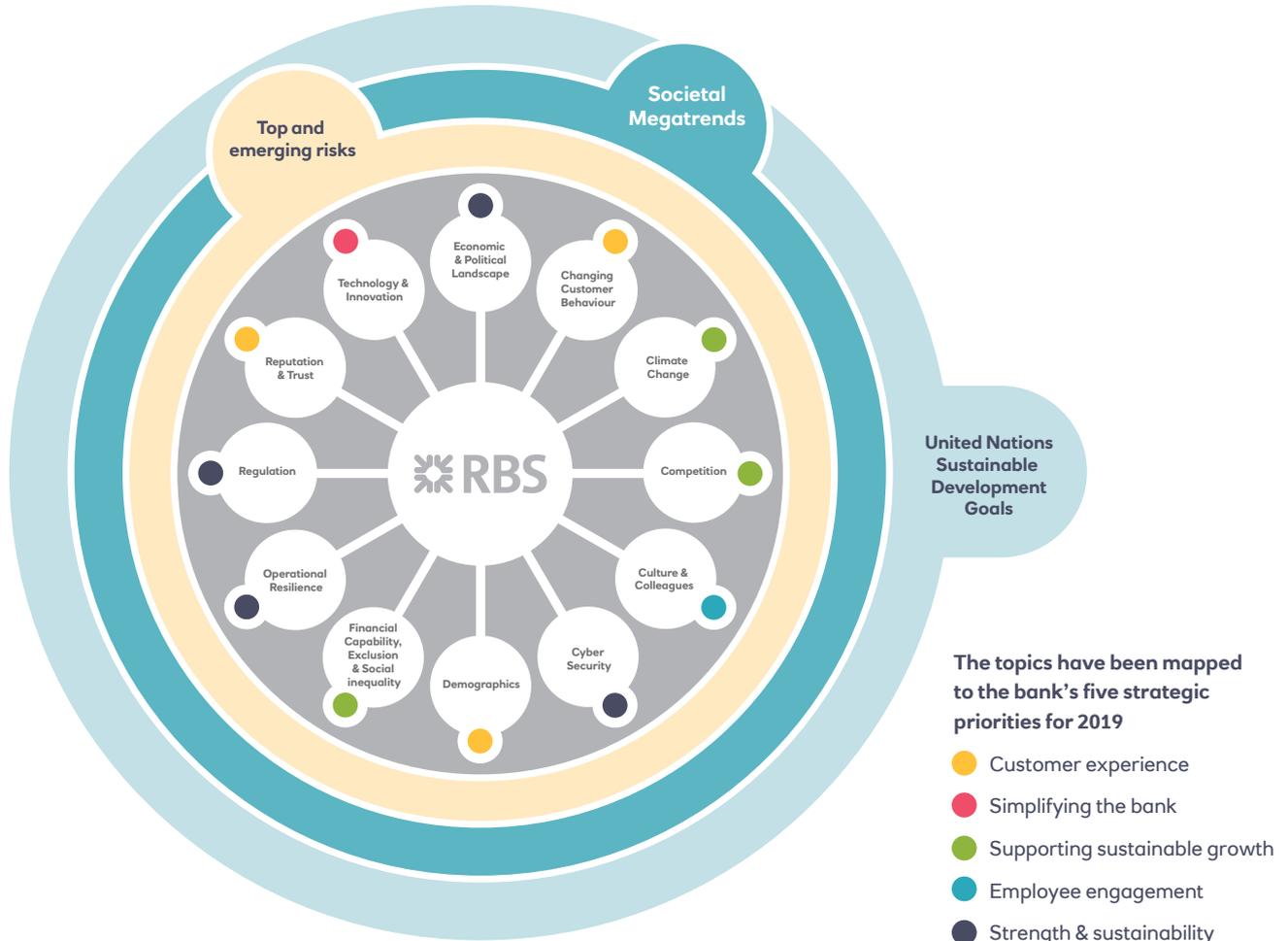


Our operating environment



Where to find out more

- Chairman/CEO statements
- 2019 highlights and future strategy
- Our businesses & performance
- Risk Management
- Stakeholder engagement /Board engagement with stakeholders
- How we create value
- Our Customers
- Sustainable Banking pages on rbs.com
- Our Colleagues
- Climate-related financial disclosures

Our operating environment continues to evolve at pace across economic, social, environmental, political, regulatory and technological boundaries. We consider external societal megatrends and the UN Sustainable Development Goals to inform our thinking and approach.

Economic and political landscape



The UK economy continued to slow in 2019 as uncertainty in relation to the UK's exit from the EU weighed on activity. Interest rate and foreign exchange markets were also volatile in response to the changing political landscape. The uncertainty weighed on business investment and contributed to slowing house price growth. House prices fell modestly in London and the South East, but transaction levels remained relatively resilient. Low interest rates, very low unemployment and improving wage growth supported demand for mortgage lending. Consumer credit growth continued to gradually cool, influenced by regulatory

interventions. Despite economic headwinds, impairments remained at very low levels across all portfolios. A slowing global economy and heightened geopolitical risks, particularly in regard to trade tensions, further complicated the outlook. Despite an uncertain economic outlook, RBS remained focused on meeting the diverse needs of customers locally, across the UK regions and internationally.

Changing Customer Behaviour



Customers' needs and behaviours are changing as a result of new technologies, demographic shifts and changing labour patterns. Key trends include the gig-economy which is resulting in changing working patterns and increasing use of new technologies resulting in faster and tailored customer service. RBS understands the importance of supporting customers' needs and focusing on customer life journeys to tailor services and products that meet their evolving needs and expectations.

Climate Change



RBS recognises climate change as a top risk and strategic priority. Ensuring banks manage the financial risks associated with climate change has also risen up the regulatory agenda. Throughout 2019 work continued to integrate climate-related financial risks into the risk framework and to proactively support our customers transition to a low carbon economy.

Competition



The level of competition in the UK banking market remained intense in 2019 driven by a combination of technology, lower barriers to entry and regulation including Open Banking. The competitive landscape is evolving as fintech and large technology companies contribute to greater choice for how banking needs are met. RBS remained focused on innovation to evolve our business model and deliver first-class, compelling propositions to our customers. The launch of RBS's new digital retail and business banks, Bó and Mettle, was a significant milestone in the evolution of our competitive offering.

Culture and Colleagues



The Bank's long-term success depends on building and nurturing a healthy culture where colleagues are engaged, and where our working environment is underpinned by robust risk behaviours.

We are proud to be building an inclusive bank which is a great place

for all colleagues to work. Culturally, becoming a learning organisation is a strategic priority. We need to prepare colleagues for the future and we continue to focus broader development on the Bank's Critical People Capabilities.

Cyber Security



Disruptive cyber-attacks and fraud remained a growing threat to the industry in 2019. Significant investment continues to prevent, monitor and detect cyber-attacks and fraud. This includes participation in industry-wide initiatives to monitor and anticipate developments aimed at protecting our customers data and assets.

Demographics



Demographic shifts mean that the needs and behaviours of our customers are changing, amplified by rapid technological change. Key trends impacting our customers include retiring later and working longer, buying a house later in life and often with the support of family members and more focus on financial planning for retirement. RBS is committed to supporting the evolving needs of our customers ranging from helping first time buyers to supporting customers in vulnerable situations.

Financial Capability, Exclusion and Social Inequality



For RBS, supporting financial capability goes beyond delivering fair products and great service. It also means helping our customers, wider society and future generations to develop good money management skills so they are empowered to make better financial decisions. Against a backdrop of weaker economic growth and social inequality there is an increased focus on customers in vulnerable situations and/or precarious financial situations, supporting our diverse range of customers to access suitable banking services and products.

Operational Resilience



2019 has seen continued regulatory focus and media coverage on the

operational competency of UK banks, including data breaches and technology failures. Ensuring operational resilience remained a commercial imperative for RBS. To provide continuity of service for customers with minimal disruption, RBS must continue to monitor and assess a diverse and evolving array of threats, both external and internal, as well as developing, strengthening or adapting existing control capability to be able to absorb and adapt to such disruptions.

Regulation



RBS operates in a highly regulated market which continues to evolve in scope to include competition, financial risks from climate change, customer vulnerability, operational resilience and cyber-attack. The Bank seeks to comply with all regulation and welcomes the positive impact on customers and other stakeholders.

Reputation and Trust



Restoring trust and safeguarding reputation remains a key priority for most banks. RBS continues to strive to build a reputation for serving our customers well, and in a safe and secure manner, in addition to generating value for our shareholders and broader society, through the products, services and facilities we provide.

Technology and Innovation



The pace of technological change continues to accelerate, influencing the behaviours of our customers and redefining traditional business models. Technologies such as cloud computing and machine learning offer huge opportunities, but also create new risks that must be closely managed. Through 2019, RBS has invested £755 million on technology, helping to deliver innovative solutions for our customers whilst simplifying processes, reducing cost and improving our resilience and stability. For example, facial recognition technology has allowed account opening in under 10 minutes for NatWest Bank personal customers.