



Compliance with the Capital Requirements Directive (CRD V)

The Prudential Regulation Authority (“PRA”) Rulebook and the Senior Management Arrangements, Systems and Controls (“SYSC”) manual of the Financial Conduct Authority (“FCA”) Handbook set out the UK’s implementation of the fifth Capital Requirements Directive (“CRD V”), including the requirement for an institution to explain on its website how it complies with certain provisions.

NatWest Group plc (“NWG”) is a holding company. Its main UK subsidiaries are National Westminster Bank Plc (“NWB”), The Royal Bank of Scotland plc (“RBS”), NatWest Markets Plc (“NWM”), NatWest Trustee & Depositary Services Limited (“NWTDS”) and Coutts & Company (“Coutts”), (each “the company” and together “the CRD V entities”). NatWest Group comprises NWG and all of NWG’s subsidiaries, including the CRD V entities.

NWB, RBS, NWM and Coutts are each authorised by the PRA and regulated by the FCA and the PRA. NWTDS is authorised and regulated by the FCA only. This document confirms that each of the CRD V entities complies with the CRD V requirements which cover (1) Governance; (2) Remuneration; and (3) Reporting, as outlined below.

1. Governance

The management body (“the Board”)

This section sets out how the CRD V entities comply with requirements for the Board including its role, the chairman, members, induction and training of members and the number of directorships an individual director may hold.

The Board is the main decision-making forum for the company. Members of the Board are committed to observing high standards of corporate governance, integrity and professionalism. The Board is collectively responsible for the long-term success of the company and the delivery of sustainable value to shareholders. The Board provides leadership of the company within a framework of prudent and effective controls which enables risk to be assessed and managed. The Board’s terms of reference include a formal schedule of matters specifically reserved for the Board’s decision and are reviewed at least annually. A number of Board members are designated as “Senior Managers” under the PRA and FCA’s Senior Managers Regime. The role profiles of relevant directors reflect their regulatory responsibilities and they receive ongoing support to ensure they can demonstrate the reasonable steps they have taken to meet their regulatory responsibilities.

The role of Chairman is distinct and separate from that of the Chief Executive Officer (“CEO”), with the Chairman leading the Board and the CEO managing the company’s business day to day. The Chairman’s key responsibilities are to ensure the Board: is structured effectively; observes the highest standards of integrity and corporate governance; and sets the tone from the top in terms of culture and values. The Chairman is also responsible for: building a complementary Board with an appropriate balance of skills and experience; considering succession planning; and fostering open and inclusive discussions at each Board / Board Committee meeting in order to challenge executives, where appropriate. The Chairman ensures that the performance of individual directors and of the Board as a whole is evaluated regularly and that the company maintains effective communication with shareholders and other stakeholders.

The CEO’s¹ key responsibilities are to: exercise executive accountability for the relevant businesses; drive and deliver the strategy approved by the relevant Board and NWG; and drive performance against financial plans. The CEO consults regularly with the Chairman and Board on matters which may have a material impact on the company and drives the culture and values of the company, creating an environment where employees are engaged and committed to good customer outcomes. Additional responsibilities include leading, managing and developing the company’s senior leadership team and ensuring it has effective frameworks and structures to identify, assess and mitigate risks.

¹ The Institutional Banking Managing Director of RBS International (Holdings) Limited is the SMF1 Chief Executive role holder for NWTDS.
Document classification: Public
August 2021

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The non-executive directors combine broad business and commercial experience with independent and objective judgement, and they provide independent challenge to the executive directors and the leadership team. The balance between non-executive and executive directors enables the Board to provide clear and effective leadership across the company's business activities. Each company also has a comprehensive formal induction programme for new directors that includes visits to the key businesses and meetings with directors and senior management.

All directors are assessed for fitness and propriety prior to appointment and annually thereafter. On appointment, each director is provided with the relevant policy and/or guidelines for referring conflicts of interest to the Board. Procedures are in place to ensure that the Board's management of conflicts of interest and its powers for authorising certain conflicts are operating effectively.

Non-executive directors must confirm they are able to allocate sufficient time to meet the expectations of the role as part of their appointment with the relevant company. Directors have been briefed on the limits that apply to the number of other directorships they can hold under CRD V. Each director is required to seek the agreement of the Board before accepting additional commitments that might affect the time the director is able to devote to his or her role as a non-executive director. The Board monitors the other commitments of the Chairman and directors and is satisfied that they are able to allocate sufficient time to enable them to discharge their duties and responsibilities effectively.

A process is in place to ensure that data on director loans, alongside any related parties, is transparent and understood. The data is documented and appropriately reviewed.

Role of the Nominations Committee

This section sets out how the CRD V entities comply with the requirements for a nominations committee including its membership, resources and the need for appropriate funding.

Each CRD V entity has a Nominations Committee which comprises solely non-executive directors and the Chairman and operates as a Committee of the Board.

Each Nominations Committee is responsible for:

- reviewing the structure, size and composition of the Board and making recommendations to the Board on any necessary changes, having regard to the overall balance of skills, knowledge, experience and diversity on the Board; and
- considering and making recommendations in respect of appointments and membership of Board Committees and succession planning.

The Nominations Committee engages with consultants, considers potential candidates and recommends appointments of new directors to the Board. The Nominations Committee receives adequate funding for its activities. As an organisation, NatWest Group values and promotes inclusion in all areas of recruitment and employment. The Board supports this view and understands the need for a diverse mix of talented directors to effect strong decision-making.

Each CRD V entity has a Boardroom Inclusion Policy which reflects the most recent industry targets and is aligned to the NWG Inclusion Policy and principles applying to the wider Group. This provides a framework to ensure that each Board attracts, motivates and retains the best talent and avoids limiting potential caused by bias, prejudice or discrimination. The Boardroom Inclusion Policy contains a number of measurable objectives, targets and ambitions reflecting the Board's ongoing commitment to inclusion progress. A copy of the NWG policy is available at www.natwestgroup.com/who-we-are.html.

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The Board aims to meet the highest industry standards and recommendations wherever possible. This includes, but is not limited to, aspiring to meet the targets set by the Hampton-Alexander Report: FTSE100 Women Leaders (33% female representation on the Board) and the Parker Report: Beyond 1 by '21 (at least one director from an ethnic minority background on the Board) by the recommended target dates of 2020/2021. The policy supports NatWest Group's ambition to aim for a 50/50 gender balance across all levels of the organisation by 2030.

NWG will continue to aspire to meet best practice industry standards, as well as the standards contained in the Financial Reporting Council's UK Corporate Governance Code or other applicable Codes. We will continue to report on our progress annually where required. The balance of skills, experience, independence, knowledge and diversity on the Board, and how the Board operates together as a unit, is reviewed annually as part of the Board evaluation.

2. Remuneration

This section sets out how the CRD V entities comply with the Remuneration Chapter of the PRA Rulebook and the Remuneration Code of the FCA Handbook.

The NatWest Group Remuneration Policy Principles ("the remuneration policy")

The remuneration policy is aligned to regulatory requirements and complies with the remuneration rules which are applicable based on the size, internal organisation and the nature, scope and complexity of our activities. The requirements are applied at group, parent undertaking and subsidiary undertaking levels where NatWest Group has a majority shareholding. The Group Performance and Remuneration Committee ("Group RemCo") reviews and approves the remuneration policy and reviews the effectiveness of the policy's implementation on an annual basis.

The remuneration policy is consistent with and promotes sound and effective risk management. It is aligned to the company's purpose, values and the long-term interests of the organisation. This is evidenced by our remuneration arrangements, our chosen performance metrics and effective risk management in line with NatWest Group's risk appetite. Pay equality, including neutrality in respect of all protected characteristics such as gender and ethnicity, is a core feature of our approach, to support equal pay for equal work.

There is a Group-wide conflicts of interest policy. To mitigate potential conflicts of interest at Group RemCo meetings, directors are not involved in decisions regarding their own remuneration and independent remuneration advisers are appointed by Group RemCo rather than management. Attendees also play an important role in advising Group RemCo. In order to avoid any potential conflict of interest, no attendee is present when their own remuneration is discussed. The Group Chief HR Officer may, at her own discretion, be present when discussions take place on senior executive pay, as there is considerable benefit from her participation, but is never present when specific details of her own remuneration are discussed.

There are systems for capturing performance management goals, performance discussions and decisions. The performance management policy and process are documented on our internal website for all employees to access and training, support calls and documentation are provided throughout the year.

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Remuneration structure

NatWest Group's approach to remuneration and remuneration policies promotes effective risk management through a clear distinction between fixed remuneration (base salary, allowances where applicable, benefits and employer pension contributions) which reflects the role undertaken by an individual; and variable remuneration (bonus and long-term incentive awards) which is reflective of sustainable performance and can be risk-adjusted.

Fixed pay is set using pre-determined criteria and reflects a colleague's professional experience, organisational and role responsibilities and geographic location. It is set at an appropriate level which is sufficient that the colleague should not be reliant on variable pay and therefore is not incentivised to take excessive risks, and should be sufficient to allow the possibility of paying no variable remuneration in any given year. Fixed pay cannot be reduced, suspended or cancelled by NatWest Group. Whilst fixed pay progression can be linked to performance, the entitlement to fixed pay does not depend on performance and therefore fixed pay does not incentivise risk taking.

Variable pay is offered to our more senior colleagues as it is considered appropriate for them to have some pay at risk. Variable pay is linked to the performance of NatWest Group, the business unit, the entity, as appropriate, as well as individual performance and is subject to deferral, malus and clawback adjustment in order to meet regulatory requirements. It promotes a culture where colleagues are rewarded for long-term and sustained business performance, whilst demonstrating sound and effective risk management and avoiding excessive risk taking. Variable pay is measured across a balanced scorecard including risk and control and other financial and non-financial objectives (customer, people and increasingly environmental, social and governance considerations). It is assessed against a combination of short-term and long-term targets, taking into account both what has been achieved and how it has been achieved. Critical People Capabilities are used to provide a consistent Group-wide behavioural measure.

Depending on the amount of the variable remuneration and the role of the recipient, deferral for awards granted in respect of performance year 2021 onwards is applied over a four to seven-year period during which time unvested awards remain at risk of forfeiture through malus adjustment. Remuneration payable under deferral arrangements shall vest no faster than on a pro-rata basis. Clawback provisions also apply to vested awards for Material Risk Takers (MRTs) for seven years from the award date, extended to ten years for MRTs who perform a 'senior management function' under the UK Senior Managers Regime where there are outstanding internal or regulatory investigations at the end of the normal seven-year clawback period. For non-MRTs, vested awards are subject to clawback for 12 months from the vesting date, subject to any local requirements that provide for longer clawback periods. An accountability review process is operated which allows NatWest Group to respond where new information would change variable pay decisions. The range of circumstances under which malus and clawback will be considered are described in the internal malus and clawback policy.

At least 50% of any variable remuneration for MRTs is delivered in shares with the shares subject to an appropriate retention period after vesting. The payment of variable remuneration does not limit our ability to maintain or strengthen our capital base. Variable pay proposals are reviewed against our capital adequacy framework to ensure that regulatory requirements are met. No variable remuneration is provided to non-executive directors so that they can maintain appropriate independence. Guaranteed awards are only used in exceptional circumstances to compensate new hires for awards forfeited from their previous employer and are limited to the first year of service. Such awards are subject to NatWest Group-wide policies on deferral, retention, malus and clawback. The policy for buy-out awards and early termination payments is in line with regulatory requirements. NatWest Group does not actively provide discretionary pension benefits and does not allow variable pay that would have otherwise been subject to deferral to be taken in pension form.

For MRTs who receive a 'de minimis' value of total compensation (as defined in local regulations for each country), NatWest Group does not apply MRT deferral and share retention rules. In the UK, in line with the PRA

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Rulebook, the 'de minimis' criteria are variable remuneration of no more than £44,000 GBP or local currency equivalent and variable compensation making up no more than 1/3rd of total compensation. Thresholds may be different in other countries.

The Personal Account Dealing policy prohibits the use of any personal hedging strategies or remuneration-related or liability-related contracts of insurance, designed to lessen the impact of a reduction in value of variable pay awards. This condition is confirmed in participant award documentation and any breach may result in the award being cancelled. MRTs must expressly accept this term as a condition of grant. NatWest Group does not pay variable remuneration through vehicles or methods that facilitate non-compliance with the requirements of CRD V or EU Regulation no.575/2013.

NatWest Group recognises that remuneration structures need to comply with the cap which limits the maximum ratio of variable to fixed remuneration. NatWest Group applies a 1:1 ratio (of variable to fixed remuneration) for MRTs. To date, NWG has not sought approval from shareholders for the possible higher ratio of 2:1 (of variable to fixed remuneration). The level of variable remuneration can be calculated in line with EBA guidelines including any available discount for long-term deferral. The remuneration policy includes the flexibility to pay no variable remuneration if this is not supported by the achievement of individual and business performance measures.

Group RemCo

In addition to approving the remuneration policy, Group RemCo reviews performance, approves the variable pay pools and makes recommendations to the NWG Board in respect of the remuneration arrangements for Executive Directors. Membership of Group RemCo consists of independent non-executive directors. No director is involved in decisions regarding their own remuneration.

Group RemCo is also responsible for reviewing performance and approving remuneration arrangements for a defined population which includes members and attendees of the Group Executive Committee, other key executives and employees deemed to be High Earners as well as providing oversight of the remuneration framework for employees identified as MRTs. Group RemCo is responsible for reviewing and approving remuneration for the senior individual(s) responsible for risk management and compliance. NatWest Group control functions are assessed independently from the businesses they oversee and remuneration levels for control functions are benchmarked to ensure they are set at an appropriate level.

Group RemCo receives updates on regulatory developments and general remuneration issues, as well as market and benchmarking data to support its decisions. It receives information from a number of external and internal sources. In carrying out its responsibilities, Group RemCo also has a clear focus on risk. This is achieved through risk input into performance goals and incentive plan design, a thorough review of risk performance when determining variable pay outcomes and through malus and clawback actions. Group RemCo is supported in this by the Group Board Risk Committee ("Group BRC") and the Risk function. Group RemCo works closely with Group BRC which provides valuable input on key risk and control issues; and there is regular interaction between Group RemCo and Group BRC to consider risk performance and malus and clawback matters. The approach includes both ex-ante and ex-post risk adjustments.

A robust process is used to assess risk performance using a range of measures including capital, liquidity and funding risk, credit risk, market risk, pension risk, compliance & conduct risk, financial crime, operational risk, business risk and reputational risk. Consideration is also given to overall risk culture. Risk performance assessment is one of the key steps in the multi-step process for the determination of variable pay pools. This process also includes an assessment of performance across financial, customer and people and culture measures. The steps taken to ensure appropriate and thorough risk adjustment are fully disclosed and discussed with the PRA and the FCA.

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Group RemCo takes account of the long-term interests of shareholders and other stakeholders when making decisions. A consultation is undertaken every year with NWG's major shareholders and stakeholders on our remuneration approach with sufficient time for views to be considered prior to final approvals by Group RemCo.

The terms of reference of Group RemCo are reviewed at least annually and approved by the NWG Board. Further details on the remuneration policy can be found in the 2020 Annual Report and Accounts, <http://www.investors.rbs.com/reports-archive/2020.aspx>.

Each of the CRD V entities also has a Performance and Remuneration Committee² ("the Subsidiary RemCos"). The Subsidiary RemCos are expected to ensure that NatWest Group's remuneration policies, procedures and practices are appropriate at their respective legal entity level.

The key areas of focus for the Subsidiary RemCos include: reviewing and recommending, or where appropriate ratifying, the proposed remuneration arrangements for the entity's key employees; providing input on the proposed bonus pool for that entity, ensuring such proposals are adjusted for performance and risk and meet capital adequacy requirements for that entity; and inputting to and subsequently adopting the NatWest Group Remuneration Policy Principles. The Subsidiary RemCos must be able to act independently and the non-executive directors serving on these committees are supported by the necessary entity-specific management information in order to carry out their duties. Ultimate decision-making authority continues to rest with Group RemCo, reflecting its status as a committee of the ultimate parent and holding company.

3. Reporting

Country-by-country reporting

Article 89 of CRD V relates to country-by-country reporting.

NatWest Group will meet its requirements under this article in two parts for the reporting period ended 31 December 2020. The list of subsidiaries is included as note 12 on page 333 and following of the 2020 Annual Report and Accounts, see <http://www.investors.rbs.com/reports-archive/2020.aspx>. The income/profit/tax/subsidies/headcount by country disclosure can be found in the Sustainability section of our website at www.natwestgroup.com/our-purpose/our-approach/tax-payments.html

Public disclosure of return on assets

Article 90 of CRD V requires disclosure in a firm's annual report and accounts of its return on assets.

Details of the return on average total assets can be found in the Business review section of the 2020 Annual Report of the US SEC, Form 20-F filing, see page 92. <https://otp.tools.investis.com/clients/uk/rbs3/rns/regulatory-story.aspx?cid=365&newsid=1458874>

² NWTDS does not have a Performance and Remuneration Committee and it holds a waiver from the FCA in this respect. Decisions on remuneration for NWTDS employees are made in accordance with the NatWest Group Remuneration Governance Framework.