

**The Royal Bank of Scotland Public Limited Company
Hong Kong Branch**

Financial Disclosure Statements

31 December 2017

The Royal Bank of Scotland Public Limited Company, Hong Kong Branch
Financial Disclosure Statements as at 31 December 2017

In compliance with the disclosure standards set out in the “Banking (Disclosure) Rules” issued by the Hong Kong Monetary Authority (“HKMA”), the following key financial information has been provided. The information is also available at the branch of the Bank (Unit 702, 7/F, LHT Tower, 31 Queen’s Road Central, Hong Kong) and the Public Registry of the HKMA.

Profit and Loss Information	31 Dec 2017	31 Dec 2016
	HK\$’000	HK\$’000
Interest income	2	6,860
Interest expense	(5,730)	(15,416)
Net interest expense	(5,728)	(8,556)
Other operating income		
Net (losses) / gains arising from non-trading in foreign currencies	(135)	1,428
Net losses from other trading activities	-	-
Net fees and commission income / (expense)	3	(427)
Others	588,245	29,601
<i>Total operating income</i>	582,385	22,046
Operating expenses	(138,776)	(253,382)
Net release for impairment losses and provision for impaired loans and receivables	-	-
<i>Profit / (loss) before taxation</i>	443,609	(231,336)
Taxation	-	-
Profit / (loss) for the year	443,609	(231,336)

Balance Sheet Information	31 Dec 2017	30 Jun 2017
	HK\$’000	HK\$’000
Assets		
Cash and balances with banks	151,997	126,942
Placement with banks maturing between one and twelve months	-	-
Amount due from overseas offices of the institution	-	-
Trade bills	-	-
Advances and other accounts	13,834	53,351
Other investments	-	608,256
Tangible fixed assets	-	1,138
Total assets	165,831	789,687
Liabilities		
Deposits and balances of banks	12,388	12,427
Deposits from customers	-	-
Amount due to overseas offices of the institution	5,000	629,432
Other accounts and provisions	148,443	147,828
Total liabilities	165,831	789,687

Additional Profit and Loss Information	31 Dec 2017	31 Dec 2016
	HK\$'000	HK\$'000
Net fees and commission income		
Fees and commission income	117	349
Fees and commission expense	(114)	(776)
	<u>3</u>	<u>(427)</u>
Other operating income – Others		
Global and regional recharge	33,040	5,154
Gains on disposal of investments in joint ventures	554,976	-
Net gains on sale of loans	-	21,507
Others	229	2,940
	<u>588,245</u>	<u>29,601</u>
Operating expenses		
Staff expenses	(67,699)	(190,115)
Rental expenses	(4,961)	(23,140)
Gains from the disposal of fixed assets	-	137
Others	(66,116)	(40,264)
	<u>(138,776)</u>	<u>(253,382)</u>

Additional Balance Sheet Information	31 Dec 2017	30 Jun 2017
	HK\$'000	HK\$'000
Advances and other accounts		
Advances to customers	-	-
Advances to banks and other financial institutions	-	-
Impairment allowances		
Collective impairment allowances [#]	-	-
Individual impairment allowances	-	-
Accrued interest receivable	-	-
Other accounts and receivables	13,834	53,351
	<u>13,834</u>	<u>53,351</u>

[#] Collective impairment allowances for impaired assets are made at head office level.

Provisions made by the head office against the exposures of the branch		
Collective impairment allowances [#]	-	41
Individual impairment allowances	-	-
	<u>-</u>	<u>41</u>

Loan impairment allowances

Loan impairment allowances are established to recognise incurred impairment losses in its portfolio of loans classified as loans and receivables and carried at amortised cost. A loan is impaired when there is objective evidence that events since the loan was granted have affected expected cash flows from the loan. 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. There are two components to the branch's loan impairment provisions: individual and collective.

Individual impairment allowances - all impaired loans that exceed specific thresholds are individually assessed for impairment. Individually assessed loans principally comprise the branch's portfolio of commercial loans to medium and large businesses. Impairment losses are recognised as the difference between the carrying value of the loan and the discounted value of management's best estimate of future cash repayments and proceeds from any security held. These estimates take into account the customer's debt capacity and financial flexibility; the level and quality of its earnings; the amount and sources of cash flows; the industry in which the counterparty operates; and the realisable value of any security held. Estimating the quantum and timing of future recoveries involves significant judgement. The size of receipts will depend on the future performance of the borrower and the value of security, both of which will be affected by future economic conditions; additionally, collateral may not be readily marketable. The actual amount of future cash flows and the date they are received may differ from these estimates and consequently actual losses incurred may differ from those recognised in these financial statements.

[#]Collective impairment allowances - this is made up of two elements: loan impairment provisions for impaired loans that are below individual assessment thresholds (collectively assessed provisions) and for loan losses that have been incurred but have not been separately identified at the balance sheet date (latent loss provisions). Collectively assessed provisions are established on a portfolio basis using a present value methodology taking into account the level of arrears, security, past loss experience, credit scores and defaults based on portfolio trends. The most significant factors in establishing these provisions are the expected loss rates and the related average life. The Royal Bank of Scotland Public Limited Company, (Hong Kong) Branch does not have portfolio subjected to collectively assessed provisions. Latent loss provisions are held against estimated impairment losses in the performing portfolio that have yet to be identified as at the balance sheet date. To assess the latent loss within its portfolios, the Group has developed methodologies to estimate the time that an asset can remain impaired within a performing portfolio before it is identified and reported as such. Latent loss provisions are provided at head office level.

	31 Dec 2017 HK\$'000	30 Jun 2017 HK\$'000
<i>Deposits from customers</i>		
Demand deposits and current accounts	-	-
Savings deposits	-	-
Time, call and notice deposits	-	-
	<hr/>	<hr/>
	-	-
	<hr/>	<hr/>
<i>Other accounts and provisions</i>		
Accrued interest payable	4	832
Other accounts and payables	148,439	146,996
	<hr/>	<hr/>
	148,443	147,828
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Analysis of impaired loans

Upon adoption of HKAS39, the concept of suspended interest and non-performing advances are no longer relevant as interest is recognized on the recoverable element of impaired advances. Impaired advances are incurred if there is objective evidence of impairment resulting from loss event and the loss event has an impact on the estimated future cash flows of the advances that can be reliably estimated.

As at 31 December 2017 and 30 June 2017, there were no impaired advances to customers, banks and other accounts.

Analysis of overdue advances

As at 31 December 2017 and 30 June 2017, there were no overdue advances to customers and banks.

Analysis of rescheduled advances to customers and banks

As at 31 December 2017 and 30 June 2017, there were no rescheduled advances to customers and banks.

Overdue other assets

As at 31 December 2017 and 30 June 2017, there were no overdue other assets.

Repossessed assets

As at 31 December 2017 and 30 June 2017, there were no repossessed assets.

Off-balance sheet exposures

<i>Contractual/notional amounts of each of the following class of off-balance sheet exposures outstanding:</i>	31 Dec 2017 HK\$'000	30 Jun 2017 HK\$'000
<i>Contingent liabilities and commitments</i>		
Direct credit substitutes	-	-
Transaction-related contingencies	-	-
Other commitments	-	-
Forward forward deposits placed	-	-
	<hr/>	<hr/>
	-	-
	<hr/>	<hr/>
<i>Derivatives and others</i>		
Exchange rate contracts	-	-
Interest rate contracts	-	-
	<hr/>	<hr/>
	-	-
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The contract amount of these instruments indicates the volume of transactions outstanding as at the balance sheet date. They do not represent the value at risk.

	31 Dec 2017 HK\$'000		30 Jun 2017 HK\$'000	
	Fair value assets	Fair value liabilities	Fair value assets	Fair value liabilities
Exchange rate contracts	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	-	-	-	-
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The contractual amount and fair value above do not take into account the effect of bilateral netting arrangements.

Advances to customers

As at 31 December 2017 and 30 June 2017, there were no advances to customers.

Analysis of International claims by significant geographical area (excluding local claims in local currency)

	Banks	Official	Non-bank private sector		Others	Total
	HK\$m	sector	financial	Non-	HK\$m	HK\$m
		HK\$m	institutions	financial		
			HK\$m	private		
				sector		
				HK\$m		
<u>As at 31 Dec 2017</u>						
Developed countries	62	-	-	-	-	62
<i>of which United Kingdom</i>	37	-	-	-	-	37
<i>of which United States</i>	25	-	-	-	-	25
Developing Asia-Pacific						
<i>of which China</i>	-	-	-	-	-	-
<u>As at 30 Jun 2017</u>						
Developed countries	116	-	-	-	-	116
<i>of which United Kingdom</i>	102	-	-	-	-	102
<i>of which United States</i>	14	-	-	-	-	14
Developing Asia-Pacific						
<i>of which China</i>	-	-	608	-	-	608

Significant geographical segment constitutes 10% or more of the aggregate international claims after taking into consideration of transfers of risks.

Non-bank Mainland exposures

As at 31 Dec 2017

	On-balance sheet exposure HK\$m	Off-balance sheet exposure HK\$m	Total exposures HK\$m
1. Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	-	-	-
2. Local governments, local government-owned entities and their subsidiaries and JVs	-	-	-
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	-	-	-
4. Other entities of central government not reported in item 1 above	-	-	-
5. Other entities of local governments not reported in item 2 above	-	-	-
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	-	-	-
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	-	-	-
	-	-	-
Total assets after provision	<u>166</u>		
On-balance sheet exposures as percentage of total assets	<u>0%</u>		

As at 30 Jun 2017

	On-balance sheet exposure HK\$m	Off-balance sheet exposure HK\$m	Total exposures HK\$m
1. Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	-	-	-
2. Local governments, local government-owned entities and their subsidiaries and JVs	608	-	608
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	-	-	-
4. Other entities of central government not reported in item 1 above	-	-	-
5. Other entities of local governments not reported in item 2 above	-	-	-
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	-	-	-
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	-	-	-
	608	-	608
Total assets after provision	<u>790</u>		
On-balance sheet exposures as percentage of total assets	<u>77.02%</u>		

Currency risks

Foreign currency exposures arising from trading, non-trading and structural positions with net position (in absolute terms) in a particular foreign currency constituting not less than 10% of the total net position in all foreign currencies are disclosed as follows:

As at 31 Dec 2017

Equivalent in millions of HK\$	USD	GBP	CNY	Total
Spot assets	42	-	-	42
Spot liabilities	(40)	(1)	-	(41)
Forward purchases	-	-	-	-
Forward sales	-	-	-	-
Net option position *	-	-	-	-
Net long (short) position	2	(1)	-	1
Net structural position	-	-	-	-

As at 30 Jun 2017

Equivalent in millions of HK\$	USD	GBP	CNY	Total
Spot assets	32	-	-	32
Spot liabilities	(640)	-	-	(640)
Forward purchases	-	-	-	-
Forward sales	-	-	-	-
Net option position *	-	-	-	-
Net short position	(608)	-	-	(608)
Net structural position	-	-	608	608

* The delta equivalent approach was used for calculating the net position in options.

Liquidity risks

Liquidity information

	31 Dec 2017	31 Dec 2016
Average liquidity maintenance ratio for the year ended	286.73%	120.78%

Liquidity risk is the risk that RBS cannot meet its actual or potential obligations in a timely manner as they fall due. Funding risk is the risk that RBS cannot maintain a diversified, stable and cost effective funding base. RBS manages its funding and liquidity risk through a formal governance structure. RBS Bank ALCO sets the global and overall strategic direction for liquidity management within the liquidity risk appetite set by the RBS Board. RBS Global Liquidity Policy sets out the governance and control framework within RBS in order to ensure effective and prudent management of liquidity, which is fundamental to the financial safety and soundness of the bank.

Hong Kong ALCO has the responsibility of setting detailed liquidity risk management framework for the country and to monitor progress and compliance. The liquidity and funding policy of the RBS Plc Hong Kong branch ensures compliance with the global policy and regulatory requirements set out in Supervisory Manual LM-2 Sound Systems and Controls for Liquidity Risk Management issued by HKMA.

RBS Plc Hong Kong branch periodically stress tests its liquidity positions and maintains a liquidity portfolio in the form of cash. The branch has a Contingency Funding Plan document that sets out plan for the management of a liquidity event that may lead to a significant strain on the liquidity position of the branch.

All policy and governance documents are periodically reviewed and approved by Hong Kong ALCO.

The Royal Bank of Scotland Group plc
Group Information (consolidated basis)

	31Dec 2017	30 Jun 2017
	£'m	£'m
Capital and capital adequacy		
Shareholders equity	49,093	50,049
Capital adequacy ratio		
CET 1 capital ratio	15.9%	14.8%
Tier 1 capital ratio	19.7%	16.7%
Total capital ratio	23.9%	20.0%
The risk-based capital ratios have been calculated in accordance with the Basel Capital Accord and the European Community's Capital Adequacy Directive. An allowance for market risk has been incorporated in the calculation.		
Other financial information		
	31 Dec 2017	30 Jun 2017
	£'m	£'m
Total assets	738,056	782,654
Total liabilities	688,963	732,605
Total liabilities (excluding subordinated liabilities)	676,241	717,881
Total loans and advances	349,919	351,242
Total customer deposits	398,036	397,737
	31 Dec 2017	31 Dec 2016
	£'m	£'m
Group profit / (loss) before tax	2,239	(4,082)

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