Bank Due-Diligence Factsheet

The Royal Bank of Scotland Plc ('RBS plc')

Dec 2021

Overview & Structure

• The Royal Bank of Scotland plc ('the Bank') is one of the UK ringfenced banking subsidiaries owned by a holding company, NatWest Holdings Limited ('the Parent'), which in turn forms part of NatWest Group plc ('the Ultimate Parent' or 'Group').

• The Scottish core retail and business banking activities of The Royal Bank of Scotland plc ('the Pre-Ringfenced Bank') were transferred in April 2018 to Adam & Company plc (which subsequently assumed the Pre-Ringfenced Bank's name) in order to comply with UK ring-fencing regulation requirements that came into force from January 2019.

Head Office & Registered Address

+ The RBS Group is headquartered in Edinburgh, Scotland
+ The Bank's registered office is at 36 St. Andrew Square, Edinburgh, EH2 2YB.

Home Regulator

+ The Royal Bank of Scotland Plc is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA. Register number is 121882.

Legal Structure

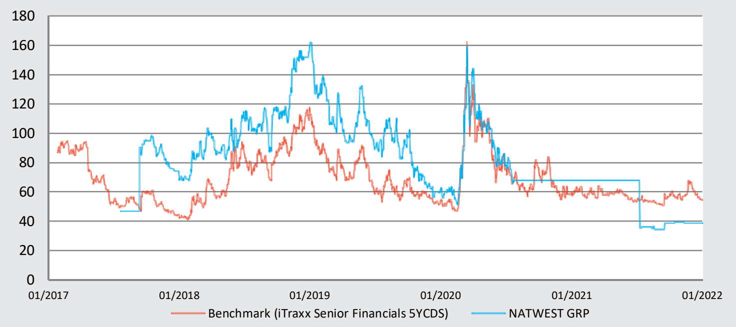
+ NatWest Group plc is listed on the London Stock Exchange (NWG) and the New York Stock Exchange

Key Risk Indicators

Credit Ratings	Long Term		Short Term	
S&P	A	Stable	A-1	June 21
MOODY'S	A1	Stable	P-1	Jul 21
FITCH	A+	Negative	F1	Feb 21

Performance	GBP	
SHARE PRICE	226p	145.4p - 239.4p / 52w range
MARKET CAP	25.5bn	

CDS Graph 5yr CDS Price 38bps



Basell III - Capital Adequacy

CAPITAL

Minimum Ratio: **9%**

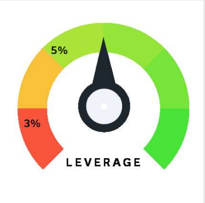
CET 1 Ratio: **17.6%**

LIQUIDITY

Minimum Ratio: **100%**

LCR Ratio: **152%**

LEVERAGE



Minimum Ratio: **3%**

Leverage Ratio: **6.3%**

Capital Strength

Despite a reduction of £304.0 million (5%) in Shareholder Funds (mainly due to a partially uncovered dividend payment to the Group), the Bank reported an increase in its capital adequacy ratios at the year-end on a Prudential Regulation Authority (PRA) transition basis. This was mainly due to a fall of £3.8 billion (13%) in the risk-weighted asset (RWA) total from a reduction in the size of the Customer Loan book. As a consequence the Tier 1 Capital ratio rose to a strong 21.5% (2019 Y/E = 16.6%) while the Total Capital ratio rose to a strong 27.1% (2019 Y/E = 21.4%). In addition the unadjusted leverage ratio reduced to a still respectable 5.7% (2019 Y/E = 6.6%), due to the lower Shareholder Funds and the growth of £8.6 billion (10%) in the overall balance sheet size. The Bank also reported a rise in the regulated Leverage Ratio to a respectable 6.3% (2019 Y/E = 5.3%).

Performance

The Bank generated a core Net Profit before Tax figure for the full-year of £368.0 million which was down by £964.0 million (72%) compared with the figure for the previous year. This equates to a still acceptable 19% of Total Operating Income. The downturn in net profit was due to the combination of a fall of £447.0 million (19%) in Total Operating Income (primarily from lower Net Interest Income, lower Net Fee Income and lower Net Other Income) that was partly offset by an increase of £34.0 million (4%) in Total Operating Expenses and a step-change increase of £483.0 million (233%) in the Expected Credit Loss figure due to the adverse impact of the pandemic. The higher Expected Credit Loss represented a relatively high 1.41% of the Customer Loan book. Meanwhile the cost/income ratio rose to a still very efficient 45%, up from 35% for the previous year, owing to the lower net revenues and higher operating costs.

Funding and Liquidity

The Bank remained soundly funded at the year-end. The Customer Deposit book grew by £9.8 billion (13%) over the period and provided a prudent 90% of the overall funding base with loans from Group entities and bank deposits making up the majority of the remainder. Meanwhile the Customer Loan book contracted by £4.7 billion over the same period. As a consequence the customer loan/deposit ratio fell to a very conservative 58% (2019 Y/E = 72%). Surplus liquidity is normally invested with fellow Group members (except for the Non-Ringfenced Bank) under the terms of a UK Domestic Liquidity Sub-Group (UK DoLSub) agreement. There is also a Capital Support Deed in place between members of the Group whereby the Bank may be required (if compatible with its regulatory obligations) to make distributions on, or repurchase or redeem, its ordinary shares. In addition the Group reported a conservative regulated Liquidity Coverage Ratio of 152% (2019 Y/E = 145%).

Key Risks

The main risk to the business would be the possibility of significant loan impairments caused by the adverse impact of the pandemic on the UK economy. While only limited comfort can now be taken from the likelihood of continuing support for the Group from the UK Government (as the majority group shareholder) due to the implications of the UK Banking Reform Act 2013, the return to strong profitability combined with the Group's ability to raise additional capital on the debt markets (using hybrid instruments) should help mitigate this risk.

Terminology

$$\text{CET1 Capital Ratio} = \frac{\text{CET 1 Capital}}{\text{Risk - Weighted Asset}}$$

Common Equity Tier 1 (CET1) Ratio is a measure of bank solvency that gauges a bank's capital strength by measuring a bank's capital against its assets. The Basel III minimum is 8%

$$\text{LCR} = \frac{\text{High Quality Liquid Asset Amount (HQLA)}}{\text{Total Net Cash Flow Amount}}$$

Liquidity Coverage Ratio (LCR) ensures banks maintain an adequate level of readily available,high-quality liquid assets, or HQLA, to remain solvent during a 30-day period of liquidity stress.

$$\text{Tier 1 Leverage Ratio} = \frac{\text{Tier 1 Capital}}{\text{Consolidated Assets}} \times 100$$

Leverage Ratio measures a bank'score capital to its total assets to judge how leveraged a bank is in relation to its consolidated assets. The higher the leverage ratio, the higher the likelihood of the bank withstanding negative shocks to its balance sheet.

Credit default swap rates (CDS) are widely used as an indicator for the financial health of banks. They are essentially insurance against a "credit event". Financial institutions with higher credit default swap rates are generally considered riskier because they are more expensive to insure.

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