The Royal Bank of Scotland International Limited Interim Results 2023

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The Royal Bank of Scotland International Limited
Results for the period ended 30 June 2023

The Royal Bank of Scotland International Limited (the Company/RBS International/RBSI/the Bank) is one of the largest banks operating in the Channel Islands, Isle of Man and Gibraltar. It also has wholesale branches in Luxembourg and the United Kingdom (UK). It provides a comprehensive range of financial services through its International Retail & Commercial Banking (IRCB) and Institutional Banking (IB) customer segments. IRCB provides loan and deposit products and services to personal, private, business, and commercial customers. IB provides services to European fund asset managers, fund administrators and corporate service providers.

The Bank is part of the Commercial & Institutional segment of NatWest Group. The segment provides further opportunities to deepen our customer relationships and help drive sustainable income growth. The ultimate holding company of RBSI is NatWest Group plc which provides support and access to all central resources. The Bank leverages this relationship with NatWest Group and other subsidiaries to continue to improve on the quality and efficiency of the services and products provided.

Financial review

In H1 2023 we have continued to deliver a strong and sustainable financial performance with a conservative capital position.

The Bank reported an operating profit before tax of £305 million for the period ending June 2023 (30 June 2022 – £242 million). The Bank's return on tangible equity stands at 34.0% (30 June 2022 – 22.1%, 31 December 2022 – 24.7%) reflecting higher income through higher deposit returns from an improved interest rate environment and a more efficient equity position.

	Half year ended	
Performance key metrics and ratios	**30 June 2023**	30 June 2022
Total income	**£484m**	£341m
Operating profit before tax	**£305m**	£242m
Return on tangible equity (RoTE)	**34.0%**	22.1%
	As at	
	30 June 2023	31 December 2022
Loans to customers - amortised cost	**£14.9bn**	£16.4bn
Customer deposits	**£35.0bn**	£34.6bn
Loan:deposit ratio (LDR)	**42.6%**	47.4%
Assets under management (AuM)	**£2.3bn**	£2.2bn
RBSI regulatory metrics		
Liquidity portfolio	**£21.9bn**	£20.3bn
Risk-weighted assets (RWAs)	**£7.6bn**	£7.6bn
Common Equity Tier 1 (CET1) ratio	**17.9%**	18.5%
Tier 1 capital ratio	**21.9%**	22.4%
Leverage ratio (1)	**3.8%**	4.0%
Liquidity coverage ratio (LCR)	**132%**	130%

(1) Leverage ratio is Tier 1 capital as a percentage of on and off balance sheet exposures in line with Jersey Financial Services Commission (JFSC) guidance. The primary driver of the leverage ratio is short term deposit balances, which RBSI typically holds in high quality liquid assets. Excluding unencumbered central bank balances would result in a leverage ratio of 6.8%.

Income

Income increased by 41.9% or £143 million to £484 million principally reflecting higher returns on deposits in the improved rate environment.

Operating expenses

Operating expenses increased by 51.9% or £56 million to £164 million, reflecting higher investment spend and increased costs in relation to financial crime and fraud prevention, as well as higher staff costs impacted by staff numbers, inflation, and one off cost of living payments.

Impairment losses

Net impairment provision increased by £15 million in H1 2023 driven by post model adjustments and some stage 3 movements. Post model adjustments aim to mitigate the future risk of credit losses arising from high inflation, rising interest rates, and supply chain disruption during 2023 and into 2024 and the subsequent risk of credit deterioration. The expected credit losses (ECL) coverage ratio was 0.41% (31 December 2022 – 0.30%). Key disclosures underlying our credit provisions are outlined in Note 6 of this announcement.

Financial review continued

Loans to customers – amortised cost

Loans to customers decreased by £1.4 billion during H1 2023 to £14.9 billion reflecting subdued customer activity along with active portfolio management within our Institutional Banking Franchise.

	30 June 2023	31 December 2022
IB	**£11.1bn**	£12.5bn
IRCB	**£3.8bn**	£3.9bn
Of which mortgages	***£2.3bn***	*£2.4bn*

Climate and sustainable funding and financing have continued to perform well, and as at the end of H1 2023 we had delivered £750 million towards the NatWest Group climate and sustainable funding and financing target of £100 billion between 1 July 2021 and the end of 2025.

Customer deposits

Customer deposits at £35.0 billion increased by £0.4 billion since 31 December 2022. During H1 2023 we continued to see increases in fixed term deposits across both customer franchises within RBSI.

	30 June 2023	31 December 2022
IB	**£24.0bn**	£23.6bn
IRCB	**£11.0bn**	£11.0bn

Capital and liquidity management

CET1 ratio of 17.9% was 60 basis points lower than 31 December 2022 following £250 million dividend payment, partially offset by the addition of attributable profit.

RWAs at £7.6 billion were in line with 31 December 2022. The impact of the reduction in lending is offset with an increase in risk parameters.

The Bank's loan:deposit ratio was 42.6% as at 30 June 2023 (31 December 2022 – 47.4%).

The LCR at 132% (31 December 2022 – 130%) reflects lower customer lending and higher customer deposits, partially offset by changes in intragroup transactions.

Customer deposits represent the Bank's primary funding source. To support diversification of funding sources, in addition to its existing Commercial Paper programme, the Bank has introduced c.£0.8 billion of term borrowing through private market transactions via US private placements and a term syndicated loan transaction.

Further disclosures on our prudential regulatory measures are available on natwestgroup.com via the RBSI Pillar 3 document.

Credit ratings

The Bank had the following credit ratings at 30 June 2023.

S&P	A / A-1 (Stable)
Moody's	A1 / P-1 (Stable)
Fitch	A / F1 (Stable)

During H1 2023 S&P upgraded the Bank's long-term issuer ratings by one notch to A from A-. The short debt rating was also upgraded to A-1 from A-2. The outlook with all three agencies remains stable.

Condensed income statement for the period ended 30 June 2023 (unaudited)

	Half year ended	
	30 June 2023 £m	30 June 2022 £m
Interest receivable	**786**	293
Interest payable	**(361)**	(35)
Net interest income	**425**	258
Fees and commissions receivable	**43**	46
Fees and commissions payable	**(14)**	(14)
Other operating income	**30**	51
Non-interest income	**59**	83
Total income	**484**	341
Staff costs	**(66)**	(46)
Premises and equipment	**(9)**	(6)
Other administrative expenses	**(80)**	(49)
Depreciation and amortisation	**(9)**	(7)
Operating expenses	**(164)**	(108)
Profit before impairment losses/releases	**320**	233
Impairment (losses)/releases	**(15)**	9
Operating profit before tax	**305**	242
Tax charge	**(50)**	(38)
Profit for the period	**255**	204

Condensed statement of comprehensive income for the period ended 30 June 2023 (unaudited)

	Half year ended	
	30 June 2023 £m	30 June 2022 £m
Profit for the period	**255**	204
Items that do qualify for reclassification		
FVOCI financial assets	**(2)**	(31)
Cash flow hedges	**(83)**	(134)
Tax	**8**	16
Other comprehensive losses after tax	**(77)**	(149)
Total comprehensive income for the period	**178**	55

Condensed balance sheet as at 30 June 2023 (unaudited)

	30 June 2023 £m	31 December 2022 £m
Assets		
Cash and balances at central banks	**18,935**	17,012
Derivatives	**174**	172
Loans to banks - amortised cost	**1,393**	1,625
Loans to customers - amortised cost	**14,942**	16,360
Amounts due from holding company and fellow subsidiaries	**1,180**	567
Other financial assets	**2,972**	3,271
Other assets	**214**	166
Total assets	**39,810**	39,173
Liabilities		
Bank deposits	**865**	327
Customer deposits	**35,049**	34,637
Amounts due to holding company and fellow subsidiaries	**470**	1,094
Derivatives	**528**	411
Other financial liabilities	**1,081**	839
Other liabilities	**191**	157
Total liabilities	**38,184**	37,465
Equity attributable to controlling interests	**1,626**	1,708
Total liabilities and equity	**39,810**	39,173

Condensed statement of changes in equity for the period ended 30 June 2023 (unaudited)

	Half year ended	
	30 June 2023 £m	30 June 2022 £m
Called-up share capital - at beginning and end of period	**97**	97
Paid-in equity - at beginning and end of period	**300**	300
Share premium account - at beginning and end of period	5	5
FVOCI reserve - at beginning of period	**(4)**	11
Unrealised losses (1)	**(2)**	(49)
Realised losses	**—**	18
Tax	**—**	3
At end of period	**(6)**	(17)
Cash flow hedging reserve - at beginning of period	**(287)**	(36)
Amount recognised in equity (2)	**(136)**	(133)
Amount transferred from equity to earnings	**53**	(1)
Tax	**8**	13
At end of period	**(362)**	(157)
Retained earnings - at beginning of period	**1,597**	1,735
Profit attributable to ordinary shareholders and other equity owners	**255**	204
Paid-in equity dividends paid	**(10)**	(10)
Ordinary dividends paid	**(250)**	(160)
At end of period	**1,592**	1,769
Equity attributable to controlling interests at end of period	**1,626**	1,997
Attributable to:		
Ordinary shareholders	**1,326**	1,697
Paid-in equity holders	**300**	300
	1,626	1,997

(1) Certain assets within this category have been hedged with derivatives which are not in an accounting hedge relationship. The effect of this creates a temporary difference between other comprehensive income and the income statement due to the difference in recognition criteria. This temporary difference is expected to reverse through the income statement over the duration of the hedge.

(2) The unrealised losses on cash flow hedge reserves are mainly driven by deferral of losses on GBP net received fixed swaps as interest rates have increased.

Condensed cash flow statement for the period ended 30 June 2023 (unaudited)

	Half year ended	
	30 June 2023 £m	30 June 2022 £m
Operating activities		
Operating profit before tax	**305**	242
Adjustments for non-cash and other items	**478**	(387)
Net cash flows from trading activities	**783**	(145)
Changes in operating assets and liabilities	**1,948**	(124)
Net cash flows from operating activities before tax	**2,731**	(269)
Income taxes paid	**(30)**	(23)
Net cash flows from operating activities	**2,701**	(292)
Net cash flows from investing activities	**239**	687
Net cash flows from financing activities	**(270)**	(170)
Effects of exchange rate changes on cash and cash equivalents	**(357)**	389
Net increase in cash and cash equivalents	**2,313**	614
Cash and cash equivalents at beginning of period	**19,173**	18,987
Cash and cash equivalents at end of period	**21,486**	19,601

Notes

1. Presentation of condensed financial statements

The condensed financial statements should be read in conjunction with The Royal Bank of Scotland International Limited's 2022 Annual Report and Accounts. The accounting policies are the same as those applied in the financial statements.

The directors have prepared the condensed financial statements on a going concern basis after assessing the principal risks, forecasts, projections, and other relevant evidence over the twelve months from the date they are approved and in accordance with IAS 34 'Interim Financial Reporting', as adopted by the International Accounting Standards Board (IASB).

Amendments to IFRS effective from 1 January 2023 had no material effect on the condensed financial statements.

2. Net interest income

	Half year ended	
	30 June 2023 £m	30 June 2022 £m
Interest receivable on assets:		
Balances at central banks and loans to banks - amortised cost	**314**	41
Loans to customers - amortised cost	**441**	205
Amounts due from holding company and fellow subsidiaries	**9**	3
Other financial assets - debt securities	**22**	21
Interest receivable on liabilities:		
Customer deposits	**—**	23
Interest receivable (1)	**786**	293
Interest payable on liabilities:		
Bank deposits	**24**	3
Customer deposits: demand	**111**	1
Customer deposits: savings	**84**	9
Customer deposits: other time	**105**	6
Other financial liabilities	**16**	—
Amounts due to holding company and fellow subsidiaries	**21**	3
Interest payable on assets:		
Loans to banks - amortised cost	**—**	13
Interest payable (1)	**361**	35
Net interest income	**425**	258

(1) Negative interest on loans to banks is classed as interest payable and on customer deposits is classed as interest receivable.

3. Non-interest income

	Half year ended	
	30 June 2023 £m	30 June 2022 £m
Fees and commissions receivable		
- Payment services	**9**	9
- Credit & debit card fees	**2**	5
- Lending and financing	**28**	27
- Investment management	**2**	2
- Other services	**2**	3
Fees and commissions payable (1)	**(14)**	(14)
Other operating income (2)	**30**	51
Total non-interest income	**59**	83

(1) Fees and commissions payable primarily includes intercompany balances for revenue sharing.
(2) Other operating income primarily includes income from economic hedging activity.

Notes

4. Tax

The actual tax charge differs from the expected tax charge computed by applying the standard rate of income tax as follows: Jersey, Guernsey, Isle of Man 10% (2022 - 10%), Gibraltar 12.5% (2022 - 10% until 31 July 2022, 12.5% thereafter), UK 27% until 5 April 2023, 28% thereafter (2022 - 27%) and Luxembourg 24.94% (2022 - 24.94%).

	Half year ended	
	30 June 2023 £m	30 June 2022 £m
Expected tax charge	**31**	24
Rate differences on current tax	**19**	14
Actual tax charge	**50**	38

Net deferred tax assets

Net deferred tax assets of £30 million recognised at 31 December 2022 have increased to £39 million at 30 June 2023 due to cash flow hedging movements.

5. Financial instruments - classification

The following tables analyse financial assets and liabilities in accordance with the categories of financial instruments in IFRS 9.

	MFVTPL £m	FVOCI £m	Amortised cost £m	Other assets £m	Total £m
Assets					
Cash and balances at central banks			**18,935**		**18,935**
Derivatives (1)	**174**				**174**
Loans to banks - amortised cost			**1,393**		**1,393**
Loans to customers - amortised cost (2)			**14,942**		**14,942**
Amounts due from holding company and fellow subsidiaries	**342**	**—**	**816**	**22**	**1,180**
Other financial assets		**297**	**2,675**		**2,972**
Other assets				**214**	**214**
30 June 2023	**516**	**297**	**38,761**	**236**	**39,810**
Cash and balances at central banks			17,012		17,012
Derivatives (1)	172				172
Loans to banks - amortised cost			1,625		1,625
Loans to customers - amortised cost (2)			16,360		16,360
Amounts due from holding company and fellow subsidiaries	—	—	539	28	567
Other financial assets		295	2,976		3,271
Other assets				166	166
31 December 2022	172	295	38,512	194	39,173

	Held-for-trading £m	Amortised cost £m	Other liabilities £m	Total £m
Liabilities				
Banks deposits (3)		**865**		**865**
Customer deposits		**35,049**		**35,049**
Amounts due to holding company and fellow subsidiaries	**—**	**432**	**38**	**470**
Derivatives (1)	**528**			**528**
Other financial liabilities (4)		**1,081**		**1,081**
Other liabilities (5)		**34**	**157**	**191**
30 June 2023	**528**	**37,461**	**195**	**38,184**
Banks deposits (3)		327		327
Customer deposits		34,637		34,637
Amounts due to holding company and fellow subsidiaries	—	1,053	41	1,094
Derivatives (1)	411			411
Other financial liabilities (4)		839		839
Other liabilities (5)		37	120	157
31 December 2022	411	36,893	161	37,465

(1) Includes net hedging derivative assets of £144 million (31 December 2022 - £125 million) and net hedging derivative liabilities of £473 million (31 December 2022 - £336 million).
(2) Includes finance lease receivables of £42 million (31 December 2022 - £55 million).
(3) Includes syndicated loans of £590 million (31 December 2022 – nil).
(4) Includes private placements of £233 million (31 December 2022 – nil).
(5) Includes lease liabilities of £33 million (31 December 2022 - £35 million), held at amortised cost.

Notes

5. Financial instruments – classification continued

RBSI's financial assets and liabilities include amounts due from/to the holding company and fellow subsidiaries as below:

	30 June 2023			31 December 2022		
	Holding company £m	Fellow subsidiaries £m	Total £m	Holding company £m	Fellow subsidiaries £m	Total £m
Assets						
Loans to banks - amortised cost	—	816	816	—	536	536
Loans to customers - amortised cost	—	—	—	—	2	2
Other financial assets	—	342	342	—	—	—
Other assets	—	22	22	—	29	29
Amounts due from holding company and fellow subsidiaries	—	1,180	1,180	—	567	567
Derivatives (1)	—	170	170	—	163	163
Liabilities						
Bank deposits	—	91	91	—	135	135
Customer deposits	—	64	64	501	123	624
Subordinated liabilities	277	—	277	291	3	294
Other liabilities	—	38	38	3	38	41
Amounts due to holding company and fellow subsidiaries	277	193	470	795	299	1,094
Derivatives (1)	—	518	518	—	399	399

(1) Intercompany derivatives are included within derivative classification on the balance sheet.

5. Financial instruments - valuation

Disclosures relating to the control environment, valuation techniques and related aspects pertaining to financial instruments measured at fair value are included in The Royal Bank of Scotland International Limited's 2022 Annual Report and Accounts. Valuation and input methodologies at 30 June 2023 are consistent with those described in The Royal Bank of Scotland International Limited's 2022 Annual Report and Accounts.

Fair value hierarchy

The table below shows the assets and liabilities held split by fair value hierarchy level. Level 1 are considered the most liquid instruments, and level 3 the most illiquid, valued using expert judgment and hence carry the most significant price uncertainty.

	30 June 2023			31 December 2022		
	Level 1 £m	Level 2 £m	Total £m	Level 1 £m	Level 2 £m	Total £m
Assets						
Derivatives	—	174	174	—	172	172
Amounts due from holding company and fellow subsidiaries	—	342	342	—	—	—
Other financial assets - securities	297	—	297	295	—	295
Total financial assets at fair value	297	516	813	295	172	467
As % of total fair value assets	37%	63%		63%	37%	
Liabilities						
Derivatives	—	528	528	—	411	411
Total financial liabilities at fair value	—	528	528	—	411	411
As % of total fair value liabilities	—	100%		—	100%	

(1) Level 1 – Instruments valued using unadjusted quoted prices in active and liquid markets, for identical financial instruments. Examples include government bonds, listed equity shares and certain exchange-traded derivatives.
Level 2 - Instruments valued using valuation techniques that have observable inputs. Observable inputs are those that are readily available with limited adjustments required. Examples include most government agency securities, investment-grade corporate bonds, certain mortgage products - including CLOs, most bank loans, repos and reverse repos, state and municipal obligations, most notes issued, certain money market securities, loan commitments and most OTC derivatives.
Level 3 – Instruments valued using a valuation technique where at least one input which could have a significant effect on the instrument's valuation, is not based on observable market data. Examples include non-derivative instruments which trade infrequently, certain syndicated and commercial mortgage loans, private equity, and derivatives with unobservable model inputs.

(2) Transfers between levels are deemed to have occurred at the beginning of the quarter in which the instruments were transferred.

Notes

5. Financial instruments – valuation continued

Fair value of financial instruments carried at amortised cost

The following table shows the carrying values and the fair values of financial instruments on the balance sheet carried at amortised cost.

	30 June 2023		31 December 2022	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial assets				
Cash and balances at central banks (1)	18,935	18,935	17,012	17,012
Loans to banks - amortised cost (2)	1,393	1,393	1,625	1,625
Loans to customers - amortised cost (2)	14,942	14,972	16,360	16,399
Amounts due from holding company and fellow subsidiaries (2)	816	816	539	539
Other financial assets (3)	2,675	2,442	2,976	2,760
Financial liabilities				
Bank deposits (4)	865	865	327	327
Customer deposits (5)	35,049	35,049	34,637	34,637
Other financial liabilities (6)	1,081	1,081	839	839
Amounts due to holding company and fellow subsidiaries (2)	432	432	1,053	1,053

(1) Carrying value approximates to fair value in both periods.
(2) Level 3 in the fair value hierarchy in both periods.
(3) Level 1 in the fair value hierarchy in both periods.
(4) £179 million (31 December 2022 - £262 million) carrying value approximates to fair value and £686 million (31 December 2022 - £65 million) in level 3.
(5) £26,229 million (31 December 2022 - £26,582 million) carrying value approximates to fair value and £8,820 million (31 December 2022 - £8,055 million) in level 3.
(6) Level 2 in the fair value hierarchy in both periods.

The assumptions and methodologies underlying the calculation of fair values of financial instruments at the balance sheet date are as follows:

Short term financial instruments

For certain short-term financial instruments: cash and balances at central banks, items in the course of collection from other banks, settlement balances, items in the course of transmission to other banks and customer demand deposits, carrying value is a reasonable approximation of fair value.

Loans to banks and customers

In estimating the fair value of net loans to customers and banks measured at amortised cost, the Bank's loans are segregated into appropriate portfolios reflecting the characteristics of the constituent loans. Two principal methods are used to estimate fair value; contractual cash flows and expected cash flows.

Other financial assets

The majority of other financial assets consist of debt securities which are valued using quoted prices in active markets, or using quoted prices for similar assets in active markets. Fair values of the rest are determined using discounted cash flow valuation techniques.

Deposits by banks and customer accounts

The fair values of deposits are estimated using discounted cash flow valuation techniques.

Debt securities in issue

Fair values are determined using quoted prices for similar liabilities where available or by reference to valuation techniques, adjusting for own credit spreads where appropriate.

Notes

6. Loan impairment provisions

Economic loss drivers

Introduction

The portfolio segmentation and selection of economic loss drivers for IFRS 9 follows the approach used in stress testing. To enable robust modelling the forecasting models for each portfolio segment (defined by product or asset class and where relevant, industry sector and region) are based on a selected, small number of economic variables (typically three to four) that best explain the temporal variations in portfolio loss rates. The process to select economic loss drivers involves empirical analysis and expert judgement.

The most significant economic loss drivers for the Personal portfolios include unemployment rate, house price index, and base rate for the UK, and these are applied to credit portfolios across all jurisdictions.

In addition to some of these loss drivers, world gross domestic product (GDP) is a primary loss driver for the Wholesale portfolios.

Economic scenarios

At 30 June 2023, the range of anticipated future economic conditions was defined by a set of four internally developed scenarios and their respective probabilities. In addition to the base case, they comprised upside, downside and extreme downside scenarios. The scenarios primarily reflected the current risks faced by the economy, particularly related to persistently high inflation and interest rate environment, resulting in a fall in real household income, economic slowdown, a rise in unemployment and asset price declines.

For 30 June 2023, the four scenarios were deemed appropriate in capturing the uncertainty in economic forecasts and the non-linearity in outcomes under different scenarios. These four scenarios were developed to provide sufficient coverage across potential rises in unemployment, inflation, asset price declines and the degree of permanent damage to the economy, around which there remains pronounced levels of uncertainty.

Upside – This scenario assumes robust growth as inflation falls sharply and rates are lowered. Consumer spending is supported by savings built up since COVID-19 and further helped by fiscal support and strong business investment. The labour market remains resilient, with the unemployment rate remaining below pre-COVID-19 levels. The housing market slows down compared to the previous year but remains robust.

Base case – In the midst of high inflation and significant monetary policy tightening, economic growth remains muted. However, recession is avoided as only a relatively small proportion of households are directly affected by the rise in mortgage costs. The unemployment rate rises modestly but job losses are contained. Inflation moderates over the medium-term and falls to the target level of 2%. The housing market experiences price decline and lower activity but the extent of the decline is lower than that experienced during prior stresses.

Since 31 December 2022, the economic outlook has improved as energy prices fell sharply and the labour market remained resilient. However, the inflation outlook remains elevated due to higher core inflation pressure. As a result, interest rates need to rise higher than assumed previously. The base case now assumes muted growth in 2023 as opposed to a mild recession assumed previously. The unemployment rate still rises but the peak is lower, reflecting the labour market's recent resilience. The peak to trough house price correction remains broadly similar to the previous assumption.

Downside – Inflation remains persistently high. The economy experiences a recession as consumer confidence weakens due to a fall in real income. Interest rates are raised higher than the base case and remain elevated for longer. High rates are assumed to have a more significant impact on the labour market. Unemployment is higher than the base case scenario while house prices experience declines comparable to previous episodes of stress.

The previous year's downside scenario also included a deep recession, labour market deterioration and asset price falls, but the current downside scenario explores these risks in a persistently high inflation, high rates environment.

Extreme downside – This scenario assumes high and persistent inflation. Households see the highest recorded decline in real income. Interest rates rise to levels last observed in early 2000. Resulting economic recession is deep and leads to widespread job losses. House prices lose approximately a third of their value while the unemployment rate rises to a level above that observed during the 2008 financial crisis.

The main macroeconomic variables for each of the four scenarios used for expected credit loss (ECL) modelling are set out in the main macroeconomic variables table on the following page.

Notes

6. Loan impairment provisions continued

Main macroeconomic variables

	30 June 2023					31 December 2022				
	Upside	Base case	Downside	Extreme downside	Weighted average	Upside	Base case	Downside	Extreme downside	Weighted average
Five-year summary	%	%	%	%	%	%	%	%	%	%
GDP	**1.8**	**0.9**	**0.4**	**(0.2)**	**0.8**	2.2	1.3	0.8	0.4	1.2
Unemployment	**3.5**	**4.2**	**4.9**	**6.6**	**4.6**	3.9	4.5	4.9	6.7	4.8
House price index	**3.8**	**0.3**	**(0.8)**	**(6.0)**	**—**	5.1	0.8	(0.7)	(4.4)	0.6
Commercial real estate price	**3.3**	**0.2**	**(2.7)**	**(7.6)**	**(0.7)**	1.2	(1.9)	(2.8)	(9.1)	(2.5)
Consumer price index	**1.7**	**2.3**	**4.2**	**3.7**	**2.8**	3.6	4.2	4.4	8.2	4.8
Bank of England base rate	**2.6**	**4.2**	**5.0**	**5.1**	**4.2**	2.4	3.1	1.5	4.5	2.8
UK stock price index	**5.8**	**4.3**	**1.8**	**0.1**	**3.5**	3.0	1.4	(1.1)	(3.7)	0.5
World GDP	**3.7**	**3.1**	**2.7**	**1.0**	**2.8**	3.7	3.3	1.7	1.1	2.7
Probability weight	**19.5**	**45.0**	**21.5**	**14.0**		18.6	45.0	20.8	15.6	

(1) The five year summary runs from 2023-2027 for 30 June 2023.
(2) The table shows five calendar year CAGR for GDP, average for unemployment and Bank of England base rate and 20-quarter CAGR for other parameters.
(3) Comparatives have been aligned with the current calculation approach.

Probability weightings of scenarios

The Bank's quantitative approach to IFRS 9 multiple economic scenarios (MES) involves selecting a suitable set of discrete scenarios to characterise the distribution of risks in the economic outlook and assigning appropriate probability weights. This quantitative approach is used for 30 June 2023.

The approach involves comparing UK GDP paths for the Bank's scenarios against a set of 1,000 model runs, following which, a percentile in the distribution is established that most closely corresponded to the scenario. Probability weight for base case is set first based on judgement, while probability weights for the alternate scenarios are assigned based on these percentiles scores.

The assigned probability weights were judged to be aligned with the subjective assessment of balance of the risks in the economy. The weights were broadly comparable to those used at 31 December 2022. Since then, the outlook has improved across key areas of the economy. However, the risks still remain elevated and there is considerable uncertainty in the economic outlook, particularly with respect to persistence and the range of outcomes on inflation. Given that backdrop, the Bank judges it appropriate that downside-biased scenarios have higher probability weights than the upside-biased scenario. It presents good coverage to the range of outcomes assumed in the scenarios, including the potential for a robust recovery on the upside and exceptionally challenging outcomes on the downside. A 19.5% weighting was applied to the upside scenario, a 45.0% weighting applied to the base case scenario, a 21.5% weighting applied to the downside scenario and a 14.0% weighting applied to the extreme downside scenario.

Notes

6. Loan impairment provisions continued

Economic loss drivers

Annual figures

GDP - annual growth	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
2023	1.4	0.3	—	(0.3)	0.3
2024	3.8	0.8	(1.4)	(4.1)	0.3
2025	1.4	1.0	1.0	0.9	1.1
2026	1.2	1.3	1.2	1.2	1.2
2027	1.2	1.4	1.3	1.2	1.3
2028	1.2	1.4	1.3	1.2	1.3

Unemployment rate - annual average	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
2023	3.9	3.9	4.1	4.3	4.0
2024	3.3	4.2	5.1	7.3	4.7
2025	3.3	4.4	5.3	7.7	4.8
2026	3.4	4.3	5.1	7.1	4.7
2027	3.4	4.3	4.9	6.5	4.6
2028	3.4	4.3	4.7	6.0	4.4

House price index - four quarter change	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
2023	(3.3)	(6.9)	(6.2)	(8.2)	(6.2)
2024	10.4	(1.0)	(13.2)	(14.1)	(3.1)
2025	6.1	2.9	0.9	(16.4)	0.9
2026	3.1	3.4	8.5	4.3	4.4
2027	3.5	3.4	7.9	6.8	4.7
2028	3.4	3.4	5.5	5.0	4.0

Commercial real estate price - four quarter change	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
2023	1.1	(5.8)	(7.8)	(10.7)	(5.6)
2024	5.5	0.5	(13.4)	(35.3)	(6.1)
2025	4.6	2.5	2.5	2.5	3.0
2026	3.8	2.5	3.6	6.3	3.4
2027	1.8	1.3	3.0	6.9	2.3
2028	1.5	1.3	2.2	4.2	1.8

Consumer price index - four quarter change	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
2023	1.6	3.4	5.5	7.0	4.0
2024	1.1	2.3	4.3	6.8	3.2
2025	1.8	1.9	3.9	1.7	2.3
2026	1.9	1.9	3.8	1.2	2.2
2027	1.9	1.9	3.7	2.1	2.3
2028	1.9	1.9	3.2	2.1	2.2

Bank of England base rate - annual average	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
2023	4.3	4.8	4.7	4.8	4.7
2024	3.0	5.0	5.5	6.0	4.9
2025	2.3	4.2	5.0	5.7	4.2
2026	2.0	3.7	4.9	4.9	3.8
2027	1.6	3.3	4.7	4.1	3.4
2028	1.5	3.2	4.5	3.4	3.2

UK stock price index - four quarter change	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
2023	13.0	9.1	(9.2)	(26.6)	0.9
2024	5.7	3.1	(1.9)	(9.4)	1.4
2025	4.1	3.1	9.7	21.2	6.2
2026	3.6	3.1	6.5	12.9	4.9
2027	3.2	3.1	5.3	10.2	4.3
2028	3.0	3.1	5.3	6.4	3.9

Notes
6. Loan impairment provisions continued
Worst points

	30 June 2023					31 December 2022				
	Downside %	Quarter	Extreme downside %	Quarter	Weighted average %	Downside %	Quarter	Extreme downside %	Quarter	Weighted average %
GDP	**(1.7)**	**Q2 2024**	**(4.9)**	**Q2 2024**	**0.1**	(3.2)	Q4 2023	(4.7)	Q4 2023	(0.8)
Unemployment rate - peak	**5.4**	**Q1 2025**	**8.0**	**Q4 2024**	**4.9**	6.0	Q1 2024	8.5	Q3 2024	5.4
House price index	**(18.9)**	**Q1 2025**	**(34.3)**	**Q1 2026**	**(9.2)**	(15.0)	Q1 2025	(26.2)	Q3 2025	(3.4)
Commercial real estate price	**(20.1)**	**Q4 2024**	**(42.6)**	**Q1 2025**	**(11.3)**	(21.8)	Q4 2023	(46.8)	Q3 2024	(16.4)
Consumer price index										
- highest four quarter change	**10.1**	**Q1 2023**	**10.1**	**Q1 2023**	**10.1**	15.7	Q1 2023	17.0	Q4 2023	11.7
Bank of England base rate										
- extreme level	**5.8**	**Q1 2024**	**6.0**	**Q1 2024**	**5.3**	4.0	Q1 2023	6.0	Q1 2024	4.1
UK stock price index	**(15.5)**	**Q2 2024**	**(40.9)**	**Q2 2024**	**(1.1)**	(26.0)	Q4 2023	(48.7)	Q4 2023	(14.1)

(1) Unless specified otherwise, the figures show falls relative to the starting period. The calculations are performed over five years, with a starting point of Q4 2022 for 30 June 2023 scenarios.
(2) Comparatives have been aligned with the current calculation approach.

Use of the scenarios in Personal lending
RBSI Personal remains Basel standardised for risk-weighted assets, therefore modelled probability of default (PD) and loss given default (LGD) are not available. Instead, the equivalent product PD and LGD are sourced from NatWest Group, which was identified as the closest comparable portfolio. The closest comparable product portfolio PD and LGDs then follow a discrete scenario approach. The PD, exposure at default (EAD), LGD and resultant ECL for each discrete scenario is calculated using product specific economic response models. Probability weighted averages across the suite of economic scenarios are then calculated for each of the model outputs, with the weighted PD being used for staging purposes.

Use of the scenarios in Wholesale lending
The Wholesale lending scenario methodology is based on the concept of credit cycle indices (CCIs). The CCIs represent, similar to the exogenous component in Personal, all relevant economic drivers for a region/industry segment aggregated into a single index value that describes the credit conditions in the respective segment relative to its long-run average. A CCI value of zero corresponds to credit conditions at long-run average levels, a positive CCI value corresponds to credit conditions below long run average levels and a negative CCI value corresponds to credit conditions above long-run average levels.

The individual economic scenarios are translated into forward-looking projections of CCIs using a set of econometric models. Subsequently the CCI projections for the individual scenarios are averaged into a single central CCI projection according to the given scenario probabilities. The central CCI projection is then extended with an additional mean reversion assumption to gradually revert to the long-run average CCI value of zero in the outer years of the projection horizon.

Finally, ECL is calculated using a Monte Carlo approach by averaging PD and LGD values arising from many CCI paths simulated around the central CCI projection.

Economic uncertainty
The high inflation environment alongside rapidly rising interest rates and supply chain disruption are presenting significant headwinds for some businesses and consumers. These are a result of various factors and in many cases are compounding and look set to remain a feature of the economic environment into 2024. The Bank has considered where these are most likely to affect the customer base, with the rising cost of borrowing during 2023 for both businesses and consumers presenting an additional affordability challenge for many borrowers in recent months.

The effects of these risks are not expected to be fully captured by forward-looking credit modelling, particularly given the unique high inflation environment, low unemployment base case outlook. Any incremental ECL effects for these risks will be captured via post model adjustments and are detailed further in the Governance and post model adjustments section.

Notes

6. Loan impairment provisions continued

Governance and post model adjustments

The IFRS 9 PD, EAD and LGD models are subject to the Bank's model risk policy that stipulates periodic model monitoring, periodic re-validation and defines approval procedures and authorities according to model materiality. Various post model adjustments were applied where management judged they were necessary to ensure an adequate level of overall ECL provision. All post model adjustments were subject to formal approval through provisioning governance, and were categorised as follows (business level commentary is provided below):

- Deferred model calibrations – ECL adjustments where model monitoring and similar analyses indicates that model adjustments will be required to ensure ECL adequacy. As a consequence, an estimate of the ECL impact is recorded on the balance sheet until modelled ECL levels are affirmed by new model parallel runs or similar analyses.
- Economic uncertainty – ECL adjustments primarily arising from uncertainties associated with high inflation and rapidly rising interest rates as well as supply chain disruption. In all cases, management judged that additional ECL was required until further credit performance data became available as the observable effects of these issues crystallise.
- Other adjustments – ECL adjustments where it was judged that the modelled ECL required amendment.

Post model adjustments will remain a key focus area of the Bank's ongoing ECL adequacy assessment process. A holistic framework has been established including reviewing a range of economic data, external benchmark information and portfolio performance trends with a particular focus on segments of the portfolio (both commercial and consumer) that are likely to be more susceptible to high inflation, rapidly rising interest rates and supply chain disruption, where risks may not be fully captured by the models.

ECL post model adjustments

The table below shows ECL post model adjustments.

	30 June 2023 £m	31 December 2022 £m
Deferred model calibrations	1	—
Economic uncertainty	7	1
Other adjustments	3	3
Total	11	4
Of which		
Stage 1	5	2
Stage 2	6	2
Stage 3	—	—

Measurement uncertainty and ECL sensitivity analysis

The recognition and measurement of ECL is complex and involves the use of significant judgment and estimation, particularly in times of economic volatility and uncertainty. This includes the formulation and incorporation of multiple forward- looking economic conditions into ECL to meet the measurement objective of IFRS 9. The ECL provision is sensitive to the model inputs and economic assumptions underlying the estimate.

The impact arising from the base case, upside, downside and extreme downside scenarios was simulated. These scenarios are used in the methodology for Personal multiple economic scenarios as described in the Economic loss drivers section. In the simulations, the Bank has assumed that the economic macro variables associated with these scenarios replace the existing base case economic assumptions, giving them a 100% probability weighting and therefore serving as a single economic scenario.

These scenarios were applied to all modelled portfolios in the analysis below, with the simulation impacting both PDs and LGDs. Post model adjustments included in the ECL estimates that were modelled were sensitised in line with the modelled ECL movements, but those that were judgmental in nature, primarily those for deferred model calibrations and economic uncertainty, were not (refer to the Governance and post model adjustments section). As expected, the scenarios create differing impacts on ECL by portfolio and the impacts are deemed reasonable. In this simulation, it is assumed that existing modelled relationships between key economic variables and loss drivers hold, but in practice other factors would also have an impact, for example, potential customer behaviour changes and policy changes by lenders that might impact on the wider availability of credit.

The focus of the simulations is on ECL provisioning requirements on performing exposures in Stage 1 and Stage 2. The simulations are run on a stand-alone basis and are independent of each other; the potential ECL impacts reflect the simulated impact at 30 June 2023. Scenario impacts on SICR should be considered when evaluating the ECL movements of Stage 1 and Stage 2. In all scenarios the total exposure was the same but exposure by stage varied in each scenario.

Stage 3 provisions are not subject to the same level of measurement uncertainty – default is an observed event as at the balance sheet date. Stage 3 provisions therefore were not considered in this analysis.

The Bank's core criterion to identify a SICR is founded on PD deterioration. Under the simulations, PDs change and result in exposures moving between Stage 1 and Stage 2 contributing to the ECL impact.

Notes

6. Loan impairment provisions continued

Measurement uncertainty and ECL adequacy

- The changes in the economic outlook and scenarios used in the IFRS 9 MES framework at 30 June 2023 resulted in a decrease in modelled ECL. Given that continued uncertainty remains due to high inflation, rapidly rising interest rates and supply chain disruption, the Bank utilised a framework of quantitative and qualitative measures to support the levels of ECL coverage, including economic data, credit performance insights, supply chain contagion analysis and problem debt trends. This was particularly important for consideration of post model adjustments.
- As the effects of high inflation, rapidly rising interest rates and supply chain disruption evolve during 2023 and into 2024, there is a risk of credit deterioration. However, the income statement effect of this should have been mitigated by the forward-looking provisions retained on the balance sheet at 30 June 2023.
- There are a number of key factors that could drive further downside to impairments, through deteriorating economic and credit metrics and increased stage migration as credit risk increases for more customers. Such factors which could impact the IFRS 9 models, include an adverse deterioration in GDP and unemployment in the economies in which the Bank operates.

Loan exposure and impairment metrics

The table below summarises loans and related credit impairment measures within the scope of ECL framework.

	30 June 2023 £m	31 December 2022 £m
Loans - amortised cost		
Stage 1	15,425	17,081
Stage 2	855	865
Stage 3	172	131
Inter-group (1)	816	539
Total	17,268	18,616
Loan impairment provisions		
ECL provisions		
- Stage 1	14	16
- Stage 2	16	9
- Stage 3	40	30
Total	70	55
ECL provision coverage (2,3)		
- Stage 1 (%)	0.09	0.09
- Stage 2 (%)	1.87	1.04
- Stage 3 (%)	23.26	22.90

	Half year ended	
	30 June 2023 £m	30 June 2022 £m
Impairment charge/(releases)		
ECL charge	15	(9)
ECL (release)/loss rate - annualised (basis points) (4)	0.1	(0.1)
Amounts written-off	1	1

(1) Amounts due from holding companies and fellow subsidiaries (inter-group) are all considered as Stage 1.
(2) ECL provisions coverage is ECL provisions divided by loans – amortised cost.
(3) ECL provisions coverage and ECL loss rates are calculated on third party loans and related ECL provisions and charge respectively.
(4) ECL loss rate is calculated as annualised third party ECL charge divided by loans – amortised cost.
(5) The table shows gross loans only and excludes amounts that are outside the scope of the ECL framework. Other financial assets within the scope of the IFRS 9 ECL framework were cash and balances at central banks totalling £18.9 billion (31 December 2022 – £17 billion) and debt securities of £3.1 billion (31 December 2022 – £3.4 billion).

6. Loan impairment provisions continued

Flow statement

The flow statement that follows show the main ECL and related income statement movements. It also shows the changes in ECL as well as the changes in related financial assets used in determining ECL. Due to differences in scope, exposures may differ from those reported in other tables, principally in relation to exposures in Stage 1 and Stage 2. These differences do not have a material ECL effect. Other points to note:

- Financial assets include treasury liquidity portfolios, comprising balances at central banks and debt securities, as well as loans. Both modelled and non-modelled portfolios are included.
- Stage transfers (for example, exposures moving from Stage 1 into Stage 2) are a key feature of the ECL movements, with the net re-measurement cost of transitioning to a worse stage being a primary driver of income statement charges. Similarly, there is an ECL benefit for accounts improving stage.
- Changes in risk parameters shows the reassessment of the ECL within a given stage, including any ECL overlays and residual income statement gains or losses at the point of write-off or accounting write-down.
- Other (P&L only items) includes any subsequent changes in the value of written-down assets (for example, fortuitous recoveries) along with other direct write-off items such as direct recovery costs. Other (P&L only items) affects the income statement but does not affect balance sheet ECL movements.
- Amounts written-off represent the gross asset written-down against accounts with ECL, including the net asset write-down for any debt sale activity.
- The effect of any change in post model adjustments during the year is typically reported under changes in risk parameters, as are any effects arising from changes to the underlying models. Refer to the section on Governance and post model adjustments for further details.
- All movements are captured monthly and aggregated. Interest suspended post default is included within Stage 3 ECL with the movement in the value of suspended interest during the year reported under currency translation and other adjustments.

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets £m	ECL £m	Financial assets £m	ECL £m	Financial assets £m	ECL £m	Financial assets £m	ECL £m
At 1 January 2023	**40,083**	**16**	**870**	**9**	**132**	**30**	**41,085**	**55**
Currency translation and other adjustments	**(356)**	**(1)**	**(11)**	**—**	**1**	**3**	**(366)**	**2**
Transfers from Stage 1 to Stage 2	**(674)**	**(2)**	**674**	**2**	**—**	**—**	**—**	**—**
Transfers from Stage 2 to Stage 1	**651**	**3**	**(651)**	**(3)**	**—**	**—**	**—**	**—**
Transfers to Stage 3	**(1)**	**—**	**(55)**	**(1)**	**56**	**1**	**—**	**—**
Transfers from Stage 3	**4**	**1**	**2**	**—**	**(6)**	**(1)**	**—**	**—**
Other exposure and related changes	**(5,066)**	**(3)**	**27**	**9**	**(11)**	**9**	**(5,050)**	**15**
Amounts written-off	**—**	**—**	**—**	**—**	**(1)**	**(1)**	**(1)**	**(1)**
Unwinding of discount	**—**	**—**	**—**	**—**	**—**	**(1)**	**—**	**(1)**
At 30 June 2023	**34,641**	**14**	**856**	**16**	**171**	**40**	**35,668**	**70**
Net carrying amount	**34,627**		**840**		**131**		**35,598**	
At 1 January 2022	39,372	7	557	23	121	24	40,050	54
2022 movements	(2,182)	1	(72)	(10)	(11)	(1)	(2,265)	(10)
At 30 June 2022	37,190	8	485	13	110	23	37,785	44
Net carrying amount	37,182		472		87		37,741	

(1) Related financial asset movements are one month in arrears relative to the balance sheet reporting dates, as these are the balances used to calculate the modelled ECL (i.e. reported financial assets at 1 January 2023 in the flow statements reflect 30 November 2022 positions, and 30 June 2023 reported figures reflect 31 May 2023 positions).

Notes

7. Contingent liabilities and commitments

The amounts shown in the table below are intended only to provide an indication of the volume of business outstanding at 30 June 2023. Although The Royal Bank of Scotland International Limited is exposed to credit risk in the event of non-performance of the obligations undertaken by customers, the amounts shown do not, and are not intended to, provide any indication of The Royal Bank of Scotland International Limited's expectation of future losses.

	30 June 2023 £m	31 December 2022 £m
Contingent liabilities and commitments		
Guarantees	**417**	409
Other contingent liabilities	**36**	26
Standby facilities, credit lines and other commitments	**9,009**	9,441
Total	**9,462**	9,876

Commitments and contingent obligations are subject to The Royal Bank of Scotland International Limited's normal credit approval processes.

8. Litigation and regulatory matters

As a participant in the financial services industry, the Bank operates in a highly regulated environment. At any moment in time it is likely that the Bank will be party to legal proceedings and involved in regulatory matters, including as the subject of investigations and other regulatory and government action ('Matters') in the jurisdictions it operates in. Such Matters are subject to many uncertainties and their outcome is often difficult to predict, particularly in the early stages.

The directors of the Bank have reviewed actual, threatened and known potential claims and proceedings and, after consulting with the relevant legal advisers are satisfied that the outcome of these claims and proceedings will not have a material adverse effect on Bank's net assets, results of operations or cash flows. The Bank recognises a provision for a liability in relation to such Matters when it is probable that an outflow of economic benefits will be required to settle an obligation resulting from past events, and a reliable estimate can be made of the amount of the obligation. In many such Matters, it is not possible to determine whether any loss is probable or to estimate reliably the amount of any loss, either as a direct consequence of the relevant proceedings and regulatory matters or as a result of adverse impacts or restrictions on the Bank's reputation, business and operations.

The Bank has engaged, and will continue to engage, in discussions with relevant regulatory authorities, on an ongoing and regular basis, and in response to informal and formal inquiries or investigations regarding operational, systems and control evaluations and issues including those related to compliance with applicable laws and regulations. The Bank is co-operating fully with the matters described below.

RBSI inspection report and referral to enforcement

The Isle of Man Financial Services Authority (IoMFSA) undertook an inspection at The Royal Bank of Scotland International Limited (RBSI), Isle of Man, in 2021, following which it issued an inspection report. The inspection was in relation to anti-money laundering and counter-terrorist financing controls and procedures relating to specific RBSI customers. In May 2022, the IoMFSA notified RBSI that it had been referred to its Enforcement Division in relation to certain issues identified in the inspection report. The enforcement referral does not relate to counter-terrorist financing.

The Bank received verbal notification in January 2023 that the JFSC has referred the Bank to its Enforcement Division in relation to its reliance regime used for customers of Intermediaries. It has asked the Bank to prepare certain work which will enable the JFSC to consider further steps.

Notes

9. Related parties

UK Government

The UK Government through HM Treasury is the ultimate controlling party of NatWest Group plc. The UK Government's shareholding is managed by UK Government Investments Limited, a company wholly owned by the UK Government. As a result the UK Government and UK Government controlled bodies are related parties of the Bank.

At 30 June 2023 HM Treasury's holding in the NatWest Group's ordinary shares was 38.53%.

RBSI enters into transactions with many of these bodies. Transactions include the payment of: taxes – principally UK corporation tax and value added tax; national insurance contributions; local authority rates; regulatory fees and levies; together with banking transactions such as loans and deposits undertaken in the normal course of banker customer relationships.

Bank of England facilities

In the ordinary course of business, RBSI may from time to time access market-wide facilities provided by the Bank of England.

Other related parties

(a) In their roles as providers of finance, RBSI provide development and other types of capital support to businesses. These investments are made in the normal course of business.

(b) RBSI is recharged from other NatWest Group entities, mainly NWB Plc which provides the majority of shared services (including technology) and operational processes.

(c) In accordance with IAS 24, transactions or balances between RBSI that have been eliminated on consolidation are not reported.

Full details of the Bank's related party transactions for the year ended 31 December 2022 are included in The Royal Bank of Scotland International Limited 2022 Annual Report and Accounts.

10. Post balance sheet events

Other than as disclosed in this document, there have been no significant events between the 30 June 2023 and the date of approval of this announcement which would require a change to, or additional disclosure in the announcement.

11. Date of approval

This announcement was approved by the Board of Directors on 27 July 2023.

Royal Bank of Scotland International Limited Summary Risk Factors
Summary of Principal Risks and Uncertainties

Set out below is a summary of the principal risks and uncertainties for the remaining six months of the financial year which could adversely affect the bank. This summary should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties; a fuller description of these and other risk factors is included on pages 7 to 10 of the Royal Bank of Scotland International Limited 2022 Annual Report and Accounts. Any of the risks identified may have a material adverse effect on the Bank's business, operations, financial condition or prospects.

Economic and political risk

- The Bank faces continued economic and political risks and uncertainty in the UK and global markets, including as a result of high inflation, rising interest rates, supply chain disruption and the Russian invasion of Ukraine.
- The Bank expects government and regulatory intervention in the financial services industry to remain high for the foreseeable future, which may in turn place additional constraints on the Bank
- Changes in interest rates have significantly affected and will continue to affect the Bank's business and results.
- Changes in foreign currency exchange rates may affect the Bank's results and financial position.

Strategic risk

- The Bank is subject to strategic risks including as part of NatWest Group's Commercial and Institutional business segment.
- The Bank continues to implement its purpose-led strategy, which carries significant execution and operational risks and may not achieve its stated aims and targeted outcomes.

Financial resilience risk

- The Bank operates in markets that are highly competitive, with increasing competitive pressures and technology disruption.
- The Bank has exposure to counterparty and borrower risk.
- The Bank may not be able to adequately access sources of liquidity and funding.
- An inability to grow or any material decrease in the Bank's deposits could, particularly if accompanied by one of the other factors described above, adversely affect the Bank's ability to satisfy its liquidity or funding needs. In turn, this could require the Bank to adapt its funding plans or change its operations.
- The introduction of Basel 3 amendments may result in additional supervisory and prudential expectations, including an increase in risk weighted assets. The details of Basel 3 amendments in Jersey remain subject to regulatory uncertainty on both quantum and timing.
- The Bank could incur losses or be required to maintain higher levels of capital as a result of limitations or failure of various models.
- The Bank's financial statements are sensitive to the underlying accounting policies, judgments, estimates and assumptions.

Climate and sustainability-related risks

- The Bank and its customers, suppliers and counterparties face significant climate-related risks, including in transitioning to a net zero economy, which may adversely impact the Bank.
- NatWest Group's purpose-led strategy includes climate change as one of its three areas of focus. The Bank's ability to contribute to achieving NatWest Group's strategy to address climate change, including achieving NatWest Group's climate ambitions and targets will depend to a large extent on many factors and uncertainties beyond the Bank's control.
- Any delay or failure by the Bank to contribute to setting, making progress against or meeting the Bank's climate-related ambitions and targets may adversely affect the Bank's reputation or its ability to manage climate-related risks.
- There are significant challenges in relation to climate-related data due to quality and other limitations, lack of standardisation, consistency and incompleteness, which amongst other factors contribute to the significant uncertainties inherent in accurately modelling the impact of climate-related risks.

Operational and IT resilience risk

- Operational risks (including reliance on third party suppliers and outsourcing of certain activities) are inherent in the Bank's businesses.
- The Bank is subject to increasingly sophisticated and frequent cyberattacks.
- The Bank's operations are highly dependent on its complex IT systems (including those that enable remote working) and any IT failure could adversely affect the Bank.
- The Bank relies on attracting, retaining and developing diverse senior management and skilled personnel, and is required to maintain good employee relations.
- A failure in the Bank's risk management framework could adversely affect the Bank, including its ability to achieve its purpose-led strategic objectives.
- The Bank's operations are subject to inherent reputational risk.

Legal, regulatory and conduct risk

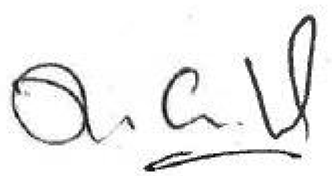
- The Bank's businesses are subject to substantial regulation and oversight, which are constantly evolving and may adversely affect the Bank.
- The Bank is subject to extensive laws, regulations, guidelines, corporate governance practice and disclosure requirements, administrative actions and policies in each jurisdiction in which it operates, which represents ongoing compliance and conduct risks.
- Regulatory developments may also result in an increased number of regulatory investigations and proceedings and have increased the risks relating to the Bank's ability to comply with the applicable body of rules and regulations in the manner and within the timeframes required.

Statement of directors' responsibilities

We, the directors listed below, confirm that to the best of our knowledge:

- the condensed financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting' as issued by the International Accounting Standards Board (IASB);
- the condensed financial statements complies with the Companies (Jersey) Law 1991, the Banking Business (Jersey) Law 1991, the Financial Services (General Insurance Mediation Business (Accounts, Audits, Reports and Solvency)) (Jersey) Order 2005, the Financial Services (Trust Company and Investment Business (Accounts, Audits and Reports)) (Jersey) Order 2007 and the Financial Services (Fund Services Business (Accounts, Audits and Reports)) (Jersey) Order 2007, the Financial Services (Jersey) Law 1998 and their Codes of Practice.

By order of the Board



Robert Horrocks
Chief Financial Officer

27 July 2023

Board of directors

Chairman

John Philip Ward Brewster

Executive directors

Oliver Holbourn
Robert Horrocks

Non-executive directors

Aaron Le Cornu
Bruce Mark Cannon
Carinne Withey
Christine Hilary Ashton

Presentation of information

The Royal Bank of Scotland International Limited (the Company/RBS International/RBSI/the Bank) is a wholly-owned subsidiary of The Royal Bank of Scotland International (Holdings) Limited (the RBSIH/RBS International Holdings). NatWest Group plc is the ultimate holding company. The term NatWest Group refers to NatWest Group plc and its subsidiary and associated undertakings.

The Bank publishes its financial statements in the functional currency, pounds sterling (£ or sterling) and all values are rounded to the nearest million pound, except when otherwise indicated. The abbreviations £m and £bn represent millions and thousands of millions of pounds sterling, respectively.

Statutory accounts

Financial information contained in this document does not constitute statutory accounts within the meaning of Companies (Jersey) Law 1991 and other applicable local laws. The statutory accounts for the year ended 31 December 2022 have been filed with the Registrar of Companies. The report of the auditor on those statutory accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under Companies (Jersey) Law 1991.

Forward-looking statements

This document may contain forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995, such as statements that include, without limitation, the words ‘expect’, ‘estimate’, ‘project’, ‘anticipate’, ‘commit’, ‘believe’, ‘should’, ‘intend’, ‘will’, ‘plan’, ‘could’, ‘probability’, ‘risk’, ‘Value-at-Risk (VaR)’, ‘target’, ‘goal’, ‘objective’, ‘may’, ‘endeavour’, ‘outlook’, ‘optimistic’, ‘prospects’ and similar expressions or variations on these expressions. These statements concern or may affect future matters, such as RBSI Limited’s future economic results, business plans and strategies. In particular, this document may include forward-looking statements relating to RBSI Limited in respect of, but not limited to: its economic and political risks (including due to high inflation, supply chain disruption and the Russian invasion of Ukraine), the constantly evolving oversight and regulatory environment (including its regulatory capital position and related requirements); its risk exposure to operational risk (including its conduct risk, cyber, data and IT risk, financial crime risk, key person risk); its reputational risk in relation to the NatWest Group’s recent creation of its Commercial & Institutional franchise of which RBSI Limited forms part (including its ESG and climate-related targets); its counterparty and borrower risk (including its impairment losses and credit exposures under certain specified scenarios); its access to sources of liquidity and funding. Forward-looking statements are subject to a number of risks and uncertainties that might cause actual results and performance to differ materially from any expected future results or performance expressed or implied by the forward-looking statements. Factors that could cause or contribute to differences in current expectations include, but are not limited to, the outcome of legal, regulatory and governmental actions and investigations, the level and extent of future impairments and write-downs, legislative, political, fiscal and regulatory developments, accounting standards, competitive conditions, technological developments, interest and exchange rate fluctuations, general economic and political conditions, the impact of climate related risks and the transitioning to a net zero economy. These and other factors, risks and uncertainties that may impact any forward-looking statement or RBSI Limited’s actual results are discussed in RBSI (Holdings) Limited and RBSI Limited’s 2022 Annual Report and Accounts (ARA), and other public filings. The forward-looking statements contained in this document speak only as of the date of this document and RBSI Limited does not assume or undertake any obligation or responsibility to update any of the forward-looking statements contained in this document, whether as a result of new information, future events or otherwise, except to the extent legally required.