



NatWest Markets PLC
Hong Kong Branch

Financial Disclosure Statements

30 June 2018

NatWest Markets PLC, Hong Kong Branch
Financial Disclosure Statements for the six months ended 30 June 2018

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	6 months ended 30 Jun 2018 HK\$'000	6 months ended 30 Jun 2017 HK\$'000
Interest income	1	1
Interest expense	(26)	(3,857)
Net interest expense	(25)	(3,856)
Other operating income		
Net gains / (losses) arising from non-trading in foreign currencies	564	(125)
Net gains from other trading activities	-	-
Net fees and commission (expense) / income	(45)	85
Others	35,314	15,210
<i>Total operating income</i>	35,808	11,314
Operating expenses	(39,528)	(69,460)
Net release for impairment losses and provision for impaired loans and receivables	-	-
<i>Loss before taxation</i>	(3,720)	(58,146)
Taxation	-	-
Loss for the period	(3,720)	(58,146)

Balance Sheet Information	30 Jun 2018 HK\$'000	31 Dec 2017 HK\$'000
<i>Assets</i>		
Cash and balances with banks	116,053	151,997
Placement with banks maturing between one and twelve months	-	-
Amount due from overseas offices of the institution	-	-
Trade bills	-	-
Advances and other accounts	23,177	13,834
Other investments	-	-
Tangible fixed assets	-	-
Total assets	139,230	165,831
<i>Liabilities</i>		
Deposits and balances of banks	12,369	12,388
Deposits from customers	-	-
Amount due to overseas offices of the institution	23,834	5,000
Other accounts and provisions	103,027	148,443
Total liabilities	139,230	165,831

Additional Profit and Loss Information	6 months ended 30 Jun 2018 HK\$'000	6 months ended 30 Jun 2017 HK\$'000
<i>Net fees and commission (expense) / income</i>		
Fees and commission income	-	118
Fees and commission expense	(45)	(33)
	<u>(45)</u>	<u>85</u>
<i>Other operating income – Others</i>		
Global and regional recharge	35,314	14,984
Others	-	226
	<u>35,314</u>	<u>15,210</u>
<i>Operating expenses</i>		
Staff expenses	(21,837)	(26,047)
Rental expenses	(3,909)	(1,019)
Others	(13,782)	(42,394)
	<u>(39,528)</u>	<u>(69,460)</u>
Additional Balance Sheet Information		
	30 Jun 2018 HK\$'000	31 Dec 2017 HK\$'000
<i>Advances and other accounts</i>		
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	23,177	13,834
	<u>23,177</u>	<u>13,834</u>
[#] <i>Collective impairment allowances for impaired assets are made at head office level.</i>		
<i>Provisions made by the head office against the exposures of the branch</i>		
Collective impairment allowances [#]	-	-
Individual impairment allowances	-	-
	<u>-</u>	<u>-</u>
<i>Loan impairment allowances</i>		

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. NatWest Markets PLC (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.

	30 Jun 2018	31 Dec 2017
	HK\$'000	HK\$'000
<i>Deposits from customers</i>		
Demand deposits and current accounts	-	-
Savings deposits	-	-
Time, call and notice deposits	-	-
	<hr/>	<hr/>
	-	-
<i>Other accounts and provisions</i>		
Accrued interest payable	14	4
Other accounts and payables	103,013	148,439
	<hr/>	<hr/>
	103,027	148,443
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Analysis of impaired loans

As at 30 June 2018 and 31 December 2017, there were no impaired advances to customers, banks and other accounts.

Analysis of overdue advances

As at 30 June 2018 and 31 December 2017, there were no overdue advances to customers and banks.

Analysis of rescheduled advances to customers and banks

As at 30 June 2018 and 31 December 2017, there were no rescheduled advances to customers and banks.

Overdue other assets

As at 30 June 2018 and 31 December 2017, there were no overdue other assets.

Reposessed assets

As at 30 June 2018 and 31 December 2017, there were no reposessed assets.

Off-balance sheet exposures

<i>Contractual/notional amounts of each of the following class of off-balance sheet exposures outstanding:</i>	30 Jun 2018 HK\$'000	31 Dec 2017 HK\$'000
Contingent liabilities and commitments		
Direct credit substitutes	-	-
Transaction-related contingencies	-	-
Other commitments	-	-
Forward forward deposits placed	-	-
	<hr/>	<hr/>
	-	-
Derivatives and others		
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.

	30 Jun 2018 HK\$'000		31 Dec 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 30 June 2018 and 31 December 2017, there were no advances to customers.

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

	Banks HK\$'m	Official sector HK\$'m	Non-bank private sector			Total HK\$'m
			Non-bank financial institutions HK\$'m	Non- financial private sector HK\$'m	Others HK\$'m	
<u>As at 30 Jun 2018</u>						
Developed countries	63	-	-	-	-	63
<i>of which United Kingdom</i>	56	-	-	-	-	56
<i>of which United States</i>	7	-	-	-	-	7
<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

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 30 Jun 2018

	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>139</u>		
On-balance sheet exposures as percentage of total assets	<u>0%</u>		

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>		

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 30 Jun 2018

Equivalent in millions of HK\$	USD	GBP	SGD	Total
Spot assets	42	-	-	42
Spot liabilities	(43)	-	(2)	(45)
Forward purchases	-	-	-	-
Forward sales	-	-	-	-
Net option position *	-	-	-	-
Net short position	(1)	-	(2)	(3)
Net structural position	-	-	-	-

As at 31 Dec 2017

Equivalent in millions of HK\$	USD	GBP	SGD	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	-	-	-	-

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

Liquidity risks

Liquidity information

	For the quarter ended 30 Jun 2018	For the quarter ended 31 Mar 2018	For the half-year ended 30 Jun 2017
Average liquidity maintenance ratio for the financial period	286.65%	297.75%	282.65%

Liquidity risk is the risk that NatWest Markets (“NWM”) cannot meet its actual or potential obligations in a timely manner as they fall due. Funding risk is the risk that NWM cannot maintain a diversified, stable and cost effective funding base. NWM manages its funding and liquidity risk through a formal governance structure.

Liquidity and funding risk appetite is set at Royal Bank of Scotland (“RBS”) Group level and cascaded to NWM. The NWM board is responsible for cascade of risk appetite to lower level legal entities as required. Limits and mandates are set at legal entity or country level which shall be reviewed annually as a minimum requirement.

RBS PLC 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. NWM Plc ALCO ensures compliance with cascaded liquidity and funding risk limits and policies.

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 NWM 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.

NWM 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 and Recovery 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)

	30 Jun 2018	31 Dec 2017
	£'m	£'m
Capital and capital adequacy		
Shareholders equity	48,491	49,093
Capital adequacy ratio		
CET 1 capital ratio	16.1%	15.9%
Tier 1 capital ratio	18.1%	17.9%
Total capital ratio	21.5%	21.3%
The capital ratios have been calculated based on end-point Capital Requirements Regulation (CRR) Tier 1 capital and leverage exposure under the CRR Delegated Act.		
Other financial information		
	30 Jun 2018	31 Dec 2017
	£'m	£'m
Total assets	748,336	738,056
Total liabilities	699,845	688,963
Total liabilities (excluding subordinated liabilities)	689,243	676,241
Total loans and advances	349,138	349,919
Total customer deposits	401,800	398,036
	6 months ended	6 months ended
	30 Jun 2018	30 Jun 2017
	£'m	£'m
Group profit before tax	1,826	1,951

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