(5)
At 31 December 2024	37,500	11	336	6	142	44	37,978	61
Net carrying amount	37,489		330		98		37,917	
At 1 January 2023	40,106	16	870	9	132	30	41,108	55
2023 movements	(2,996)	-	(149)	3	(4)	9	(3,149)	12
At 31 December 2023	37,110	16	721	12	128	39	37,959	67
Net carrying amount	37,094		709		89		37,892	

	RBSI Ltd							
	Stage 1		Stage 2		Stage 3		Total	
	Financial assets £m	ECL £m	Financial assets £m	ECL £m	Financial assets £m	ECL £m	Financial assets £m	ECL £m
At 1 January 2024	37,097	16	721	12	128	39	37,946	67
Currency translation and other adjustments	(129)	1	(3)	(1)	-	8	(132)	8
Transfers from Stage 1 to Stage 2	(509)	(1)	509	1	-	-	-	-
Transfers from Stage 2 to Stage 1	356	5	(356)	(5)	-	-	-	-
Transfers to Stage 3	(3)	-	(32)	(1)	35	1	-	-
Transfers from Stage 3	3	-	4	1	(7)	(1)	-	-
Exp change & income statement (releases)/charges	672	(10)	(507)	(1)	(12)	4	153	(7)
Amounts written-off	-	-	-	-	(2)	(2)	(2)	(2)
Unwinding of discount	-	-	-	-	-	(5)	-	(5)
At 31 December 2024	37,487	11	336	6	142	44	37,965	61
Net carrying amount	37,476		330		98		37,904	
At 1 January 2023	40,083	16	870	9	132	30	41,085	55
2023 movements	(2,986)	-	(149)	3	(4)	9	(3,139)	12
At 31 December 2023	37,097	16	721	12	128	39	37,946	67
Net carrying amount	37,081		709		89		37,879	

(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.

10 Risk management continued

Stage 2 decomposition – arrears status and contributing factors

The tables below show Stage 2 decomposition for the Non-Personal portfolios.

	Corporate and other		FI		Other		Non-personal	
	Loans £m	ECL £m	Loans £m	ECL £m	Loans £m	ECL £m	Loans £m	ECL £m
31 December 2024								
Non-personal								
Currently in arrears (>30 DPD)	4	-	-	-	-	-	4	-
Currently up-to-date	209	5	45	1	1	-	255	6
- PD deterioration	191	4	37	-	-	-	228	4
- Other driver (forbearance, Risk of Credit Loss etc.)	18	1	8	1	1	-	27	2
Total Stage 2	213	5	45	1	1	-	259	6

	Corporate and other		FI		Other		Non-personal	
	Loans £m	ECL £m	Loans £m	ECL £m	Loans £m	ECL £m	Loans £m	ECL £m
31 December 2023								
Non-personal								
Currently in arrears (>30 DPD)	6	1	7	-	-	-	13	1
Currently up-to-date	233	8	344	3	1	-	578	11
- PD deterioration	152	4	313	2	-	-	465	6
- Other driver (forbearance, Risk of Credit Loss etc.)	81	4	31	1	1	-	113	5
Total Stage 2	239	9	351	3	1	-	591	12

10 Risk management 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).

	RBSI Group										
	Gross exposure	Maximum credit risk			CREM by type (3)			CREM coverage		Exposure post CREM	
		ECL	Total	Stage 3	Financial (1)	Property	Other (2)	Total	Stage 3	Total	Stage 3
2024	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Financial assets											
Cash and balances at central banks	14,212	-	14,212	-	-	-	-	-	-	14,212	-
Loans - amortised cost	16,633	59	16,574	97	558	3,903	12	4,473	94	12,101	3
Personal	2,320	18	2,302	35	111	2,113	-	2,224	35	78	-
Non-personal	14,313	41	14,272	62	447	1,790	12	2,249	59	12,023	3
Debt securities	5,511	1	5,510	-	-	-	-	-	-	5,510	-
Total financial assets	36,356	60	36,296	97	558	3,903	12	4,473	94	31,823	3
Contingent liabilities and commitments											
Personal	474	-	474	-	200	-	-	200	-	274	-
Non-personal	9,722	1	9,721	3	134	314	46	494	1	9,227	2
Total off-balance sheet	10,196	1	10,195	3	334	314	46	694	1	9,501	2
Total exposure	46,552	61	46,491	100	892	4,217	58	5,167	95	41,324	5
2023											
Financial assets											
Cash and balances at central banks	17,650	-	17,650	-	-	-	-	-	-	17,650	-
Loans - amortised cost	15,815	65	15,750	92	557	4,001	37	4,595	87	11,155	5
Personal	2,363	17	2,346	36	118	2,163	-	2,281	36	65	-
Non-personal	13,452	48	13,404	56	439	1,838	37	2,314	51	11,090	5
Debt securities	2,934	-	2,934	-	-	-	-	-	-	2,934	-
Total financial assets	36,399	65	36,334	92	557	4,001	37	4,595	87	31,739	5
Contingent liabilities and commitments											
Personal	410	-	410	-	244	-	1	245	-	165	-
Non-personal	9,840	2	9,838	2	134	240	38	412	-	9,426	2
Total off-balance sheet	10,250	2	10,248	2	378	240	39	657	-	9,591	2
Total exposure	46,649	67	46,582	94	935	4,241	76	5,252	87	41,330	7

10 Risk management continued

	RBSI Ltd											
	Gross exposure	ECL	Maximum credit risk			CREM by type (3)			CREM coverage		Exposure post CREM	
			Total	Stage 3	Financial (1)	Property	Other (2)	Total	Stage 3	Total	Stage 3	
2024	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	
Financial assets												
Cash and balances at central banks	14,212	-	14,212	-	-	-	-	-	-	14,212	-	
Loans - amortised cost	16,620	59	16,561	97	558	3,903	12	4,473	94	12,088	3	
Personal	2,320	18	2,302	35	111	2,113	-	2,224	35	78	-	
Non-personal	14,300	41	14,259	62	447	1,790	12	2,249	59	12,010	3	
Debt securities	5,511	1	5,510	-	-	-	-	-	-	5,510	-	
Total financial assets	36,343	60	36,283	97	558	3,903	12	4,473	94	31,810	3	
Contingent liabilities and commitments												
Personal	474	-	474	-	200	-	-	200	-	274	-	
Non-personal	9,722	1	9,721	3	134	314	46	494	1	9,227	2	
Total off-balance sheet	10,196	1	10,195	3	334	314	46	694	1	9,501	2	
Total exposure	46,539	61	46,478	100	892	4,217	58	5,167	95	41,311	5	

	RBSI Ltd											
	Gross exposure	ECL	Maximum credit risk			CREM by type (3)			CREM coverage		Exposure post CREM	
			Total	Stage 3	Financial (1)	Property	Other (2)	Total	Stage 3	Total	Stage 3	
2023	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	
Financial assets												
Cash and balances at central banks	17,650	-	17,650	-	-	-	-	-	-	17,650	-	
Loans - amortised cost	15,801	65	15,736	92	557	4,001	37	4,595	87	11,141	5	
Personal	2,363	17	2,346	36	118	2,163	-	2,281	36	65	-	
Non-personal	13,438	48	13,390	56	439	1,838	37	2,314	51	11,076	5	
Debt securities	2,934	-	2,934	-	-	-	-	-	-	2,934	-	
Total financial assets	36,385	65	36,320	92	557	4,001	37	4,595	87	31,725	5	
Contingent liabilities and commitments												
Personal	410	-	410	-	245	-	1	246	-	164	-	
Non-personal	9,840	2	9,838	2	133	240	38	411	-	9,427	2	
Total off-balance sheet	10,250	2	10,248	2	378	240	39	657	-	9,591	2	
Total exposure	46,635	67	46,568	94	935	4,241	76	5,252	87	41,316	7	

(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.

10 Risk management 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 Non-Personal 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 judgement 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	PD	Indicative S&P rating
	Minimum %	Maximum %	
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 Non-Personal 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.

10 Risk management 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.

	RBSI Group			RBSI Ltd		
	Personal £m	Non-personal £m	Total £m	Personal £m	Non-personal £m	Total £m
2024						
Loans by geography	2,320	14,313	16,633	2,320	14,300	16,620
- UK ⁽¹⁾	2,320	8,522	10,842	2,320	8,509	10,829
- Other Europe	-	4,618	4,618	-	4,618	4,618
- RoW	-	1,173	1,173	-	1,173	1,173
Loans by asset quality	2,320	14,313	16,633	2,320	14,300	16,620
- AQ1	11	2,544	2,555	11	2,544	2,555
- AQ2	-	5,825	5,825	-	5,825	5,825
- AQ3	-	2,547	2,547	-	2,547	2,547
- AQ4	-	2,196	2,196	-	2,183	2,183
- AQ5	-	521	521	-	521	521
- AQ6	-	244	244	-	244	244
- AQ7 ⁽²⁾	2,257	329	2,586	2,257	329	2,586
- AQ8	-	9	9	-	9	9
- AQ9	-	9	9	-	9	9
- AQ10	52	89	141	52	89	141
Loans by stage	2,320	14,313	16,633	2,320	14,300	16,620
- Stage 1	2,225	13,965	16,190	2,225	13,952	16,177
- Stage 2	43	259	302	43	259	302
- Stage 3	52	89	141	52	89	141
Loans - past due analysis	2,320	14,313	16,633	2,320	14,300	16,620
- Not past due	2,236	14,122	16,358	2,236	14,109	16,345
- Past due 1-30 days	20	153	173	20	153	173
- Past due 31-90 days	16	17	33	16	17	33
- Past due 91-180 days	14	-	14	14	-	14
- Past due >180 days	34	21	55	34	21	55
Loans - Stage 2	43	259	302	43	259	302
- Not past due	11	246	257	11	246	257
- Past due 1-30 days	17	9	26	17	9	26
- Past due 31-90 days	15	4	19	15	4	19
ECL provisions by stage	18	43	61	18	43	61
- Stage 1	2	9	11	2	9	11
- Stage 2	-	6	6	-	6	6
- Stage 3	16	28	44	16	28	44
ECL provisions coverage (%)	0.8	0.3	0.4	0.8	0.3	0.4
- Stage 1 (%)	0.1	0.1	0.1	0.1	0.1	0.1
- Stage 2 (%)	-	2.3	2.0	-	2.3	2.0
- Stage 3 (%)	30.8	31.5	31.2	30.8	31.5	31.2
ECL charge	1	(9)	(8)	1	(9)	(8)
- UK	1	(6)	(5)	1	(6)	(5)
- Other Europe	-	(3)	(3)	-	(3)	(3)
ECL loss rate (%)	0.04	(0.06)	(0.05)	0.04	(0.06)	(0.05)
Amounts written-off	2	-	2	2	-	2
Other financial assets by asset quality	-	19,723	19,723	-	19,723	19,723
- AQ1-AQ4	-	19,723	19,723	-	19,723	19,723
- AQ5-AQ8	-	-	-	-	-	-
Off-balance sheet	474	9,722	10,196	474	9,722	10,196
- Loan commitments	474	9,433	9,907	474	9,433	9,907
- Financial guarantees	-	289	289	-	289	289
Off-balance sheet by asset quality	474	9,722	10,196	474	9,722	10,196
- AQ1-AQ4	125	9,217	9,342	125	9,217	9,342
- AQ5-AQ8	349	501	850	349	501	850
- AQ9	-	2	2	-	2	2
- AQ10	-	2	2	-	2	2

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

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

10 Risk management continued

2023	RBSI Group			RBSI Ltd		
	Personal £m	Non-personal £m	Total £m	Personal £m	Non-personal £m	Total £m
Loans by geography	2,363	13,452	15,815	2,363	13,438	15,801
- UK ⁽¹⁾	2,363	8,215	10,578	2,363	8,202	10,565
- Other Europe	-	3,823	3,823	-	3,822	3,822
- RoW	-	1,414	1,414	-	1,414	1,414
Loans by asset quality	2,363	13,452	15,815	2,363	13,438	15,801
- AQ1	12	2,651	2,663	12	2,651	2,663
- AQ2	-	4,327	4,327	-	4,329	4,329
- AQ3	-	2,528	2,528	-	2,528	2,528
- AQ4	-	2,474	2,474	-	2,460	2,460
- AQ5	-	719	719	-	719	719
- AQ6	-	301	301	-	301	301
- AQ7 ⁽³⁾	2,299	356	2,655	2,299	354	2,653
- AQ8	-	8	8	-	8	8
- AQ9	-	8	8	-	8	8
- AQ10	52	80	132	52	80	132
Loans by stage	2,363	13,452	15,815	2,363	13,438	15,801
- Stage 1	2,268	12,781	15,049	2,268	12,767	15,035
- Stage 2	43	591	634	43	591	634
- Stage 3	52	80	132	52	80	132
Loans - past due analysis	2,363	13,452	15,815	2,363	13,438	15,801
- Not past due	2,284	13,374	15,658	2,284	13,358	15,642
- Past due 1-30 days	23	43	66	23	43	66
- Past due 31-90 days	10	23	33	10	24	34
- Past due 91-180 days	12	9	21	12	10	22
- Past due >180 days	34	3	37	34	3	37
Loans - Stage 2	43	591	634	43	591	634
- Not past due	15	576	591	15	577	592
- Past due 1-30 days	21	1	22	21	1	22
- Past due 31-90 days	7	14	21	7	13	20
ECL provisions by stage	17	50	67	17	50	67
- Stage 1	2	14	16	2	14	16
- Stage 2	-	12	12	-	12	12
- Stage 3	15	24	39	15	24	39
ECL provisions coverage (%)	0.7	0.4	0.4	0.7	0.4	0.4
- Stage 1 (%)	0.1	0.1	0.1	0.1	0.1	0.1
- Stage 2 (%)	-	2.0	1.9	-	2.0	1.9
- Stage 3 (%)	28.9	30.0	29.6	28.9	30.0	29.6
ECL charge	5	9	14	5	9	14
- UK	5	7	12	5	7	12
- Other Europe	-	2	2	-	2	2
ECL loss rate (%)	0.21	0.07	0.09	0.42	0.13	0.18
Amounts written-off	1	1	2	1	1	2
Other financial assets by asset quality	-	20,584	20,584	-	20,584	20,584
- AQ1-AQ4	-	20,584	20,584	-	20,584	20,584
- AQ5-AQ8	-	-	-	-	-	-
Off-balance sheet	410	9,840	10,250	410	9,840	10,250
- Loan commitments	410	9,474	9,884	410	9,474	9,884
- Financial guarantees	-	366	366	-	366	366
Off-balance sheet by asset quality	410	9,840	10,250	410	9,840	10,250
- AQ1-AQ4	121	9,332	9,453	122	9,332	9,454
- AQ5-AQ8	289	506	795	288	506	794
- AQ9	-	-	-	-	-	-
- AQ10	-	2	2	-	2	2

(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.

10 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 may arise 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.

Overall VaR remained stable during 2024 with limited movement between period-ends. The increase in average VaR was driven by increased credit spread risk, due to relatively stable higher bond holdings in the liquidity portfolio throughout 2024.

	RBSI Group and RBSI Ltd			
	31 December 2024	Maximum	Minimum	Average
	£m	£m	£m	£m
Interest rate	0.7	3.2	0.6	1.6
Credit spread	5.2	6.5	4.6	5.5
Structural foreign exchange rate (1)	1.1	2.4	1.0	1.8
Diversification (2)	(1.8)			(3.3)
Value-at-risk	5.2	6.6	5.0	5.6
	31 December 2023	Maximum	Minimum	Average
	£m	£m	£m	£m
Interest rate	1.0	2.2	0.9	1.4
Credit spread	5.5	5.5	1.6	2.7
Structural foreign exchange rate (1)	2.2	4.5	2.2	3.1
Diversification (2)	(3.1)			(2.6)
Value-at-risk	5.6	5.6	3.9	4.6

- (1) Structural foreign exchange rate risk has been added to the internal RBSI Group VaR risk appetite measure from 2024. The 2023 VaR table disclosed above has been recalculated to capture this risk factor; total VaR at 31 December 2023 is £0.3 million higher than the figure disclosed in the 2023 ARA.
- (2) 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.

10 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, gilts and other high quality government debt.

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 RBSI Holdings Group Asset and Liabilities 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.

10 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.

	RBSI Group								
	Banking activities								
	Less than 1 month	1-3 months	3-6 months	6 months - 1 year	Subtotal	1-3 years	3-5 years	More than 5 years	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
2024									
Cash and balances at central banks	14,264	-	-	-	14,264	-	-	-	14,264
Derivatives	34	29	14	6	83	30	24	84	221
Loans to banks	927	-	-	-	927	-	-	-	927
Loans to customers (1)	511	1,814	1,893	4,934	9,152	3,993	745	1,790	15,680
Personal	233	15	24	46	318	229	215	1,664	2,426
Corporate	221	136	17	503	877	1,085	474	126	2,562
Financial institutions excluding banks	57	1,663	1,852	4,385	7,957	2,679	56	-	10,692
Other financial assets	165	395	821	1,021	2,402	1,247	1,038	723	5,410
Total financial assets	15,901	2,238	2,728	5,961	26,828	5,270	1,807	2,597	36,502
2023									
Total financial assets	19,771	1,111	1,225	4,245	26,352	5,643	1,864	2,734	36,593
2024									
Bank deposits	145	40	-	-	185	1,000	-	-	1,185
Customer repos	38	-	-	-	38	-	-	-	38
Customer deposits	23,514	5,905	1,373	1,213	32,005	195	-	67	32,267
Personal	5,394	1,148	964	815	8,321	19	-	-	8,340
Corporate	4,869	1,836	183	124	7,012	6	-	-	7,018
Financial institutions excluding banks	13,251	2,921	226	274	16,672	170	-	67	16,909
Derivatives	25	12	7	19	63	124	22	71	280
Other financial liabilities	29	294	350	365	1,038	169	66	-	1,273
Lease liabilities	-	1	1	2	4	5	4	16	29
Total financial liabilities	23,751	6,252	1,731	1,599	33,333	1,493	92	154	35,072
2023									
Total financial liabilities	23,751	7,250	1,562	1,601	34,164	957	127	95	35,343

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

10 Risk management continued

	RBSI Ltd								
	Banking activities								
	Less than 1 month	1-3 months	3-6 months	6 months - 1 year	Subtotal	1-3 years	3-5 years	More than 5 years	Total
2024	£m	£m	£m	£m	£m	£m	£m	£m	£m
Cash and balances at central banks	14,264	-	-	-	14,264	-	-	-	14,264
Derivatives	34	29	14	6	83	30	24	84	221
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Personal	233	15	24	46	318	229	215	1,664	2,426
Corporate	221	136	17	503	877	1,085	474	126	2,562
Financial institutions excluding banks	57	1,663	1,852	4,385	7,957	2,679	56	-	10,692
Other financial assets	165	395	821	1,021	2,402	1,247	1,038	723	5,410
Total financial assets	15,888	2,238	2,728	5,961	26,815	5,270	1,807	2,597	36,489
2023									
Total financial assets	19,757	1,111	1,225	4,245	26,338	5,643	1,864	2,734	36,579
2024									
Bank deposits	145	40	-	-	185	1,000	-	-	1,185
Bank repos	-	-	-	-	-	-	-	-	-
Customer repos	38	-	-	-	38	-	-	-	38
Customer deposits	23,514	5,905	1,373	1,213	32,005	195	-	67	32,267
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Total financial liabilities	23,751	6,252	1,731	1,599	33,333	1,493	92	154	35,072
2023									
Total financial liabilities	23,751	7,250	1,562	1,601	34,164	957	127	95	35,343

(1) Excludes £59 million for Group (2023 - £65 million) and £59 million for Bank (2023 - £65 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 Ltd 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 updated its Code of Practice for Deposit-taking Business on 1 January 2025. It requires Jersey incorporated bank's risk-based capital ratios to be maintained at or above the following: CET1 ratio of 4.5% of risk-weighted assets (RWAs); tier 1 ratio of 6% of RWAs; and total capital ratio of 8% of total RWAs. The JFSC further established a specific capital buffer for each Jersey incorporated bank, which is set at a minimum of 2.5%, being the capital conservation buffer. Capital requirements remain subject to developments as the JFSC undertakes a series of consultations around its implementation of Basel III.

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.

10 Risk management continued

Pension risk

Definition

Pension risk is defined 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 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 this risk.

Key developments in 2024

- There were no material changes to RBSI Group's exposure to pension risk during the year, and the overall positions of the schemes that RBSI Group sponsors, remained broadly stable.
- The triennial actuarial valuation for the IPT with an effective date of 31 March 2024 is underway and will be finalised in 2025.

Governance, risk appetite and controls

The RBSI Asset & Liability Committee 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 Committee 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 Asset & Liability Committee formulates the 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 RBSI Ltd'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 and conduct risk

Definition

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 poor 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

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 2024

- Further enhancements were made to the compliance and conduct framework, with the risk toolkits, risk standards and regulatory compliance operational policy framework being embedded throughout the year. Business areas also completed self-assessments against the Conduct Risk policy and Regulatory Compliance Risk policy to ensure risks are being measured and managed accurately and effectively.
- The NatWest Group-wide Consumer Duty programme continued to make significant progress, with the second phase of Consumer Duty rules having come into force on 31 July 2024. Activity is now centred around embedding the requirements of the Duty, utilising improved data and analysis for reporting on good customer outcomes, and ensuring a consistent Group-wide approach to customer communications. RBSI has aligned itself to the principles of Consumer Duty and forms part of the NatWest Group programme.

Governance

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

Risk appetite

The compliance and conduct risk appetite statement and associated measures are approved at least annually by the RBSIH Board to ensure they remain appropriate and aligned to RBSI Group strategy. Risk appetite statements articulate the levels of risk that legal entities, businesses and functions work within when pursuing their strategic objectives and business plans.

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

10 Risk management continued

Performance against risk appetite is reported regularly to the Executive Risk Committee, the Board Risk Committee, and the Board. Relevant compliance and conduct risk matters are escalated through the Executive Risk Committee and Board Risk Committee and to the Board as applicable. For more information, refer to the Governance and remuneration section.

Monitoring and measurement

Compliance and conduct risks are measured and managed through continuous assessment and regular 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 of defence. 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 and fraud risk

Definition

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

Sources of risk

Financial crime risk may be present if 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 2024

- Continued significant investment was made to support the delivery of a multi-year transformation plan across financial crime risk management.
- Enhancements were made to technology, data quality, and data analytics to improve the effectiveness of systems used to monitor customers and transactions.
- Financial crime roadshows and events were held throughout the year to further embed financial crime risk management culture and behaviours.
- There was active participation in public/private partnerships across the jurisdictions in which RBSI operates including the Jersey Financial Intelligence Network (Joint Money Laundering Intelligence Taskforce and Data Fusion). In 2024, NatWest Group (together with seven other UK Banks) shared datasets with the National Crime Agency (NCA) and seconded staff to the NCA to form a joint public/private intelligence team to work on the resulting risks, identified, for reporting to law enforcement. This is a joint project, governed equally by the banks and the NCA, that has directly advanced high priority organised crime investigations and identified new criminal networks exploiting the UK's financial system.

Governance

The Financial Crime Oversight 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

Financial crime risk appetite is approved by the Board. The risk appetite statements and associated measures for financial crime risks are reviewed and approved at least annually by the Board on the Board Risk Committee's recommendation to ensure they remain appropriate and aligned to strategy.

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.

Performance against risk appetite is reported regularly to the Executive Risk Committee, the Board Risk Committee, and the Board. Relevant financial crime risk matters are escalated through the Executive Risk Committee and Board Risk Committee and to the Board as applicable. For more information, refer to the Governance and remuneration section.

Monitoring and measurement

Financial crime risks are identified and reported through continuous risk management and regular monthly reporting to the Financial Crime Oversight Forum and other risk governance committees (including the Board Risk 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 and nature risk

Definition

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

Sources of risk

Physical risks may arise from climate events such as heatwaves, droughts, floods, storms and nature-related events such as land or air pollution. 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, business interests and supply chains of its customers.

10 Risk management continued

Climate and nature risk continued

Transition risks may arise from the process of adjustment towards a low-carbon, nature restored 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 of its own operations as well as supply chain disruption leading to financial impacts. Potential indirect effects include the impact on the wider economy, including on customers, which may erode RBSI Group's competitiveness and profitability, as well as threaten reputational damage.

Liability risks may arise should stakeholders consider RBSI Group's climate and nature risk management practices and disclosures insufficient, and responsible for or attributable to, stakeholders' losses. On the other hand, liability risks may also arise where some jurisdictions believe financial institutions have taken their sustainability-related initiatives too far, with some imposing sanctions in these circumstances.

Key developments in 2024

The effective management of climate and nature risk requires the full integration of climate-related risk factors into strategic planning, transactions and decision-making. The approach has evolved alongside RBSI Group's ongoing, multi-year progressive pathway to mature climate risk management capabilities, and in 2024:

- RBSI Group conducted a range of scenario analysis exercises to test the resilience of its strategy against the impacts of climate change under different climate scenarios. This included a greenwashing scenario in line with the FCA's Anti-Greenwashing Rule which was introduced in May 2024.
- RBSI Group continued to enhance its in-house climate risk modelling capabilities, supporting the integration of climate risk within its capital adequacy (ICAAP); impairment (IFRS 9); and risk management processes.
- RBSI Group began to roll-out the second generation of climate risk scorecards across priority segments in the Non-Personal portfolio. The roll-out was completed on a test and learn basis and the scorecard outputs do not drive credit risk decision making as yet.
- RBSI Group improved the oversight of climate-related risk through regular reporting and review of climate risk appetite and associated operational measures, and improved calibration of existing limits to inform monthly risk committee updates.
- RBSI Group contributed to methodology enhancements made to the NatWest Group climate transition plan, including identification and analysis of potential impacts associated with proposed transition-focused actions.
- Building on activity in 2023, RBSI Group enhanced its understanding of nature risks by engaging with a pilot Locate, Evaluate, Assess and Prepare assessment as recommended by the Taskforce on Nature-related Financial Disclosures. The pilot focused on prioritised sectors in the Non-Personal portfolio.

Governance

The Board is responsible for monitoring and overseeing climate-related risk within RBSI Group's overall business strategy and risk appetite.

Risk appetite

Work continued in 2024 to mature NatWest Group's climate-related risk capabilities.

RBSI Group used its EWRMF to identify the principal risks which could impact the organisation. As NatWest Group's climate capabilities mature, climate-related risks are planned to be effectively managed through existing policies and these policies are captured within the EWRMF. The EWRMF sets out the requirements on how risk appetite is implemented through risk policies and standards and translated into operational procedures. The impact of climate-related risk as a causal factor to other principal risks will be reassessed and managed through the annual refresh of the EWRMF and its individual components.

Monitoring and measurement

RBSI Group regularly considers existing and emerging regulatory requirements related to climate and nature risk. The identification of climate and nature regulation has been incorporated into the existing upstream risk management process.

RBSI Group also regularly engages in climate and nature consultations across local jurisdictions, recently providing a response to the Jersey Sustainable Finance Consultation and a discussion paper on The Future of Sustainability Reporting in the Bailiwick of Guernsey.

Operational risk

Definition

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

Sources of risk

Operational risk may arise from a failure to manage operations, systems, processes, transactions and assets appropriately. This includes human error, an inability to deliver change adequately or on time, the non-availability of technology services, or the loss of customer data. It also includes systems failure, theft of RBSI Group property, information loss, the impact of natural or man-made disasters and the threat of cyberattacks. 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 2024

- The continued embedding of the enhanced risk and control self-assessment approach with a focus on material operational risks and controls across key end-to-end processes.
- An enhanced approach to introduce a single risk and control performance assessment has been developed and tested during 2024. This will replace the current Control Environment Certification (CEC) approach from 2025.
- The automation of data-led insights into the operational risk profile to proactively drive management of the risks and oversight thereof.
- The embedding of robust operational risk appetite measures which provide comprehensive coverage of the key operational risks.
- The introduction of an effective and well defined approach to leverage artificial intelligence to enhance controls articulation and manage controls data quality on an ongoing basis.

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.

10 Risk management continued

Aligned to this, a strong operational risk management oversight function is vital to support RBSIH's ambitions to serve its customers better. Improved management of operational risk against defined risk appetite is vital for stability and reputational integrity.

Risk appetite

Operational risk appetite is approved by the RBSIH Board and supports effective management of all operational risks. It expresses the level and types of operational risk RBSIH is willing to accept to achieve its strategic objectives and business plans. 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.

The Operational risk appetite statement and associated measures are reviewed and approved at least annually by the RBSIH Board to ensure they remain appropriate and aligned to RBSI Group strategy.

Mitigation

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

All residual risks that exceed the target appetite position are subject to action plans to bring them within appetite.

A review of the effectiveness of controls is undertaken through the CEC process. This is a bi-annual process by the RBSI CEO, which requires senior members of the executive and management to assess the adequacy and effectiveness of their internal control frameworks which supports certification that their business or function is compliant with the Internal Control over Financial Reporting (Sarbanes-Oxley Section 404) regulatory requirements and with the requirements of the UK Corporate Governance Code section on Risk Management and Internal Controls.

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. They are also shared with external auditors.

Monitoring and measurement

Operational risk is measured and managed through continuous assessment and regular reporting to senior risk committees and at Board-level.

Risk and control self-assessments are used across all business areas and support functions to identify and assess material operational, financial crime, 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 every two years or sooner in response to internal and external events to ensure they remain relevant and that they capture any emerging risks.

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

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.

Model risk

Definition

Model risk is the potential for adverse consequences from model errors or the inappropriate use of modelled outputs to inform business decisions. A model is defined as a quantitative method, system, or approach that applies statistical economic, financial, accounting, mathematical or data science theories, techniques and assumptions to process input data into estimates.

Sources of risk

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 2024

- NatWest Group remained within model risk appetite throughout 2024.
- The model risk management enhancement programme was set up to support NatWest Group's response to the PRA's Supervisory Statement 1/23 (SS1/23). A self-assessment against SS1/23 was completed, reviewed by the board and submitted to the PRA. Effort was focused on implementing an enhanced model risk management framework, including an expanded model identification exercise and roll-out of a new model tiering approach.
- Model inventory design changes were carefully delivered to support the implementation of framework enhancements. Focus also continued on improving the completeness and accuracy of model risk data contained within the inventory through enhanced oversight metrics and targeted remediation work.

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 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 statement and associated measures are reviewed and approved at least annually by the RBSIH Board to ensure they remain appropriate and aligned to RBSI Group strategy.

10 Risk management continued

Monitoring and measurement

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

All models developed for use are assigned a model tier, based on the model's materiality and complexity. Risk-based model tiering is used to prioritise risk management activities throughout the model lifecycle, and to identify and classify those models which pose the highest risk to RBSIH's business activities, safety and/or soundness.

Validation of material models is conducted by an independent risk function comprising of skilled, well-informed subject matter experts. This is completed for new models or material amendments to existing models and as part of an ongoing periodic programme to assess model performance. The frequency of periodic revalidation is aligned to the tier of the model. The independent validation focuses on a variety of model features, including model inputs, model processing, model outputs, the implementation of the model and the quality of the ongoing performance monitoring. Independent validation also focuses on the quality and accuracy of the development documentation and the model's compliance with regulation.

The model materiality combined with the validation rating provides the basis for model risk appetite measures and enables model risk to be robustly monitored and managed across RBSIH.

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

Mitigation

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

Reputational risk

Definition

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

Sources of risk

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

Key developments in 2024

- A new approach to the management of reputational risks was introduced, in line with changes introduced across RBSI Group's other businesses and legal entities.
- The RBSIH Reputational Risk Committee was retired, with decisions relating to customer onboarding, retention and exits re-directed to the accountable executive for the business unit

in question, supported by customer decisioning meetings where needed.

- Matters involving other reputational risk considerations, were similarly re-directed in the first instance to the relevant accountable executive. However, those with wider impacts to RBSI Group's reputation are referred to the ERC for decision.
- RBSI Executive Risk Committee (ERC) took on oversight of both types of cases, as well as the entity's overall reputational risk profile, with individual cases also escalated to ERC as required.
- Reputational risk assessment guidance was updated and colleagues in relevant roles received updated training on key aspects of the policy and framework.
- The impact classification matrix for assessing risks was also overhauled for reputational risks.
- Enhancements were made to the environmental, social and ethical (ESE) risk framework, including implementation of the ESE human rights risk acceptance criteria.

Governance

A reputational risk policy supports reputational risk management across RBSI Group. Reputational risk registers are used to manage reputational risks identified within relevant business areas.

The reputational pillar of the impact classification matrix is used to assess the impact and likelihood of reputational risk. Material risks are risks which have the potential to breach reputational risk appetite limits and are defined as risks which have an impact of major or significant, and a likelihood of almost certain or likely.

Decisions on customer matters giving rise to potential reputational risks follow the customer decisioning process. The most significant issues for decision are escalated to the ERC, which also holds responsibility for overseeing the entity's overall reputational risk profile. Reporting is also undertaken to RBSIH Group Board Risk Committee and to the NatWest Group Reputational Risk Committee.

The NatWest Group Executive and Board Risk Committees oversee the identification and reporting of reputational risk.

Risk appetite

NatWest Group manages and articulates its appetite for reputational risk through a qualitative reputational risk appetite statement and associated quantitative measures.

NatWest Group seeks to proactively identify, measure and manage material reputational risk exposures to ensure stakeholder trust is retained. NatWest Group's risk appetite is expressed through external measurement of public trust in NatWest Group to do the right thing. Key drivers of trust have been identified as being able to provide core banking services and to act with honesty and fairness towards stakeholders. Reputational risk is inherent in NatWest Group's operating environment and public trust is a specific factor in setting reputational risk appetite.

RBSI Group accepts that reputational risk can occur as a result of conducting business and in the provision of service to customers. Several measures – including some also used in the management of operational, conduct and financial risks – are used to assess risk levels against risk appetite. Where a material reputational risk is presented, this is escalated to the NatWest Group Reputational Risk Committee.

10 Risk management continued

In addition, RBSI Group maintains 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 RBSIH Board Risk Committee, and NatWest Group Reputational Risk Committee.

Monitoring and measurement

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

All material reputational risks have management plans and mitigation actions logged and tracked by the risk owner on the reputational risk register.

Additional key risk indicators for material risks being monitored are also reported to the Group Reputational Risk Committee and to the Executive and Board Risk Committees. Management information is also maintained on cases that go through the customer decisioning process and this is reported quarterly to RBSIH Group Executive and Board Risk Committees.

Mitigation

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

RBSI Group has a fully embedded reputational risk framework which captures a more complete view of reputational risk at a strategic level.

External events that could cause reputational damage are identified and mitigated through horizon scanning and the RBSI Group's top and emerging risks process.

11 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 is the provision of banking services, including the taking of deposits and lending.
NatWest Trustee and Depository Services Limited (NWTDS)	UK	100%	The main activity is the provision of depository services.
Tilba Limited (formerly known as Isle of Man Bank Limited)	Isle of Man	100%	Since 2019, entity is inactive.

(1) RBS International Depository Services S.A was sold to the Royal Bank of Scotland Holdings NV on 1 December 2023.

12 Other assets

	RBSI Group		RBSI Ltd	
	2024 £m	2023 £m	2024 £m	2023 £m
Property plant and equipment	60	77	60	77
Intangible assets	73	59	39	29
Accrued income	17	18	11	13
Other assets	34	42	35	41
Current and deferred tax (refer Note 5)	22	25	22	25
Retirement benefit assets (refer Note 4)	6	7	6	7
	212	228	173	192

13 Other financial liabilities

	RBSI Group and RBSI Ltd	
	2024 £m	2023 £m
Debt securities in issue - amortised cost	1,273	1,114
	1,273	1,114

14 Subordinated liabilities

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

Dated loan capital		First call date	Maturity date	Capital treatment	RBSI Group and RBSI Ltd	
					2024 £m	2023 £m
\$350 million	Fixed rate Notes	Nov-25	Nov-26	Not applicable	283	279
					283	279

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. RBSI Ltd has a contractual obligation to pay interest.

15 Other liabilities

	RBSI Group		RBSI Ltd	
	2024	2023	2024	2023
	£m	£m	£m	£m
Lease liabilities	29	32	29	32
Provisions for liabilities and charges	18	19	17	19
Accruals	41	33	36	30
Deferred income	37	36	37	36
Current tax and deferred tax (refer Note 5)	76	76	76	75
Other liabilities	35	39	35	36
	236	235	230	228

The following amounts are included within provisions:

	RBSI Group				
	Provision for property (1)	Integration restructuring divested provision (2)	ECL provision (3)	Others (4)	Total
	£m	£m	£m	£m	£m
At 1 January 2023	10	1	2	1	14
Charged to the income statement	-	2	-	5	7
Utilised in year	-	(1)	-	(1)	(2)
At 1 January 2024	10	2	2	5	19
Charged to the income statement	-	4	-	6	10
Released during the year	-	(1)	(1)	-	(2)
Utilised in year	-	(2)	-	(7)	(9)
At 31 December 2024	10	3	1	4	18

	RBSI Ltd				
	Provision for property (1)	Integration restructuring divested provision (2)	ECL provision (3)	Others (4)	Total
	£m	£m	£m	£m	£m
At 1 January 2023	10	1	2	1	14
Charged to the income statement	-	2	-	5	7
Utilised in year	-	(1)	-	(1)	(2)
At 1 January 2024	10	2	2	5	19
Charged to the income statement	-	3	-	6	9
Released during the year	-	(1)	(1)	-	(2)
Utilised in year	-	(2)	-	(7)	(9)
At 31 December 2024	10	2	1	4	17

(1) Property provisions relate to closure of properties.

(2) Restructuring provisions relate to redundancy costs.

(3) ECL provisions relate to contingent liabilities and commitments, as calculated in accordance with IFRS 9.

(4) Other provisions relate to conduct.

For accounting policy information refer to Accounting policy 9.

Critical accounting policy: Provisions for liabilities

The key judgement is involved in determining whether a present obligation exists. There is often a high degree of uncertainty and judgement is based on the specific facts and circumstances relating to individual events in determining whether there is a present obligation. Judgement is also involved in estimation of the probability, timing and amount of any outflows. Where 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.

16 Share capital and other equity

	RBSI Group			
	2024	2023	Number of shares	
	£m	£m	2024	2023
			000s	000s
Allotted, called up and fully paid				
<i>Equity shares</i>				
Ordinary shares of £1	311	311	310,735	310,735
	311	311	310,735	310,735

	RBSI Ltd			
	2024	2023	Number of shares	
	£m	£m	2024	2023
			000s	000s
Allotted, called up and fully paid				
<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 RBSI Ltd comprises one class of Ordinary Share held by its holding company, RBSIH.

Paid-in equity

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

	RBSI Group and RBSI Ltd	
	2024	2023
	£m	£m
<i>Additional Tier 1 capital notes:</i>		
£300m 6.597% notes repayable from September 2025	300	300
	300	300

The coupons on this instrument are non-cumulative and payable at RBSI Ltd'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.

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 2024. Although 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 RBSI Group's expectation of future losses.

	RBSI Group and RBSI Ltd	
	2024 £m	2023 £m
Guarantees	267	337
Other contingent liabilities	22	30
Standby facilities, credit lines and other commitments	9,906	9,882
Contingent liabilities and commitments	10,195	10,249

(1) Updated to reflect the regulatory treatment of revocable commitments.

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. 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 RBSI Group's normal credit approval processes.

Guarantees

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

Commitments

These are loan commitments 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 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. 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.

RBSI Ltd reliance regime and referral to enforcement

In January 2023, the Jersey Financial Services Commission (JFSC) notified RBSI Ltd that it had been referred to its Enforcement Division in relation to RBSI Ltd's operation of the reliance regime. The reliance regime is specific to certain Crown Dependencies and enables RBSI Ltd to rely on regulated third parties for specific due diligence information. RBSI Ltd has provided information to the JFSC at its request.

18 Non-cash and other items

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

	RBSI Group		RBSI Ltd	
	2024 £m	2023 £m	2024 £m	2023 £m
Impairment (releases)/losses	(8)	14	(7)	14
Defined benefit pension schemes	4	3	4	3
Depreciation and amortisation	27	24	26	24
Change in fair value taken to profit or loss on other financial assets	55	(43)	55	(43)
Change in fair value taken to profit or loss on subordinated liabilities	(1)	(2)	(1)	(2)
Elimination of foreign exchange differences	335	257	335	257
Charges and releases on provisions	9	7	9	7
Loss on sale of other financial assets	2	-	2	-
Profit on sale of net assets/liabilities	-	(14)	-	-
Interest payable on subordinated liabilities	20	21	20	21
Income receivable on other financial assets	(87)	(38)	(87)	(38)
Other non-cash items	152	137	151	135
Non-cash and other items	508	366	507	378
Change in operating assets and liabilities				
Change in loans to customers	(1,113)	1,847	(1,113)	1,847
Change in amounts due from holding companies and fellow subsidiaries	(1)	1	(3)	21
Change in derivative assets	(171)	30	(171)	30
Change in other assets	10	(35)	8	(35)
Change in derivative liabilities	(134)	3	(134)	3
Change in banks deposits	341	517	341	517
Change in customer deposits	(634)	(1,698)	(634)	(1,698)
Change in other financial liabilities	159	275	159	275
Change in amounts due to holding companies and fellow subsidiaries	4	(602)	(24)	(585)
Change in other liabilities	(14)	10	(13)	11
Change in operating assets and liabilities	(1,553)	348	(1,584)	386

19 Analysis of changes in financing during the year

	RBSI Group				RBSI Ltd			
	Share capital, share premium and paid-in equity		Subordinated liabilities (1)		Share capital, share premium and paid-in equity		Subordinated liabilities (1)	
	2024 £m	2023 £m	2024 £m	2023 £m	2024 £m	2023 £m	2024 £m	2023 £m
At 1 January	1,110	1,110	279	294	402	402	279	294
Issue of subordinated liabilities	-	-	-	-	-	-	-	-
Interest paid on subordinated liabilities	-	-	(20)	(21)	-	-	(20)	(21)
Net cash flows from financing activities	-	-	(20)	(21)	-	-	(20)	(21)
Changes in fair value of subordinated liabilities	-	-	(1)	(2)	-	-	(1)	(2)
Interest payable on subordinated liabilities	-	-	5	21	-	-	5	21
Effects of foreign exchange	-	-	20	(13)	-	-	20	(13)
At 31 December	1,110	1,110	283	279	402	402	283	279

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

20 Analysis of cash and cash equivalents

	RBSI Group		RBSI Ltd	
	2024 £m	2023 £m	2024 £m	2023 £m
At 1 January				
- cash	17,697	17,012	17,697	17,012
- cash equivalents	2,246	2,184	2,232	2,161
Net (decrease)/increase in cash and cash equivalents	(3,952)	747	(3,951)	756
At 31 December	15,991	19,943	15,978	19,929
Comprising:				
Cash and balances at central banks	14,264	17,697	14,264	17,697
Loans to banks including intragroup balances	1,727	2,246	1,714	2,232
Cash and cash equivalents	15,991	19,943	15,978	19,929

RBSI Ltd 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 RBSI Group. These are set out below.

	2024 £m	2023 £m	2024 £m	2023 £m
Central Bank of Luxembourg	111	135	111	135
Bank of England	-	9	-	9
Total	111	144	111	144

21. Related parties

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

UK Government

The UK Government's shareholding in NatWest Group plc is managed by UK Government Investments Limited, a company wholly owned by the UK Government. At 31 December 2024 HM Treasury's holding in NatWest Group plc's ordinary shares was 9.99% (31 December 2023 - 37.97%). As a result, the UK Government through HM Treasury is no longer the controlling shareholder of NatWest Group plc as per UK listing rules. The UK Government and UK Government-controlled bodies remain related parties of the NatWest Group.

RBSI Group enters into transactions with many of these bodies. 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.

Bank of England facilities

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

In March 2024 Bank of England Levy replaced the Cash Ratio Deposit scheme. Members of NatWest Group that are UK authorised institutions are required to pay the levy having eligible liabilities greater than £600 million. They also have access to Bank of England reserve accounts: sterling current accounts that earn interest at the Bank of England Base rate.

(a) Transactions with key management

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

Key management have banking relationships with NatWest Group 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.

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

	2024 £'000	2023 £'000
Loans and advances to customers	840	1,876
Customer accounts	316	280
Interest received	9	9
Interest paid	4	9

(b) Related party transactions

	RBSI Group		RBSI Ltd	
	2024 £m	2023 £m	2024 £m	2023 £m
Income				
Interest received: NatWest Group entities	41	23	41	23
Expenses				
Interest paid: NatWest Group entities	26	33	29	35

Operating expenses includes inter-group cost recharges of £121 million (2023 - £113 million) from NatWest Group.

RBSI Ltd paid ordinary dividends of £555 million (2023 - £650 million) to RBSIH and a paid-in equity dividend of £20 million (2023 - £20 million) was paid to NatWest Group.

RBSIH paid ordinary dividends of £583 million (2023 - £652 million) to NatWest Group.

21. Related parties continued

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

	RBSI Group					
	2024			2023		
	Holding companies £m	Fellow subsidiaries £m	Total £m	Holding companies £m	Fellow subsidiaries £m	Total £m
Assets						
Loans to banks - amortised cost	-	750	750	-	766	766
Other financial assets	-	50	50	-	252	252
Other assets	-	6	6	-	5	5
Amounts due from holding companies and fellow subsidiaries	-	806	806	-	1,023	1,023
Derivatives (1)	-	212	212	-	164	164
Liabilities						
Bank deposits	-	84	84	-	90	90
Customer deposits	-	7	7	-	7	7
Subordinated liabilities	283	-	283	279	-	279
Other liabilities	-	44	44	5	29	34
Amounts due to holding companies and fellow subsidiaries	283	135	418	284	126	410
Derivatives (1)	-	276	276	-	407	407

	RBSI Ltd							
	2024				2023			
	Holding companies £m	Fellow subsidiaries £m	Subsidiaries £m	Total £m	Holding companies £m	Fellow subsidiaries £m	Subsidiaries £m	Total £m
Assets								
Loans to banks - amortised cost	-	750	-	750	-	766	-	766
Other financial assets	-	50	-	50	-	252	-	252
Other assets	-	13	-	13	-	5	5	10
Amounts due from holding companies and fellow subsidiaries	-	813	-	813	-	1,023	5	1,028
Derivatives (1)	-	213	-	213	-	164	-	164
Liabilities								
Bank deposits	-	85	-	85	-	89	-	89
Customer deposits	-	67	-	67	28	64	-	92
Subordinated liabilities	283	-	-	283	279	-	-	279
Other liabilities	-	39	-	39	5	29	-	34
Amounts due to holding companies and fellow subsidiaries	283	191	-	474	312	182	-	494
Derivatives (1)	-	276	-	276	-	407	-	407

(1) Intercompany derivatives are included within derivatives in the balance sheet.

21. Related parties continued

(c) Compensation of key management

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

	RBSI Group and RBSI Ltd	
	2024	2023
	£'000	£'000
Short-term benefits	3,831	3,901
Share-based payments	1,737	1,476
Post-employment benefits	148	158
	5,716	5,535

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

22. Post balance sheet events

There have been no significant events between 31 December 2024 and the date of approval of the financial statements which would require a change to or additional disclosure in the financial statements.

Risk factors

Principal risks and uncertainties

Set out below are certain risk factors that could have a material adverse effect on RBSI Group's future results, its financial condition and/or prospects and potentially causing them to be materially different from what is forecast or expected. These risk factors are broadly categorised and should be read in conjunction with other categories in this section and other parts of this annual report (refer Note 10 Risk Management). They should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties facing RBSI Group. The financial position of RBSI Group, its cash flows, liquidity position and borrowing facilities are set out in the financial statements.

Economic and political risk

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 inflation and interest rates, supply chain disruption and geopolitical developments.

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 RBSI Group including demand for and utilisation of lending facilities, the level of defaults from customers on outstanding advances, the stability of deposit balances, as well as the degree of uncertainty in the valuation of other financial assets and liabilities.

The outlook for the global economy is affected by many factors including: GDP growth, inflation and changing interest rates, changing asset prices (including residential and commercial property), energy prices, supply chain disruption and changes to monetary and fiscal policy (such as increases in bank levies).

These conditions could be exacerbated 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, volatility in commodity prices, political uncertainty or instability, or concerns regarding sovereign debt or sovereign credit ratings, changing demographics in the markets that RBSI Group and its customers serve, rapid changes to the economic environment due to the adoption of technology, automation, artificial intelligence, or due to climate change, and/or other sustainability-related risks (including increasing social and other inequalities).

RBSI Group is also exposed to risks arising out of geopolitical events or political developments that may hinder economic or financial activity levels. Political, military or diplomatic events, geopolitical tensions, armed conflict (for example the Russia-Ukraine and Israel-Palestine conflicts), terrorist acts or threats, more severe and frequent extreme weather events, protectionist policies or trade barriers, widespread public health crises, related potential adverse effects on supply chains and the responses to any of the above 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.

Financial markets are susceptible to severe events evidenced by, or resulting in, 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 often automatically) 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 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.

Any of the above may have a material adverse effect on RBSI Group's future results, financial condition, prospects and reputation.

Changes in interest rates will continue to affect RBSI Group's business and result

RBSI Group's performance is affected by changes in interest rates. Benchmark overnight interest rates, such as the UK base rate, decreased in 2024 and forward rates at 31 December 2024 suggested interest rates will continue to decline in 2025. Stable interest rates support predictable income flow and less volatility in asset and liability valuations, although persistently low and negative interest rates may adversely affect RBSI Group.

Further volatility in interest rates may result in unexpected outcomes both for interest income and asset and liability valuations which may adversely affect RBSI Group. For example, unexpected movements in spreads between key benchmark rates such as sovereign and swap rates may in turn affect liquidity portfolio valuations. In addition, unexpected sharp rises in rates may also have negative impacts on some asset and derivative valuations.

Moreover, customer and investor responses to rapid changes in interest rates can have an adverse effect on RBSI Group. For example, customers may make deposit choices that provide them with higher returns than those then being offered by RBSI Group, and RBSI Group may not respond with competitive products as rapidly, for example following an interest rate change which may in turn decrease RBSI Group's net interest income. Movements in interest rates also influence and reflect the macroeconomic situation more broadly, affecting factors such as business and consumer confidence, property prices, default rates on loans, customer behaviour (which may adversely impact the effectiveness of RBSI Group's hedging strategy) and other indicators that may indirectly affect RBSI Group.

Any of the above may have a material adverse effect on RBSI Group's future results, financial condition, prospects, and reputation.

Fluctuations in currency exchange rates may adversely affect RBSI Group's results and financial condition.

Decisions of central banks (including the Bank of England, the European Central Bank and the US Federal Reserve) and political or market events, which are outside RBSI Group's control, may lead to sharp and sudden fluctuations in currency exchange rates.

Legal, regulatory and conduct risk

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.

Risk factors continued

Many of these have been introduced or amended recently and are subject to further material changes, which may increase compliance and conduct risks, particularly as EU/EEA and UK laws diverge as a result of the UK's withdrawal from the EU. RBSI Group expects government and regulatory intervention in the financial services industry to remain high for the foreseeable future. Also refer Note 17 on litigation and regulatory matters.

Regulators and governments continue to focus on reforming the prudential regulation of the financial services industry and the manner in which the business of financial services is conducted. Measures include: enhanced capital, liquidity and funding requirements, through initiatives such as the Basel 3.1 standards implementation (and any resulting effect on RWAs and models), the UK ring-fencing regime, the 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), financial industry reforms (including in respect of MiFID II and the FSM Act 2023), corporate governance requirements, rules relating to the compensation of senior management and other employees, enhanced data protection and IT resilience requirements, financial market infrastructure reforms, enhanced regulations in respect of the provision of 'investment services and activities', and increased regulatory focus in certain areas, including conduct, consumer protection (such as the FCA's Consumer Duty) in retail or other financial markets, 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 may 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;
- shifts in the international tax policy environment and imposition of levies and taxes can affect the distributable profits of RBSI Group, as RBSI Group is subject to the tax laws and practice in the jurisdictions in which it has operations.
- general changes in government, central bank, regulatory or competition policy, or changes in regulatory regimes that may influence investor decisions in the jurisdictions in which RBSI Group operates;
- rules relating to foreign ownership, expropriation, nationalisation and confiscation of assets;
- new or increased regulations relating to customer data protection as well as IT controls and resilience.
- changes to Internal Ratings Based (IRB) regulation from the Prudential Regulatory Authority (PRA) and the Jersey Financial Services Commission (JFSC).
- the introduction of Basel 3.1 amendments may result in additional supervisory and prudential expectations, including an increase in risk-weighted assets.
- 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 RBSI Group's business, financial condition and prospects.

- The Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) evaluates AML and CFT measures within Europe. It does so by first assessing compliance with the international standards (including the FATF Recommendations) and then reviewing the effectiveness of their implementation
- any regulatory requirements relating to the use of artificial intelligence and large language models across the financial services industry (such as the European Union Artificial Intelligence Act);
- 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, as well as 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. They have also impacted, and will continue to impact, competitive position, product offerings and business models.

Any of these developments (including any failure to comply with or correctly interpret new rules and regulations) could also have an adverse effect 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 and IT resilience risk

Operational risks (including reliance on third party suppliers and outsourcing of certain activities) 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 both third party suppliers. Operational risks are also present when RBSI Group relies on critical service providers (suppliers) or third-party 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. RBSI Group also relies on critical services that we procure from other areas of NatWest Group including, without limitation, property technology, accounting, financial crime, human resources and certain other support and administrative functions. A failure by NatWest Bank Plc or other NatWest Group entities to adequately supply these services may expose RBSI Group to critical business failure risk, increased costs, regulatory sanctions and other liabilities. These and any increases in the cost of these services may adversely affect RBSI Group.

Risk factors continued

Operational risks or losses can arise from 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 also exist due to the implementation of NatWest Group's (RBSI Group's ultimate parent) strategy, and the organisational and operational changes involved, including: NatWest Group's cost management measures, and conditions affecting the financial services industry generally (including macroeconomic and other geopolitical developments) as well as the legal and regulatory uncertainty resulting from these conditions. 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;
- cyber-attack threats across 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 prospects and reputation.

Ineffective management of such risks may have a material adverse effect on NWM Group's clients, future results, financial condition, prospects, regulatory compliance and/or reputation.

Strategic & Climate Risk

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

The Commercial & Institutional business segment combined the pre-existing Commercial, RBSI Group and NatWest Markets businesses to form a single business segment, which focuses on serving Commercial & Institutional customers. The Commercial & 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 & Institutional business segment may differ from the interests of RBSI Group. As a result of becoming part of NatWest Group's Commercial & Institutional business segment, RBSI Group may become increasingly reliant on NatWest Group. Reputational risk around the strategy to create the Commercial & Institutional business segment also arises in relation to stakeholder and public perceptions of RBSI Group as part of the Commercial & Institutional business segment.

RBSI Group and its customers, counterparties (including its suppliers) and other stakeholders face significant climate and sustainability-related risks, which may adversely affect NatWest Group.

Climate-related risks represent a source of systemic risk in the global financial system. The financial impacts of climate-related risks are expected to be widespread and may disrupt the proper functioning of financial markets and have an adverse effect on financial institutions, including RBSI Group.

Climate-related physical and transition risk may exacerbate the impact of financial and non-financial risks, whilst other sustainability-related risks may also have the potential to cause or stress other financial and non-financial risks. In addition, climate and sustainability risks may have a material adverse effect on RBSI Group's future results, financial condition, prospects, and reputation, including as a result of financial losses caused directly or indirectly by climate change or sustainability-related litigation and conduct matters (liability risks).

Risk factors continued

There are significant uncertainties as to the location, extent and timing of the manifestation of the physical impacts of climate change, such as more severe and frequent extreme weather events (storms, flooding, subsidence, heat waves, droughts and wildfires), rising average global temperatures and sea levels, nature loss, declining food yields, destruction of critical infrastructure, supply chain disruption and resource scarcity. Damage to RBSI Group customers', counterparties' (including suppliers') properties and operations could disrupt business, result in the deterioration of the value of collateral or insurance shortfalls, impair asset values, and negatively impact the creditworthiness of customers and their ability and/or willingness to pay fees, afford new products or repay their debts, leading to increased default rates, delinquencies, write-offs and impairment charges in RBSI Group's portfolios.

In addition, RBSI Group premises and operations, or those of its critical outsourced functions may experience damage or disruption leading to increased costs. Any of these may have a material adverse effect on RBSI Group's future results, financial condition, prospects, and reputation.

In February 2020, NatWest Group announced its 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 endorsing NatWest Group's previously announced strategic direction on 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's ability to contribute to achieving NatWest Group's strategy, including achieving NatWest Group's climate ambitions and targets will significantly depend 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 NatWest Group's climate-related ambitions and targets may have a material adverse effect on RBSI Group's future results, financial condition, prospects, and reputation and may increase the climate and sustainability-related risks RBSI Group faces.

Financial resilience risk

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 markets. As at 31 December 2024, RBSI Group held £x billion in customer deposits. The level of deposits may fluctuate due to factors outside RBSI Group's control, such as a loss of customers, loss of customer and/or investor confidence (including as a result of volatility in the financial industry), changes in customer behaviour, 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 or more of the other factors mentioned above, materially 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.

Macroeconomic developments, political uncertainty, changes in interest rates, and market volatility could affect RBSI Group's ability to access sources of liquidity and funding on satisfactory terms, or at all. This 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 change its funding plans. This could exacerbate funding and liquidity risk, which may adversely affect RBSI Group.

As at 31 December 2024, RBSI Ltd's liquidity coverage ratio was 131%. If its liquidity and/or funding 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 or payment commitments or trigger the execution of certain management actions or recovery options. In a time of reduced liquidity or market stress, RBSI Group may be unable to sell some of its assets at attractive prices, or at all which in either case may adversely affect RBSI Group.

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 prospects and/or reputation.

RBSI Group may not achieve its ambitions, generate returns or implement its strategy effectively.

As part of RBSI Group's strategy, RBSI Group has set a number of financial, capital and operational targets including in respect of: balance sheet growth, cost management, CET1 ratio, funding plans and requirements, employee engagement, diversity and inclusion as well as climate strategy (including its climate and sustainable funding and financing targets) and customer satisfaction targets.

RBSI Group's ability to meet its ambitions, targets and guidance and make discretionary capital distributions is subject to various internal and external factors, risks and uncertainties. These include but are not limited to: macroeconomic, political, market and regulatory uncertainties, operational risks and risks relating to RBSI Group's business model and strategy (including risks associated with climate and other sustainability-related issues).

RBSI Group has exposure to counterparty and borrower risk including credit losses, which may have an adverse effect on RBSI Group

RBSI Group has exposure to many different sectors, 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 and systems may fail to identify or anticipate or quickly react to weaknesses or risks in a particular sector, market, borrower, or counterparties, or RBSI Group's risk appetite relative to competitors, or fail to appropriately 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. Also refer Note 10 'Risk Management — Credit Risk'.

Risk factors continued

The credit quality of RBSI Group's borrowers and other counterparties may be affected by UK and global macroeconomic and political uncertainties, prevailing economic and market conditions. These include factors relating to interest rates and inflation, changing asset prices (including residential and commercial property), energy prices, supply chain disruption, changes to monetary and fiscal policy, the impact of armed conflict, and 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, increasing credit risk.

Adverse changes in borrower and counterparty credit risk may cause additional 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. If RBSI Group experiences losses and a reduction in profitability, this is likely to affect the recoverable value of fixed assets, including goodwill and deferred taxes, which may lead to write-downs.

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 judgement 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 10 'Risk Management - Credit Risk'. A credit deterioration would also lead to RWA increases. Furthermore, the assumptions and judgements used in the MES and ECL assessment at 31 December 2024 may not prove to be adequate resulting in incremental ECL provisions for RBSI Group.