

07 DEC 2023

Fitch Affirms NatWest Group at 'A'; Outlook Stable

Fitch Ratings - London - 07 Dec 2023: Fitch Ratings has affirmed NatWest Group plc's (NWG) Long-Term Issuer Default Rating (IDR) at 'A' with a Stable Outlook and Viability Rating (VR) at 'a'.

Fitch has also affirmed the ratings of NWG's subsidiaries, The Royal Bank of Scotland Public Limited Company (RBS; A+), National Westminster Bank Plc (NatWest Bank; A+), NatWest Markets Plc (NWM; A+), Ulster Bank Ireland Designated Activity Company (UBI DAC; BBB+), NatWest Bank Europe GmbH (NWBE; A+) NatWest Markets N.V. (NWM N.V.; A+), The Royal Bank of Scotland International Limited (RBSIL; A), and NatWest Markets Securities Inc. (NWMSI; A). A full list of rating actions is below.

Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
NatWest Group plc	LT IDR	A 	Affirmed	A 
	ST IDR	F1	Affirmed	F1
	Viability	a	Affirmed	a
	Government Support	ns	Affirmed	ns
• subordinated	LT	BBB-	Affirmed	BBB-
• senior unsecured	LT	A	Affirmed	A
• subordinated	LT	BBB+	Affirmed	BBB+

ENTITY/DEBT	RATING		RECOVERY	PRIOR
• senior unsecured	ST	F1	Affirmed	F1
NatWest Markets Securities Inc.	LT IDR	A 	Affirmed	A 
	ST IDR	F1	Affirmed	F1
	DCR	A(dcr)	Affirmed	A(dcr)
	Shareholder Support	a	Affirmed	a
NatWest Markets Plc	LT IDR	A+ 	Affirmed	A+ 
	ST IDR	F1	Affirmed	F1
	DCR	A+(dcr)	Affirmed	A+(dcr)
	Shareholder Support	a	Affirmed	a
• subordinated	LT	BBB	Affirmed	BBB
• senior unsecured	LT	A+	Affirmed	A+
• senior unsecured	ST	F1	Affirmed	F1

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Ulster Bank Ireland Designated Activity Company	LT IDR	BBB+ 	Affirmed	BBB+ 
	ST IDR	F1	Affirmed	F1
	Shareholder Support	bbb+	Affirmed	bbb+
NatWest Bank Europe GmbH	LT IDR	A+ 	Affirmed	A+ 
	ST IDR	F1	Affirmed	F1
	Shareholder Support	a	Affirmed	a
National Westminster Bank Plc	LT IDR	A+ 	Affirmed	A+ 
	ST IDR	F1	Affirmed	F1
	Viability	a	Affirmed	a
	Government Support	ns	Affirmed	ns
• subordinated	LT	BBB	Affirmed	BBB
• senior unsecured	LT	A+	Affirmed	A+

ENTITY/DEBT	RATING		RECOVERY	PRIOR
• senior unsecured	ST	F1	Affirmed	F1
Royal Bank of Scotland International Limited	LT IDR	A 	Affirmed	A 
	ST IDR	F1	Affirmed	F1
	Shareholder Support	a	Affirmed	a
• senior unsecured	ST	F1	Affirmed	F1
NatWest Markets N.V.	LT IDR	A+ 	Affirmed	A+ 
	ST IDR	F1	Affirmed	F1
	DCR	A+(dcr)	Affirmed	A+(dcr)
	Shareholder Support	a	Affirmed	a
• senior unsecured	LT	A+	Affirmed	A+
• subordinated	LT	BBB+	Affirmed	BBB+

ENTITY/DEBT	RATING		RECOVERY	PRIOR
• senior unsecured	ST	F1	Affirmed	F1
The Royal Bank of Scotland Public Limited Company	LT IDR	A+ 	Affirmed	A+ 
	ST IDR	F1	Affirmed	F1
	Viability	a	Affirmed	a
	Government Support	ns	Affirmed	ns

RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Key Rating Drivers

Strong, Diversified Business Profile: NWG's ratings reflect the group's strong franchise in UK retail and commercial banking, diversified business model and sound financial profiles. The VR also considers NWG's role as a holding company and its low double leverage.

Group VR: Fitch assigns a group VR to RBS and NatWest Bank because these UK operating banks are core operating companies for NWG, and are highly integrated in terms of capital, funding and liquidity, management and strategy, and are large compared with group assets. Capital fungibility among these banks is underpinned by a capital-support deed.

Tough Economic Backdrop: We expect macroeconomic pressures to weigh on UK banks' performance in 2024, given weak economic growth (Fitch forecasts a mild recession in 4Q23-2Q24), higher interest rates (with the base rate only falling in 3Q24) and rising unemployment. Nevertheless, we expect major UK banks to retain strong loss-absorption, capital and liquidity buffers against manageable weakening

in profitability and asset quality. The negative outlook on the UK operating environment score mirrors that on the UK sovereign rating.

Diversification Underpins Risk Profile: NWG's share of commercial lending (35%; including reverse repos at end-3Q23) is large compared with domestic peers, and we expect this portfolio to come under pressure with high interest rates and weak economic growth. Nevertheless, the book is well diversified and NWG has reduced exposures to riskier segments over the past decade. Lower-risk mortgage loans (54% of loans; average loan-to-value 55% at end-2Q23) mitigate credit risk, and higher-risk credit card and unsecured personal lending made up a low 4% of loans.

Asset Quality to Deteriorate: We expect NWG's impaired loans ratio (end-3Q23: 1.5%) to deteriorate to just over 2% by end-2025 primarily due to higher interest rates but also due to weak economic growth. Loan quality has been supported by loan restructuring and disposals of impaired loans in recent years. The high share of secured lending and conservative underwriting should keep credit losses manageable.

Profitability to Soften: NWG's operating profit/risk-weighted assets (RWAs; 3.6% 9M23) has materially benefited from higher interest rates and a widening net interest margin (NIM). However, we believe profitability has peaked and will moderate in 2024-2025 due to tight asset margins in a subdued housing market and the higher cost of deposits. Higher interest rates, structural hedge income, and manageable loan impairment charges should support strong profitability.

Strong Capitalisation: NWG's common equity Tier 1 (CET1) ratio of 13.5% at end-September 2023 is strong and well above its regulatory minimum requirement plus buffers of 10.4% (excluding the 1.2% O-SII add-on). We expect the ratio to be maintained within management's target range of 13%-14%, with strong internal capital generation largely offset by capital returns to shareholders.

Strong Funding and Liquidity: Funding and liquidity are managed prudently, with around three-quarters of funding sourced from generally stable customer deposits (retail and commercial), resulting in a loans/deposits ratio of 84% at end-3Q23, which is lower than peers. We expect pressure on deposit pricing to continue due to strong competition, although NWG's liquidity should remain strong as we expect only moderate loan growth in 2024. Our funding assessment also reflects NWG's proven access to wholesale funding markets and to Bank of England liquidity facilities, if needed.

Operating Companies Uplifts: RBS's and NatWest Bank's Long-Term IDRs and long-term senior debt ratings are one notch above their VRs, given our view that their external senior creditors are protected by resolution funds downstreamed from NWG.

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

NWG retains rating headroom, even in the case of a one-notch downgrade of the operating environment score, to 'a+' from 'aa-', given the group's strong business profile, performance metrics,

and capital and liquidity buffers. However, the VR could come under pressure if the operating environment deteriorated more severely than we expect, resulting in structurally weaker financial metrics.

In particular, the ratings would come under pressure if we expected the four-year average impaired loan ratio to exceed 3%, operating profit/RWA to deteriorate below 2% for an extended period and the CET1 ratio to decline below 13% without a credible plan to swiftly restore it.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade is unlikely in the near term given the negative outlooks on the operating environment scores for UK banks and the sovereign rating. Over the medium term, and with a stabilisation in the operating environment, positive rating action on the VR would require a material strengthening of the group's business profile, capital ratios and operating profit/RWA sustainably exceeding 3%, while maintaining healthy asset quality.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

Senior Debt: Senior unsecured debt ratings are equalised with the issuers' IDRs.

Subordinated Debt and Other Hybrid Securities: The ratings of all subordinated debt and hybrid securities issued by NWG and its subsidiaries are notched down from NWG's VR, reflecting Fitch's assessment of their incremental non-performance risk relative to the group's VR and assumptions around loss severity. Subordinated debt with no coupon flexibility is notched down twice from the VR for incremental loss severity. Legacy upper Tier 2 subordinated debt is notched down three times (twice for loss severity and once for incremental non-performance risk, due to cumulative coupon deferral risk).

Additional Tier 1 and legacy Tier 1 and preferred stock instruments are notched down four times (twice for loss severity and twice for incremental non-performance risk).

Derivative Counterparty Ratings (DCRs): NWM's, NWM N.V.'s and NWMSI's DCRs are equalised with their Long-Term IDRs because under UK and Dutch legislation, derivative counterparties do not have preferential status over other senior obligations in a resolution.

Short-Term IDRs: NWG's Short-Term IDR of 'F1' is the lower of the two options mapping to its Long-Term IDR because the group's funding and liquidity profile of 'a' does not warrant a higher short-term rating.

Government Support Ratings (GSR): NWG's, NatWest Bank's and RBS's GSRs reflect our view that senior creditors cannot rely on extraordinary support from the UK authorities if these issuers become non-viable. This is due to UK legislation and regulations that require senior creditors to participate in losses in a failure.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

Uplift Sensitivity: RBS and NatWest Bank's Long-Term IDRs and senior debt ratings could be downgraded to the level of their VRs if Fitch expects that the resolution debt buffers raised by NWG will no longer afford additional protection to these subsidiaries' external senior creditors. This could result from an adverse change in resolution legislation or in the group's resolution strategy.

Subordinated Debt and Other Hybrid Securities Sensitivities: The ratings of all subordinated instruments are primarily sensitive to a change in the VRs, or to changes in their notching should Fitch change its assessment of loss severity or relative non-performance risk. The ratings of the AT1 notes could also be downgraded if we see a heightened risk that capital buffers could fall below 100bp over maximum distributable amount trigger points.

GSR Sensitivity: An upgrade of NWG's, RBS's and NatWest Bank's GSRs would be contingent on a positive change in the sovereign's propensity to support banks, which is highly unlikely in Fitch's view, in light of the prevailing resolution regime.

SUBSIDIARIES & AFFILIATES: KEY RATING DRIVERS

We have not assigned VRs to NWM, NWM N.V., RBSIL, NWMSI, NWBE and UBI DAC as they are highly integrated subsidiaries that do not have meaningful standalone franchises.

Shareholder Support Ratings (SSRs): NWM's, NWM N.V.'s, NWMSI's, NWBE's and RBSIL's 'a' SSRs are aligned with NWG's Long-Term IDR and reflect Fitch's view that these entities would benefit from a very high probability of support from NWG, if needed, given their core roles in the group, and that support would be manageable relative to NWG's financial resources. We believe a default by one of these entities would cause serious reputational damage to the group.

NWM's, NWM N.V.'s and NWBE's Long-Term IDRs are rated one notch above their SSRs, as we believe the group has a credible role in protecting these entities' external senior creditors in a resolution and that these creditors will benefit from additional protection from the resolution funds raised by NWG.

The Long-Term IDRs of RBSIL and of NWMSI are equalised with their SSRs because we have insufficient evidence that the resolution funds raised by NWG will benefit these subsidiaries' external senior creditors. In the case of RBSIL, this reflects our view that progress taken by the identified regulatory body in Jersey - its home jurisdiction - towards the implementation of working resolution legislation is not yet sufficiently advanced. For NWMSI, a broker-dealer, this reflects our view of the entity's uncertain role in the group's resolution planning.

UBI DAC's SSR of 'bbb+', two notches below NWG's Long-Term IDR, reflects our expectation of a lower probability of support from NWG as UBI DAC operates in a jurisdiction that is no longer strategic for the group as part of its managed withdrawal from the Republic of Ireland and has limited synergies with the parent. As of end-3Q23, the group had sold the majority of UBI DAC's loan book. However, we believe NWG would have moderate propensity to support UBI DAC, if needed, because of reputational risk, with a potentially significant negative impact on other parts of NWG if it did not do so.

UBI DAC's Long-Term IDR is equalised with the company's SSR. Its Short-Term IDR of 'F1' is the higher

of two ratings mapping to a 'BBB+' Long-Term IDR. This reflects our view that NWG's propensity to support UBI DAC is more certain in the near term, as well as the integration of UBI DAC's risk management within that of NWG, provision of liquidity by NWG in case of need, and the absence of impediments to the prompt flow of funds from NWG to UBI DAC.

SUBSIDIARIES AND AFFILIATES: RATING SENSITIVITIES

Sensitive to Group IDR and VR: The subsidiaries' Long-Term IDRs could be upgraded if the group's IDR was upgraded. A downgrade of the group's VR would trigger a downgrade of the ratings of NWG's subsidiaries.

Sensitive to Resolution Changes: The Long-Term IDRs of NWM, NWM NV and NWBE could be downgraded if Fitch negatively reassesses the probability that their external senior creditors can benefit from additional protection from NWG's resolution funds. This could notably result from an unfavourable change in resolution legislation, in the subsidiaries' role for the group in a resolution, or in the amount of resolution buffers available to them.

RBSIL's IDR could be upgraded if it becomes probable that its external senior creditors can benefit from additional protection from NWG's resolution funds. This could notably result from the implementation of resolution legislation, the subsidiary's role for the group in a resolution, or in the amount of resolution buffers available.

Support Propensity: NWM's, NWM N.V.'s, NWMSI's, RBSIL's, NWBE's and UBI DAC's ratings are primarily sensitive to changes in NWG's IDRs and in Fitch's assessment of NWG's support propensity. Given the managed winding down of UBI DAC it is unlikely that its ratings would be upgraded.

VR ADJUSTMENTS

The operating environment score of 'aa-' is at the lower end of the implied range because it is constrained by the UK sovereign rating of 'AA-/Negative (negative).

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

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Applicable Criteria

[Bank Rating Criteria \(pub.01 Sep 2023\) \(including rating assumption sensitivity\)](#)

[Non-Bank Financial Institutions Rating Criteria \(pub.05 May 2023\) \(including rating assumption sensitivity\)](#)

Additional Disclosures

[Solicitation Status](#)

Endorsement Status

NatWest Bank Europe GmbH

UK Issued, EU Endorsed

NatWest Group plc

UK Issued, EU Endorsed

NatWest Markets N.V.	UK Issued, EU Endorsed
NatWest Markets Securities Inc.	UK Issued, EU Endorsed
Royal Bank of Scotland International Limited	UK Issued, EU Endorsed
The Royal Bank of Scotland Public Limited Company	UK Issued, EU Endorsed
Ulster Bank Ireland Designated Activity Company	UK Issued, EU Endorsed

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