18-I-0071
February 22, 2019

Japan Credit Rating Agency, Ltd. (JCR) announces the following credit ratings.

The Royal Bank of Scotland Group plc (security code: -)

<Assignment>
Foreign Currency Long-term Issuer Rating: A
Outlook: Stable

National Westminster Bank Plc (security code: -)

<Assignment>
Foreign Currency Long-term Issuer Rating: A+
Outlook: Stable

NatWest Markets Plc (security code: -)

<Assignment>
Foreign Currency Long-term Issuer Rating: A
Outlook: Stable

Rationale

(1) Royal Bank of Scotland, based in Edinburgh, the United Kingdom (UK), is a predominantly UK and Republic of Ireland (RoI) focused financial services group. The Royal Bank of Scotland Group plc (RBSG) is the holding company of the group. The group provides a wide range of financial services to personal, corporate and institutional customers through its banking subsidiaries. National Westminster Bank Plc (NatWest Bank) is its retail and commercial banking subsidiary in the UK and NatWest Markets Plc (NatWest Markets) is its investment banking subsidiary. JCR considers that the group's creditworthiness is equivalent to A+. This mainly reflects its solid retail banking base in the UK, sound asset quality and strong capital base. On the other hand, its profitability remains low despite some improvement in recent years, posing a challenge for further enhancement of its creditworthiness. The group's profit performance has turned better as it has made major headway in eliminating huge extraordinary costs including those related to litigation and redress for mis-selling as well as restructuring amid drastically reducing its legacy assets and other risk assets. The group plans to focus more on UK retail and commercial business and digital banking, and JCR holds that the high earnings capacity of UK retail banking and cost reduction through further promotion of digital banking will support the group's underlying profit. Its asset quality will continue improving and capitalization will remain strong amid increased shareholder remuneration such as dividends payouts and buyback of the portion of the RBSG shares held by the UK government. The economic impact of the UK's exit from the EU remains unpredictable, but the group has a financial base solid enough to bear off barring a prolonged economic recession.

(2) In preparation for the start-up of the UK ring-fencing regime in January 2019, RBSG completed an organizational reshuffling in 2018, dividing into ring-fenced banks and non ring-fenced banks under its wing. As a result, ring-fenced banks have been mainly charged with retail and commercial banking business in the European Economic Area (EEA) including the UK while non ring-fenced banks have been assigned to undertake the group's banking operations that are not covered by the ring-fenced banks. The group's consolidated total assets stood at GBP 738 billion at the end of 2017, ranking it fourth among the UK financial groups. Its operating segment has been realigned into seven units, including UK Personal & Business Banking (UKPBB), Commercial Banking (CB) and NatWest Markets (NWM). UKPBB provides retail banking services and has a solid business base in the UK with more than 17 million individual customers base, or a quarter of the country's population. The UK mortgage market is characterized by concentration on top five banks which together account for nearly 70% of the country's outstanding balance. Out of which the group supports stock share of around 10% as of the end of September 2018. Its share has been moderately increasing in recent years. Meanwhile, promotion of digital banking has boosted the number of its mobile app users to more than 6.4 million whereas the number of its branches

has shrunk by more than half over the past five years to 850. CB provides banking services to SMEs and large enterprises, and has a relatively solid business base in the UK. NWM segment offers investment banking services including derivatives, bond trading and supporting large corporates and institutional investors to access debt capital markets mainly through the non ring-fenced bank, NatWest Markets. In addition, the group is engaged in private banking through its subsidiaries and offers retail banking services in RoI. After the UK's withdrawal from the EU, the group's Dutch subsidiary, NatWest Markets N.V., which will be realigned as subsidiary of NatWest Markets, will take over its investment banking activity with companies and institutional investors in the EEA.

(3) UKPBB, CB, and NWM together made the majority of the group's consolidated total income in 2018, accounting for 47%, 25%, and 11%, respectively. Geographically, the UK accounted for an overwhelming 91%. The group continued posting a net profit in 2018 after it had almost done away with extraordinary factors such as huge costs related to litigation, redress for mis-selling and restructuring. Nonetheless, its profitability remained low with ROA (before tax) staying bleak at 0.5%. Pre-provision profit (excluding those extraordinary factors) totaled GBP 6 billion in 2018. UKPBB and CB generated more than 80% of the pre-provision profit excluding extraordinary factors (54% and 27% respectively), proving that they are the main generators of group's earnings. UKPBB's net interest rate margin has been kept at nearly 3% despite the low interest rate and competitive environments, and its loan portfolio has been increasing mainly through mortgage loans. The group's cost-to-income ratio (excluding extraordinary factors) has declined markedly thanks to the reduction of personnel and branches. The credit cost has also been kept restrained. On the other hand, the total amount of extraordinary factors even in the past three years was more than 80% of the total amount of pre-provision profits (excluding extraordinary factors) for the same period. JCR believes that risks of additional extraordinary costs have largely receded as the group finally reached a settlement regarding the US residential mortgage-backed securities litigation with the US Department of Justice in May 2018 and made good progress on redress in respect of mis-selling of payment protection insurance in the UK.

(4) The group's asset quality has been improving in keeping with a substantial reduction of risk assets. Its total consolidated assets at the end of 2018 comprised 46% of loans, 19% of derivatives, 13% of cash/cash equivalent and 11% of trading assets. More than 80% of the loans concentrated in the UK. Mortgage loans accounted for 50% of the total lending, with the remainder well dispersed on an industry-by-industry basis. Risks of concentration of large borrowers were also kept minimal. Secured loans accounted for more than 70% of the total, with the weighted average LTV of mortgage loans kept low at 57%. The NPL ratio is slightly higher than those of other major UK banks, but the ratio has been on a downward trend since 2014. The NPL ratio is expected to decline further in the short term as bulk of nonperforming mortgage loans in RoI are being sold off in the first quarter of 2019. Derivatives were held mainly for the purpose of providing risk solutions to customers and their net position was relatively small. Trading assets consist mainly of reverse repos and derivative cash collateral, and investment-grade bonds such as government bonds. Overall market risk was kept low.

(5) The group's capitalization is solid in comparison to the quantity of risks. At the end of 2018, its consolidated common equity tier 1 (CET1) capital ratio stayed high at 16.2%. This is because while the capital has been shrinking due to continued net losses, the group has managed to significantly reduce its risk assets. The capital injected by the UK government in 2008 and 2009 was entirely converted into ordinary RBSG shares. At present, the government still holds more than 60% of the total voting rights. RBSG received approval from shareholders to buy back shares equivalent to 4.99% of the group's issued share capital from the UK government. Any buyback will be at the government's discretion, but the UK government plans to fully exit its ownership by 2024 subject to market conditions and share price. Capitalization will remain strong regardless of increased shareholder remuneration such as dividends payouts and a potential buyback of a portion of shares held by the UK government (The group set a CET1 target of 14 % by 2021). The loan-to-deposit ratio has declined to 85% as the group kept the growth of lending lower than that of customer deposits. The group relies less on funding from the market and keeps ample liquidity

Issuer: The Royal Bank of Scotland Group plc

The Royal Bank of Scotland Group plc (RBSG) is the group's holding company. Its issuer rating is one notch below that of its core bank (NatWest Bank), which mainly reflects the group's creditworthiness. This is mainly because RBSG adopts a single point-of-entry (SPE) under the Bank of England approach to Resolution. Under the framework, creditors of the holding company primarily absorb losses at the time of a resolution.

Issuer: National Westminster Bank Plc

National Westminster Bank Plc is the group's core bank and is the largest among its five ring-fenced banks. Its issuer rating is equivalent to the group's creditworthiness. With a solid retail banking business base centered on the UK, it accounted for more than 60% of the group's consolidated total income in 2018. Its financial results significantly affect the group's results. Its asset quality is sound, with its capitalization and liquidity staying at adequate levels.

Issuer: NatWest Markets Plc

NatWest Markets Plc is a non ring-fenced bank, which is mainly responsible for investment banking business in the group. JCR believes that NatWest Markets is less strategically important than ring-fenced banks within the group and therefore has assigned its issuer rating one notch below the group's creditworthiness. The characteristics of its business make it important for the bank to rely on funding from the market in addition to customer deposits. Non ring-fenced banks are required to independently manage liquidity and comply with capital requirements and Minimum Requirements for Own Funds and Eligible Liabilities (MREL). Under the Bank of England approach to Resolution, some of the proceeds RBSG makes through the issuance of bail-inable bonds are invested in NatWest Markets in the form of eligible liabilities (internal MREL). Therefore, JCR views that NatWest Markets will be able to receive support from the holding company when necessary. Its asset quality is somewhat weaker than that of the entire group as its operations center on capital markets. However, its capitalization and liquidity are solid. In 2017 remaining legacy assets of the group were integrated into NatWest Markets. Nonetheless, risk assets will further decrease as it plans to divest its shares in Alawwal bank in Saudi Arabia in 2019. Continuing operation of NatWest Markets continued to post a net loss in 2018 due mainly to high litigation and conduct costs.

Toshihiko Naito, Tomohiro Miyao, Haruna Saeki

Rating

Issuer: The Royal Bank of Scotland Group plc

<Assignment>
Foreign Currency Long-term Issuer Rating: A Outlook: Stable

Issuer: National Westminster Bank Plc

<Assignment>
Foreign Currency Long-term Issuer Rating: A+ Outlook: Stable

Issuer: NatWest Markets Plc

<Assignment>
Foreign Currency Long-term Issuer Rating: A Outlook: Stable

Rating Assignment Date: February 21, 2019

The criteria used for identifying matters which serve as assumptions for the assessment of the credit status, and the criteria used for setting of grades indicating the results of the assessments of the credit status are published as "Types of Credit Ratings and Definitions of Rating Symbols" (January 6, 2014) in Information about JCR Ratings on JCR's website (https://www.jcr.co.jp/en/).

Outline of methodology for determination of the credit rating is shown as "JCR's Rating Methodology" (November 7, 2014), "Banks" (May 8, 2014), " Rating Methodology for a Holding Company" (January 26, 2015), and "Ratings of Bank Holding Companies and Subsidiary Banks" (March 15, 2001) in Information about JCR Ratings on JCR's website (https://www.jcr.co.jp/en/).

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Disclosure Required by Paragraph (a)(1)(ii) of Rule 17g-7

Issuer:	The Royal Bank of Scotland Group plc National Westminster Bank Plc NatWest Markets Plc
Rating Publication Date:	February 22, 2019

1 The Symbol, Number, or Score in the Rating Scale used to Denote Credit Rating Categories and Notches and, the Identity of the Obligor or the Identity and a Description of the Security or Money Market Instrument as Required by Paragraph (a)(1)(ii)(A) of Rule 17g-7

- Please see the news release.

2 The version of the procedure or methodology used to determine the credit rating; as Required by Paragraph (a)(1)(ii)(B) of Rule 17g-7

- Please see the news release.

3 The Main Assumptions and Principles used in Constructing the Procedures and Methodologies used to Determine the Credit Rating as Required by Paragraph (a)(1)(ii)(C) of Rule 17g-7

- The credit rating methodology assumes, in principle, to be applied to assess the likelihood of a given debt payment in light of its issuer's condition and business environment, etc. in the relevant future. There is certain limitation, however, in the time horizon that the rating foresees.
- The credit rating methodology assumes, in principle, that the factors posted in the below are particularly important for such likelihood to be determined, and that the rating determination is made by evaluating each of them not only quantitatively but also employing qualitative analyses.

A) Business Bases
The likelihood of a given debt payment is highly conditional to its issuer's business bases - how they can be maintained/ expanded into the future and thereby secure earnings and cash flows in adequacy and in a sustainable way.

B) Financial Grounds and Asset Quality
The likelihood of debt payment is highly dependent on the degree of the issuer's indebtedness and loss absorption capacity in terms of equity capital. Also notable is that a financial institution might see a significant loss of financial grounds as a result of changes in value of the assets under its possession.

C) Liquidity Positions
The likelihood of debt payment is highly dependent on the adequacy of the issuer's cash and other sources of repayment (liquidity positions).

D) Related Parties' Status and Stance of Support/ Assistance for the Issuer

The likelihood of debt payment is affected one way or the other by the issuer's related parties such as parent company, subsidiary, guarantor, and the government of the issuer's business domicile, etc. - by their own conditions and/ or position of support/ assistance for the issuer.

E) Order of Seniority in Debt Payment

The likelihood of debt payment can be different between given debts of the same issuer. The likelihood of debt payment for an individual debt is dependent on the issuer's discretion, and/ or its rank relative to other debts of the same issuer in the order of seniority in principal/ interest payment which is determined by design as financial product or by laws, etc.

4 The Potential Limitations of the Credit Rating as Required by Paragraph (a)(1)(ii)(D) of Rule 17g-7

- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- The objective of the credit rating herewith presented does not include any concerns other than the likelihood of debt payment, such as risks of price changes, market liquidity, etc.
- The credit rating herewith presented is necessary to be reviewed along with possible changes of the issuer of rated objects in its business performance and/ or circumstances which include regulatory environment, and hence subject to possible alteration.

5 Information on the Uncertainty of the Credit Rating as Required by Paragraph (a)(1)(ii)(E) of Rule 17g-7

- The information used for the determination of credit rating as herewith presented is obtained by JCR from the issuer of rated objects and other sources that JCR trusts in terms of accuracy and reliability but possibly contains errors due to human, non-human or other causes. Consequently, the credit rating determined on the grounds of such information does not constitute, explicitly or implicitly, any representation or warrant of JCR on the information itself or any consequences of its use in terms of accuracy, relevance, timeliness, wholeness, market value, or usefulness for any specific purposes.

6 Use of Due Diligence Services of a Third Party in Taking the Rating Action as Required by Paragraph (a)(1)(ii)(F) of Rule 17g-7

- There is no use of any third-party due diligence service in the determination of the credit rating herewith presented.

7 Use of Servicer or Remittance Reports to Conduct Surveillance of the Credit Rating Required by Paragraph (a)(1)(ii)(G) of Rule 17g-7

- There is no use of any servicer or remittance report to conduct surveillance of the credit rating herewith presented.

8 The Types of Data Relied Upon for the Purpose of Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(H) of Rule17g-7

- The information posted in the below, which includes data, is used for the determination of the credit rating herewith presented.

  A) Audited financial statements presented by the rating stakeholders

  B) Explanations of business performance, management plans, etc. presented by the rating stakeholders

9 Overall assessment of the Quality of Information Available and Considered in Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(I) of Rule 17g-7

- JCR holds its basic policies for securing the quality of information as a base of due diligence for the determination of credit ratings. The information used as a base for the determination of credit rating herewith presented satisfies such policies, which include the audit by an independent auditor, the publication by the issuer or some independent media or, otherwise, JCR analyst's scrutiny, etc.
- JCR sees no particular weakness in the quality of information used for the determination of the credit rating herewith presented as compared to the information used in other cases of the credit rating for comparable issuers or ratable objects.

10 Information Relating to Conflicts of Interest as Required by Paragraph (a)(1)(ii)(J) of Rule 17g-7

- JCR receives payment of compensation for the determination of the credit rating herewith presented from either one of those parties who are issuer, underwriter, depositor or sponsor.
- JCR did not receive in the last fiscal year in the past payment of compensation from the same party for any kind of JCR's service other than the determination of credit rating, such as one in the ancillary business.

11 Explanation or Measure of the Potential Volatility of the Credit Rating as Required by Paragraph (a)(1)(ii)(K) of Rule 17g-7

A) Business Bases

The credit rating is subject to alteration if there is improvement or deterioration of the issuer's business bases, since its revenue, etc. may improve or deteriorate by the change in its business management policies, clients' preferences, competitive situation, or a technological innovation. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change in the business bases is large.

B) Financial Grounds and Asset Quality

The credit rating is subject to alteration if the issuer increases/ decreases its debt/ capital or vice versa and thereby makes its individual debt payment liability less or more bearable and its loss absorption capacity into the future decreased or increased. Also, the changes in the quality of asset under the issuer's holding may affect the credit rating, since such changes could raise or lower the likelihood of future loss of the issuer's financial grounds. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change in the financial grounds and/ or asset quality is large.

C) Liquidity Positions

The credit rating is subject to alteration if there is a change in the issuer's financial management policy or in the relations with fund procurement sources and the change thereby makes its liquidity positions improve or deteriorate. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

D) Related Parties' Status and Stance of Support/ Assistance for the Issuer

The credit rating is subject to alteration if there is a change in the issuer's parent company or subsidiary, guarantor or other provider of credit enhancement, or the government of the issuer's business domicile, or other related parties' own conditions and/ or position of support/ assistance for the issuer, and the change thereby makes its business bases, financial grounds and/ or liquidity positions improve or deteriorate, and/ or making the effectiveness of guarantee and other credit enhancement improve or deteriorate. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large.

E) Order of Seniority in Debt Payment and Non-Payment Forgiven by Contract

The credit rating is subject to alteration if there is a change in the rated debt's status in the order of seniority relative to other debts caused by the improvement/ deterioration of the issuer's financial condition. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large. Also, in case of the financial products for which non-payment of interest/ principal is contractually permissible, the credit rating is subject to alteration if and when the likelihood of such non-payment is projected to increase or decrease. The resultant alteration of the credit rating could be by a notch but often as much as a few notches.

F) Rise and Fall in General Economy and Markets

The credit rating is subject to alteration if there is a rise/ fall in the general economy and/ or the markets inducing the issuer's revenues/ expenses to increase/ decrease and vice versa, etc. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is exceptionally large.

G) Various Events

The credit rating is subject to alteration on occurrence of various events, such as change in the issuer's major shareholders, M&A and other organizational change, accident, violation of the law, litigation, legal/ regulatory change, natural disaster, etc., which are unforeseeable at the time when the credit rating is determined, causing a significant change on the issuer's business bases, financial grounds, etc. The resultant alteration of the credit rating could be by a notch but more often than not as much as a few notches.

12 Information on the Content of the Credit Rating, Including the Historical Performance of the Credit Rating and the Expected Probability of Default and the Expected Loss in the Event of Default as Required by Paragraph (a)(1)(ii)(L) of Rule 17g-7

- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- Facts of the probability of default are posted as Form NRSRO Exhibit 1 on the JCR website under the URL:

  https://www.jcr.co.jp/en/service/company/regu/nrsro/

13 Information on the Sensitivity of the Credit Rating to Assumptions Made as Required by Paragraph (a)(1)(ii)(M) of Rule 17g-7

A) Business Bases

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's business bases and powers of earning or cash flow generation, etc. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's business bases on some drastic change in the operational environments, etc.

B) Financial Grounds and Asset Quality

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's financial grounds and asset quality. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's financial grounds and/ or asset quality on some drastic change in its business bases.

C) Liquidity Risks

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's liquidity positions. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's liquidity positions on some drastic change in its financial management policy or relations with fund procurement sources, etc.

D) Related Parties' Status and Stance of Support/ Assistance for the Issuer

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's parent company or subsidiaries, guarantor or other providers of credit enhancement, the government of the issuer's business domicile or other related parties' status and stance of support/ assistance for the issuer. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if there is a major change on the part of related parties, such as replacement, disappearance, some drastic improvement/ deterioration of financial grounds/ balances, etc.

E) Rise and Fall in General Economy and Markets

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the prospects of general economy and markets. JCR expects the change should be most likely by a notch but could be as much as a few notches, should the economy or the markets change so greatly.

14 Information on the Representations, Warranties, and Enforcement Mechanisms of an Asset-backed Security as Required by Paragraph (a)(1)(ii)(N) of rule 17g-7

・ The credit rating herewith presented is not for an ABS product, and hence no relevant issue.

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Attestation Required by Paragraph (a)(1)(iii) of Rule 17g-7

I, Atsushi Masuda, have responsibility to this Rating Action and to the best of my knowledge:

A) No part of the credit rating was influenced by any other business activities.

B) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated.

C) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.

Atsushi Masuda
General Manager of International Rating Department

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