NatWest

National Westminster Bank Plc
Annual Report and Accounts 2020

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Strategic report

Presentation of information
National Westminster Bank Plc ('NWB Plc') is a wholly-owned subsidiary of NatWest Holdings Limited ('NWH Ltd' or 'the intermediate holding company'). The term 'NWB Group' refers to NWB Plc and its subsidiary and associated undertakings. The term 'NWH Group' refers to NWH Ltd and its subsidiary and associated undertakings. NatWest Group plc (renamed from The Royal Bank of Scotland Group plc on 22 July 2020) is 'the ultimate holding company'. The term 'NatWest Group' refers to NatWest Group plc and its subsidiary and associated undertakings.

NWB Plc publishes its financial statements in pounds sterling ('£' or 'sterling'). The abbreviations '£m' and '£bn' represent millions and thousands of millions of pounds sterling, respectively, and references to 'pence' represent pence in the United Kingdom ('UK'). Reference to 'dollars' or '$' are to United States of America ('US') dollars. The abbreviations '$m' and '$bn' represent millions and thousands of millions of dollars, respectively, and references to 'cents' represent cents in the US. The abbreviation '€' represents the 'euro', and the abbreviations '€m' and '€bn' represent millions and thousands of millions of euros, respectively, and references to 'cents' represent cents in the European Union ('EU').

To aid readability, this document retains references to EU legislative and regulatory provisions in effect in the UK before 1 January 2021 that have now been implemented in UK domestic law. These references should be read and construed as including references to the applicable UK implementation measures with effect from 1 January 2021.

Description of business
The principal entities under NWH Ltd are National Westminster Bank Plc (which wholly owns Coutts and Company and Ulster Bank Limited), The Royal Bank of Scotland plc and Ulster Bank Ireland DAC.

Principal activities and operating segments
NWB Group serves customers across the UK and Ireland with a range of retail and commercial banking products and services. A wide range of personal products are offered including current accounts, credit cards, personal loans, mortgages and wealth management services. NWB Plc is the main provider of shared services for NatWest Group. This includes the provision of treasury services on behalf of the ring-fenced bank and NatWest Group.

The reportable operating segments are as follows:

Retail Banking serves individuals and mass affluent customers in the UK and includes Ulster Bank customers in Northern Ireland.

Commercial Banking serves start-up, SME, commercial and corporate customers in the UK.

Private Banking serves UK-connected, high net worth, individuals and their business interests.

Central items & other includes corporate functions, such as treasury, finance, risk management, compliance, legal, communications and human resources. NWB Plc is the main provider of shared services and treasury activities for NatWest Group. The services are mainly provided to NWH Group, however, in certain instances, where permitted, services are also provided to the wider NatWest Group including the non ring-fenced business.

Business Developments
In December 2020, we acquired a £3.0 billion portfolio of prime UK mortgages from Metro Bank plc. Growing our mortgage book is an important strategic priority, as we build a bank that delivers sustainable returns for shareholders. The addition of this loan book will supplement the strong organic growth that we continue to achieve.

Performance overview
The business performance of NWB Group in the year has been significantly impacted by the challenges and uncertainty the economy continues to face as a result of COVID-19. However, NWB Group has a robust capital position, underpinned by a resilient, capital generative and well diversified business. A strong balance sheet and prudent approach to risk means NWB Group is well placed not only to withstand COVID-19 related impacts but to provide the right support to customers in the tough times to come.

Financial performance in a challenging environment
NWB Group attributable profit for the year was £536 million compared with £884 million in 2019, reflecting lower income and significantly higher impairment charges primarily due to the current COVID-19 crisis and resulting uncertain economic conditions, partly offset by a reduction in costs.

Total income decreased by £208 million compared with 2019 as the lower yield curve, mortgage margin dilution, subdued business activity and lower consumer spending due to government measures in response to COVID-19 were partially offset by strong balance growth.

Operating expenses decreased by £1,081 million compared with 2019 principally due to lower litigation and conduct costs, reducing the cost:income ratio from 79.3% to 69.1%.

Impairment losses increased by £1,597 million compared with 2019, primarily reflecting the deterioration of the economic outlook as a result of the COVID-19 pandemic driving Stage 2 charges.

Robust balance sheet with strong capital levels
Total assets increased by £71.0 billion to £389.5 billion compared with £318.5 billion at 31 December 2019. This included net increases in loans to customers - amortised cost of £39.3 billion primarily driven by growth in retail mortgages and an increase in corporate lending due to drawdowns against UK Government lending initiatives in response to COVID-19 uncertainty.

Customer deposits increased by £51.5 billion as customers sought to retain liquidity in response to the uncertain economic environment together with increases of £35.5 billion in cash and balances at central banks and £12.5 billion in reverse repos as a result.

Common Equity Tier 1 (CET1) ratio increased to 17.8% from 15.9% due to a £2.6 billion increase in CET1 capital primarily driven by a reduction in the regulatory capital deductions for significant investments in other financial institutions of £0.4 billion, software development costs of £0.5 billion due to the implementation of CRR2 amended Article 36 and a £1.0 billion increase for IFRS 9 transitional arrangements on expected credit losses, which offsets the impact of the increased impairment losses charged to the attributable profit of £0.6 billion. RWAs increased by £5.8 billion to £86.9 billion primarily due to an increase in credit risk RWAs of £5.7 billion during 2020.

Stakeholder engagement and s.172(1) statement

Stakeholder engagement and s.172(1) statement
In February 2020 the Board approved its annual objectives and confirmed the Board's key stakeholder groups, as set out in this statement.

During 2020 the Board undertook a variety of activities to engage with stakeholders and bring their voice into the boardroom. Details are set out below, together with additional information on related engagement activities undertaken within NatWest Group which impacted NWB Plc.

This section of the Strategic Report describes how the directors have had regard to the matters set out in section 172(1) (a) to (f), and forms the directors' statement required under section 414CZA, of the Companies Act 2006.

NatWest Group's purpose is established by the NatWest Group plc Board, promoted across NatWest Group and cascaded to subsidiaries including NWB Plc. In February 2020, and following an extensive period of stakeholder engagement, the NatWest Group plc Board approved a new purpose – "We champion potential, helping people, families and businesses to thrive."

Various steps were taken during the year to embed NatWest Group's purpose in Board discussions and decision-making, helping the Board to ensure different stakeholder needs were considered. The roles and responsibilities of the Board and its Committees were enhanced to ensure a strong focus on purpose was built into their respective Terms of Reference. Board and Board Committee papers now include a dedicated section which explains how the proposal or update aligns to NatWest Group's purpose, which is complemented by a section detailing stakeholder impacts. These features, embedded within the NatWest Group Board paper format, help to ensure that purpose and stakeholders remain firmly at the centre of Board discussions. During the 2020 Board evaluation, directors commented positively on how NatWest Group's purpose guided Board discussions and decision-making during the pandemic.

The majority of the Board's planned direct engagement activity with stakeholders was unfortunately cancelled in 2020, due to COVID-19 restrictions. Virtual alternatives were arranged where feasible, and directors were kept informed about stakeholder engagement activity which was taking place at an operational level via regular and focused management reporting. Details are set out below.

Customers
During the year, the Board received regular updates on customer issues through reports from the Chief Executive Officer (CEO) and business CEOs. Customer lifecycles were a key area of focus during Board and Executive Committee (ExCo) strategy discussions. Directors also received targeted management information on progress against customer service metrics including customer advocacy measures and complaints data. A dedicated Board session on customer experience helped to enhance directors' customer insights further. This session covered NatWest Group's Net Promoter and CMA (Competition and Markets Authority) scores and directors provided input and feedback on management's plans to enhance customer experience outcomes. The Board were also regularly updated on the nature and extent of COVID-19 support provided to customers.

The CEO and CFO met with customers throughout the year to enhance relationships and understand their views.

Colleagues
References to "colleagues" in this Report mean all members of the workforce (for example, contractors, agency workers).

Colleague voice
The Board promotes colleague voice in the boardroom through a variety of channels.

The Colleague Advisory Panel (CAP) provided an important two-way communication channel between the Board and colleagues during the pandemic.

The CAP was set up in 2018 to help promote colleague voices in the boardroom.

Its membership includes representatives from a range of NatWest Group's Employee Led Networks, unions, management teams and regional locations, as well as volunteer members unconnected with existing groups. It continues to provide a valuable mechanism for colleagues to gain a greater understanding of the Board's role and provide feedback to directors. Two-way communication is crucial for both colleagues and directors and embodies NatWest Group's open and inclusive culture.

The CAP met four times in 2020 and all meetings were virtual. In addition to two scheduled sessions, there were two ad hoc sessions which supported additional listening and discussion with directors in light of the challenges related to COVID-19.

Topics discussed in 2020 in addition to COVID-19 colleague and customer support included embedding purpose, diversity and inclusion, innovation, executive pay and sustainable banking.

At Board meetings the CAP Chair provided an update on issues discussed at the CAP and raised specific questions for Board feedback. Afterwards, the CAP Chair shared the Board's views and feedback with CAP members. Further information on the CAP can be found in the NatWest Group plc 2020 Annual Report and Accounts.

Engaging colleagues
Every year colleagues are asked to share their thoughts on what it's like to work for NatWest Group via a colleague opinion survey. The results from the 2020 survey, which were considered by the Board in October 2020, showed a further improvement in colleague sentiment and NatWest Group is now on or above the global financial services and global high performing norms across all comparable survey categories.

NatWest Group has continued to listen to colleagues throughout recent times, running COVID-19 pulse surveys and increasing dialogue with colleagues on equality and inclusion through a 'Supporting Black, Asian and Minority Ethnic' colleague survey. NatWest Group has also continued to take part in the Banking Standards Board's (BSB) annual assessment of culture in UK banking. In the 2020 BSB survey NatWest Group results overall have improved slightly.

Employee consultation
Having ongoing discussion and engagement with a number of employee representatives such as trade unions and work councils is vital and NatWest Group regularly discusses developments and updates on the progress of strategic plans with these groups.

Speak Up
One of the ways colleagues can report concerns relating to wrong doing or misconduct is via Speak Up, NatWest Group's whistleblowing service. When colleagues were asked if they feel safe to speak up 88% responded favourably, reflecting continued improvement in results for this question. In 2020, 441 cases were raised compared to 458 in 2019.

Developing colleagues
Becoming a learning organisation is a strategic priority for NatWest Group, which is committed to preparing colleagues for the future by supporting them develop their knowledge, skills and behaviours in critical capability areas. In 2020 the NatWest Group Academy was launched, providing colleagues with access to a wide range of learning content to support them develop for their jobs today, and careers tomorrow. More information can be found in the NatWest Group plc 2020 Annual Report and Accounts and on natwestgroup.com

Stakeholder engagement and s.172(1) statement

Investing in colleagues
At the start of 2020, NatWest Group launched its People Pledge – a set of commitments made in response to what colleagues said meant most to them; helping colleagues develop skills, supporting their wellbeing and creating an inclusive workplace, helping customers thrive, investing in teams and helping colleagues make a difference.

Wellbeing
As a strong component of making NatWest Group a purpose-led organisation, an established wellbeing strategy is key. NatWest Group's Wellbeing strategy is delivered against four pillars; Physical, Mental, Social and Financial. Further details can be found in the NatWest Group plc 2020 Annual Report and Accounts and on natwestgroup.com

Inclusion
NatWest Group is proud to be building an inclusive bank which is a great place for all colleagues to work. NatWest Group's inclusion guidelines apply to all colleagues globally and focus on five key priorities – LGBT Innovative, Gender Balanced, Disability Smart, Ethnically Diverse, all leading to Inclusive Culture. Detailed information can be found in the NatWest Group plc 2020 Annual Report and Accounts and on natwestgroup.com.

NatWest Group has been recognised for work on Equality, Diversity and Inclusion in 2020 by retaining position in the Times Top 50 Employers for Women; being Exemplary Level in the Scottish Carer Positive Campaign; being a Top Global Stonewall employer; being a Top Ten Employer in the Investing in Ethnicity Maturity Matrix; and rated as Gold in the Business Disability Forum benchmark.

Employment of people with disabilities
NatWest Group policy is that people with disabilities are given full and fair consideration for employment and subsequent training, career development and promotion based on merit. If colleagues become disabled, it is the policy of NatWest Group, wherever possible, to retain them in their existing jobs or re-deploy them in suitable alternative duties.

Regulators
The Board recognises the importance of open and continuous dialogue with regulators. In 2020, the focus of regulatory engagement was inevitably on NatWest Group's COVID-19 response, and in particular the support being offered to customers, with other topics discussed by directors with regulators including strategy, operational resilience, board effectiveness and financial crime.

Representatives from the Prudential Regulation Authority (PRA) attended the July 2020 Board meeting to present and discuss the findings arising from its Periodic Summary Meeting for NatWest Group. In September 2020, representatives from the Financial Conduct Authority (FCA) joined the Board meeting to present and discuss its annual Firm Evaluation letter.

The Chairman and executive directors have regular meetings with the PRA and FCA. In addition, individual non-executive directors engage regularly with regulators through Continuous Assessment and Proactive Engagement meetings. The Board also receives regular reports on regulatory matters from the Chief Legal Officer and General Counsel.

Suppliers
The Board is mindful of the role suppliers play in ensuring a reliable service is delivered to customers, and of the importance of relationships with key suppliers, particularly in the current environment.

Although directors were unable to meet with supplier representatives in person, as they have done previously, they were kept informed on progress against relevant key performance indicators, including payment practices, through management reporting.

In particular, the Board noted the actions taken to support suppliers' cashflow during 2020 (which consisted of moving all UK and Republic of Ireland supplier payments to immediate release).

The Group Chief Administrative Officer provided regular updates to the Board, including on key external partnerships and supply chain resilience.

The Board noted NatWest Group's 2019 Modern Slavery Act Statement, which sets out the steps that NatWest Group is taking to tackle modern slavery and human trafficking within its business, supply chain and sphere of influence.

More information on NatWest Group's Modern Slavery Act Statement and Human Rights statement can be found in the NatWest Group plc 2020 Annual Report and Accounts.

Community and environment
Directors enhanced their knowledge and understanding of climate issues through a dedicated training session led by management which included a presentation by Lord Stern (NatWest Group's independent climate change adviser) on external developments as well as updates on climate change risks and opportunities. In addition, the Board received a foundational online learning module on the impact of climate change on financial services and directors have been offered further optional training from the Cambridge Institute for Sustainability Leadership.

Management reporting on climate, strategy, ambition and risk management activities features on both Board and Board Committee agendas to support targeted monitoring and oversight. Further details on NatWest Group's response to climate change can be found within the NatWest Group plc 2020 Annual Report and Accounts.

The Board were regularly updated on NatWest Group's wider community engagement activities throughout the year, with particular emphasis on the COVID-19 support provided to local communities.

How stakeholder interests have influenced decision-making
NWB Plc recognises the importance of engaging with stakeholders and understanding their views, to help inform its strategy and Board discussions and decision-making.

Relevant stakeholder interests, including those of colleagues, customers, suppliers and others are considered by the Board during its discussions and when it takes decisions. NWB Plc defines principal decisions as those that are material, or of strategic importance to NWB Plc, and also those that are significant to any of its key stakeholder groups.

In making its decisions, the Board considers the outcomes of relevant stakeholder engagement, as well as the need to maintain a reputation for high standards of business conduct, the need to act fairly between the members of the company and the long-term consequences of its decisions.

The following case study provides an example of stakeholder interests and the factors set out in section 172 of the Companies Act 2006 have been considered in Board discussions during 2020.

Case study – Supporting our Black, Asian and Minority Ethnic Commitments

In June 2020, in response to the Black Lives Matter movement, the CEO asked the global co-chairs of NatWest Group's Multicultural Network to set up a taskforce to listen, analyse and deliver a set of commitments to address the key barriers facing Black, Asian and Minority Ethnic colleagues, customers and communities (the 'Taskforce').

Stakeholder engagement and s.172(1) statement

The launch of the Taskforce was reported to the Board, which was keen to be kept informed of the Taskforce's progress. The Board received regular updates from the CEO covering various aspects of the Taskforce's work including the all-colleague listening survey, colleague communications and executive management's engagement with the Taskforce as it worked to finalise its recommendations. The CEO also facilitated a discussion at the June 2020 meeting of the CAP on NatWest Group's response to Black Lives Matter and the work of the Taskforce, the outputs of which were reported back to the Board in July 2020.

The Taskforce co-leads were invited to attend a Board meeting in September 2020 to present directly to the Board on the work of the Taskforce. They explained to the Board how the 10 Commitments for engaging with Black, Asian and Minority Ethnic colleagues, customers and communities had been developed; how the outputs of the work would be communicated; and the learnings from the work, and that there was clear alignment between the work of the Taskforce and NatWest Group's purpose in terms of championing potential. Following engagement by the Taskforce with the CEO and Executive Committee, a new target of 3% of Black colleagues in senior UK roles by 2025 had been agreed in response to there being a higher under-representation of Black colleagues in senior UK roles. This new target would be in addition to our existing target to have at least 14% Black, Asian and Minority Ethnic leaders in senior UK roles by 2025. The Taskforce co-leads also responded to questions from the Board on topics such as colleague experiences and support from non- Black, Asian and Minority Ethnic colleagues.

The Board wholeheartedly endorsed the work of the Taskforce and confirmed its support for the 10 Commitments including the introduction of a new target to have 3% of Black colleagues in senior UK roles by 2025. A subsequent update to the Board was provided on the publication of the Taskforce's report 'Banking on Racial Equality; A Roadmap for Positive Change' including the key insights from the report.

Further details on how NatWest Group engages with its stakeholders can be found in the NatWest Group plc 2020 Annual Report and Accounts and on natwestgroup.com.

Board of directors and secretary

Approval of Strategic report
The Strategic report for the year ended 31 December 2020 set out on pages to was approved by the Board of directors on 18 February 2021.

Jan Cargill

By order of the Board
Jan Cargill

Company Secretary
18 February 2021

Chairman
Howard Davies

Executive directors
Alison Rose (CEO)
Katie Murray (CFO)

Non-executive directors

Francesca Barnes	Robert Gillespie
Graham Beale	Yasmin Jetha
Ian Cormack	Mike Rogers
Patrick Flynn	Mark Seligman
Morten Friis	Lena Wilson

Board and committees

Chairman
Howard Davies
Nominations (Chair)

Executive directors
Alison Rose
Katie Murray

Independent non-executive directors
Francesca Barnes

Graham Beale
Senior Independent Director
Audit, Nominations, Risk

Ian Cormack
Audit, Remuneration, Risk (Deputy Chair)

Patrick Flynn
Audit (Chair), Nominations, Risk

Morten Friis
Risk (Chair), Audit, Nominations

Robert Gillespie
Remuneration (Chair), Audit, Nominations, Risk

Yasmin Jetha
Remuneration

Mike Rogers
Remuneration

Mark Seligman
Audit, Nominations, Remuneration

Lena Wilson
Remuneration, Risk

Chief Governance Officer and Company Secretary
Jan Cargill

Other Board changes in 2020
Alison Davis (non-executive director) resigned on 31 March 2020
Baroness Noakes (non-executive director) resigned on 31 July 2020

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London WC2R 0QS

Lombard North Central PLC
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London EC2M 4AA

National Westminster Bank Plc
Registered in England No. 929027

Key:

Audit	member of the Audit Committee
Nominations	member of the Nominations Committee
Remuneration	member of the Performance and Remuneration Committee
Risk	member of the Board Risk Committee

For additional detail on the activities of the Committees above, refer to the Report of the directors

Top and emerging risks

A continuous process is used to identify and manage NWB Group's top and emerging risks. These are risks that could have a significant negative impact on the ability to operate or meet strategic objectives.

External	
COVID-19	The COVID-19 pandemic has had a material adverse impact on NWB Group and its customers. NWB Group responded quickly to the elevated credit risks through active portfolio management including adjustment of risk appetite, proactive customer contact strategies and scenario analysis. NWB Group has participated in government initiatives to support customers during the crisis including the Bounce-Back Loan Scheme which could increase conduct, reputational and fraud risks. High uncertainty remains on the future evolution of the virus and the ultimate impact of the pandemic. While the strategy is being adapted in response, the COVID-19 crisis could impede NWB Group's ability to meet its targets and deliver its purpose-led strategy.
Economic and Political Risks	NWB Group is exposed to the economic and political risks facing the UK including a weaker than expected economic recovery from Covid-19, the prospect of negative interest rate policy and the UK's exit from the EU. A range of complementary approaches is used to mitigate these risks including scenario planning and stress testing. In 2020, NWB Group implemented plans to prepare for the UK's withdrawal from the European Union and continues to monitor geopolitical risks alongside domestic political risk including developments in relation to a Scottish independence referendum. In the longer term, demographic change, high levels of debt and inequality could all have financial impacts. As a result, these risks are closely monitored with strategic plans adapted as appropriate.
Climate Related Risks	NWB Group expects to face significant risks in connection with climate change and the transition to a low carbon economy. These risks are subject to rapidly increasing prudential and regulatory, political and societal focus, both in the UK and internationally. Embedding climate risk into NWB Group's risk framework and adapting NWB Group's operations and business strategy to address the risks is in line with the purpose-led strategy.
Cyber Threats	NWB Group experiences a constant threat from cyber-attacks both directly and to its supply chain, underlining the importance of due diligence with the third parties on which NWB Group relies. NWB Group operates a multi-layered approach to its defences and continues to invest significant resources in the development of cyber security controls and capability designed to minimise the potential effect of cyber-attacks.
Competitive Environment	NWB Group operates in markets that are highly competitive raising the threat of a loss of market share and reduced revenue and profitability. The risks mainly relate to changes in regulation, developments in financial technology (including digital currency), new entrants to the market and shifts in customer behaviour. NWB Group closely monitors the competitive environment and adapts strategy as appropriate to deliver innovative and compelling propositions for customers.
Regulatory, Legal & Conduct Risks	NWB Group operates in a highly regulated market. Regulations are constantly evolving and could adversely impact the Group including capital, liquidity and funding requirements, enhanced data privacy requirements and the management of financial crime. This includes the possibility of dividend suspensions or restrictions. NWB Group implements new regulatory requirements, where applicable, and incorporates the implications of related changes in its strategic and financial plans. This includes the transition from the use of interbank offer rates (IBORs), including LIBOR, to alternative risk-free rates. While a programme to manage the transition is underway, uncertainties around the transition represent a number of risks including elevated legal and conduct risks.
Internal	
Change Risk	NWB Group continues to manage and implement change in line with its strategic plans while assessing implementation risks and taking appropriate mitigating action. In addition, NWB Group continues to monitor and strengthen its control environment through robust governance and controls frameworks.
Third Party Suppliers	Operational risks arise from NWB Group's reliance on third party suppliers to provide a range of services including IT. NWB Group is diligent in its screening of suppliers to mitigate these risks with strict contractual obligations governing supplier relationships and activity.
IT System Resilience	NWB Group continues to invest in IT infrastructure to prevent customer service disruption, which could result in reputational and regulatory damage. To mitigate these risks, a major investment programme has significantly improved the resilience of the systems and further progress is expected.
Data Management	NWB Group relies on the effective use of accurate data to support operations and deliver its strategy. Failure to produce high-quality data and/or the ineffective use of such data could result in a failure to deliver NWB Group's strategy, including reducing costs and meeting customer expectations. NWB Group is focused on implementing a long-term data strategy alongside control and policy framework enhancements governing data usage.

Financial review

Summary consolidated income statement for the year ended 31 December 2020

	Retail Banking £m	Commercial Banking £m	Private Banking £m	Central items & other £m	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m	Variance £m	Variance %
Net interest income	**3,114**	**2,302**	**466**	**(72)**	**5,810**	5,836	*(26)*	*nm*
Non-interest income	**272**	**934**	**251**	**1,688**	**3,145**	3,327	*(182)*	*(5)*
Total income	**3,386**	**3,236**	**717**	**1,616**	**8,955**	9,163	*(208)*	*(2)*
Operating expenses	**(2,064)**	**(2,011)**	**(452)**	**(1,657)**	**(6,184)**	(7,265)	*1,081*	*(15)*
Profit/(loss) before impairment losses	**1,322**	**1,225**	**265**	**(41)**	**2,771**	1,898	*873*	*46*
Impairment losses	**(669)**	**(1,378)**	**(106)**	**(16)**	**(2,169)**	(572)	*(1,597)*	*279*
Operating profit/(loss)	**653**	**(153)**	**159**	**(57)**	**602**	1,326	*(724)*	*(55)*
Tax charge					**(66)**	(442)	*376*	*(85)*
Profit for the year					**536**	884	*(348)*	*(39)*
Notable items within operating expenses								
Strategic costs					**728**	907		
PPI (release)/costs					**(175)**	603		

Key metrics and ratios	2020	2019
Cost:income ratio (%)	**69.1%**	79.3%
Loan impairment expected credit loss rate (bps)	**78**	24
CET1 ratio (%)	**17.8**	15.9
Leverage ratio (%)	**4.7**	5.0
Risk weighted assets (RWAs) (£bn)	**86.9**	81.1

NWB Group reported a profit of £536 million compared with £884 million in 2019, driven mainly by an increase in impairment losses of £1,597 million reflecting the deterioration of the economic outlook as a result of the COVID-19 pandemic, together with a decrease in total income of £208 million, partially offset by a reduction in operating expenses of £1,081 million.

Total income decreased by £208 million, or 2%, to £8,955 million compared with £9,163 million in 2019.

Net interest income decreased by £26 million to £5,810 million compared with £5,836 million in 2019, reflecting the lower yield curve and mortgage margin dilution, partially offset by a substantial increase in asset volumes as a result of mortgage lending growth and drawdowns against UK Government lending schemes.

Non-interest income decreased by £182 million to £3,145 million compared with £3,327 million in 2019. Net fees and commissions decreased by £339 million to £1,384 million due to regulatory changes, subdued business activity and lower customer spending resulting from government measures in response to COVID-19 in 2020. Other non-interest income increased by £157 million to £1,761 million compared with £1,604 million in 2019, as a result of a £208 million increase in recharges to other NatWest Group entities.

Other key drivers include:
- an increase in hedging-related income of £75 million;
- increased income from asset sales of £25 million;
- a decrease of £108 million in income related to the disposal of subsidiaries, branches and property; and
- a £25 million increase in fair value losses.

Operating expenses decreased by £1,081 million, or 15%, to £6,184 million, compared with £7,265 million in 2019, primarily due to PPI provision releases of £175 million in 2020, compared with a charge of £603 million in 2019, partly offset by other conduct provision charges in 2020. Other reductions reflect our continued transition from physical to digital, the optimisation of our property footprint and lower investment spend.

Strategic costs of £728 million include charges related to reductions in the property portfolio and restructuring costs incurred to achieve operating and cost efficiencies.

Impairment losses increased by £1,597 million, or 279%, to £2,169 million compared with £572 million in 2019, primarily reflecting the deterioration of the economic outlook as a result of the COVID-19 pandemic driving Stage 2 charges. The level of Stage 3 defaults remains low.

Financial review

Segmental performance

Retail Banking

Operating profit was £653 million, compared with £801 million in 2019.

Net interest income decreased by £229 million to £3,114 million compared with £3,343 million in 2019, reflecting the low interest rate environment, contraction of the yield curve and mortgage margin pressure, partially offset by £17.9 billion balance growth in mortgages.

Non-interest income decreased by £484 million to £272 million, compared with £756 million in 2019, primarily driven by a reduction of £251 million in net fees and commissions arising from FX transactions, facility arrangement fees, current accounts and card services due to regulatory changes, lower customer spending and transaction levels following the government measures taken in response to COVID-19. Other non-interest income decreased by £233 million reflecting a reduction of £140 million in income from services recharged and a £58 million loss on the acquisition of a mortgage portfolio from Metro Bank plc in 2020, compared with £36 million of disposal gains in 2019.

Operating expenses decreased by £905 million to £2,064 million compared with £2,969 million in 2019, primarily due to PPI provision releases of £175 million in 2020, compared with a charge of £603 million in 2019, partly offset by other conduct provision charges in 2020. The remaining decrease reflects reductions in headcount enabled by digital transformation benefits and increased digital adoption, lower fraud costs and COVID-19 slowing down investment spend.

Impairment losses increased by £340 million to £669 million, compared with £329 million in 2019 reflecting significant Stage 2 uplifts taken in the first half of 2020 due to the impact of the COVID-19 pandemic on the economic outlook.

Loans to customers - amortised cost increased by £16.2 billion to £152.4 billion, driven by gross new mortgage lending growth and the purchase of a £3.0 billion mortgage portfolio from Metro Bank plc, partially offset by redemptions.

Customer deposits increased by £17.7 billion to £138.7 billion primarily due to a higher volume of demand interest bearing deposits and savings deposits as customers sought to retain liquidity and reduce spending as a result of government measures in response to COVID-19.

Commercial Banking

Operating loss was £153 million, compared with a profit of £784 million in 2019.

Net interest income decreased by £136 million to £2,302 million, compared with £2,166 million in 2019, reflecting the lower yield curve impacting deposit returns and increased liquidity portfolio costs from higher deposits volumes, partially offset by higher lending volumes from drawdowns against government lending schemes.

Non-interest income decreased by £240 million to £934 million, reflecting a £122 million decrease in net fees and commissions, due to subdued transactional business activity following the government measures taken in response to COVID-19. Other non-interest income decreased by £118 million reflecting a reduction of £98 million in income from services recharged, higher fair value and disposal losses.

Operating expenses decreased by £298 million to £2,011 million, compared with £2,309 million reflecting a reduction of £54 million in litigation and conduct costs, £50 million lower staff costs due to headcount reduction and other staff cost reductions, combined with decreased back office and allocated shared services costs. This was partly offset by £18 million lower VAT recoveries.

Impairment losses increased by £1,131 million to £1,378 million, compared with £247 million in 2019, primarily reflecting the deterioration of the economic outlook as a result of the COVID-19 driving significant Stage 2 charges, with total Stage 3 charges of £189 million, including a small number of single name charges.

Loans to customers - amortised cost increased by £9.1 billion, reflecting £9.6 billion higher lending volumes from drawdowns against government scheme lending, partially offset by higher loan provisions.

Customer deposits increased by £26.8 billion as customers built and retained liquidity in light of economic uncertainty combined with the impact of government and central bank actions in response to COVID-19.

Private Banking

Operating profit was £159 million compared with £286 million in 2019.

Net interest income decreased by £45 million to £466 million, compared with £511 million in 2019, impacted by decreased rates and lower funding income, partially offset by increased lending volumes.

Non-interest income increased by £12 million to £251 million in 2020, driven by an increase in net fees and commissions due to the Private Client Advice business which transferred from Retail Banking in 2020 and higher assets under management.

Operating expenses decreased by £19 million to £452 million in 2020, driven by lower back office operations costs and litigation and conduct provision releases. This was partly offset by an increase in costs related to the Private Client Advice business transferred from Retail Banking in 2020 and higher spend on transformation projects.

Impairment losses increased by £113 million to £106 million, compared with £7 million release in 2019, mainly due to Stage 1 and 2 charges reflecting the deterioration in the economic outlook, with total Stage 3 charges of £15 million in 2020.

Loans to customers - amortised cost increased by £1.5 billion to £16.3 billion, driven by £0.9 billion growth in mortgage lending and £0.7 billion increase in corporate lending.

Customer deposits increased by £3.9 billion to £30.3 billion, mainly due to growth in demand interest-bearing and non-interest bearing account balances.

Central items & other

Operating loss was £57 million in 2020 compared with £545 million in 2019.

Total income increased by £642 million to £1,616 million in 2020, compared with £974 million in 2019, reflecting a £446 million increase in income from the recharging of shared services and £316 million increase in bond disposal gains and other treasury income, partially offset by non-repeat of property related income and FX recycling gains in 2019.

Operating expenses increased by £141 million to £1,657 million, compared with £1,516 million in 2019. In 2020, £1,396 million of the total expenses were recovered through service charges which are presented within non-interest income.

Impairment losses increased by £13 million to £16 million, compared with £3 million in 2019, mainly due to increased expected credit loss on finance lease receivables.

Financial review

Summary consolidated balance sheet as at 31 December 2020

	2020 £m	2019 £m	Variance £m	%
Assets				
Cash and balances at central banks	**62,983**	27,457	35,526	129
Derivatives	**3,288**	3,302	(14)	*nm*
Loans to banks - amortised cost	**3,344**	3,325	19	1
Loans to customers - amortised cost	**271,581**	232,313	39,268	17
Amounts due from holding companies and fellow subsidiaries	**3,305**	3,828	(523)	(14)
Other financial assets	**37,995**	40,948	(2,953)	(7)
Other assets	**7,043**	7,320	(277)	(4)
Total assets	**389,539**	318,493	71,046	22
Liabilities				
Bank deposits	**14,871**	15,505	(634)	(4)
Customer deposits	**293,605**	242,117	51,488	21
Amounts due to holding companies and fellow subsidiaries	**37,559**	21,447	16,112	75
Derivatives	**6,552**	4,898	1,654	34
Other financial liabilities	**10,383**	8,307	2,076	25
Subordinated liabilities	**1,230**	1,242	(12)	(1)
Notes in circulation	**1,012**	842	170	20
Other liabilities	**4,435**	4,463	(28)	(1)
Total liabilities	**369,647**	298,821	70,826	24
Total equity	**19,892**	19,672	220	1
Total liabilities and equity	**389,539**	318,493	71,046	22

Total assets increased by £71.0 billion to £389.5 billion at 31 December 2020, compared with £318.5 billion at 31 December 2019.

Cash and balances at central banks increased by £35.5 billion to £63.0 billion, compared with £27.5 billion at 31 December 2019, driven by increased deposits and a £14.0 billion liquidity switch from The Royal Bank of Scotland plc (RBS plc) to NWB Plc to maintain the operational buffer in the Bank of England account. The increases were partially offset by a net £5.0 billion reduction related to Term Funding Scheme (TFS) repayments and a Term Funding Scheme with additional incentives for SMEs (TFSME) drawdown in the year, and £2.0 billion decrease due to liquidity portfolio optimisation activity. The net impact of issuance activity was neutral, as £6.8 billion of new issuances was offset by £6.6 billion of covered bond maturities and debt redemptions.

Loans to customers – amortised cost increased by £39.3 billion to £271.6 billion, compared with £232.3 billion at 31 December 2019, reflecting £18.8 billion of strong gross new mortgage lending growth, partially offset by redemptions, and the purchase of a £3.0 billion mortgage portfolio from Metro Bank plc, £9.8 billion growth in corporate lending due to drawdowns against UK Government lending schemes in response to COVID-19 and £12.5 billion higher volume of reverse repos.

Amounts due from holding companies and fellow subsidiaries decreased by £0.5 billion to £3.3 billion, compared with £3.8 billion at 31 December 2019, reflecting a decrease of inter company balances with entities outside the ring-fenced bank.

Other financial assets decreased by £3.0 billion to £38.0 billion, primarily reflecting the net impact of sales, maturities and purchases of bonds which form part of the treasury liquidity portfolio.

Other assets decreased by £0.3 billion to £7.0 billion, reflecting decreased tangible assets due to the ongoing optimisation of the property portfolio.

Bank deposits decreased by £0.6 billion to £14.9 billion, driven by a net £5.0 billion repayment of the TFS / TFSME facilities, partially offset by an increase in repos of £4.1 billion and additional third party deposits of £0.3 billion.

Customer deposits increased by £51.5 billion to £293.6 billion, as customers sought to retain liquidity and reduced spending in response to COVID-19.

Amounts due to holding companies and fellow subsidiaries increased by £16.1 billion to £37.6 billion, compared with £21.4 billion at 31 December 2019, primarily due to a £14.0 billion cash transfer from RBS plc.

Derivative liabilities increased by £1.7 billion to £6.6 billion, compared with £4.9 billion at 31 December 2019, due to the valuation of derivative products used to hedge the liquidity portfolio, driven by floating rate decreases.

Other financial liabilities increased by £2.1 billion to £10.4 billion, compared with £8.3 billion at 31 December 2019, driven by £3.1 billion payable to Metro Bank plc for the acquisition of its mortgage book in December 2020 and £1.7 billion of commercial paper issuances, offset by a £2.9 billion decrease due to maturity of covered bonds.

Total equity increased by £0.2 billion to £19.9 billion, compared with £19.7 billion at 31 December 2019. The increase reflects attributable profit for 2020, partially offset by lower cash flow hedge reserves of £0.2 billion and lower merger reserves of £0.2 billion.

Risk and capital management

Presentation of information
Where indicated by a bracket in the margins, certain information in the Risk and capital management section (pages 11 to 73) is within the scope of the Independent auditor's report. Risk and capital management is generally conducted on an overall basis within NatWest Group such that common policies, procedures, frameworks and models apply across NatWest Group. Therefore, for the most part, discussion on these qualitative aspects reflects those in NatWest Group as relevant for the businesses and operations in NWB Group.

Update on COVID-19
The unprecedented challenge posed by the global pandemic – for families, businesses and governments around the world – also led to a number of significant risk management challenges. NWB Group remained committed to supporting its customers while operating safely and soundly in line with its strategic objectives. Most notably, the credit risk profile was heightened due to deteriorating economic conditions. NWB Group provided a significant level of payment holidays during the crisis, and facilitated a high volume of loans through the UK government CBILS, CLBILS and BBLS initiatives. This is detailed in the Credit risk section.

In addition, NWB Group's operational risk profile became heightened due to the need to adapt working methods and practices to large-scale working from home and the requirement to respond to the crisis – and provide customer support – at pace.

As a result of its strong balance sheet and prudent approach to risk management, NWB Group remains well placed to withstand the impacts of the pandemic as well as providing support to customers when they need it most.

Risk management framework
Introduction
NWB Group operates under NatWest Group's enterprise wide risk management framework, which is centred around the embedding of a strong risk culture. The framework ensures the governance, capabilities and methods are in place to facilitate risk management and decision-making across the organisation.

The framework ensures that NWB Group's principal risks – which are detailed in this section – are appropriately controlled and managed. In addition, there is a process to identify and manage top risks, which are those which could have a significant negative impact on NWB Group's ability to meet its strategic objectives. A complementary process operates to identify emerging risks. Both top and emerging risks are reported to the Board on a regular basis alongside reporting on the principal risks.

Risk appetite, supported by a robust set of principles, policies and practices, defines the levels of tolerance for a variety of risks and provides a structured approach to risk-taking within agreed boundaries.

All NWB Group colleagues share ownership of the way risk is managed, working together to make sure business activities and policies are consistent with risk appetite.

The methodology for setting, governing and embedding risk appetite is being further enhanced with the aim of revising current risk appetite processes and increasing alignment with strategic planning and external threat assessments.

Culture
Culture is at the centre of both the risk management framework and risk management practice. NatWest Group's risk culture target is to make risk part of the way employees work and think.

A focus on leaders as role models, and action to build clarity, develop capability and motivate employees to reach the required standards of behaviour are key to achieving the risk culture target. Colleagues are expected to:

- Take personal responsibility for understanding and proactively managing the risks associated with individual roles.
- Respect risk management and the part it plays in daily work.
- Understand the risks associated with individual roles.
- Align decision-making to NatWest Group's risk appetite.
- Consider risk in all actions and decisions.
- Escalate risks and issues early; taking action to mitigate risks and learning from mistakes and near-misses.
- Challenge others' attitudes, ideas and actions.
- Report and communicate risks transparently.

The target risk culture behaviours are embedded in Our Standards and are clearly aligned to the core values of "serving customers", "working together", "doing the right thing" and "thinking long term". These act as an effective basis for a strong risk culture because Our Standards are used for performance management, recruitment and development.

Training
A wide range of learning, both technical and behavioural, is offered across the risk disciplines. This training can be mandatory, role-specific or for personal development and enables colleagues to develop the capabilities and confidence to manage risk effectively.

Our Code
NatWest Group's conduct guidance, Our Code, provides direction on expected behaviour and sets out the standards of conduct that support the values. The code explains the effect of decisions that are taken and describes the principles that must be followed.

These principles cover conduct-related issues as well as wider business activities. They focus on desired outcomes, with practical guidelines to align the values with commercial strategy and actions. The embedding of these principles facilitates sound decision-making and a clear focus on good customer outcomes.

If conduct falls short of NatWest Group's required standards, the accountability review process is used to assess how this should be reflected in pay outcomes for those individuals concerned. The NatWest Group-wide remuneration policy ensures that the remuneration arrangements for all employees reflect the principles and standards prescribed by the PRA rulebook and the FCA handbook. Any employee falling short of the expected standards would also be subject to internal disciplinary policies and procedures. If appropriate, the relevant authority would be notified.

Risk and capital management

Risk management framework continued
Governance
Committee structure
The diagram shows NWB Group's risk committee structure in 2020 and the main purposes of each committee.

NWB Plc Board
Considers material risks and approves, as appropriate, actions recommended by the Board Risk Committee. Monitors performance against risk appetite. Reviews and approves risk appetite measures for capital adequacy, liquidity & funding, earnings volatility, cyber security and strategic and operational resilience.

Board Risk Committee
Provides oversight and advice to the Board on current and future risk exposures, future risk profile and risk appetite. Oversees the effectiveness of the risk management framework within NWB Plc and (with the Audit Committee) the system of internal controls required to manage risk.

Audit Committee
Assists the Board in carrying out its accounting, internal control and financial reporting responsibilities. Reviews the effectiveness of the system of internal controls relating to financial management and compliance with financial reporting, asset safeguarding and accounting laws.

Executive Risk Committee(4)
Supports the CEO in reviewing and challenging all material risk and control matters. Approves the risk management framework and oversees its implementation. Reviews and recommends the cascade of material risk appetite to subsidiary businesses.

Executive Committee(5)
Supports the CEO in discharging her individual accountabilities, reflecting the authority delegated to her by the NWB Plc Board. Reviews, challenges and debates all aspects of NWB Plc, including strategic, financial, capital, risk and operational issues. Supports the CEO in forming recommendations to the Board and committees.

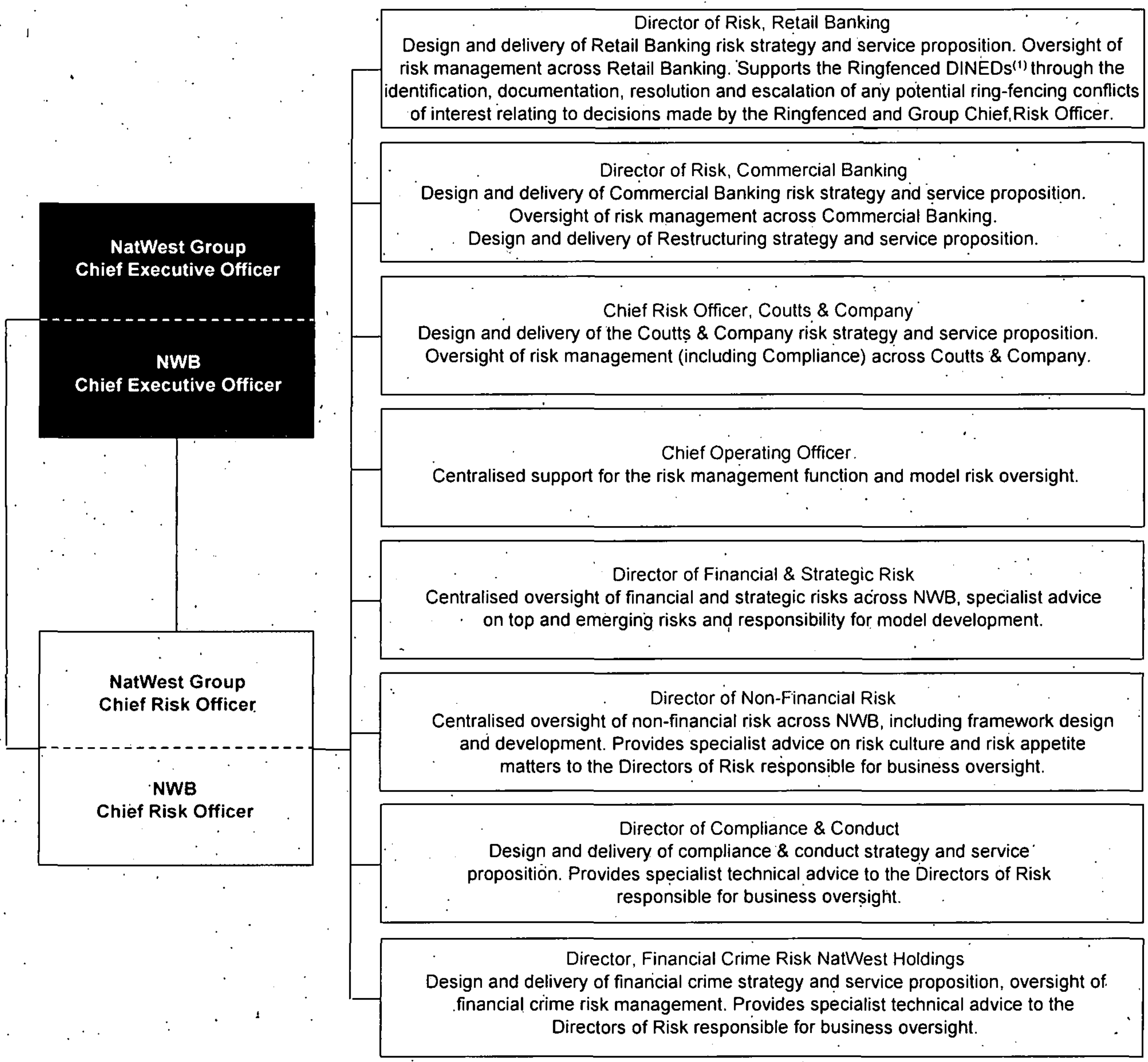
Asset & Liability Management Committee(6)
Supports the CFO in overseeing the effective management of NWB Plc's current and future balance sheets, ensuring they operate within risk appetite, policies and chosen business strategy as well as comply with regulatory and legal requirements.

Business and function risk committees
Risk committees review and monitor all risks, providing guidance, recommendations and decisions on risks affecting the businesses and functions.

Notes:
(1) The NatWest Group Chief Executive Officer also performs the role of NWB Plc Chief Executive Officer.
(2) The NatWest Group Chief Risk Officer also performs the role of NWB Plc Chief Risk Officer.
(3) The NatWest Group Chief Financial Officer also performs the role of NWB Plc Chief Financial Officer.
(4) The Executive Risk Committee is chaired by the NWB Plc Chief Executive Officer and supports her in discharging risk management accountabilities.
(5) The Executive Committee is chaired by the NWB Plc Chief Executive Officer and supports her in discharging her individual accountabilities in accordance with the authority delegated to her by the NWB Plc Board.
(6) The Asset & Liability Management Committee is chaired by the NWB Plc Chief Financial Officer and supports her in discharging her individual accountabilities relating to treasury and balance sheet management.

Risk and capital management

Risk management framework continued
Risk management structure
The diagram shows NWB Group's risk management structure in 2020 and key risk management responsibilities.



Notes:
(1) Double Independent Non-Executive Directors.
(2) The NatWest Group Chief Executive Officer also performs the role of NWB Chief Executive Officer.
(3) The NatWest Group Chief Risk Officer also performs the role of NWB Chief Risk Officer.
(4) The NWB Chief Risk Officer reports directly to the NWB Chief Executive Officer. There is a further secondary reporting line to the chair of the Board Risk Committee and a right of access to the Committee, including the deputy chair.
(5) The Risk function is independent of the customer-facing franchises and support functions. Its structure is divided into three parts (Directors of Risk, Specialist Risk Directors and Chief Operating Officer) to facilitate effective management of the risks facing NWB. Risk committees in the customer businesses and key functional risk committees oversee risk exposures arising from management and business activities and focus on ensuring that these are adequately monitored and controlled. The directors of Risk (Retail Banking; Commercial Banking; Financial & Strategic Risk; Non-Financial Risk and Compliance & Conduct) as well as the Director, Financial Crime Risk NatWest Holdings; the Chief Risk Officer, Coutts & Company and the Chief Operating Officer report to the NWB Chief Risk Officer.

Risk and capital management

Risk management framework continued

Three lines of defence

NatWest Group uses the industry-standard three lines of defence model to articulate accountabilities and responsibilities for managing risk. It supports the embedding of effective risk management throughout the organisation. All roles below the CEO sit within one of these three lines. The CEO ensures the efficient use of resources and the effective management of risks as stipulated in the risk management framework and is therefore considered to be outside the three lines of defence principles.

First line of defence

The first line of defence incorporates most roles in NatWest Group, including those in the customer-facing franchises, Technology and Services as well as support functions such as Human Resources, Legal and Finance.

- The first line of defence is empowered to take risks within the constraints of the risk management framework and policies as well as the risk appetite statements and measures set by the Board.
- The first line of defence is responsible for managing its direct risks. With the support of specialist functions such as Legal, HR and Technology, it is also responsible for managing its consequential risks by identifying, assessing, mitigating, monitoring and reporting risks.

Second line of defence

The second line of defence comprises the Risk function and is independent of the first line.

- The second line of defence is empowered to design and maintain the risk management framework and its components. It undertakes proactive risk oversight and continuous monitoring activities to confirm that NatWest Group engages in permissible and sustainable risk-taking activities.
- The second line of defence advises on, monitors, challenges, approves, escalates and reports on the risk-taking activities of the first line, ensuring that these are within the constraints of the risk management framework and policies as well as the risk appetite statements and measures set by the Board.

Third line of defence

The third line of defence is the Internal Audit function and is independent of the first and second lines.

- The third line of defence is responsible for providing independent and objective assurance to the Board, its subsidiary legal entity boards and executive management on the adequacy and effectiveness of key internal controls, governance and the risk management in place to monitor, manage and mitigate the key risks to NatWest Group and its subsidiary companies achieving their objectives.
- The third line of defence executes its duties freely and objectively in accordance with the Institute of Internal Auditors' Code of Ethics & Standards.

Risk appetite

Risk appetite defines the level and types of risk NWB Group is willing to accept, within risk capacity, in order to achieve strategic objectives and business plans. It links the goals and priorities to risk management in a way that guides and empowers staff to serve customers well and achieve financial targets.

Strategic risks are those that threaten the safety and soundness of NWB Group or its ability to achieve strategic objectives. For certain strategic risks, risk capacity defines the maximum level of risk NWB Group can assume before breaching constraints determined by regulatory capital and liquidity requirements, the operational environment, and from a conduct perspective. Establishing risk capacity helps determine where risk appetite should be set, ensuring there is a buffer between internal risk appetite and NWB Group's ultimate capacity to absorb losses.

Risk appetite framework

The risk appetite framework bolsters effective risk management by promoting sound risk-taking through a structured approach, within agreed boundaries. It also ensures emerging risks and risk-taking activities that might be out of appetite are identified, assessed, escalated and addressed in a timely manner.

To facilitate this, a detailed annual review of the framework is carried out. The review includes:

- Assessing the adequacy of the framework when compared to internal and external expectations.
- Ensuring the framework remains effective and acts as a strong control environment for risk appetite.
- Assessing the level of embedding of risk appetite across the organisation.

The NatWest Group Board approves the risk appetite framework annually.

Establishing risk appetite

In line with NatWest Group's risk appetite framework, risk appetite is maintained across NWB Group through risk appetite statements. The risk appetite statements provide clarity on the scale and type of activities that can be undertaken in a manner that is easily conveyed to staff.

Risk appetite statements consist of qualitative statements of appetite supported by risk limits and triggers that operate as a defence against excessive risk-taking. They are established at NatWest Group-wide level for all strategic risks and material risks, and at legal entity, business, and function level for all other risks.

The annual process of establishing risk appetite statements is completed alongside the business and financial planning process. This ensures plans and risk appetite are appropriately aligned. The Board sets risk appetite for the most material risks to help ensure NWB Group is well placed to meet its priorities and long-term targets even in challenging economic environments. It is the basis on which NWB Group remains safe and sound while implementing its strategic business objectives.

NWB Group's risk profile is frequently reviewed and monitored and management focus is concentrated on all strategic risks, material risks and emerging risk issues. Risk profile relative to risk appetite is reported regularly to the Board and senior management.

Risk controls and their associated limits are an integral part of the risk appetite approach and a key part of embedding risk appetite in day-to-day risk management decisions. A clear tolerance for material risk types is set in alignment with business activities.

NatWest Group policies directly support the qualitative aspects of risk appetite. They ensure that appropriate controls are set and monitored.

Identification and measurement

Identification and measurement within the risk management process comprise:

- Regular assessment of the overall risk profile, incorporating market developments and trends, as well as external and internal factors.
- Monitoring of the risks associated with lending and credit exposures.
- Assessment of trading and non-trading portfolios.
- Review of potential risks in new business activities and processes.
- Analysis of potential risks in any complex and unusual business transactions.

The financial and non-financial risks that NWB Group faces are detailed in the Risk Directory. This provides a common risk language to ensure consistent terminology is used across NWB Group. The Risk Directory is subject to annual review. This ensures that it continues to provide a comprehensive and meaningful list of the inherent risks within NWB Group.

Risk management framework continued

Mitigation

Mitigation is an important aspect of ensuring that risk profile remains within risk appetite. Risk mitigation strategies are discussed and agreed within NWB Group.

When evaluating possible strategies, costs and benefits, residual risks (risks that are retained) and secondary risks (those that are due to risk mitigation actions) are considered. Monitoring and review processes are in place to evaluate results. Early identification, and effective management, of changes in legislation and regulation are critical to the successful mitigation of compliance and conduct risk. The effects of all changes are managed to ensure the timely achievement of compliance. Those changes assessed as having a high or medium-high impact are managed more closely. Significant and emerging risks that could affect future results and performance are reviewed and monitored. Action is taken to mitigate potential risks as and when required. Further in-depth analysis, including the stress testing of exposures relative to the risk, is also carried out.

Testing and monitoring

Targeted credit risk, compliance & conduct risk and financial crime risk activities are subject to testing and monitoring to confirm to both internal and external stakeholders – including the Board, senior management, the customer-facing businesses, Internal Audit and NWB Group's regulators – that policies and procedures are being correctly implemented and operating adequately and effectively. Selected key controls are also reviewed. Thematic reviews and deep dives are also carried out where appropriate.

The adequacy and effectiveness of selected key controls owned and operated by the second line of defence are also tested (with a particular focus on credit risk controls). Selected controls within the scope of Section 404 of the US Sarbanes-Oxley Act 2002, as well as selected controls supporting risk data aggregation and reporting, are also reviewed.

Anti-money laundering, sanctions, anti-bribery and corruption and tax evasion processes and controls are also tested and monitored. This helps provide an independent understanding of the financial crime control environment, whether or not controls are adequate and effective and whether financial crime risk is appropriately identified, managed and mitigated.

The NatWest Group Risk Testing & Monitoring Forum and methodology ensures a consistent approach to all aspects of the second-line review activities. The forum also monitors and validates the annual plan and ongoing programme of reviews.

Stress testing

Stress testing – capital management

Stress testing is a key risk management tool and a fundamental component of NatWest Group's approach to capital management. It is used to quantify and evaluate the potential impact of specified changes to risk factors on the financial strength of NatWest Group, including its capital position.

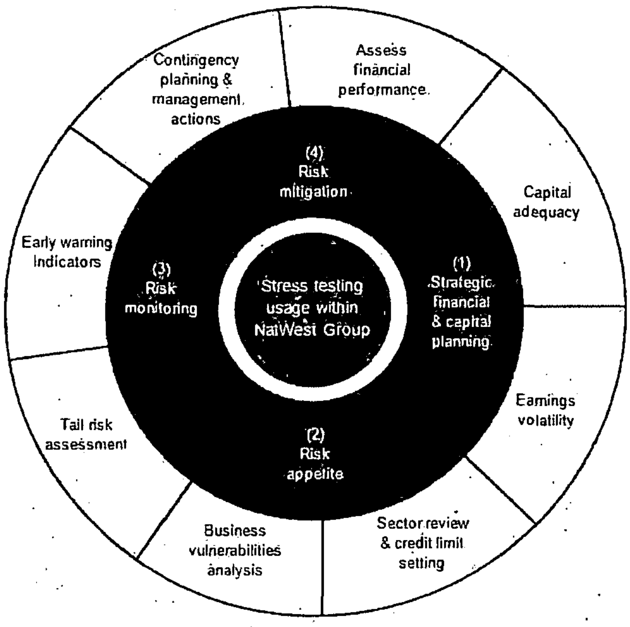
Stress testing includes:

- Scenario testing, which examines the impact of a hypothetical future state to define changes in risk factors.
- Sensitivity testing, which examines the impact of an incremental change to one or more risk factors.

The process for stress testing consists of four broad stages:

Define scenarios	• Identify NatWest Group-specific vulnerabilities and risks. • Define and calibrate scenarios to examine risks and vulnerabilities. • Formal governance process to agree scenarios.
Assess impact	• Translate scenarios into risk drivers. • Assess impact to current and projected P&L and balance sheet. • Impact assessment captures input across NatWest Group.
Calculate results and assess implications	• Aggregate impacts into overall results. • Results form part of the risk management process. • Scenario results are used to inform NatWest Group's business and capital plans.
Develop and agree management actions	• Scenario results are analysed by subject matter experts. Appropriate management actions are then developed. • Scenario results and management actions are reviewed and agreed by senior committees, including the Executive Risk Committee, the Board Risk Committee and the Board.

Stress testing is used widely across NatWest Group. The diagram below summarises key areas of focus.



Specific areas that involve capital management include:

- Strategic financial and capital planning – by assessing the impact of sensitivities and scenarios on the capital plan and capital ratios.
- Risk appetite – by gaining a better understanding of the drivers of, and the underlying risks associated with, risk appetite.
- Risk monitoring – by monitoring the risks and horizon scanning events that could potentially affect NatWest Group's financial strength and capital position.
- Risk mitigation – by identifying actions to mitigate risks, or those that could be taken, in the event of adverse changes to the business or economic environment. Key risk mitigating actions are documented in NatWest Group's recovery plan.

Risk management framework continued

Capital sufficiency – going concern forward-looking view

Going concern capital requirements are examined on a forward-looking basis – including as part of the annual budgeting process – by assessing the resilience of capital adequacy and leverage ratios under hypothetical future states. These assessments include assumptions about regulatory and accounting factors (such as IFRS 9). They are linked to economic variables and impairments and seek to demonstrate that NatWest Group and its operating subsidiaries maintain sufficient capital. A range of future states are tested. In particular, capital requirements are assessed:

- Based on a forecast of future business performance, given expectations of economic and market conditions over the forecast period.
- Based on a forecast of future business performance under adverse economic and market conditions over the forecast period. Scenarios of different severity may be examined.

The examination of capital requirements under normal economic and adverse market conditions enables NatWest Group to determine whether its projected business performance meets internal and regulatory capital requirements.

The examination of capital requirements under adverse economic and market conditions is assessed through stress testing. The results of stress tests are not only used widely across NatWest Group but also by the regulators to set specific capital buffers. NatWest Group takes part in stress tests run by regulatory authorities to test industry-wide vulnerabilities under crystallising global and domestic systemic risks.

Stress and peak-to-trough movements are used to help assess the amount of capital NatWest Group needs to hold in stress conditions in accordance with the capital risk appetite framework.

Internal assessment of capital adequacy

An internal assessment of material risks is carried out annually to enable an evaluation of the amount, type and distribution of capital required to cover these risks. This is referred to as the Internal Capital Adequacy Assessment Process (ICAAP). The ICAAP consists of a point-in-time assessment of exposures and risks at the end of the financial year together with a forward-looking stress capital assessment. The ICAAP is approved by the Board and submitted to the PRA.

The ICAAP is used to form a view of capital adequacy separately to the minimum regulatory requirements. The ICAAP is used by the PRA to assess NatWest Group's specific capital requirements through the Pillar 2 framework.

Capital allocation

NatWest Group has mechanisms to allocate capital across its legal entities and businesses. These aim to optimise the use of capital resources taking into account applicable regulatory requirements, strategic and business objectives and risk appetite. The framework for allocating capital is approved by the Asset & Liability Management Committee.

Governance

Capital management is subject to substantial review and governance. The Board approves the capital plans, including those for key legal entities and businesses as well as the results of the stress tests relating to those capital plans.

Stress testing – liquidity

Liquidity risk monitoring and contingency planning

A suite of tools is used to monitor, limit and stress test the risks on the balance sheet. Limit frameworks are in place to control the level of liquidity risk, asset and liability mismatches and funding concentrations. Liquidity risks are reviewed at significant legal entity and business levels daily, with performance reported to the Asset & Liability Management Committee on a regular basis. Liquidity Condition Indicators are monitored daily. This ensures any build-up of stress is detected early and the response escalated appropriately through recovery planning.

Internal assessment of liquidity

Under the liquidity risk management framework, NatWest Group maintains the Individual Liquidity Adequacy Assessment Process. This includes assessment of net stressed liquidity outflows under a range of severe but plausible stress scenarios. Each scenario evaluates either an idiosyncratic, market-wide or combined stress event as described in the table below.

Type	Description
Idiosyncratic scenario	The market perceives NatWest Group to be suffering from a severe stress event, which results in an immediate assumption of increased credit risk or concerns over solvency.
Market-wide scenario	A market stress event affecting all participants in a market through contagion, potential counterparty failure and other market risks. NatWest Group is affected under this scenario but no more severely than any other participants with equivalent exposure.
Combined scenario	This scenario models the combined impact of an idiosyncratic and market stress occurring at once, severely affecting funding markets and the liquidity of some assets.

NatWest Group uses the most severe outcome to set the internal stress testing scenario which underpins its internal liquidity risk appetite. This complements the regulatory liquidity coverage ratio requirement.

Stress testing – recovery and resolution planning

The NatWest Group recovery plan explains how NatWest Group and its subsidiaries – as a consolidated group – would identify and respond to a financial stress event and restore its financial position so that it remains viable on an ongoing basis.

The recovery plan ensures risks that could delay the implementation of a recovery strategy are highlighted and preparations are made to minimise the impact of these risks. Preparations include:

- Developing a series of recovery indicators to provide early warning of potential stress events.
- Clarifying roles, responsibilities and escalation routes to minimise uncertainty or delay.
- Developing a recovery playbook to provide a concise description of the actions required during recovery.
- Detailing a range of options to address different stress conditions.
- Appointing dedicated option owners to reduce the risk of delay and capacity concerns.

The plan is intended to enable NatWest Group to maintain critical services and products it provides to its customers, maintain its core business lines and operate within risk appetite while restoring NatWest Group's financial condition. It is assessed for appropriateness on an ongoing basis and is updated annually. The plan is reviewed and approved by the Board prior to submission to the PRA each year. Individual recovery plans are also prepared for NatWest Holdings Limited, NatWest Markets Plc, RBS International (Holdings) Limited, Ulster Bank Ireland DAC and NatWest Markets N.V.. These plans detail the recovery options, recovery indicators and escalation routes for each entity.

Risk and capital management

Risk management framework continued

Fire drill simulations of possible recovery events are used to test the effectiveness of NatWest Group and individual legal entity recovery plans. The fire drills are designed to replicate possible financial stress conditions and allow senior management to rehearse the responses and decisions that may be required in an actual stress. The results and lessons learnt from the fire drills are used to enhance NatWest Group's approach to recovery planning.

Under the resolution assessment part of the PRA rulebook, NatWest Group is required to carry out an assessment of its preparations for resolution, submit a report of the assessment to the PRA and publish a summary of this report.

Resolution would be implemented if NatWest Group was assessed by the UK authorities to have failed and the appropriate regulator put it into resolution. The process of resolution is owned and implemented by the Bank of England (as the UK resolution authority). A multi-year programme is in place to further develop resolution capability in line with regulatory requirements.

Stress testing – climate

NatWest Group will be carrying out climate scenario and stress-testing analysis as part of the Bank of England's 2021 biennial exploratory scenario. The exercise will explore three distinct climate scenarios over a 30 year horizon to test the financial system's resilience to climate-related risks.

NatWest Group is also participating in the United Nations Environment Programme Finance Initiative focusing on analysis of how physical and transition risks could affect the agriculture and real estate sectors.

Stress testing – market risk

Non-traded market risk

Non-traded exposures are reported to the PRA on a quarterly basis as part of the Stress Testing Data Framework. This provides the regulator with an overview of NatWest Group's banking book interest rate exposure. The report includes detailed product information analysed by interest rate driver and other characteristics, including accounting classification, currency and counterparty type.

Scenario analysis based on hypothetical adverse scenarios is performed on non-traded exposures as part of the Bank of England and European Banking Authority stress exercises. NatWest Group also produces an internal scenario analysis as part of its financial planning cycles.

Non-traded exposures are capitalised through the ICAAP. This covers gap risk, basis risk, credit spread risk, pipeline risk, structural foreign exchange risk, prepayment risk, equity risk and accounting volatility risk. The ICAAP is completed with a combination of value and earnings measures. The total non-traded market risk capital requirement is determined by adding the different charges for each sub risk type. The ICAAP methodology captures at least ten years of historical volatility, produced with a 99% confidence level. Methodologies are reviewed by NatWest Group Model Risk and the results are approved by the NatWest Group Technical Asset & Liability Management Committee.

Non-traded market risk stress results are combined with those for other risks into the capital plan presented to the Board. The cross-risk capital planning process is conducted once a year, with a planning horizon of five years. The scenario narratives cover both regulatory scenarios and macroeconomic scenarios identified by NatWest Group.

Vulnerability-based stress testing begins with the analysis of a portfolio and expresses its key vulnerabilities in terms of plausible, vulnerability scenarios under which the portfolio would suffer material losses. These scenarios can be historical, macroeconomic or forward-looking/hypothetical. Vulnerability-based stress testing is used for internal management information and is not subject to limits. The results for relevant scenarios are reported to senior management.

Internal scenarios

During 2020, NatWest Group continuously refined and reviewed a series of internal scenarios – benchmarked against the Bank of England's illustrative scenario – as the impact of COVID-19 evolved, including actual and potential effects on economic fundamentals. These scenarios included:

- The impact of travel restrictions, social distancing policies, self-isolation and sickness on GDP, employment and consumer spending.
- The impacts on business investment in critical sectors.
- The effect on house prices, commercial real estate values and major project finance.
- The effect of government interventions such as the Job Retention Scheme and the Coronavirus Business Interruption Loan Scheme.

Applying the macro-scenarios to NatWest Group's earnings, capital, liquidity and funding positions did not result in a breach of any regulatory thresholds.

Regulatory stress testing

NatWest Group has participated in the regulatory stress tests conducted annually by the Bank of England and biennially by the European Banking Authority (EBA). The results of these regulatory stress tests are carefully assessed and form part of the wider risk management of NatWest Group. However, in 2020 due to the impacts of COVID-19, the Bank of England and the EBA suspended their stress tests. Following the UK's exit from the European Union on 31 December 2020, only relevant European subsidiaries of NatWest Group will take part in the EBA tests going forward. NatWest Group itself will not participate.

Risk and capital management

Credit risk

Definition
Credit risk is the risk that customers and counterparties fail to meet their contractual obligation to settle outstanding amounts.

Sources of risk
The principal sources of credit risk for NWB Group are lending and related undrawn commitments. Derivatives and securities financing and debt securities are also a source of credit risk, primarily related to Treasury activities for NWB Group. NWB Group is also exposed to settlement risk through foreign exchange and payments activities.

Governance
The Credit Risk function provides oversight of frontline credit risk management activities. Governance activities include:

- Defining credit risk appetite for the management of concentration risk and credit policy to establish the key causes of risk in the process of providing credit and the controls that must be in place to mitigate them.
- Approving and monitoring credit limits.
- Oversight of the first line of defence to ensure that credit risk remains within the appetite set by the Board and that controls are being operated adequately and effectively.
- Assessing the adequacy of expected credit loss (ECL) provisions including approving any necessary in-model and post model adjustments through the Provisions Committee.

Risk appetite
Credit risk appetite aligns to the strategic risk appetite set by the Board and is set and monitored through risk appetite frameworks tailored to the Group's Personal and Wholesale segments.

Personal

The Personal credit risk appetite framework sets limits that measure and control the quality and concentration of both existing and new business for each relevant business segment. The actual performance of each portfolio is tracked relative to these limits and management action is taken where necessary. The limits apply to a range of credit risk-related measures including expected loss at both portfolio and product level, projected credit default rates across products and the loan-to-value (LTV) ratio of the mortgage portfolios.

Wholesale

For Wholesale credit, the framework has been designed to reflect factors that influence the ability to operate within risk appetite. Tools such as stress testing and economic capital are used to measure credit risk volatility and develop links between the framework and risk appetite limits.

Four formal frameworks are used, classifying, measuring and monitoring credit risk exposure across single name, sector and country concentrations and product and asset classes with heightened risk characteristics.

The framework is supported by a suite of transactional acceptance standards that set out the risk parameters within which businesses should operate.

Credit policy standards are in place for both the Wholesale and Personal portfolios. They are expressed as a set of mandatory controls.

Identification and measurement
Credit stewardship

Risks are identified through relationship management and credit stewardship of customers and portfolios. Credit risk stewardship takes place throughout the customer relationship, beginning with the initial approval. It includes the application of credit assessment standards, credit risk mitigation and collateral, ensuring that credit documentation is complete and appropriate, carrying out regular portfolio or customer reviews and problem debt identification and management. Additional stewardship measures were put in place in response to COVID-19. Refer to the Impact of COVID-19 section for further details.

Asset quality

All credit grades map to an asset quality (AQ) scale, used for financial reporting. Performing loans are defined as AQ1-AQ9 (where the probability of default (PD) is less than 100%) and defaulted non-performing loans as AQ10 or Stage 3 under IFRS 9 (where the PD is 100%). Loans are defined as defaulted when the payment status becomes 90 days past due, or earlier if there is clear evidence that the borrower is unlikely to repay, for example bankruptcy or insolvency.

Counterparty credit risk
Counterparty credit risk arises from the obligations of customers under derivative and securities financing transactions.

NWB Group mitigates counterparty credit risk through collateralisation and netting agreements, which allow amounts owed by NWB Group to a counterparty to be netted against amounts the counterparty owes NWB Group.

Mitigation
Mitigation techniques, as set out in the appropriate credit policies and transactional acceptance standards, are used in the management of credit portfolios across NWB Group. These techniques mitigate credit concentrations in relation to an individual customer, a borrower group or a collection of related borrowers. Where possible, customer credit balances are netted against obligations. Mitigation tools can include structuring a security interest in a physical or financial asset, the use of credit derivatives including credit default swaps, credit-linked debt instruments and securitisation structures, and the use of guarantees and similar instruments (for example, credit insurance) from related and third parties. Property is used to mitigate credit risk across a number of portfolios, in particular residential mortgage lending and commercial real estate (CRE).

The valuation methodologies for collateral in the form of residential mortgage property and CRE are detailed below.

Residential mortgages – NWB Group takes collateral in the form of residential property to mitigate the credit risk arising from mortgages. NWB Group values residential property during the loan underwriting process by either appraising properties individually or valuing them collectively using statistically valid models. NWB Group updates residential property values quarterly using the Office for National Statistics House Price Index.

The current indexed value of the property is a component of the ECL provisioning calculation.

Commercial real estate valuations – NWB Group has a panel of chartered surveying firms that cover the spectrum of geography and property sectors in which NWB Group takes collateral. Suitable valuers for particular assets are contracted through a single service agreement to ensure consistency of quality and advice. Valuations are generally commissioned when an asset is taken as security; a material increase in a facility is requested; or a default event is anticipated or has occurred. In the UK, an independent third-party market indexation is applied to update external valuations once they are more than a year old and every three years a formal independent valuation is commissioned.

Assessment and monitoring
Practices for credit stewardship – including credit assessment, approval and monitoring as well as the identification and management of problem debts – differ between the Personal and Wholesale portfolios.

Personal

Personal customers are served through a lending approach that entails offering a large number of small-value loans. To ensure that these lending decisions are made consistently, NWB Group analyses internal credit information as well as external data supplied by credit reference agencies (including historical debt servicing behaviour of customers with respect to both NWB Group and other lenders). NWB Group then sets its lending rules accordingly, developing different rules for different products.

Credit risk continued

The process is then largely automated, with each customer receiving an individual credit score that reflects both internal and external behaviours and this score is compared with the lending rules set. For relatively high-value, complex personal loans, including some residential mortgage lending, specialist credit managers make the final lending decisions. These decisions are made within specified delegated authority limits that are issued dependent on the experience of the individual.

Underwriting standards and portfolio performance are monitored on an ongoing basis to ensure they remain adequate in the current market environment and are not weakened materially to sustain growth.

Wholesale

Wholesale customers – including corporates, banks and other financial institutions – are grouped by industry sectors and geography as well as by product/asset class and are managed on an individual basis. Customers are aggregated as a single risk when sufficiently interconnected.

A credit assessment is carried out before credit facilities are made available to customers. The assessment process is dependent on the complexity of the transaction. Credit approvals are subject to environmental, social and governance risk policies which restrict exposure to certain highly carbon intensive industries as well as those with potentially heightened reputational impacts.

For lower risk transactions below specific thresholds, credit decisions can be approved through self-sanctioning within the business. This process is facilitated through an auto-decision making system, which utilises scorecards, strategies and policy rules. Such credit decisions must be within the approval authority of the relevant business sanctioner.

For all other transactions credit is only granted to customers following joint approval by an approver from the business and the credit risk function or by two credit officers. The joint business and credit approvers act within a delegated approval authority under the Wholesale Credit Authorities Framework Policy. The level of delegated authority held by approvers is dependent on their experience and expertise with only a small number of senior executives holding the highest approval authority. Both business and credit approvers are accountable for the quality of each decision taken, although the credit risk approver holds ultimate sanctioning authority.

Transactional acceptance standards provide detailed transactional lending and risk acceptance metrics and structuring guidance. As such, these standards provide a mechanism to manage risk appetite at the customer/transaction level and are supplementary to the established credit risk appetite.

Credit grades (PD) and loss given default (LGD) are reviewed and, if appropriate, re-approved annually. The review process assesses borrower performance, including reconfirmation or adjustment of risk parameter estimates; the adequacy of security; compliance with terms and conditions; and refinancing risk.

Problem debt management

Personal

Early problem identification

Pre-emptive triggers are in place to help identify customers that may be at risk of being in financial difficulty. These triggers are both internal, using NWB Group's data, and external using information from credit reference agencies. Proactive contact is then made with the customer to establish if they require help with managing their finances. By adopting this approach, the aim is to prevent a customer's financial position deteriorating which may then require intervention from the Collections and Recoveries teams.

Personal customers experiencing financial difficulty are managed by the Collections team. If the Collections team is unable to provide appropriate support after discussing suitable options with the customer, management of that customer moves to the Recoveries team. If at any point in the collections and recoveries process, the customer is identified as being potentially vulnerable, the customer will be separated from the regular process and supported by a specialist team to ensure the customer receives appropriate support for their circumstances.

Collections

When a customer exceeds an agreed limit or misses a regular monthly payment the customer is contacted by NWB Group and requested to remedy the position. If the situation is not regularised then, where appropriate, the Collections team will become more fully involved and the customer will be supported by skilled debt management staff who endeavour to provide customers with bespoke solutions. Solutions include short-term account restructuring, refinance loans and forbearance which can include interest suspension and 'breathing space'. In the event that an affordable/sustainable agreement with a customer cannot be reached, the debt will transition to the Recoveries team. For provisioning purposes, under IFRS 9, exposure to customers managed by the Collections team is categorised as Stage 2 and subject to a lifetime loss assessment, unless it is 90 days past due or has an interest non-accrual status, in which case it is categorised as Stage 3.

Recoveries

The Recoveries team will issue a notice of intention to default to the customer and, if appropriate, a formal demand, while also registering the account with credit reference agencies where appropriate. Following this, the customer's debt may then be placed with a third-party debt collection agency, or alternatively a solicitor, in order to agree an affordable repayment plan with the customer. An option that may also be considered, is the sale of unsecured debt. Exposures subject to formal debt recovery are defaulted and categorised as Stage 3 impaired.

Wholesale

Early problem identification

Each segment and sector have defined early warning indicators to identify customers experiencing financial difficulty, and to increase monitoring if needed. Early warning indicators may be internal, such as a customer's bank account activity, or external, such as a publicly-listed customer's share price. If early warning indicators show a customer is experiencing potential or actual difficulty, or if relationship managers or credit officers identify other signs of financial difficulty, they may decide to classify the customer within the Risk of Credit Loss framework.

Risk of Credit Loss framework

The framework focuses on Wholesale customers whose credit profiles have deteriorated materially since origination. Expert judgement is applied by experienced credit risk officers to classify cases into categories that reflect progressively deteriorating credit risk to NWB Group. There are two classifications which apply to non-defaulted customers within the framework – Heightened Monitoring and Risk of Credit Loss. For the purposes of provisioning, all exposures subject to the framework are categorised as Stage 2 and subject to a lifetime loss assessment. The framework also applies to those customers that have met NWB Group's default criteria (AQ10 exposures). Defaulted exposures are categorised as Stage 3 impaired for provisioning purposes.

Heightened Monitoring customers are performing customers that have met certain characteristics, which have led to significant credit deterioration. Collectively, characteristics reflect circumstances that may affect the customer's ability to meet repayment obligations. Characteristics include trading issues, covenant breaches, material PD downgrades and past due facilities. Heightened Monitoring customers require pre-emptive actions (outside the customer's normal trading patterns) to return or maintain their facilities within NWB Group's current risk appetite prior to maturity.

Credit risk continued

Risk of Credit Loss customers are performing customers that have met the criteria for Heightened Monitoring and also pose a risk of credit loss to NWB Group in the next 12 months should mitigating action not be taken or not be successful.

Once classified as either Heightened Monitoring or Risk of Credit Loss, a number of mandatory actions are taken in accordance with policies. Actions include a review of the customer's credit grade, facility and security documentation and the valuation of security. Depending on the severity of the financial difficulty and the size of the exposure, the customer relationship strategy is reassessed by credit officers, by specialist credit risk or relationship management units in the relevant business or by Restructuring.

Agreed customer management strategies are regularly monitored by both the business and credit teams. The largest Risk of Credit Loss exposures are regularly reviewed by a Risk of Credit Loss Committee. The committee members are experienced credit, business and restructuring specialists. The purpose of the committee is to review and challenge the strategies undertaken for customers that pose the largest risk of credit loss to NWB Group.

Appropriate corrective action is taken when circumstances emerge that may affect the customer's ability to service its debt (refer to Heightened Monitoring characteristics). Corrective actions may include granting a customer various types of concessions. Any decision to approve a concession will be a function of specific appetite, the credit quality of the customer, the market environment and the loan structure and security. All customers granted forbearance are classified Heightened Monitoring as a minimum.

Other potential outcomes of the relationship review are to: remove the customer from the Risk of Credit Loss framework, offer additional lending and continue monitoring, transfer the relationship to Restructuring if appropriate, or exit the relationship.

The Risk of Credit Loss framework does not apply to problem debt management for business banking customers. These customers are, where necessary, managed by specialist problem debt management teams, depending on the size of exposure or by the business banking recoveries team where a loan has been impaired.

Restructuring

Where customers are categorised as Risk of Credit Loss, relationships are mainly managed by the Restructuring team. The purpose of Restructuring is to protect the NWB Group's capital. Restructuring does this by working with corporate and commercial customers in financial difficulty on their restructuring and repayment strategies. Restructuring will always aim to recover capital fairly and efficiently.

Specialists in Restructuring work with customers experiencing financial difficulties and showing signs of financial stress. Throughout Restructuring's involvement, the mainstream relationship manager will remain an integral part of the customer relationship, unless a repayment strategy is deemed appropriate. The objective is to find a mutually acceptable solution, including restructuring of existing facilities, repayment or refinancing.

Where a solvent outcome is not possible, insolvency may be considered as a last resort. However, helping the customer return to financial health and restoring a normal banking relationship is always the preferred outcome.

Forbearance

Forbearance takes place when a concession is made on the contractual terms of a loan/debt in response to a customer's financial difficulties.

The aim of forbearance is to support and restore the customer to financial health while minimising risk. To ensure that forbearance is appropriate for the needs of the customer, minimum standards are applied when assessing, recording, monitoring and reporting forbearance.

A credit exposure may be forborne more than once, generally where a temporary concession has been granted and circumstances warrant another temporary or permanent revision of the loan's terms.

In the Personal portfolio, loans are reported as forborne until they meet the exit criteria set out by the European Banking Authority. These include being classified as performing for two years since the last forbearance event, making regular repayments and the loan/debt being less than 30 days past due. Exit criteria are not currently applied for Wholesale portfolios.

Types of forbearance

Personal

In the Personal portfolio, forbearance may involve payment concessions and loan rescheduling (including extensions in contractual maturity) and capitalisation of arrears. Forbearance support is provided for both mortgages and unsecured lending.

Wholesale

In the Wholesale portfolio, forbearance may involve covenant waivers, amendments to margins, payment concessions and loan rescheduling (including extensions in contractual maturity), capitalisation of arrears, and debt forgiveness or debt-for-equity swaps.

Monitoring of forbearance

Personal

For Personal portfolios, forborne loans are separated and regularly monitored and reported while the forbearance strategy is implemented, until they exit forbearance.

Wholesale

In the Wholesale portfolio, customer PDs and facility LGDs are reassessed prior to finalising any forbearance arrangement. The ultimate outcome of a forbearance strategy is highly dependent on the co-operation of the borrower and a viable business or repayment outcome. Where forbearance is no longer appropriate, NWB Group will consider other options such as the enforcement of security, insolvency proceedings or both, although these are options of last resort.

Provisioning requirements on forbearance are detailed in the Provisioning for forbearance section.

Impact of COVID-19

COVID-19 has necessitated various changes to the "business as usual" credit risk management approaches set out above. Specific adjustments made to credit risk management as a result of COVID-19 are set out below.

Risk appetite

Personal

The onset of COVID-19 resulted in a significant deterioration in the economic outlook and consequently the credit environment. In response, credit risk appetite was tightened including changes to credit score acceptance thresholds and certain credit policy criteria, for example, maximum loan-to-values on new mortgage business. The criteria were reviewed and adapted on an ongoing basis throughout the year.

Wholesale

At the outset of COVID-19, Wholesale Credit Risk undertook a vulnerability assessment of sectors and conducted more frequent monitoring of these portfolios, including sub-sector and single name analysis. Additional oversight forums for both new and existing customer requests linked to sector, customer viability and transaction value were also introduced. Monitoring of government support scheme lending, including tracking customer lending journeys to prioritise resources, ensured customers could be supported in a timely manner. Risk appetite limits were reduced to reflect current risks and remain under constant review.

Credit risk continued

Identification and measurement

Credit stewardship

Wholesale

NWB Group's credit stewardship included carrying out regular portfolio or customer reviews and problem debt identification and management.

In line with existing credit policy parameters, relationship managers were able to defer annual reviews for a maximum of three months. These deferrals were used during 2020 to provide capacity to focus on supporting government lending scheme requests. Customer review meetings took place virtually unless a specific customer request was made, prior approval obtained and a risk assessment carried out.

Mitigation

Personal

During the COVID-19 lockdown from April to June in the UK, valuers were prohibited from conducting physical property inspections. As a result, mortgage application processing was suspended where a physical valuation was required. Applications eligible for remote valuations (known as desktops) and automated valuations (AVM) were able to continue and NWB Group increased its valuation capacity to provide an additional quality assurance benchmark for ongoing assessment of desktop and AVM standards. Following the April to June lockdown, the application backlog was cleared once valuers were able to safely return to physical property inspections.

Commercial real estate valuations

Commercial property valuations were not conducted during the initial national lockdown due to travel restrictions, during which time physical valuations were postponed. Following this period, government guidance across the UK nations in respect of local and national lockdowns, confirmed that full internal property inspections could continue subject to adopting COVID-19 secure protocols. However, this required the full co-operation of occupiers and in addition, some commercial premises remained closed. Due to the limitations of some property valuations, The Royal Institute for Chartered Surveyors introduced a Material Valuation Uncertainty Clause (MVUC) for use at the time. There was a general lifting of the MVUC for all UK real estate valuations in September. However, where there is still considerable uncertainty for a location or particular sub-sector (for example, assets valued with reference to their trading potential such as hotels), the MVUC may still apply. This position has not changed with second wave local or subsequent national lockdowns.

Assessment and monitoring

Personal

Reflecting the deteriorated economic outlook, underwriting standards were tightened including additional information requirements from self-employed applicants.

Customers requesting a COVID-19 related payment holiday were not subject to a credit assessment for those requests.

Portfolio performance monitoring was expanded to include insight on customers accessing payment holiday support and their performance at the end of the payment holiday period.

Wholesale

NWB Group established guidance on credit grading in response to COVID-19 to ensure consistent and fair outcomes for customers, whilst appropriately reflecting the economic outlook.

- Within the Wholesale portfolio, customer credit grades were reassessed when a request for financing was made, a scheduled customer credit review undertaken or a material event specific to that customer occurred.
- A request for support using one of the government-backed COVID-19 support schemes was not, in itself, a reason for a customer's credit grade to be amended.
- Large or complex customers were graded using financial forecasts, incorporating both the effect of COVID-19 and the estimated length of time to return to within credit appetite metrics.
- All other customers who were not subject to any wider significant increase in credit risk (SICR) triggers and who were assessed as having the ability in the medium-term post-COVID-19 to be viable and meet credit appetite metrics were graded using audited accounts.
- NWB Group identified those customers for whom additional borrowing would require remedial action to return to within risk appetite over the medium term, and customers who were exhibiting signs of financial stress before COVID-19. These customers were graded with reference to the impact COVID-19 had on their business.
- Tailored guidance applies to financial institutions and, where appropriate, specialist credit grading models such as CRE.
- For certain types of COVID-19 related lending under government support schemes, notably BBLs, in line with the requirements of those schemes, a credit assessment was not undertaken.

Within the Wholesale portfolio, additional monitoring was implemented to identify and monitor specific sectors which had been particularly adversely affected by COVID-19 and the use of government support schemes.

Problem debt management

Personal

In accordance with regulatory guidance, Personal customers were able to obtain a payment holiday of up to three months, twice, if requested. Such payment holidays would not necessarily have been considered forbearance (refer to Forbearance below).

In addition, NWB Group suspended new formal repossession recovery action for Personal customers.

Wholesale

In response to COVID-19, a new framework was introduced to categorise clients in a consistent manner across the Wholesale portfolio, based on the impact of COVID-19 on their financial position and outlook in relation to the sector risk appetite. This framework was extended to all Wholesale customers and supplemented the Risk of Credit Loss framework in assessing whether customers exhibited a SICR, and if support was considered to be granting forbearance. Tailored approaches were also introduced for business banking, commercial real estate and financial institutions customers.

Forbearance

Personal

In the absence of any other forbearance or SICR triggers, customers granted COVID-19 related payment holidays were not considered forborne and were not subject to Collections team engagement. However, a subset of customers who had accessed payment holiday support, and where their risk profile was identified as relatively high risk, were collectively migrated to Stage 2. Any support provided beyond the completion of a second payment holiday is considered forbearance, provided the customer's circumstances met the definitions for forbearance as described above.

Wholesale

Customers seeking COVID-19 related support, including payment holidays, who were not subject to any wider SICR triggers and who were assessed as having the ability in the medium term post-COVID-19 to be viable and meet credit appetite metrics, were not considered to have been granted forbearance.

ECL modelling

The unprecedented nature of COVID-19 required various interventions in ECL modelling to ensure reasonable and supportable ECL estimates. These are detailed in the Model monitoring and enhancement section.

Credit grading models

Credit grading models is the collective term used to describe all models, frameworks and methodologies used to calculate PD, exposure at default (EAD), LGD, maturity and the production of credit grades.

Credit grading models are designed to provide:

- An assessment of customer and transaction characteristics.
- A meaningful differentiation of credit risk.
- Accurate internal default, loss and EAD estimates that are used in the capital calculation or wider risk management purposes.

Credit risk continued

Impairment, provisioning and write-offs

In the overall assessment of credit risk, impairment provisioning and write-offs are used as key indicators of credit quality.

NWB Group's IFRS 9 provisioning models, which used existing Basel models as a starting point, incorporate term structures and forward-looking information. Regulatory conservatism within the Basel models has been removed as appropriate to comply with the IFRS 9 requirement for unbiased ECL estimates.

Five key areas may materially influence the measurement of credit impairment under IFRS 9 – two of these relate to model build and three relate to model application:

- Model build:
  - The determination of economic indicators that have most influence on credit loss for each portfolio and the severity of impact (this leverages existing stress testing models which are reviewed annually).
  - The build of term structures to extend the determination of the risk of loss beyond 12 months that will influence the impact of lifetime loss for assets in Stage 2.
- Model application:
  - The assessment of the SICR and the formation of a framework capable of consistent application.
  - The determination of asset lifetimes that reflect behavioural characteristics while also representing management actions and processes (using historical data and experience).
  - The choice of forward-looking economic scenarios and their respective probability weights.

Refer to Accounting policy 14 for further details.

IFRS 9 ECL model design principles

Modelling of ECL for IFRS 9 follows the conventional approach to divide the problem of estimating credit losses for a given account into its component parts of PD, LGD and EAD.

To meet IFRS 9 requirements, the PD, LGD and EAD parameters differ from their Pillar 1 internal ratings based counterparts in the following aspects:

- Unbiased – material regulatory conservatism has been removed from IFRS 9 parameters to produce unbiased estimates.
- Point-in-time – IFRS 9 parameters reflect actual economic conditions at the reporting date instead of long-run average or downturn conditions.
- Forward-looking – IFRS 9 PD estimates and, where appropriate, EAD and LGD estimates reflect forward-looking economic conditions.
- Tenor – IFRS 9 PD, LGD and EAD are provided as multi-period term structures up to exposure lifetimes instead of a fixed one-year horizon.

IFRS 9 requires that at each reporting date, an entity shall assess whether the credit risk on an account has increased significantly since initial recognition. Part of this assessment requires a comparison to be made between the current lifetime PD (i.e. the PD over the remaining lifetime at the reporting date) with the equivalent lifetime PD as determined at the date of initial recognition.

For assets originated before IFRS 9 was introduced, comparable lifetime origination PDs did not exist. These have been retrospectively created using the relevant model inputs applicable at initial recognition.

PD estimates

Personal models

Personal PD models use the Exogenous, Maturity and Vintage (EMV) approach to model default rates. The EMV approach separates portfolio default risk trends into three components: vintage effects (quality of new business over time), maturity effects (changes in risk relating to time on book) and exogenous effects (changes in risk relating to changes in macro-economic conditions). The EMV methodology has been widely adopted across the industry because it enables forward-looking economic information to be systematically incorporated into PD estimates. However, the unprecedented nature of COVID-19 required certain modelling interventions that are detailed in the UK economic uncertainty section.

Wholesale models

Wholesale PD models use a point-in-time/through-the-cycle framework to convert one-year regulatory PDs into point-in-time estimates that accurately reflect economic conditions observed at the reporting date. The framework utilises credit cycle indices (CCIs) across a comprehensive set of region/industry segments. Further detail on CCIs is provided in the Economic loss drivers section.

One year point-in-time PDs are subsequently extended to forward-looking lifetime PDs using a conditional transition matrix approach and a set of econometric models.

LGD estimates

The general approach for the IFRS 9 LGD models is to leverage corresponding Basel LGD models with bespoke adjustments to ensure estimates are unbiased and where relevant, forward-looking.

Personal

Forward-looking information has only been incorporated for the secured portfolios, where changes in property prices can be readily accommodated. Analysis has shown minimal impact of economic conditions on LGDs for the other Personal portfolios.

Wholesale

Forward-looking economic information is incorporated into LGD estimates using the existing CCI framework. For low default portfolios, including sovereigns and banks, loss data is too scarce to substantiate estimates that vary with economic conditions. Consequently, for these portfolios, LGD estimates are assumed to be constant throughout the projection horizon.

EAD estimates

Personal

The IFRS 9 Personal modelling approach for EAD is dependent on product type.

- Revolving products use the existing Basel models as a basis, with appropriate adjustments incorporating a term structure based on time to default.
- Amortising products use an amortising schedule, where a formula is used to calculate the expected balance based on remaining terms and interest rates.
- There is no EAD model for Personal loans. Instead, debt flow (i.e. combined PD x EAD) is modelled directly.

Analysis has indicated that there is minimal impact on EAD arising from changes in the economy for all Personal portfolios except mortgages. Therefore, forward-looking information is only incorporated in the mortgage EAD model (through forecast changes in interest rates).

Wholesale

For Wholesale, EAD values are projected using product specific credit conversion factors (CCFs), closely following the product segmentation and approach of the respective Basel model. However, the CCFs are estimated over multi-year time horizons to produce unbiased model estimates.

No explicit forward-looking information is incorporated, on the basis that analysis has shown that temporal variations in CCFs are mainly attributable to changes in exposure management practices rather than economic conditions.

Credit risk continued

Governance and post model adjustments

The IFRS 9 PD, EAD and LGD models are subject to NWB Group'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 (PMAs) were applied where management judged they were necessary to ensure an adequate level of overall ECL provision. All PMAs 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 PD model monitoring indicated that losses were being over predicted but where it was judged that an implied ECL release was not supportable. As a consequence, any potential ECL release was deferred and retained on the balance sheet.
- Economic uncertainty – ECL adjustments primarily arising from uncertainties associated with multiple economic scenarios (also for 2019) and credit outcomes as a result of the effect of COVID-19 and the consequences of government interventions. In both cases, management judged that additional ECL was required until further credit performance data became available on the behavioural and loss consequences of COVID-19.
- Other adjustments – ECL adjustments where it was judged that the modelled ECL required to be amended.

ECL post model adjustments

2020	Retail Banking £m	Commercial Banking £m	Other £m	Total £m
Deferred model calibrations	**27**	**11**	**—**	**38**
Economic uncertainty	**126**	**388**	**9**	**523**
Other adjustments	**13**	**15**	**—**	**28**
	166	**414**	**9**	**589**
2019				
Deferred model calibrations	—	—	—	—
Economic uncertainty	63	70	1	134
Other adjustments	31	4	—	35
	94	74	1	169

Note:

(1) For 2019, the PMA for model calibrations of approximately £23 million was reported on a different basis. At that time, the value was based on the required ECL uplift pending systematic updates to model parameters, although the adjustment value was included in the reported ECL. For 2020, the value of PD calibration releases that were deemed not supportable and retained on the balance sheet is disclosed. Therefore, to be consistent in approach, the PMA value for 2019 has been reported as nil. For LGD, where model monitoring outcomes were less clear, and emerged over an extended period, monitoring focused on assessing the adequacy of loss estimates, and was duly assured and governed at the year end.

Retail Banking – The PMA for deferred model calibrations of £27 million (of which £19 million was in mortgages) reflected management's judgement that the beneficial modelling impact, and implied ECL decrease, arising from underlying portfolio performance, that had been influenced by the various customer support mechanisms, was not supportable.

The PMA for economic uncertainty included an ECL uplift of £50 million (of which £31 million was in mortgages) on a subset of customers who had accessed payment holiday support where their risk profile was identified as relatively high risk. In addition, there was a holdback of a modelled ECL release of £56 million, again due to the delayed default emergence reflective of the various customer support mechanisms (£12 million related to mortgages and £44 million related to unsecured lending). The overlay as at 31 December 2019 was reflective of the uncertainty associated with Brexit, subsequently systematically incorporated within the multiple economic scenarios. The 2020 overlay also included an ECL uplift on buy-to-let mortgages of £12 million (2019 – £6 million) to mitigate the risk of a disproportionate credit deterioration in challenging economic circumstances.

Other judgmental overlays included £7 million (2019 – £8 million) in respect of the repayment risk not captured in the models, that a proportion of customers on interest-only mortgages would not be able to repay the capital element of their loan at the end of term, as well as a £6 million overlay for an identified weakness in the mortgage PD model pending remediation.

Commercial Banking – The PMA for economic uncertainty included an overlay of £301 million based on a judgemental thesis, reflecting concern that the unprecedented nature of COVID-19 could result in longer debt recovery periods and lower values than history suggested, and also the risk of idiosyncratic credit outcomes. It also included an overlay of £33 million in respect of elevated concerns around borrowers' ability to refinance facilities at the end of the contractual term. Additionally, it included overlays to address the effects of customer support mechanisms.

There was also a PMA for deferred model calibrations on the business banking portfolio reflecting management's judgement that the beneficial modelling impact, and implied ECL decrease, was not supportable again whilst portfolio performance was being under-pinned by the various support mechanisms. Other adjustments included an overlay of £15 million to mitigate the effect of operational timing delays in the identification and flagging of a SICR.

Other – The PMAs in the other businesses were for similar reasons as those described above.

Credit risk continued

Significant increase in credit risk (SICR)

Exposures that are considered significantly credit deteriorated since initial recognition are classified in Stage 2 and assessed for lifetime ECL measurement (exposures not considered deteriorated carry a 12 month ECL). NWB Group has adopted a framework to identify deterioration based primarily on relative movements in lifetime PD supported by additional qualitative backstops. The principles applied are consistent across NWB Group and align to credit risk management practices, where appropriate.

The framework comprises the following elements:

- IFRS 9 lifetime PD assessment (the primary driver) – on modelled portfolios the assessment is based on the relative deterioration in forward-looking lifetime PD and is assessed monthly. To assess whether credit deterioration has occurred, the residual lifetime PD at balance sheet date (which PD is established at date of initial recognition (DOIR)) is compared to the current PD. If the current lifetime PD exceeds the residual origination PD by more than a threshold amount deterioration is assumed to have occurred and the exposure transferred to Stage 2 for a lifetime loss assessment. For Wholesale, a doubling of PD would indicate a SICR subject to a minimum PD uplift of 0.1%. For Personal portfolios, the criteria vary by risk band, with lower risk exposures needing to deteriorate more than higher risk exposures, as outlined in the following table:

Personal risk bands	PD bandings (based on residual lifetime PD calculated at DOIR)	PD deterioration threshold criteria
Risk band A	<0.762%	PD@DOIR + 1%
Risk band B	<4.306%	PD@DOIR + 3%
Risk band C	>=4.306%	1.7 x PD@DOIR

- Qualitative high-risk backstops – the PD assessment is complemented with the use of qualitative high-risk backstops to further inform whether significant deterioration in lifetime risk of default has occurred. The qualitative high-risk backstop assessment includes the use of the mandatory 30+ days past due backstop, as prescribed by IFRS 9 guidance, and other features such as forbearance support, Wholesale exposures managed within the Risk of Credit Loss framework, and adverse credit bureau results for Personal customers. Where a Personal customer was granted a payment holiday (also referred to as a payment deferral) in response to COVID-19, they were not automatically transferred into Stage 2. However, a subset of Personal customers who had accessed payment holiday support, and where their risk profile was identified as relatively high risk, were collectively migrated to Stage 2 (if not in Stage 2 already). Any support provided beyond completion of the second payment holiday was considered forbearance. Wholesale customers accessing the various COVID-19 support mechanisms were assessed as detailed in the Impact of COVID-19 section.
- Persistence (Personal and business banking customers only) – the persistence rule ensures that accounts which have met the criteria for PD driven deterioration are still considered to be significantly deteriorated for three months thereafter. This additional rule enhances the timeliness of capture in Stage 2. The persistence rule is applied to PD driven deterioration only.

The criteria are based on a significant amount of empirical analysis and seek to meet three key objectives:

- Criteria effectiveness – the criteria should be effective in identifying significant credit deterioration and prospective default population.
- Stage 2 stability – the criteria should not introduce unnecessary volatility in the Stage 2 population.
- Portfolio analysis – the criteria should produce results which are intuitive when reported as part of the wider credit portfolio.

Provisioning for forbearance

Personal

The methodology used for provisioning in respect of Personal forborne loans will differ depending on whether the loans are performing or non-performing and which business is managing them due to local market conditions.

Granting forbearance will only change the arrears status of the loan in specific circumstances, which can include capitalisation of principal and interest in arrears, where the loan may be returned to the performing book if the customer has demonstrated an ability to meet regular payments and is likely to continue to do so.

The loan would continue to be reported as forborne until it meets the exit criteria set out by the European Banking Authority.

Additionally, for some forbearance types, a loan may be transferred to the performing book if a customer makes payments that reduce loan arrears below 90 days (Retail Banking collections function).

For ECL provisioning, all forborne but performing exposures are categorised as Stage 2 and are subject to a lifetime loss provisioning assessment.

For non-performing forborne loans, the Stage 3 loss assessment process is the same as for non-forborne loans.

In the absence of any other forbearance or SICR triggers, customers granted COVID-19 related payment holidays were not considered forborne. However, any support provided beyond completion of a second payment holiday is considered forbearance.

Wholesale

Provisions for forborne loans are assessed in accordance with normal provisioning policies. The customer's financial position and prospects – as well as the likely effect of the forbearance, including any concessions granted, and revised PD or LGD gradings – are considered in order to establish whether an impairment provision increase is required.

Wholesale loans granted forbearance are individually assessed in most cases. Performing loans subject to forbearance treatment are categorised as Stage 2 and subject to a lifetime loss assessment.

Forbearance may result in the value of the outstanding debt exceeding the present value of the estimated future cash flows. This difference will lead to a customer being classified as non-performing.

In the case of non-performing forborne loans, an individual loan impairment provision assessment generally takes place prior to forbearance being granted. The amount of the loan impairment provision may change once the terms of the forbearance are known, resulting in an additional provision charge or a release of the provision in the period the forbearance is granted.

The transfer of Wholesale loans from impaired to performing status follows assessment by relationship managers and credit. When no further losses are anticipated and the customer is expected to meet the loan's revised terms, any provision is written-off or released and the balance of the loan returned to performing status. This is not dependent on a specified time period and follows the credit risk manager's assessment.

Customers seeking COVID-19 related support, including payment holidays, who were not subject to any wider SICR triggers and who were assessed as having the ability in the medium term post-COVID-19 to be viable and meet credit appetite metrics, were not considered to have been granted forbearance. Refer to the Impact of COVID-19 section for further details.

Risk and capital management

Credit risk continued

Asset lifetimes

The choice of initial recognition and asset duration is another critical judgement in determining the quantum of lifetime losses that apply.

- The date of initial recognition reflects the date that a transaction (or account) was first recognised on the balance sheet; the PD recorded at that time provides the baseline used for subsequent determination of SICR as detailed above.
- For asset duration, the approach applied (in line with IFRS 9 requirements) is:
  - o Term lending – the contractual maturity date, reduced for behavioural trends where appropriate (such as, expected prepayment and amortisation).
  - o Revolving facilities – for Personal portfolios (except credit cards), asset duration is based on behavioural life and this is normally greater than contractual life (which would typically be overnight). For Wholesale portfolios, asset duration is based on annual counterparty review schedules and will be set to the next review date.

In the case of credit cards, the most significant judgement is to reflect the operational practice of card reissuance and the associated credit assessment as enabling a formal re-origination trigger. As a consequence, a capped lifetime approach of up to 36 months is used on credit card balances. If the approach was uncapped the ECL impact is estimated at approximately £85 million (2019 – £65 million). However, credit card balances originated under the 0% balance transfer product, and representing approximately 14% of drawn cards balances, have their ECL calculated on a behavioural life-time approach as opposed to being capped at a maximum of three years.

The capped approach reflects NWB Group's practice of a credit-based review of customers prior to credit card issuance and complies with IFRS 9. Benchmarking information indicates that peer UK banks use behavioural approaches in the main for credit card portfolios with average durations between three and ten years. Across Europe, durations are shorter and are, in some cases, as low as one year.

Economic loss drivers

Introduction

The portfolio segmentation and selection of economic loss drivers for IFRS 9 follow closely 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 factors, (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 material economic loss drivers for the Personal portfolio include the unemployment rate, the house price index and the Bank of England base rate.

For the Wholesale portfolio, in addition to interest and unemployment rates, national GDP, stock price indices and world GDP are primary loss drivers.

Economic scenarios

As at 31 December 2020, the range of anticipated future economic conditions was defined by a set of four internally developed scenarios and their respective probabilities. They comprised upside, base case, downside and extreme downside scenarios. The scenarios primarily reflected a range of outcomes for the path of COVID-19 and associated effects on labour and asset markets. The scenarios were consistent with the UK-EU Trade and Cooperation Agreement and are summarised as follows:

Upside – This scenario assumes a very strong recovery through 2021, facilitated by a very rapid rollout of the vaccine. Economic output regains its pre-COVID-19 peak by the end of the year. The rebound in consumer spending from an easing in lockdown restrictions is rapid, enabling a more successful reabsorption of furloughed labour compared to the base case. That limits the rise in unemployment. Consequently, the effect on asset prices is more limited compared to the base case.

Base case – The current lockdown restrictions are gradually loosened enabling a recovery over the course of 2021. The rollout of the vaccines proceeds as planned. Consumer spending rebounds as accumulated household savings are spent, providing support to the recovery in consumer-facing service sectors. Unemployment rises through to the second half of 2021, peaking at 7%, before gradually retreating. Housing activity slows in the second half of 2021 with a very limited decline in prices.

Downside – This scenario assumes the rollout of the COVID-19 vaccine is slower compared to base case, leading to a more sluggish recovery. Business confidence is slower to return while households remain more cautious. This scenario assumes that the labour market and asset market damage is greater than in the base case. Unemployment peaks at 9.4%, surpassing the financial crisis peak and causing more scarring.

Extreme downside – This scenario assumes a new variant of COVID-19 necessitates a new vaccine, which substantially slows the speed of rollout, prolonging the recovery. There is a renewed sharp downturn in the economy in 2021. Firms react by shedding labour in significant numbers, leading to a very difficult recovery with the unemployment rate surpassing the levels seen in the 1980s. There are very sharp declines in asset prices. The recovery is tepid throughout the five-year period, meaning only a gradual decline in joblessness.

In contrast, as at 31 December 2019, NWB Group used five discrete scenarios to characterise the distribution of risks in the economic outlook. For 2020, 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, asset price falls and the degree of permanent damage to the economy, around which there are pronounced levels of uncertainty at this stage.

The tables and commentary below provide details of the key economic loss drivers under the four scenarios.

The main macroeconomic variables for each of the four scenarios used for ECL modelling are set out in the main macroeconomic variables table below. The compound annual growth rate (CAGR) for GDP is shown. It also shows the five-year average for unemployment and the Bank of England base rate. The House Price Inflation and *commercial real estate figures show the total change in each asset* over five years.

Credit risk continued

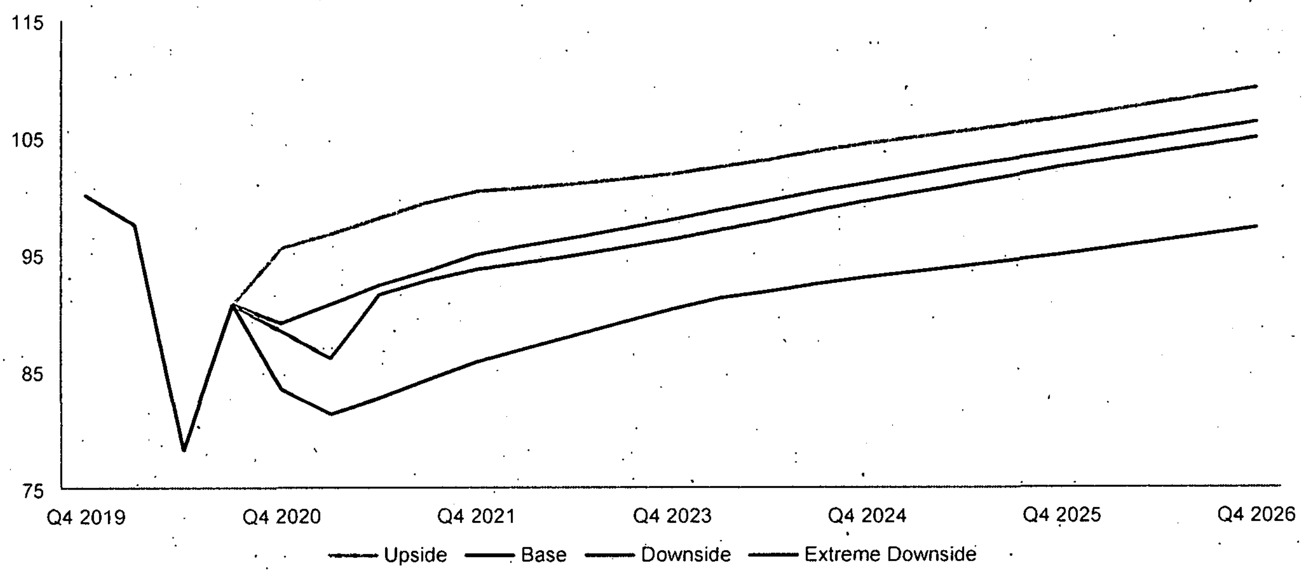
Economic loss drivers

Main macroeconomic variables

	2020				2019				
	Upside	Base case	Downside	Extreme downside	Upside 2	Upside 1	Base case	Downside 1	Downside 2
Five-year summary	%	%	%	%	%	%	%	%	%
UK									
GDP - CAGR	**3.6**	**3.1**	**2.8**	**1.3**	2.5	2.3	1.6	1.3	0.9
Unemployment - average	**4.4**	**5.7**	**7.1**	**9.7**	3.6	3.9	4.4	4.6	5.2
House Price Inflation - total change	**12.5**	**7.6**	**4.4**	**(19.0)**	22.4	17.6	8.3	4.0	(5.1)
Bank of England base rate - average	**0.2**	**—**	**(0.1)**	**(0.5)**	1.0	0.7	0.3	—	—
Commercial real estate price - total change	**4.3**	**0.7**	**(12.0)**	**(31.5)**	13.0	8.1	(1.3)	(5.8)	(15.1)
World GDP - CAGR	**3.5**	**3.4**	**2.9**	**2.8**	3.9	3.3	2.8	2.5	2.0
Probability weight	**20.0**	**40.0**	**30.0**	**10.0**	12.7	14.8	30.0	29.7	12.7

Note:
(1) The five year period starts at Q3 2020 for 2020 and Q3 2019 for 2019.

UK gross domestic product



Risk and capital management

Credit risk continued
Economic loss drivers
Annual figures

UK GDP - annual growth

	Upside %	Base case %	Downside %	Extreme downside %
2020	(9.3)	(10.9)	(11.1)	(12.3)
2021	9.0	4.5	2.6	(4.6)
2022	2.6	4.2	4.6	6.1
2023	2.2	3.2	3.2	4.0
2024	2.3	2.8	3.1	2.3
2025	2.3	2.4	2.6	2.3

Unemployment rate - annual average

	Upside %	Base case %	Downside %	Extreme downside %
2020	4.4	4.4	4.9	5.4
2021	5.6	6.3	8.5	12.3
2022	4.5	6.3	7.7	12.0
2023	3.8	5.5	6.7	9.0
2024	3.8	5.1	6.2	7.5
2025	3.9	5.1	6.2	7.3

House Price Inflation - four quarter growth

	Upside %	Base case %	Downside %	Extreme downside %
2020	2.7	1.5	(1.8)	(5.2)
2021	2.2	(3.0)	(7.4)	(26.9)
2022	1.7	3.6	6.5	5.1
2023	2.2	2.2	4.6	5.0
2024	2.8	2.8	2.8	5.6
2025	3.1	3.1	3.1	3.1

Commercial real estate price - four quarter growth

	Upside %	Base case %	Downside %	Extreme downside %
2020	(7.7)	(9.5)	(16.6)	(21.4)
2021	2.6	(2.6)	(15.9)	(26.6)
2022	0.3	5.7	10.8	3.2
2023	0.4	(0.4)	3.2	3.2
2024	1.2	0.4	1.6	3.2
2025	1.2	1.2	1.2	1.2

Worst points
The worst points refer to the worst four-quarter rate of change for GDP, House Price Inflation and commercial real estate price and the worst quarterly figures for unemployment between 2020 and 2025.

	31 December 2020				31 December 2019	
UK	Upside %	Base case %	Downside %	Extreme downside %	Downside 1 %	Downside 2 %
GDP (year-on-year)	(21.5)	(21.5)	(21.5)	(21.5)	(0.2)	(1.8)
Unemployment	5.9	7.0	9.4	13.9	4.9	5.5
House Price Inflation (year-on-year)	1.4	(3.6)	(11.2)	(29.8)	(3.5)	(8.4)
Commercial real estate price (year-on-year)	(7.7)	(12.3)	(29.7)	(41.1)	(8.2)	(12.6)

Peak (Q3 2020) to trough

	31 December 2020			
UK	Upside %	Base case %	Downside %	Extreme downside %
GDP	—	(1.8)	(5.1)	(10.4)
House Price Inflation	—	(3.6)	(11.2)	(32.0)
Commercial real estate price	(3.4)	(10.1)	(28.9)	(40.4)

Credit risk continued

Probability weightings of scenarios

NWB Group's 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. The scale of the economic impact of COVID-19 and the range of recovery paths necessitates a change of approach to assigning probability weights from that used in recent updates. Previously GDP paths for NWB Group's scenarios were compared against a set of 1,000 model runs, following which a percentile in the distribution was established that most closely corresponded to the scenario. This approach does not produce meaningful outcomes in the current circumstances because GDP is highly volatile and highly uncertain.

Instead, NWB Group has subjectively applied probability weights, reflecting internal expert views. The probability weight assignment was judged to present good coverage to the central scenarios and the potential for a far more robust recovery on the upside and exceptionally challenging outcomes on the downside. A 20% weighting was applied to the upside scenario, a 40% weighting applied to the base case scenario, a 30% weighting applied to the downside scenario and a 10% weighting applied to the extreme downside scenario. NWB Group judged a downside-biased weighting as appropriate given the risk to the outlook posed by the numerous factors influencing the path of COVID-19, the rollout of the vaccine and the pace at which social distancing restrictions can be relaxed.

Use of the scenarios in Personal lending

Personal lending follows a discrete scenario approach which means that for each account, PD and LGD values are calculated as probability weighted averages across the individual, discrete economic scenarios. The PD values for each discrete scenario are in turn calculated using product specific econometric models that aggregate forecasts of the relevant economic loss drivers into forecasts of the exogenous component of the respective PD models (refer to IFRS 9 ECL model design principles).

Use of the scenarios in Wholesale lending

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

The four 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 overlaid with an additional mean reversion assumption, i.e. that after one to two years into the forecast horizon the CCI gradually revert to their long-run average of zero.

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.

The rationale for the Wholesale approach is the long-standing observation that loss rates in Wholesale portfolios tend to follow regular cycles. This allows NWB Group to enrich the range and depth of future economic conditions embedded in the final ECL beyond what would be obtained from using the discrete macro-economic scenarios alone.

Business banking, while part of the Wholesale segment, for reporting purposes, utilises the Personal lending rather than the Wholesale lending methodology.

UK economic uncertainty

Treatment of COVID-19 relief mechanisms

Use of COVID-19 relief mechanisms (for example, payment holidays, CBILS and BBLS) will not automatically merit identification of SICR and trigger a Stage 2 classification in isolation. However, a subset of Personal customers who had accessed payment holiday support, and where their risk profile was identified as relatively high risk were collectively migrated to Stage 2 (if not already captured by other SICR criteria).

For Wholesale customers, NWB Group continues to provide support, where appropriate, to existing customers. Those who are deemed either (a) to require a prolonged timescale to return to within NatWest Group's risk appetite, (b) not to have been viable pre-COVID-19, or (c) not to be able to sustain their debt once COVID-19 is over, will trigger a SICR and, if concessions are sought, be categorised as forborne, in line with regulatory guidance.

As some of the government support mechanisms conclude, NWB Group anticipates further credit deterioration in the portfolios. 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. A key factor would be a more adverse deterioration in GDP and unemployment in the economies in which NWB Group operates, but also, among others:

- The timing and nature of governmental exit plans from lockdown, notably in the UK, and any future repeated lockdown requirements.
- The progress of COVID-19, with potential for changes in worker/consumer behaviour and sickness levels.
- The efficacy of the various government support initiatives in terms of their ability to defray customer defaults is yet to be proven, notably over an extended period.
- Any further damage to certain supply chains, most notably in the case of any re-tightening of lockdown rules but also delays caused by social distancing measures and possible export/import controls.
- The level of revenues lost by corporate clients and pace of recovery of those revenues may affect NWB Group's clients' ability to service their borrowing, especially in those sectors most exposed to the impacts of COVID-19.
- Higher unemployment if companies fail to restart jobs after periods of staff furlough.

This could potentially lead to further ECL increases. However, the income statement impact of this will be mitigated to some extent by the forward-looking provisions taken as at 31 December 2020.

Model monitoring and enhancement

The abrupt and prolonged interruption of a wide range of economic activities due to COVID-19 and the subsequent government interventions to support businesses and individuals, has resulted in patterns in the data of key economic loss drivers and loss outcomes, that are markedly different from those that NWB Group's models have been built on. To account for these structural changes, model adjustments have been applied and model changes have been implemented.

Government support

Most notably as a result of various government support measures, the increase in model-predicted defaults caused by the sharp contraction in GDP and consumer spending in Q2 2020 has to date, not materialised.

Accordingly, model-projected default rates in Wholesale and Personal have been adjusted by introducing lags of up to 12 months. These lags are based partly on objective empirical data (i.e. the absence of increases in realised default rates by the reporting date) and partly judgmental, based on the extension of government support measures into 2021 and their expected effectiveness.

In Wholesale lending, most importantly business and commercial banking, model-projected default rates have also been scaled down based on the expectation that credit extended under various government support loan schemes will allow many businesses, not only to delay, but to sustainably mitigate their default risk profile.

Credit risk continued

Extreme GDP movements – Wholesale only

Due to the specific nature of COVID-19, GDP year-on-year movements in both directions are extremely sharp, many multiples of their respective extremes observed previously.

This creates a risk of overstretched, invalid extrapolations in statistical models. Therefore, all Wholesale econometric models were updated to make them robust against extreme GDP movements by capping projected CCI values at levels corresponding to three times the default rates observed at the peak of the global financial crisis and using quarterly averages rather than spot values for CCI projections.

Industry sector detail – Wholesale only

The economic impact of COVID-19 is highly differentiated by industry sector, with hospitality and other contact-based leisure, service, travel and passenger transport activities significantly more affected than the overall economy. On the other hand, the corporate and commercial econometric forecasting models used in Wholesale are sector agnostic. Sector performance was therefore monitored throughout the year and additional adjustments were applied when PDs were deemed inconsistent with expected loss outcomes at sector level. No such interventions were necessary at the year end.

Scenario sensitivity – Personal only

For the Personal lending portfolio, the forward-looking components of the IFRS 9 PD models were modified, leveraging existing econometric models used in stress testing to ensure that PDs appropriately reflect the forecasts for unemployment and house prices in particular.

All in-model adjustments described have been applied by correcting the PD and LGD estimates within the core ECL calculation process and therefore consistently and systematically inform SICR identification and ECL measurement.

Additionally, post model ECL adjustments were made in Personal to ensure that the ECL was adjusted for known model over and under-predictions pre-existing COVID-19, pending the systematic re-calibration of the underlying models.

Government guarantees

During 2020, the UK government launched a series of temporary schemes designed to support businesses deal with the impact of COVID-19. The BBLS, CBILS and CLBILS lending products are originated by NatWest Group but are covered by government guarantees. These are to be set against the outstanding balance of a defaulted facility after the proceeds of the business assets have been applied. The government guarantee is 80% for CBILS and CLBILS and 100% for BBLS. NatWest Group recognises lower LGDs for these lending products as a result, with 0% applied to the government guaranteed part of the exposure.

Notwithstanding the government guarantees, NatWest Group's measurements of PD are unaffected and NatWest Group continues to move exposures to Stage 2 and Stage 3 where a significant deterioration in credit risk or a default is identified.

Measurement uncertainty and ECL sensitivity analysis

The recognition and measurement of ECL is complex and involves the use of significant judgement 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 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 as at 31 December 2020. 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 have not been considered in this analysis.

The impact arising from the upside, downside and extreme downside scenarios has been simulated. These scenarios are three of the four discrete scenarios used in the methodology for Personal multiple economic scenarios as described in the Economic loss drivers section. In the simulations, NWB Group 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 thus serving as a single economic scenario.

These scenarios have been applied to all modelled portfolios in the analysis below, with the simulation impacting both PDs and LGDs. Modelled overlays present in the underlying ECL estimates are also sensitised in line with the modelled ECL movements, but those that were judgmental in nature, primarily those for 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.

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

The simulated ECL impacts in the December 2020 sensitivity analysis were significantly higher than in the sensitivity analysis carried out at December 2019 (refer to the 2019 Annual Report and Accounts for further details). The relative ECL movements across the scenarios were reflective of a higher actual reported ECL, including certain treatments to capture the idiosyncratic risk of COVID-19, with the economics in the extreme downside scenario significantly more adverse than in the 2019 downside 2 scenario.

Risk and capital management

Credit risk continued

Measurement uncertainty and ECL sensitivity analysis

2020	Actual	Upside	Downside	Extreme downside
Stage 1 modelled exposure (£m)				
Retail Banking	119,853	121,614	118,578	86,853
Wholesale	77,051	82,461	76,097	63,474
Stage 1 modelled ECL (£m)				
Retail Banking	100	77	105	107
Wholesale	228	224	234	204
Stage 1 coverage (%)				
Retail Banking	0.08%	0.06%	0.09%	0.12%
Wholesale	0.30%	0.27%	0.31%	0.32%
Stage 2 modelled exposure (£m)				
Retail Banking	28,283	26,522	29,558	61,283
Wholesale	30,454	25,044	31,408	44,031
Stage 2 modelled ECL (£m)				
Retail Banking	731	540	790	1,451
Wholesale	1,309	945	1,417	2,237
Stage 2 coverage (%)				
Retail Banking	2.58%	2.04%	2.67%	2.37%
Wholesale	4.30%	3.77%	4.51%	5.08%
Stage 1 and Stage 2 modelled exposure (£m)				
Retail Banking	148,136	148,136	148,136	148,136
Wholesale	107,505	107,505	107,505	107,505
Stage 1 and Stage 2 modelled ECL (£m)				
Retail Banking	831	617	895	1,558
Wholesale	1,537	1,169	1,651	2,441
Stage 1 and Stage 2 coverage (%)				
Retail Banking	0.56%	0.42%	0.60%	1.05%
Wholesale	1.43%	1.09%	1.54%	2.27%
Reconciliation to Stage 1 and Stage 2 ECL (£m)				
ECL on modelled exposures	2,368	1,786	2,546	3,999
ECL on non-modelled exposures	56	56	56	56
Total Stage 1 and Stage 2 ECL	2,424	1,842	2,602	4,055
Variance – (lower)/higher to actual total Stage 1 and Stage 2 ECL		(582)	178	1,631

Notes:
(1) Variations in future undrawn exposure values across the scenarios are modelled, however the exposure position reported is that used to calculate modelled ECL as at 31 December 2020 and therefore does not include variation in future undrawn exposure values.
(2) Reflects ECL for all modelled exposure in scope for IFRS 9; in addition to loans this includes bonds and cash. The analysis excludes non-modelled portfolios and exposure relating to bonds and cash.
(3) All simulations are run on a stand-alone basis and are independent of each other, with the potential ECL impact reflecting the simulated impact as at 31 December 2020. The simulations change the composition of Stage 1 and Stage 2 exposure but total exposure is unchanged under each scenario as the loan population is static.
(4) Refer to the Economic loss drivers section for details of economic scenarios.
(5) 2019 comparatives are not included as the sensitivity scenario analysis relates to the 31 December 2020 balance sheet position.

Key points

- During 2020, ECL increased materially as a result of COVID-19 disruption and a negative economic outlook. Downside risk persisted and was reflected in the scenario weightings with heavier weighting to the downside than to the upside. Judgemental ECL post model adjustments reflected heightened uncertainty and expectation of increased defaults in 2021 and beyond. To a certain extent, these adjustments dampen the ECL uplift in the downside scenario, particularly in Wholesale which had already observed a larger proportionate increase in actual reported ECL and coverage.
- If the economics were as negative as observed in the extreme downside, overall Stage 1 and Stage 2 ECL was simulated to increase by approximately 67%. The non-linearity was more apparent in the Personal portfolio driven by mortgages, with the ECL mitigation impact of Wholesale portfolio securitisations observed in downside scenarios, where ECL did not increase to the same extent.
- The relatively small ECL uplift in the downside scenario (£178 million, 7% of actual) reflected the weighting within the multiple economic scenarios used in the actual reported ECL to the downside.
- In the upside scenario, the simulated ECL reduction (£582 million, 24% of actual) was lower than the uplift observed in the extreme downside (£1.6 billion), again reflecting the expectation that the non-linearity of losses was skewed to the downside.
- The simulated value of exposures in Stage 2 increased significantly in the extreme downside and was the key driver of the simulated ECL increase. The movement in Stage 2 balances in the other simulations was less marked, with the exception of Wholesale, where a significant reduction was observed in the upside scenario reflecting the sensitivity of SICR criteria to relatively small movements in PD.
- In a separate simulation covering the base case economic scenario (one of the multiple economic scenarios), and assuming a 100% weighting to that scenario, the total Stage 1 and Stage 2 ECL was simulated to be approximately 8% lower than the actual reported ECL.

Risk and capital management

Credit risk – Banking activities
Introduction
This section details the credit risk profile of NWB Group's banking activities.

Refer to Accounting policy 14 and Note 13 to the financial statements for policies and critical judgements relating to impairment loss determination.

Financial instruments within the scope of the IFRS 9 ECL framework
Refer to Note 10 to the financial statements for balance sheet analysis of financial assets that are classified as amortised cost or fair value through other comprehensive income (FVOCI), the starting point for IFRS 9 ECL framework assessment.

Financial assets

	2020 £bn	2019 £bn
Balance sheet total gross amortised cost and FVOCI	**379.0**	305.6
In scope of IFRS 9 ECL framework	**377.8**	304.2
% in scope	**100%**	100%
Loans - in scope	**278.7**	237.3
Stage 1	**217.6**	215.1
Stage 2	**57.9**	19.4
Stage 3	**3.2**	2.8
Other financial assets - in scope	**99.1**	66.9
Stage 1	**98.1**	66.9
Stage 2	**1.0**	—
Out of scope of IFRS 9 ECL framework	**1.2**	1.4

The assets outside the IFRS 9 ECL framework were as follows:

- Settlement balances, items in the course of collection, cash balances and other non-credit risk assets of £0.6 billion (2019 – £0.7 billion). These were assessed as having no ECL unless there was evidence that they were credit impaired.
- Fair value adjustments on loans hedged by interest rate swaps, where the underlying loan was within the IFRS 9 ECL scope – £0.2 billion (2019 – £0.1 billion).
- NWB Group-originated securitisations, where ECL was captured on the underlying loans of £0.4 billion (2019 – £0.4 billion).

In scope assets also include an additional £2.7 billion (2019 – £3.4 billion) of inter-Group assets not shown in table above.

Contingent liabilities and commitments
In addition to contingent liabilities and commitments disclosed in Note 27 to the financial statements – reputationally-committed limits are also included in the scope of the IFRS 9 ECL framework. These are offset by nil (2019 – £1.1 billion) out of scope balances primarily related to facilities that, if drawn, would not be classified as amortised cost or FVOCI, or undrawn limits relating to financial assets exclusions. Total contingent liabilities (including financial guarantees) and commitments within IFRS 9 ECL scope of £81.5 billion (2019 – £73.9 billion) comprised Stage 1 £65.1 billion (2019 – £69.4 billion); Stage 2 £15.7 billion (2019 – £4.1 billion) and Stage 3 £0.7 billion (2019 – £0.4 billion).

Risk and capital management

Credit risk – Banking activities continued

Portfolio summary – segment analysis

The table below shows gross loans and ECL, by segment and stage, within the scope of the IFRS 9 ECL framework.

2020	Retail Banking £m	Commercial Banking £m	Private Banking £m	Central items & other £m	Total £m
Loans - amortised cost and FVOCI					
Stage 1	124,894	52,291	14,682	25,708	217,575
Stage 2	27,860	28,014	1,880	110	57,864
Stage 3	1,336	1,633	285	—	3,254
Inter-Group (1)				2,685	2,685
	154,090	81,938	16,847	28,503	281,378
ECL provisions (2)					
Stage 1	111	214	30	10	365
Stage 2	731	1,247	67	15	2,060
Stage 3	596	652	37	—	1,285
Inter-Group				2	2
	1,438	2,113	134	27	3,712
ECL provisions coverage (3,4)					
Stage 1 (%)	0.09	0.41	0.20	0.04	0.17
Stage 2 (%)	2.62	4.45	3.56	13.64	3.56
Stage 3 (%)	44.61	39.93	12.98	—	39.49
Inter-Group (%)				0.07	0.07
	0.93	2.58	0.80	0.10	1.33
Impairment losses					
ECL charge (5)					
Stage 1	(28)	(75)	25	9	(69)
Stage 2	526	1,242	60	11	1,839
Stage 3	169	211	15	2	397
Third party (7)	667	1,378	100	22	2,167
Inter-Group				2	2
	667	1,378	100	24	2,169
ECL loss rate - annualised (basis points) (4)	43	168	59	9	78
Amounts written-off	282	231	4	—	517

For the notes to this table refer to the following page.

Risk and capital management

Credit risk – Banking activities continued
Portfolio summary – segment analysis

2019	Retail Banking £m	Commercial Banking £m	Private Banking £m	Central items & other £m	Total £m
Loans - amortised cost and FVOCI					
Stage 1	125,591	61,438	14,292	13,790	215,111
Stage 2	10,236	8,602	551	3	19,392
Stage 3	1,295	1,360	180	—	2,835
Inter-Group (1)				3,389	3,389
	137,122	71,400	15,023	17,182	240,727
ECL provisions (2)					
Stage 1	95	116	7	5	223
Stage 2	363	149	6	—	518
Stage 3	597	658	26	—	1,281
	1,055	923	39	5	2,022
ECL provisions coverage (3,4)					
Stage 1 (%)	0.08	0.19	0.05	0.04	0.10
Stage 2 (%)	3.55	1.73	1.09	—	2.67
Stage 3 (%)	46.10	48.38	14.44	—	45.19
	0.77	1.29	0.26	0.04	0.85
Impairment losses					
ECL charge (5)					
Stage 1	(66)	(42)	(14)	—	(122)
Stage 2	210	90	4	1	305
Stage 3	185	199	3	2	389
Third party	329	247	(7)	3	572
ECL loss rate - annualised (basis points) (4)	24	35	(5)	2	24
Amounts written-off	172	231	1	—	404

Notes:
(1) NWB Group's intercompany assets are classified in Stage 1.
(2) Includes £5 million (2019 – £2 million) related to assets classified as FVOCI.
(3) ECL provisions coverage is calculated as ECL provisions divided by loans - amortised cost and FVOCI.
(4) ECL provisions coverage and ECL loss rates are calculated on third party loans and related ECL provisions and charge respectively. ECL loss rate is calculated as annualised third party ECL charge divided by loans - amortised cost and FVOCI.
(5) Includes a £9 million charge (2019 – £28 million charge) related to other financial assets, of which a £2 million charge (2018 – £1 million charge) related to assets classified as FVOCI; and a £13 million charge (2019 – £27 million) related to contingent liabilities.
(6) The table shows gross loans only and excludes amounts that are outside the scope of the ECL framework. Refer to the Financial instruments within the scope of the IFRS 9 ECL framework section for further details. Other financial assets within the scope of the IFRS 9 ECL framework were cash and balances at central banks totaling £62.0 billion (2019 – £26.8 billion) and debt securities of £37.1 billion (2019 – £40.2 billion).
(7) Intercompany impairment charges are shown in Central items & other. In Note 4 to the financial statements - Segmental analysis - they are shown in the segments where the charges are booked.

Key points
- The ECL requirement increased significantly year-on-year, primarily in Stage 1 and Stage 2, in expectation of credit deterioration reflecting the severity of the economic impact arising from COVID-19. The deteriorated economic outlook also resulted in a significant migration of exposures from Stage 1 to Stage 2, consequently moving from a 12 month to a life-time ECL requirement.
- The various customer support mechanisms continued to mitigate against flows to default during the year, hence there was a limited impact on Stage 3 ECL requirements.
- Reflecting the continued high level of uncertainty arising from COVID-19, management judged that certain ECL post model adjustments were necessary. Refer to the Governance and post model adjustments section for further detail.
- Reflective of the economic environment, the annualised loss rate was elevated and significantly higher than the prior year.
- Business level commentary is provided in the Segmental loans and impairment metrics section.

Credit risk – Banking activities continued

Segmental loans and impairment metrics

The table below shows gross loans and ECL provisions, by days past due by segment and stage, within the scope of the ECL framework.

	Gross loans							ECL provisions (2)						
		Stage 2 (1)							Stage 2 (1)					
	Stage 1 £m	Not past due £m	1-30 DPD £m	>30 DPD £m	Total £m	Stage 3 £m	Total £m	Stage 1 £m	Not past due £m	1-30 DPD £m	>30 DPD £m	Total £m	Stage 3 £m	Total £m
2020														
Retail Banking	124,894	26,536	845	479	27,860	1,336	154,090	111	624	55	52	731	596	1,438
Commercial Banking	52,291	27,274	494	246	28,014	1,633	81,938	214	1,196	35	16	1,247	652	2,113
Private Banking	14,682	1,851	17	12	1,880	285	16,847	30	66	—	1	67	37	134
Personal	*12,176*	*113*	*17*	*11*	*141*	*250*	*12,567*	*6*	*2*	—	—	*2*	*18*	*26*
Wholesale	*2,506*	*1,738*	—	*1*	*1,739*	*35*	*4,280*	*24*	*64*	—	*1*	*65*	*19*	*108*
Central items & other	25,708	110	—	—	110	—	25,818	10	15	—	—	15	—	25
Total loans	217,575	55,771	1,356	737	57,864	3,254	278,693	365	1,901	90	69	2,060	1,285	3,710
Of which:														
Personal	*137,070*	*26,649*	*862*	*490*	*28,001*	*1,586*	*166,657*	*117*	*626*	*55*	*52*	*733*	*614*	*1,464*
Wholesale	*80,505*	*29,122*	*494*	*247*	*29,863*	*1,668*	*112,036*	*248*	*1,275*	*35*	*17*	*1,327*	*671*	*2,246*
2019														
Retail Banking	125,591	9,039	758	439	10,236	1,295	137,122	95	292	34	37	363	597	1,055
Commercial Banking	61,438	8,165	202	235	8,602	1,360	71,400	116	132	10	7	149	658	923
Private Banking	14,292	452	54	45	551	180	15,023	7	5	—	1	6	26	39
Personal	*11,007*	*174*	*52*	*40*	*266*	*165*	*11,438*	*3*	*1*	—	*1*	*2*	*20*	*25*
Wholesale	*3,285*	*278*	*2*	*5*	*285*	*15*	*3,585*	*4*	*4*	—	—	*4*	*6*	*14*
Central items & other	13,790	3	—	—	3	—	13,793	5	—	—	—	—	—	5
Total loans	215,111	17,659	1,014	719	19,392	2,835	237,338	223	429	44	45	518	1,281	2,022
Of which:														
Personal	*136,598*	*9,213*	*810*	*479*	*10,502*	*1,460*	*148,560*	*98*	*293*	*34*	*38*	*365*	*617*	*1,080*
Wholesale	*78,513*	*8,446*	*204*	*240*	*8,890*	*1,375*	*88,778*	*125*	*136*	*10*	*7*	*153*	*664*	*942*

For the notes to this table refer to the following page.

Credit risk – Banking activities continued

Segmental loans and impairment metrics

The table below shows ECL and ECL provisions coverage, by days past due, by segment and stage, within the scope of the ECL framework.

	ECL provisions coverage							ECL		
		Stage 2 (1)								
2020	Stage 1 %	Not past due %	1-30 DPD %	>30 DPD %	Total %	Stage 3 %	Total %	Total charge £m	Loss rate basis points	Amounts written-off £m
Retail Banking	**0.09**	**2.35**	**6.51**	**10.86**	**2.62**	**44.61**	**0.93**	**667**	**43**	**282**
Commercial Banking	**0.41**	**4.39**	**7.09**	**6.50**	**4.45**	**39.93**	**2.58**	**1,378**	**168**	**231**
Private Banking	**0.20**	**3.57**	**—**	**8.33**	**3.56**	**12.98**	**0.80**	**100**	**59**	**4**
Personal	***0.05***	***1.77***	**—**	**—**	***1.42***	***7.20***	***0.21***	***(5)***	***(4)***	**—**
Wholesale	***0.96***	***3.68***	**—**	***100.00***	***3.74***	***54.29***	***2.52***	***105***	***245***	***4***
Central items & other	**0.04**	**13.64**	**—**	**—**	**13.64**	**—**	**0.10**	**22**	**9**	**—**
Total loans	**0.17**	**3.41**	**6.64**	**9.36**	**3.56**	**39.49**	**1.33**	**2,167**	**78**	**517**
Of which:										
Personal	***0.09***	***2.35***	***6.38***	***10.61***	***2.62***	***38.71***	***0.88***	***662***	***40***	***282***
Wholesale	***0.31***	***4.38***	***7.09***	***6.88***	***4.44***	***40.23***	***2.00***	***1,505***	***134***	***235***
2019										
Retail Banking	0.08	3.23	4.49	8.43	3.55	46.10	0.77	329	24	172
Commercial Banking	0.19	1.62	4.95	2.98	1.73	48.38	1.29	247	35	231
Private Banking	0.05	1.11	—	2.22	1.09	14.44	0.26	(7)	(5)	1
Personal	*0.03*	*0.57*	—	*2.50*	*0.75*	*12.12*	*0.22*	*(2)*	*(2)*	—
Wholesale	*0.12*	*1.44*	—	—	*1.40*	*40.00*	*0.39*	*(5)*	*(14)*	*1*
Central items & other	0.04	—	—	—	—	—	0.04	3	2	—
Total loans	0.10	2.43	4.34	6.26	2.67	45.19	0.85	572	24	404
Of which:										
Personal	*0.07*	*3.18*	*4.20*	*7.93*	*3.48*	*42.26*	*0.73*	*327*	*22*	*172*
Wholesale	*0.16*	*1.61*	*4.90*	*2.92*	*1.72*	*48.29*	*1.06*	*245*	*28*	*232*

Notes:
(1) 30 DPD – 30 days past due, the mandatory 30 days past due backstop as prescribed by the IFRS 9 guidance for a SICR.
(2) ECL provisions on contingent liabilities and commitments are included within the Financial assets section so as not to distort ECL coverage ratios.

Key points

- Retail Banking – Balance sheet growth was primarily due to mortgages. This reflected strong customer demand as well as the £3.0 billion acquisition of an owner-occupied mortgage portfolio from Metro Bank (for which a Stage 1 ECL charge of £9 million was incurred on acquisition).
- Unsecured lending balances decreased reflecting reduced customer demand and the pay down of existing borrowing as well as a more restrictive risk appetite reflective of the uncertain external environment. The deteriorated economic outlook, including forecast increases in unemployment, resulted in increased account level IFRS 9 PDs. Consequently, compared to 2019, a larger proportion of customer accounts exhibited a significant increase in credit risk (SICR) which caused a migration of assets from Stage 1 to Stage 2. As a result, the ECL requirement increased.
- While the granting of a COVID-19 related payment holiday did not automatically trigger a migration to Stage 2, a subset of customers who had accessed payment holiday support, and where their risk profile was identified as relatively high risk, were collectively migrated to Stage 2 and their ECL uplifted (refer to the Governance and post model adjustments section for further details). The various COVID-19 related customer support mechanisms (loan repayment holidays, government job retention scheme) continued to mask actual portfolio deterioration in the short-term, with the days past due, and flows to Stage 3 metrics, yet to be materially impacted. Provisions coverage increased overall. However, coverage in Stage 2 alone reduced, mainly due to a proportionately higher share of mortgage exposures where coverage levels were lower. This reflected the secured nature of the borrowing. The loss rate was significantly higher than in the prior year.
- Commercial Banking – Balance sheet growth was primarily due to further drawdowns on existing facilities and new lending under the COVID-19 government lending schemes. The deteriorated economic outlook, including significant reductions in GDP and commercial real estate valuations, resulted in increased IFRS 9 PDs. Consequently, compared to 2019, a larger proportion of the exposures exhibited a SICR which caused a migration of assets from Stage 1 to Stage 2. As a result, the ECL requirement increased. Reflecting the continued high level of uncertainty arising from COVID-19, management judged that certain ECL post model adjustments were necessary, refer to the Governance and post model adjustments section for further details. The increase in Stage 2 assets due to PD deterioration was also the primary driver of the increase in the Stage 2 exposures less than 30 days past due. The various COVID-19 related customer support mechanisms mitigated against flows into default in the short-term. Increased coverage in Stage 1 and Stage 2 was mainly due to the increased ECL, primarily as a result of the deteriorated economic outlook, which was partially offset by a decrease in Stage 3 coverage driven by a small number of individual cases with low ECL. The loss rate was significantly higher than in the prior year.
- Other businesses – The drivers of the increased ECL requirement were similar to those described above.

Credit risk – Banking activities continued

Portfolio summary – sector analysis

The table below shows financial assets and off-balance sheet exposures gross of ECL and related ECL provisions, impairment and past due by sector, asset quality and geographical region.

	Personal				Wholesale					Total
2020	Mortgages (1) £m	Credit cards £m	Other personal £m	Total £m	Property £m	Corporate £m	FI £m	Sovereign £m	Total £m	£m
Loans by geography	156,005	2,908	7,744	166,657	22,980	56,647	28,812	3,597	112,036	278,693
- UK	156,005	2,908	7,744	166,657	22,344	50,947	24,896	2,828	101,015	267,672
- RoI	—	—	—	—	6	774	232	—	1,012	1,012
- Other Europe	—	—	—	—	231	2,973	997	318	4,519	4,519
- RoW	—	—	—	—	399	1,953	2,687	451	5,490	5,490
Loans by stage and asset quality (2)	156,005	2,908	7,744	166,657	22,980	56,647	28,812	3,597	112,036	278,693
Stage 1	130,738	1,772	4,560	137,070	14,665	34,846	27,444	3,550	80,505	217,575
- AQ1	2,937	—	634	3,571	1,227	1,017	59	1,633	3,936	7,507
- AQ2	5,780	—	—	5,780	1,697	216	23,007	845	25,765	31,545
- AQ3	267	—	—	267	1,495	2,726	243	912	5,376	5,643
- AQ4	88,586	17	522	89,125	2,382	7,073	2,998	105	12,558	101,683
- AQ5	26,323	653	783	27,759	2,797	8,346	636	1	11,780	39,539
- AQ6	1,528	579	1,879	3,986	2,287	5,985	256	2	8,530	12,516
- AQ7	4,978	483	531	5,992	1,257	4,603	205	42	6,107	12,099
- AQ8	110	37	161	308	1,305	4,150	38	8	5,501	5,809
- AQ9	229	3	50	282	218	730	2	2	952	1,234
Stage 2	24,244	1,058	2,699	28,001	7,748	20,707	1,361	47	29,863	57,864
- AQ1	14	—	8	22	54	46	—	—	100	122
- AQ2	41	—	—	41	—	—	—	—	—	41
- AQ3	13	—	—	13	103	176	1	—	280	293
- AQ4	5,221	3	38	5,262	894	1,825	350	39	3,108	8,370
- AQ5	15,232	106	198	15,536	2,458	5,684	484	1	8,627	24,163
- AQ6	1,616	247	1,288	3,151	2,490	5,688	242	7	8,427	11,578
- AQ7	471	531	465	1,467	1,383	5,390	236	—	7,009	8,476
- AQ8	840	140	422	1,402	242	1,472	46	—	1,760	3,162
- AQ9	796	31	280	1,107	124	426	2	—	552	1,659
Stage 3	1,023	78	485	1,586	567	1,094	7	—	1,668	3,254
Loans past due analysis (3, 4)	156,005	2,908	7,744	166,657	22,980	56,647	28,812	3,597	112,036	278,693
- Not past due	153,825	2,819	7,058	163,702	22,172	55,410	28,797	3,562	109,941	273,643
- Past due 1-30 days	992	20	134	1,146	294	722	8	35	1,059	2,205
- Past due 31-89 days	479	19	98	596	94	164	4	—	262	858
- Past due 90-180 days	274	14	53	341	152	14	—	—	166	507
- Past due >180 days	435	36	401	872	268	337	3	—	608	1,480
Loans - Stage 2	24,244	1,058	2,699	28,001	7,748	20,707	1,361	47	29,863	57,864
- Not past due	23,150	1,029	2,470	26,649	7,528	20,191	1,356	47	29,122	55,771
- Past due 1-30 days	711	18	133	862	128	362	4	—	494	1,356
- Past due 31-89 days	383	11	96	490	92	154	1	—	247	737

For the notes to this table refer to page 39.

Credit risk – Banking activities *continued*
Portfolio summary – sector analysis

	Personal				Wholesale					Total
	Mortgages (1)	Credit cards	Other personal	Total	Property	Corporate	FI	Sovereign	Total	
2020	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*
Weighted average life*										
- ECL measurement (years)	8	2	5	5	4	6	4	—	5	5
Weighted average 12 months PDs*										
- IFRS 9 (%)	0.56	6.58	4.95	0.85	4.19	3.83	0.34	0.06	2.85	1.67
- Basel (%)	0.77	3.34	3.87	0.95	1.96	2.65	0.18	0.14	1.78	1.28
ECL provisions by geography	353	277	834	1,464	626	1,566	47	7	2,246	3,710
- UK	*353*	*277*	*834*	*1,464*	*595*	*1,384*	*39*	*7*	*2,025*	*3,489*
- RoI	—	—	—	—	—	*13*	*1*	—	*14*	*14*
- Other Europe	—	—	—	—	*23*	*93*	*2*	—	*118*	*118*
- RoW	—	—	—	—	*8*	*76*	*5*	—	*89*	*89*
ECL provisions by stage	353	277	834	1,464	626	1,566	47	7	2,246	3,710
- Stage 1	*21*	*42*	*54*	*117*	*86*	*144*	*11*	*7*	*248*	*365*
- Stage 2	*181*	*180*	*372*	*733*	*304*	*989*	*34*	—	*1,327*	*2,060*
- Stage 3	*151*	*55*	*408*	*614*	*236*	*433*	*2*	—	*671*	*1,285*
ECL provisions coverage (%)	0.23	9.53	10.77	0.88	2.72	2.76	0.16	0.19	2.00	1.33
- Stage 1 (%)	*0.02*	*2.37*	*1.18*	*0.09*	*0.59*	*0.41*	*0.04*	*0.20*	*0.31*	*0.17*
- Stage 2 (%)	*0.75*	*17.01*	*13.78*	*2.62*	*3.92*	*4.78*	*2.50*	—	*4.44*	*3.56*
- Stage 3 (%)	*14.76*	*70.51*	*84.12*	*38.71*	*41.62*	*39.58*	*28.57*	—	*40.23*	*39.49*
ECL charge - Third party	147	155	360	662	410	1,049	41	5	1,505	2,167
ECL loss rate (%)	0.09	5.33	4.65	0.40	1.78	1.85	0.14	0.14	1.34	0.78
Amounts written-off	9	69	204	282	21	213	1	—	235	517
Other financial assets by asset quality (2)	—	—	—	—	—	10	6,585	92,507	99,102	99,102
- AQ1-AQ4	—	—	—	—	—	*10*	*6,484*	*92,502*	*98,996*	*98,996*
- AQ5-AQ8	—	—	—	—	—	—	*101*	*5*	*106*	*106*
Off-balance sheet	10,707	10,632	8,506	29,845	9,370	38,580	2,858	891	51,699	81,544
Loan commitments	*10,704*	*10,632*	*8,468*	*29,804*	*9,073*	*36,762*	*2,762*	*890*	*49,487*	*79,291*
Financial guarantees	*3*	—	*38*	*41*	*297*	*1,818*	*96*	*1*	*2,212*	*2,253*
Off-balance sheet by asset quality (2)	10,707	10,632	8,506	29,845	9,370	38,580	2,858	891	51,699	81,544
- AQ1-AQ4	*10,570*	*118*	*6,901*	*17,589*	*6,590*	*20,958*	*2,083*	*714*	*30,345*	*47,934*
- AQ5-AQ8	*133*	*10,288*	*1,580*	*12,001*	*2,737*	*17,175*	*774*	*177*	*20,863*	*32,864*
- AQ9	—	*5*	*10*	*15*	*7*	*62*	*1*	—	*70*	*85*
- AQ10	*4*	*221*	*15*	*240*	*36*	*385*	—	—	*421*	*661*

Not within audit scope.

For the notes to this table refer to page 39.

Credit risk – Banking activities continued
Portfolio summary – sector analysis

	Personal				Wholesale					Total
	Mortgages (1)	Credit cards	Other personal	Total	Property	Corporate	FI	Sovereign	Total	
2019	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Loans by geography	137,192	3,294	8,074	148,560	20,136	48,985	16,723	2,934	88,778	237,338
- UK	*137,192*	*3,294*	*8,074*	*148,560*	*19,332*	*43,444*	*13,239*	*2,497*	*78,512*	*227,072*
- RoI	—	—	—	—	*72*	*643*	*324*	—	*1,039*	*1,039*
- Other Europe	—	—	—	—	*324*	*2,688*	*870*	*101*	*3,983*	*3,983*
- RoW	—	—	—	—	*408*	*2,210*	*2,290*	*336*	*5,244*	*5,244*
Loans by stage and asset quality (2)	137,192	3,294	8,074	148,560	20,136	48,985	16,723	2,934	88,778	237,338
Stage 1	128,514	2,302	5,782	136,598	18,134	40,892	16,554	2,933	78,513	215,111
- AQ1	*3,631*	—	*637*	*4,268*	*2,391*	*1,881*	*9,902*	*1,252*	*15,426*	*19,694*
- AQ2	*2,360*	—	—	*2,360*	*1,229*	*106*	—	*1,489*	*2,824*	*5,184*
- AQ3	*269*	—	—	*269*	*829*	*2,558*	*982*	*158*	*4,527*	*4,796*
- AQ4	*73,138*	*289*	*467*	*73,894*	*2,738*	*8,966*	*3,829*	—	*15,533*	*89,427*
- AQ5	*43,656*	*537*	*1,009*	*45,202*	*6,297*	*11,906*	*848*	*7*	*19,058*	*64,260*
- AQ6	*3,442*	*702*	*2,128*	*6,272*	*3,036*	*9,437*	*566*	*2*	*13,041*	*19,313*
- AQ7	*1,823*	*681*	*1,136*	*3,640*	*1,543*	*5,757*	*424*	*23*	*7,747*	*11,387*
- AQ8	*107*	*90*	*337*	*534*	*65*	*257*	*3*	*2*	*327*	*861*
- AQ9	*88*	*3*	*68*	*159*	*6*	*24*	—	—	*30*	*189*
Stage 2	7,783	911	1,808	10,502	1,604	7,122	163	1	8,890	19,392
- AQ1	*21*	—	*12*	*33*	—	*48*	—	—	*48*	*81*
- AQ2	*5*	—	—	*5*	—	—	—	—	—	*5*
- AQ3	*8*	—	—	*8*	—	—	—	*1*	*1*	*9*
- AQ4	*1,908*	*9*	*36*	*1,953*	*124*	*476*	—	—	*600*	*2,553*
- AQ5	*2,985*	*42*	*210*	*3,237*	*293*	*1,425*	*86*	—	*1,804*	*5,041*
- AQ6	*955*	*197*	*597*	*1,749*	*640*	*1,220*	*19*	—	*1,879*	*3,628*
- AQ7	*483*	*414*	*481*	*1,378*	*380*	*2,932*	*43*	—	*3,355*	*4,733*
- AQ8	*774*	*206*	*304*	*1,284*	*132*	*808*	*14*	—	*954*	*2,238*
- AQ9	*644*	*43*	*168*	*855*	*35*	*213*	*1*	—	*249*	*1,104*
Stage 3	895	81	484	1,460	398	971	6	—	1,375	2,835
Loans past due analysis (3,4)	137,192	3,294	8,074	148,560	20,136	48,985	16,723	2,934	88,778	237,338
- Not past due	*135,156*	*3,176*	*7,375*	*145,707*	*19,640*	*47,374*	*16,696*	*2,881*	*86,591*	*232,298*
- Past due 1-30 days	*985*	*30*	*125*	*1,140*	*142*	*984*	*20*	*53*	*1,199*	*2,339*
- Past due 31-89 days	*499*	*26*	*100*	*625*	*47*	*225*	*1*	—	*273*	*898*
- Past due 90-180 days	*217*	*22*	*59*	*298*	*16*	*61*	—	—	*77*	*375*
- Past due >180 days	*335*	*40*	*415*	*790*	*291*	*341*	*6*	—	*638*	*1,428*
Loans - Stage 2	7,783	911	1,808	10,502	1,604	7,122	163	1	8,890	19,392
- Not past due	*6,722*	*873*	*1,617*	*9,212*	*1,536*	*6,748*	*161*	*1*	*8,446*	*17,658*
- Past due 1-30 days	*692*	*20*	*99*	*811*	*25*	*178*	*1*	—	*204*	*1,015*
- Past due 31-89 days	*369*	*18*	*92*	*479*	*43*	*196*	*1*	—	*240*	*719*

For the notes to this table refer to the following page.

Credit risk – Banking activities continued

Portfolio summary – sector analysis

	Personal				Wholesale					Total
	Mortgages (1)	Credit cards	Other personal	Total	Property	Corporate	FI	Sovereign	Total	
2019	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Weighted average life*										
- ECL measurement (years)	8	2	6	5	5	6	3	—	6	5
Weighted average 12 months PDs*										
- IFRS 9 (%)	0.24	3.97	3.11	0.48	0.72	1.03	0.12	0.04	0.70	0.55
- Basel (%)	0.72	3.55	3.83	0.94	1.08	1.54	0.24	0.06	1.13	1.01
ECL provisions by geography	209	196	675	1,080	239	688	12	3	942	2,022
- UK	*209*	*196*	*675*	*1,080*	*215*	*544*	*8*	*3*	*770*	*1,850*
- RoI	—	—	—	—	—	*2*	*1*	—	*3*	*3*
- Other Europe	—	—	—	—	*22*	*99*	*2*	—	*123*	*123*
- RoW	—	—	—	—	*2*	*43*	*1*	—	*46*	*46*
ECL provisions by stage	209	196	675	1,080	239	688	12	3	942	2,022
- Stage 1	*11*	*32*	*55*	*98*	*26*	*88*	*8*	*3*	*125*	*223*
- Stage 2	*58*	*100*	*207*	*365*	*27*	*124*	*2*	—	*153*	*518*
- Stage 3	*140*	*64*	*413*	*617*	*186*	*476*	*2*	—	*664*	*1,281*
ECL provisions coverage (%)	0.15	5.95	8.36	0.73	1.19	1.40	0.07	0.10	1.06	0.85
- Stage 1 (%)	*0.01*	*1.39*	*0.95*	*0.07*	*0.14*	*0.22*	*0.05*	*0.10*	*0.16*	*0.10*
- Stage 2 (%)	*0.75*	*10.98*	*11.45*	*3.48*	*1.68*	*1.74*	*1.23*	—	*1.72*	*2.67*
- Stage 3 (%)	*15.64*	*79.01*	*85.33*	*42.26*	*46.73*	*49.02*	*33.33*	—	*48.29*	*45.19*
ECL charge - Third party	31	87	209	327	(2)	242	4	1	245	572
ECL loss rate (%)	0.02	2.64	2.59	0.22	(0.01)	0.49	0.02	0.03	0.28	0.24
Amounts written-off	10	53	109	172	52	170	10	—	232	404
Other financial assets by asset quality (2)	—	—	—	—	—	10	6,379	60,552	66,941	66,941
- AQ1-AQ4	—	—	—	—	—	*10*	*6,329*	*60,318*	*66,657*	*66,657*
- AQ5-AQ8	—	—	—	—	—	—	*50*	*234*	*284*	*284*
Off-balance sheet	10,379	12,369	10,421	33,169	8,119	29,925	1,988	683	40,715	73,884
- Loan commitments	*10,376*	*12,369*	*10,381*	*33,126*	*7,801*	*27,873*	*1,872*	*683*	*38,229*	*71,355*
- Financial guarantees	*3*	—	*40*	*43*	*318*	*2,052*	*116*	—	*2,486*	*2,529*
Off-balance sheet by asset quality (2)	10,379	12,369	10,421	33,169	8,119	29,925	1,988	683	40,715	73,884
- AQ1-AQ4	*10,269*	*2,945*	*8,775*	*21,989*	*5,636*	*17,818*	*1,185*	*659*	*25,298*	*47,287*
- AQ5-AQ8	*106*	*9,216*	*1,636*	*10,958*	*2,444*	*11,903*	*799*	*24*	*15,170*	*26,128*
- AQ9	—	*3*	*10*	*13*	*8*	*20*	*4*	—	*32*	*45*
- AQ10	*4*	*205*	—	*209*	*31*	*184*	—	—	*215*	*424*

*Not within audit scope.

Notes:

(1) Includes a portion of secured lending in Private Banking, in line with ECL calculation methodology. Private Banking mortgages are reported in UK, reflecting the country of lending origination.

(2) AQ bandings are based on Basel PDs and mapping is as follows:

Internal asset quality band	Probability of default range	Indicative S&P rating
AQ1	0% - 0.034%	AAA to AA
AQ2	0.034% - 0.048%	AA to AA-
AQ3	0.048% - 0.095%	A+ to A
AQ4	0.095% - 0.381%	BBB+ to BBB-
AQ5	0.381% - 1.076%	BB+ to BB
AQ6	1.076% - 2.153%	BB- to B+
AQ7	2.153% - 6.089%	B+ to B
AQ8	6.089% - 17.222%	B- to CCC+
AQ9	17.222% - 100%	CCC to C
AQ10	100%	D

£0.2 billion (2019 – £0.2 billion) AQ10 Personal balances primarily relate to loan commitments, the drawdown of which is effectively prohibited.

(3) 30 DPD – 30 days past due, the mandatory 30 days past due backstop as prescribed by the IFRS 9 guidance for a SICR.

(4) Days past due – Personal products: at a high level, for amortising products, the number of days past due is derived from the arrears amount outstanding and the monthly repayment instalment. For credit cards, it is based on payments missed, and for current accounts the number of continual days in excess of borrowing limit. Wholesale products: the number of days past due for all products is the number of continual days in excess of borrowing limit.

Risk and capital management

Credit risk – Banking activities continued

Portfolio summary – sector analysis

The table below shows ECL by stage, for the Personal portfolios and key sectors of the Wholesale portfolios that continue to be affected by COVID-19.

	Loans - amortised cost and FVOCI				Off-balance sheet		ECL provisions			
	Stage 1	Stage 2	Stage 3	Total	Loan commitments (1)	Contingent liabilities	Stage 1	Stage 2	Stage 3	Total
2020	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Personal	**137,070**	**28,001**	**1,586**	**166,657**	**29,804**	**41**	**117**	**733**	**614**	**1,464**
Mortgages	**130,738**	**24,244**	**1,023**	**156,005**	**10,704**	**3**	**21**	**181**	**151**	**353**
Credit cards	**1,772**	**1,058**	**78**	**2,908**	**10,632**	**—**	**42**	**180**	**55**	**277**
Other personal	**4,560**	**2,699**	**485**	**7,744**	**8,468**	**38**	**54**	**372**	**408**	**834**
Wholesale	**80,505**	**29,863**	**1,668**	**112,036**	**49,487**	**2,212**	**248**	**1,327**	**671**	**2,246**
Property	**14,665**	**7,748**	**567**	**22,980**	**9,073**	**297**	**86**	**304**	**236**	**626**
Financial institutions	**27,444**	**1,361**	**7**	**28,812**	**2,762**	**96**	**11**	**34**	**2**	**47**
Sovereign	**3,550**	**47**	**—**	**3,597**	**890**	**1**	**7**	**—**	**—**	**7**
Corporate	**34,846**	**20,707**	**1,094**	**56,647**	**36,762**	**1,818**	**144**	**989**	**433**	**1,566**
Of which:										
Airlines and aerospace	***518***	***831***	***30***	***1,379***	***1,160***	***49***	***2***	***24***	***17***	***43***
Automotive	***3,804***	***1,601***	***147***	***5,552***	***2,998***	***49***	***15***	***51***	***13***	***79***
Education	***609***	***626***	***60***	***1,295***	***922***	***15***	***2***	***37***	***15***	***54***
Health	***1,512***	***1,905***	***76***	***3,493***	***386***	***6***	***8***	***90***	***26***	***124***
Land transport and logistics	***2,218***	***1,465***	***99***	***3,782***	***2,406***	***83***	***6***	***81***	***26***	***113***
Leisure	***2,393***	***4,288***	***205***	***6,886***	***1,023***	***55***	***16***	***270***	***91***	***377***
Oil and gas	***919***	***85***	***32***	***1,036***	***1,041***	***255***	***3***	***5***	***22***	***30***
Retail	***4,411***	***1,870***	***142***	***6,423***	***4,063***	***390***	***13***	***81***	***75***	***169***
Total	**217,575**	**57,864**	**3,254**	**278,693**	**79,291**	**2,253**	**365**	**2,060**	**1,285**	**3,710**
2019										
Personal	136,598	10,502	1,460	148,560	33,126	43	98	365	617	1,080
Mortgages	128,514	7,783	895	137,192	10,376	3	11	58	140	209
Credit cards	2,302	911	81	3,294	12,369	—	32	100	64	196
Other personal	5,782	1,808	484	8,074	10,381	40	55	207	413	675
Wholesale	78,513	8,890	1,375	88,778	38,229	2,486	125	153	664	942
Property	18,134	1,604	398	20,136	7,801	318	26	27	186	239
Financial institutions	16,554	163	6	16,723	1,872	116	8	2	2	12
Sovereign	2,933	1	—	2,934	683	—	3	—	—	3
Corporate	40,892	7,122	971	48,985	27,873	2,052	88	124	476	688
Of which:										
Airlines and aerospace (2)	*926*	*253*	*35*	*1,214*	*699*	*68*	*2*	*2*	*46*	*50*
Automotive	*4,400*	*1,053*	*13*	*5,466*	*2,508*	*49*	*11*	*9*	*9*	*29*
Education	*1,095*	*150*	*9*	*1,254*	*618*	*18*	*2*	*4*	*1*	*7*
Health	*2,656*	*499*	*91*	*3,246*	*331*	*9*	*5*	*8*	*24*	*37*
Land transport and logistics	*2,629*	*195*	*48*	*2,872*	*2,431*	*80*	*5*	*8*	*18*	*31*
Leisure	*4,058*	*865*	*234*	*5,157*	*1,467*	*56*	*17*	*16*	*72*	*105*
Oil and gas	*1,256*	*79*	*40*	*1,375*	*717*	*276*	*1*	*1*	*21*	*23*
Retail	*4,388*	*1,013*	*210*	*5,611*	*3,407*	*415*	*9*	*10*	*146*	*165*
Total	215,111	19,392	2,835	237,338	71,355	2,529	223	518	1,281	2,022

Notes:

(1) Includes £2.5 billion of commercial cards related balances which were brought into the scope of ECL calculations during 2020.

(2) Airlines and aerospace Stage 3 ECL at 31 December 2019 included £27 million of ECL related to contingent liabilities.

Wholesale forbearance

The table below shows Wholesale forbearance, Heightened Monitoring and Risk of Credit Loss by sector. Personal forbearance is disclosed in the Personal portfolio section.

2020	Property £m	FI £m	Other corporate £m	Total £m
Forbearance (flow)	**678**	**48**	**3,153**	**3,879**
Forbearance (stock)	**724**	**48**	**3,447**	**4,219**
Heightened Monitoring and Risk of Credit Loss	**748**	**109**	**3,663**	**4,520**
2019				
Forbearance (flow)	184	5	1,577	1,766
Forbearance (stock)	257	5	1,961	2,223
Heightened Monitoring and Risk of Credit Loss	606	60	2,898	3,564

Credit risk – Banking activities continued

Portfolio summary – sector analysis

Key points

- Loans by geography – In the Personal portfolio, exposures continued to be within the UK and heavily weighted to mortgages. Balance sheet growth was within mortgages including the acquisition by Retail Banking of the owner-occupied portfolio detailed earlier; unsecured lending balances reduced also as described earlier. In the Wholesale portfolio exposures remained heavily weighted to the UK. Balance sheet growth was driven by additional drawings on existing facilities and new lending under the various government supported lending schemes which are primarily to UK customers.
- Loans by asset quality (based on Basel II PD) – In the Personal portfolio, the asset quality distribution deteriorated slightly in credit cards, with balance reductions in higher asset quality bands. In the Wholesale portfolio, Basel II PDs were based on a through-the-cycle approach. The asset quality distribution demonstrated some deterioration across the portfolio consistent with the wider impacts of COVID-19. Lending under government-backed COVID-19 related support schemes was mostly in the AQ8 band. Increased exposure in the AQ2 band in financial institutions is related to Treasury activities as customer deposit levels have increased. In addition, some AQ migration within financial institutions occurred as a result of the downgrade of the UK sovereign. For further details refer to the Asset quality section.
- Loans by stage – In both the Personal and Wholesale portfolios, the deteriorated economic outlook resulted in increased account level IFRS 9 PDs. Consequently, compared to 2019, a larger proportion of accounts exhibited a SICR with an associated migration of exposures from Stage 1 to Stage 2, the vast majority of which were up-to-date with payments. In the absence of any other forbearance or SICR triggers, customers granted COVID-19 related payment holidays were not considered forborne and did not result in an automatic trigger to Stage 2. However, a subset of personal customers who had accessed payment holiday support, and where their risk profile was identified as relatively high risk, were collectively migrated to Stage 2.
- Loans – Past due analysis and Stage 2 – The various COVID-19 related customer support mechanisms (capital repayment holidays, government job retention scheme, government supported lending schemes) are mitigating actual portfolio deterioration in the short term, although there have been some increases in past due exposures in the Wholesale portfolio.
- Weighted average 12 months PDs – In Personal, the Basel II point-in-time PDs have yet to be materially affected by COVID-19. The forward-looking IFRS 9 PDs increased reflecting the deteriorated economics. The IFRS 9 PDs for both unsecured loans (reported within other personal) and mortgages were under-predicting and the ECL was adjusted upwards pending the model parameters being systematically updated. In the Wholesale portfolio, the Basel II PDs were based on a through-the-cycle approach and increased less than the forward looking IFRS 9 PDs which increased, reflecting the deteriorated economic outlook.
- ECL provision by geography – In line with loans by geography, the vast majority of ECL related to exposures in the UK.
- ECL provisions by stage – Stage 1 and Stage 2 provisions increased reflecting the deteriorated economic outlook. As outlined above, Stage 3 provisions have yet to be materially impacted by COVID-19, being mitigated by the various customer support mechanisms detailed earlier.
- ECL provisions coverage – Overall provisions coverage increased. In Stage 2 alone, at a total Personal level, coverage reduced, due to a proportionately higher share of mortgage exposures where coverage levels were lower reflecting the secured nature of the borrowing. In Wholesale, overall provisions coverage increased, primarily due to the effect of the deteriorated economic conditions. Stage 1 and Stage 2 coverage increased, particularly in those sectors suffering the most disruption as a result of COVID-19. The decrease in Stage 3 coverage was due to a small number of individual cases with low ECL.
- The ECL charge and loss rate – Reflecting the deteriorated economic outlook, the impairment charge was elevated, with the loss rate significantly higher than the prior year.
- Other financial assets by asset quality – Consisting almost entirely of cash and balances at central banks and debt securities, held in the course of treasury related management activities, these assets were mainly within the AQ1-AQ4 category.
- Off-balance sheet exposures by asset quality – In Personal, undrawn exposures were reflective of available credit lines in credit cards and current accounts and reduced reflecting an initiative to right-size customer unutilised borrowing limits. Additionally, the mortgage portfolio had undrawn exposure, where a formal offer had been made to a customer but had not yet been drawn down. The asset quality distribution in mortgages remained heavily weighted to the highest quality bands AQ1-AQ4, with credit card concentrated in the risk bands AQ5-AQ8. In Wholesale, undrawn exposures increased as additional lending facilities were agreed, primarily as a result of COVID-19 and was broadly split across the AQ1-AQ4 and AQ5-AQ8 asset quality bands.
- Wholesale forbearance – The value of Wholesale forbearance increased significantly during the year. Customers seeking COVID-19 related support, including payment holidays, who were not subject to any wider SICR triggers and who were assessed as having the ability in the medium term post-COVID-19 to be viable and meet credit appetite metrics, were not considered to have been granted forbearance. The leisure, CRE and automotive sectors represented the largest share of forbearance flow in the Wholesale portfolio by value, with the increase in automotive resulting from forbearance completed on individually significant exposures. In addition, within the retail sector, there was a high volume of lower value forbearance. Payment holidays and covenant waivers were the most common forms of forbearance granted.
- Heightened Monitoring and Risk of Credit Loss – Consistent with the effects of COVID-19, increased flows into Heightened Monitoring and Risk of Credit Loss were noted across a number of sectors. The most material increases in both volumes and value were seen within other corporate and particularly in leisure, land transport & logistics and automotive sectors. In the CRE sector, inflows by value increased; but by volume remained largely stable.

Credit risk – Banking activities continued

Credit risk enhancement and mitigation

The table below shows exposures of modelled portfolios within the scope of the ECL framework and related credit risk enhancement and mitigation (CREM).

	Gross		Maximum credit risk		CREM by type			CREM coverage		Exposure post CREM	
	exposure	ECL	Total	Stage 3	Financial (1)	Property	Other (2)	Total	Stage 3	Total	Stage 3
2020	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Financial assets											
Cash and balances at central banks	**62.0**	**—**	**62.0**	**—**	**—**	**—**	**—**	**—**	**—**	**62.0**	**—**
Loans - amortised cost (3)	**278.6**	**3.6**	**275.0**	**2.0**	**33.8**	**181.6**	**18.4**	**233.8**	**1.7**	**41.2**	**0.3**
Personal (4)	***166.6***	***1.4***	***165.2***	***1.0***	***0.3***	***155.7***	**—**	***156.0***	***0.9***	***9.2***	***0.1***
Wholesale (5)	***112.0***	***2.2***	***109.8***	***1.0***	***33.5***	***25.9***	***18.4***	***77.8***	***0.8***	***32.0***	***0.2***
Debt securities	**37.1**	**—**	**37.1**	**—**	**—**	**—**	**—**	**—**	**—**	**37.1**	**—**
Total financial assets	**377.7**	**3.6**	**374.1**	**2.0**	**33.8**	**181.6**	**18.4**	**233.8**	**1.7**	**140.3**	**0.3**
Contingent liabilities and commitments											
Personal (6,7)	**29.8**	**—**	**29.8**	**0.2**	**—**	**0.9**	**—**	**0.9**	**—**	**28.9**	**0.2**
Wholesale	**51.7**	**0.1**	**51.6**	**0.5**	**1.1**	**4.0**	**3.6**	**8.6**	**—**	**43.0**	**0.5**
Total off-balance sheet	**81.5**	**0.1**	**81.4**	**0.7**	**1.1**	**4.9**	**3.6**	**9.5**	**—**	**71.9**	**0.7**
Total exposure	**459.2**	**3.7**	**455.5**	**2.7**	**34.9**	**186.5**	**22.0**	**243.3**	**1.7**	**212.2**	**1.0**
2019											
Financial assets											
Cash and balances at central banks	26.8	—	26.8	—	—	—	—	—	—	26.8	—
Loans - amortised cost (3)	237.4	2.0	235.4	1.5	11.0	158.8	21.2	191.0	1.2	44.4	0.3
Personal (4)	*148.6*	*1.1*	*147.5*	*0.8*	*0.1*	*136.7*	—	*136.8*	*0.7*	*10.7*	*0.1*
Wholesale (5)	*88.8*	*0.9*	*87.9*	*0.7*	*10.9*	*22.1*	*21.2*	*54.2*	*0.5*	*33.7*	*0.2*
Debt securities	40.2	—	40.2	—	—	—	—	—	—	40.2	—
Total financial assets	304.4	2.0	302.4	1.5	11.0	158.8	21.2	191.0	1.2	111.4	0.3
Contingent liabilities and commitments											
Personal (6,7)	33.2	—	33.2	0.2	—	1.1	—	1.1	—	32.1	0.2
Wholesale	40.7	—	40.7	0.2	0.1	3.3	3.4	6.8	—	33.9	0.2
Total off-balance sheet	73.9	—	73.9	0.4	0.1	4.4	3.4	7.9	—	66.0	0.4
Total exposure	378.3	2.0	376.3	1.9	11.1	163.2	24.6	198.9	1.2	177.4	0.7

Notes:

(1) Includes cash and securities collateral.

(2) Includes guarantees, charges over trade debtors, other asset finance related physical collateral as well as the amount by which credit risk exposure is reduced through netting arrangements, mainly cash management pooling, which give NWB Group a legal right to set off the financial asset against a financial liability due to the same counterparty.

(3) NWB Group holds collateral in respect of individual loans – amortised cost to banks and customers. This collateral includes mortgages over property (both personal and commercial); charges over business assets such as plant and equipment, inventories and trade debtors; and guarantees of lending from parties other than the borrower. NWB Group obtains collateral in the form of securities in reverse repurchase agreements. Collateral values are capped at the value of the loan.

(4) Stage 3 mortgage exposures have relatively limited uncovered exposure reflecting the security held. On unsecured credit cards and other personal borrowing, the residual uncovered amount reflects historical experience of continued cash recovery post default through ongoing engagement with customers.

(5) Stage 3 exposures post credit risk enhancement and mitigation in Wholesale mainly represent enterprise value and the impact of written down collateral values; an individual assessment to determine ECL will consider multiple scenarios and in some instances allocate a probability weighting to a collateral value in excess of the written down value.

(6) £0.2 billion (2019 – £0.2 billion) Personal Stage 3 balances primarily relate to loan commitments, the draw down of which is effectively prohibited.

(7) The Personal gross exposure value includes £9.5 billion (2019 – £9.2 billion) in respect of pipeline mortgages where a committed offer has been made to a customer but where the funds have not yet been drawn down. When drawn down, the exposure would be covered by a security over the borrower's property.

Credit risk – Banking activities continued
Personal portfolio
Disclosures in the Personal portfolio section include drawn exposure (gross of provisions).

	2020			2019		
	Retail Banking	Private Banking	Total	Retail Banking	Private Banking	Total
Personal lending	£m	£m	£m	£m	£m	£m
Mortgages	**145,275**	**10,345**	**155,620**	127,400	9,377	136,777
Of which:						
Owner occupied	**132,564**	**9,091**	**141,655**	114,607	8,196	122,803
Buy-to-let	**12,711**	**1,253**	**13,964**	12,792	1,181	13,973
Interest only - variable	**2,816**	**4,203**	**7,019**	3,511	3,464	6,975
Interest only - fixed	**11,879**	**4,509**	**16,388**	10,960	4,356	15,316
Mixed (1)	**5,979**	**—**	**5,979**	4,758	—	4,758
Impairment provisions (2)	**343**	**5**	**348**	193	13	206
Other personal lending (3)	**8,610**	**1,546**	**10,156**	*9,968*	*1,668*	*11,636*
Impairment provisions (2)	**1,091**	**18**	**1,109**	*855*	*14*	*869*
Total personal lending	**153,885**	**11,891**	**165,776**	137,368	11,045	148,413
Mortgage LTV ratios						
- Total portfolio	**58%**	**58%**	**58%**	58%	57%	58%
- Stage 1	***56%***	***58%***	***56%***	*58%*	*57%*	*58%*
- Stage 2	***68%***	***62%***	***68%***	*59%*	*61%*	*59%*
- Stage 3	***55%***	***64%***	***56%***	*56%*	*70%*	*58%*
- Buy-to-let	**53%**	**56%**	**53%**	53%	54%	53%
- Stage 1	***52%***	***56%***	***52%***	*52%*	*54%*	*52%*
- Stage 2	***61%***	***59%***	***61%***	*57%*	*57%*	*57%*
- Stage 3	***57%***	***53%***	***56%***	*59%*	*57%*	*59%*
Gross new mortgage lending (4)	**29,734**	**2,078**	**31,812**	30,847	2,027	32,874
Of which:						
Owner occupied	**28,827**	**1,860**	**30,687**	29,813	1,810	31,623
Weighted average LTV	**69%**	**66%**	**69%**	69%	65%	69%
Buy-to-let	**907**	**218**	**1,125**	1,034	217	1,251
Weighted average LTV	**63%**	**62%**	**63%**	61%	59%	61%
Interest only - variable rate	**69**	**1,053**	**1,122**	42	665	707
Interest only - fixed rate	**1,439**	**675**	**2,114**	1,209	951	2,160
Mixed (1)	**1,600**	**—**	**1,600**	1,031	—	1,031
Mortgage forbearance						
Forbearance flow	**393**	**46**	**439**	311	4	315
Forbearance stock	**876**	**15**	**891**	774	2	776
Current	***423***	***13***	***436***	*392*	*1*	*393*
1-3 months in arrears	***277***	**—**	***277***	*233*	—	*233*
>3 months in arrears	***176***	***2***	***178***	*149*	*1*	*150*

Notes:
(1) Includes accounts which have an interest only sub-account and a capital and interest sub-account to provide a more comprehensive view of interest only exposures.
(2) Retail Banking excludes a non-material amount of provisions held on relatively small legacy portfolios.
(3) Comprises unsecured lending except for Private Banking, which includes both secured and unsecured lending. It excludes loans that are commercial in nature.
(4) Retail Banking excludes additional lending to existing customers.

Key points
- Although the economic outlook deteriorated, reflected in the IFRS 9 stage migrations and ECL described earlier, the overall credit risk profile and underlying performance of the Personal portfolio remained stable during 2020.
- Personal lending increased during 2020 primarily due to mortgage growth and, in Retail Banking the acquisition of a £3 billion portfolio of owner occupied mortgages from Metro Bank. Unsecured lending reduced due to lower credit cards and overdraft usage during COVID-19.
- New mortgage lending was slightly lower than in 2019. COVID-19 restrictions affected volumes in the second and third quarters of the year. The existing mortgage stock and new business were closely monitored against agreed risk appetite parameters. These included loan-to-value ratios, buy-to-let concentrations, new-build concentrations and credit quality. These criteria were appropriately amended during the year to manage the effects of COVID-19 on the credit risk profile and underwriting standards were maintained.
- Mortgage growth was driven by the owner occupied portfolio.
- By value, the proportion of mortgages on interest only and mixed terms (capital and interest only) reduced. This was mainly due to low proportions of buy-to-let and owner occupier interest only new business.
- 38% of the stock of lending was in Greater London and the South East (2019 – 35%). The average weighted loan-to-value for these regions was 55% (2019 – 52%) compared to 58% for all regions.
- Unsecured balances declined, with the decrease primarily a result of reductions in overdrafts and credit card borrowing in Retail Banking. Overdraft and credit card usage decreased significantly following the COVID-19 lockdown. NWB Group also responded to COVID-19 with a more cautious approach to new lending, to protect NWB Group and customers from potentially unaffordable borrowing.
- As detailed previously, the deteriorated economic outlook, including forecast increases in unemployment and declines in house prices, resulted in an increased ECL requirement.

Risk and capital management

Credit risk – Banking activities continued
Personal portfolio
Mortgage LTV distribution by stage
The table below shows gross mortgage lending and related ECL by LTV band for Retail Banking. Mortgage lending not within the scope of IFRS 9 ECL reflected portfolios carried at fair value.

	Mortgages						ECL provisions				ECL provisions coverage (2)			
2020	Stage 1 £m	Stage 2 £m	Stage 3 £m	Not within IFRS 9 ECL scope £m	Total £m	Of which: gross new lending £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total (1) £m	Stage 1 %	Stage 2 %	Stage 3 %	Total %
≤50%	42,193	3,585	348	112	46,238	4,026	3	29	63	95	—	0.8	18.2	0.2
>50% and ≤70%	50,853	6,102	334	31	57,320	8,845	6	49	50	105	—	0.8	14.9	0.2
>70% and ≤80%	18,979	8,922	99	8	28,008	10,835	7	47	16	70	—	0.5	16.0	0.2
>80% and ≤90%	7,669	5,326	36	6	13,037	5,037	3	46	7	56	—	0.9	18.5	0.4
>90% and ≤100%	363	122	9	2	496	832	—	4	2	6	0.1	3.3	24.8	1.3
>100% and ≤110%	18	27	4	1	50	—	—	2	1	3	0.1	6.3	16.9	4.8
>110% and ≤130%	23	43	5	1	72	—	—	3	2	5	0.3	7.2	29.5	6.6
>130% and ≤150%	5	19	5	—	29	—	—	1	1	2	—	7.2	21.2	8.1
>150%	1	3	3	—	7	—	—	—	1	1	0.1	9.4	44.4	22.6
Total with LTVs	120,104	24,149	843	161	145,257	29,575	19	181	143	343	—	0.7	16.9	0.2
Other	14	3	1	—	18	159	—	—	—	—	—	1.3	20.7	1.0
Total	120,118	24,152	844	161	145,275	29,734	19	181	143	343	—	0.7	16.9	0.2
2019														
≤50%	38,797	2,346	315	147	41,605	4,441	1	12	53	66	—	0.5	16.8	0.2
>50% and ≤70%	41,878	2,794	294	87	45,053	8,453	2	20	40	62	—	0.7	13.7	0.1
>70% and ≤80%	21,495	1,259	103	38	22,895	8,173	2	10	15	27	—	0.8	14.7	0.1
>80% and ≤90%	13,201	950	56	25	14,232	8,442	2	9	10	21	—	1.0	16.8	0.1
>90% and ≤100%	3,216	138	12	15	3,381	1,117	1	3	3	7	—	2.3	23.8	0.2
>100% and ≤110%	36	25	5	1	67	—	—	1	1	2	0.1	5.1	21.7	3.6
>110% and ≤130%	45	35	6	1	87	—	—	2	2	4	0.1	6.1	33.6	4.7
>130% and ≤150%	19	22	5	—	46	—	—	1	1	2	0.1	6.3	26.2	6.1
>150%	3	7	3	—	13	—	—	—	2	2	0.1	6.5	45.7	15.2
Total with LTVs	118,690	7,576	799	314	127,379	30,626	8	58	127	193	—	0.8	15.8	0.2
Other	18	2	1	—	21	221	—	—	—	—	—	0.5	36.8	1.2
Total	118,708	7,578	800	314	127,400	30,847	8	58	127	193	—	0.8	15.8	0.2

Notes:
(1) Excludes a non-material amount of provisions held on relatively small legacy portfolios.
(2) ECL provisions coverage is ECL provisions divided by mortgages.

Key points

- ECL coverage rates increased through the LTV bands with Retail Banking having only limited exposures in the highest LTV bands. The relatively high coverage level in the lowest LTV band for Retail Banking included the effect of time-discounting on expected recoveries. Additionally, this also reflected the modelling approach that recognised an element of expected loss on mortgages that were not subject to formal repossession activity.
- The deteriorated economic outlook resulted in increased account level IFRS 9 PDs. Consequently, compared to the 2019 year-end, a larger proportion of accounts exhibited a SICR with an associated migration of exposures from Stage 1 to Stage 2.

Credit risk – Banking activities continued

Mortgage LTV distribution by region

The table below shows gross mortgage lending by LTV band for Retail Banking, by geographical region.

2020	≤50% £m	50% ≤80% £m	80% ≤100% £m	100% ≤150% £m	>150% £m	Total £m	Weighted average LTV %	Other £m	Total £m
South East	**9,608**	**16,523**	**2,333**	**3**	**—**	**28,467**	**56**	**4**	**28,471**
Greater London	**11,444**	**14,006**	**1,617**	**2**	**—**	**27,069**	**53**	**4**	**27,073**
Scotland	**1,371**	**4,124**	**836**	**—**	**—**	**6,331**	**62**	**—**	**6,331**
North West	**3,625**	**8,532**	**1,320**	**1**	**—**	**13,478**	**59**	**2**	**13,480**
South West	**4,512**	**8,140**	**873**	**3**	**—**	**13,528**	**56**	**3**	**13,531**
West Midlands	**2,869**	**6,605**	**1,242**	**4**	**—**	**10,720**	**60**	**1**	**10,721**
East of England	**5,630**	**9,869**	**1,569**	**2**	**—**	**17,070**	**57**	**1**	**17,071**
Rest of the UK	**7,178**	**17,529**	**3,744**	**135**	**8**	**28,594**	**61**	**3**	**28,597**
Total	**46,237**	**85,328**	**13,534**	**150**	**8**	**145,257**	**58**	**18**	**145,275**
2019									
South East	8,623	12,822	2,650	6	—	24,101	57	5	24,106
Greater London	11,373	9,962	1,484	4	—	22,823	50	3	22,826
Scotland	1,143	3,350	1,149	1	—	5,643	65	—	5,643
North West	3,297	7,384	1,598	4	—	12,283	60	2	12,285
South West	3,881	6,850	1,364	5	—	12,100	58	2	12,102
West Midlands	2,557	5,537	1,473	4	—	9,571	61	1	9,572
East of England	4,942	8,145	1,909	3	—	14,999	58	2	15,001
Rest of the UK	5,789	13,899	5,985	173	13	25,859	65	6	25,865
Total	41,605	67,949	17,612	200	13	127,379	58	21	127,400

Note:
(1) 2020 regional data was based on the Office for National Statistics mapping (previously Halifax), therefore 2019 data has been represented on the same basis.

Commercial real estate (CRE)

The CRE portfolio comprises exposures to entities involved in the development of, or investment in, commercial and residential properties (including house builders but excluding housing associations, construction and the building materials sub-sector). The sector is reviewed regularly by senior executive committees. Reviews include portfolio credit quality, capital consumption and control frameworks. All disclosures in the CRE section are based on current exposure (gross of provisions and risk transfer). Current exposure is defined as: loans; the amount drawn under a credit facility plus accrued interest; contingent obligations; the issued amount of the guarantee or letter of credit; derivatives – the mark-to-market value, netted where netting agreements exist and net of legally enforceable collateral.

By sub-sector	2020 £m	2019 £m
Investment		
Residential (1)	**2,790**	2,580
Office (2)	**1,886**	1,380
Retail (3)	**2,253**	1,887
Industrial (4)	**1,689**	1,412
Mixed/other (5)	**1,924**	2,516
	10,542	9,775
Development		
Residential (1)	**1,796**	1,575
Office (2)	**82**	40
Retail (3)	**93**	95
Industrial (4)	**67**	36
Mixed/other (5)	**20**	14
	2,058	1,760
Total (6)	**12,600**	11,535

Notes:
(1) Properties including houses, flats and student accommodation.
(2) Properties including offices in central business districts, regional headquarters and business parks.
(3) Properties including high street retail, shopping centres, restaurants, bars and gyms.
(4) Properties including distribution centres, manufacturing and warehouses.
(5) Properties that do not fall within the other categories. Mixed generally relates to a mixture of retail/office with residential.
(6) 99% (2019 – 99%) of the total exposure relates to the UK.

Credit risk – Banking activities continued
Commercial real estate
CRE LTV distribution by stage
The table below shows CRE current exposure and related ECL by LTV band.

	Current exposure (gross of provisions) (1,2)					ECL provisions				ECL provisions coverage (4)			
2020	Stage 1 £m	Stage 2 £m	Stage 3 £m	Not within IFRS 9 ECL scope (3) £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 %	Stage 2 %	Stage 3 %	Total %
≤50%	**2,824**	**2,505**	**19**	**—**	**5,348**	**29**	**80**	**5**	**114**	**1.0**	**3.2**	**26.3**	**2.1**
>50% and ≤70%	**1,658**	**1,466**	**130**	**—**	**3,254**	**25**	**48**	**47**	**120**	**1.5**	**3.3**	**36.2**	**3.7**
>70% and ≤80%	**21**	**73**	**12**	**—**	**106**	**—**	**4**	**4**	**8**	**—**	**5.5**	**33.3**	**7.5**
>80% and ≤90%	**81**	**22**	**11**	**—**	**114**	**1**	**2**	**4**	**7**	**1.2**	**9.1**	**36.4**	**6.1**
>90% and ≤100%	**8**	**21**	**29**	**—**	**58**	**—**	**1**	**18**	**19**	**—**	**4.8**	**62.1**	**32.8**
>100% and ≤110%	**6**	**2**	**10**	**—**	**18**	**2**	**—**	**3**	**5**	**33.3**	**—**	**30.0**	**27.8**
>110% and ≤130%	**1**	**18**	**40**	**—**	**59**	**—**	**1**	**14**	**15**	**—**	**5.6**	**35.0**	**25.4**
>130% and ≤150%	**12**	**4**	**4**	**—**	**20**	**—**	**—**	**2**	**2**	**—**	**—**	**50.0**	**10.0**
>150%	**15**	**13**	**6**	**—**	**34**	**—**	**1**	**4**	**5**	**—**	**7.7**	**66.7**	**14.7**
Total with LTVs	**4,626**	**4,124**	**261**	**—**	**9,011**	**57**	**137**	**101**	**295**	**1.2**	**3.3**	**38.7**	**3.3**
Total portfolio average LTV (%)	**47%**	**47%**	**80%**	**—**	**47%**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Other (5)	**1,163**	**307**	**39**	**22**	**1,531**	**3**	**28**	**32**	**63**	**0.3**	**9.1**	**82.1**	**4.2**
Development (6)	**735**	**1,207**	**111**	**5**	**2,058**	**11**	**41**	**47**	**99**	**1.5**	**3.4**	**42.3**	**4.8**
Total	**6,524**	**5,638**	**411**	**27**	**12,600**	**71**	**206**	**180**	**457**	**1.1**	**3.7**	**43.8**	**3.6**
2019													
≤50%	3,975	202	22	829	5,028	4	4	6	14	0.1	2.0	27.3	0.3
>50% and ≤70%	2,127	171	27	833	3,158	4	2	7	13	0.2	1.2	25.9	0.6
>70% and ≤80%	102	11	23	9	145	—	1	5	6	—	9.1	21.7	4.4
>80% and ≤90%	30	13	8	1	52	—	—	1	1	—	—	12.5	2.0
>90% and ≤100%	14	1	4	1	20	1	—	1	2	7.1	—	25.0	10.5
>100% and ≤110%	14	3	2	—	19	—	—	1	1	—	—	50.0	5.3
>110% and ≤130%	16	25	22	—	63	—	1	7	8	—	4.0	31.8	12.7
>130% and ≤150%	1	—	4	—	5	—	—	2	2	—	—	50.0	40.0
>150%	22	—	9	—	31	—	—	7	7	—	—	77.8	22.6
Total with LTVs	6,301	426	121	1,673	8,521	9	8	37	54	0.1	1.9	30.6	0.8
Total portfolio average LTV (%)	44%	55%	92%	48%	46%	—	—	—	—	—	—	—	—
Other (5)	212	81	54	907	1,254	3	3	36	42	1.4	3.7	66.7	12.1
Development (6)	1,353	173	70	164	1,760	4	3	45	52	0.3	1.7	64.3	3.3
Total	7,866	680	245	2,744	11,535	16	14	118	148	0.2	2.1	48.2	1.7

Notes:
(1) Comprises gross lending, interest rate hedging derivatives and other assets carried at fair value that are managed as part of the overall CRE portfolio.
(2) The exposure in Stage 3 mainly related to legacy assets.
(3) Includes exposures relating to non-modelled portfolios and other exposures carried at fair value, including derivatives.
(4) ECL provisions coverage is ECL provisions divided by current exposure.
(5) Relates mainly to business banking, rate risk management products and unsecured corporate lending.
(6) Relates to the development of commercial and residential properties. LTV is not a meaningful measure for this type of lending activity.

Key points

- Overall – The majority of the CRE portfolio was located and managed in the UK. Business appetite and strategy remained aligned across the segments.
- 2020 trends – The portfolio remained broadly unchanged in composition although a migration of some assets from the mixed/other sub-sector was noted, following a reclassification carried out during the year. While new activity in 2020 was subdued due to COVID-19, NWB Group supported existing customers with capital repayment holidays, interest roll-ups and extensions using CRE specific criteria and government backed COVID-19 support schemes. Demand for scheme support reduced in the latter part of the year.
- The retail and leisure sectors were heavily affected by the lockdown, resulting in low rental payments, and these sectors remained under stress. The office sector was more resilient overall, albeit the smaller serviced-office sub-sector came under some stress given the short-term nature of income and site closures. Demand for office space in the medium-term was expected to decline, with flexible working trends continuing post COVID-19. Market sentiment remained negative for most retail assets, but there were tentative signs of improvement for retail warehousing (accounting for approximately 15% of the retail sub-sector) where investment in industrial assets was demonstrating increased demand. The residential development sector continued to attract institutional capital and was generally performing well.
- Credit quality – Despite significant challenges across the CRE sector, with customers utilising COVID-19 related government support measures, Heightened Monitoring inflows by volume were stable. By value however, Heightened Monitoring and Risk of Credit Loss exposures increased, with a rise of migration into AQ10. This increase was largely due to individually significant names, particularly in the retail sub-sector.
- Risk appetite – Appetite in CRE remained cautious. Pre-COVID-19 conservative lending criteria remained in place, including lower leverage required for new London office originations and parts of the retail sector. From January 2021, new minimum standards were introduced for CRE lending appetite for residential new build lending, which requires properties to achieve a minimum Energy Performance Certificate rating of B. In addition, standard lending terms for CRE now include NatWest Group's preference for green leases to be used by commercial landlords. Green leases are a mechanism for landlords and tenants to work together to improve the sustainability of a building.

Credit risk – Banking activities *continued*

Flow statements

The flow statements that follow show the main ECL and related income statement movements. They also show the changes in ECL as well as the changes in related financial assets used in determining ECL. Due to differences in scope, exposures in this section may therefore 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 impact. 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 to 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.
- There were small ECL flows from Stage 3 to Stage 1. This does not, however, indicate that accounts returned from Stage 3 to Stage 1 directly. On a similar basis, there were flows from Stage 1 to Stage 3 including transfers due to unexpected default events. The small number of write-offs in Stage 1 and Stage 2 reflect the effect of portfolio debt sales and also staging at the start of the analysis period.
- The effect of any change in PMAs during the year is typically reported under changes in risk parameters, as are any impacts 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	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
NWB Group total	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2020	**270,693**	**223**	**19,954**	**518**	**3,184**	**1,281**	**293,831**	**2,022**
Currency translation and other adjustments	**1,193**	**—**	**(214)**	**—**	**25**	**23**	**1,004**	**23**
Inter-Group transfers	**(13)**	**(1)**	**51**	**5**	**—**	**—**	**38**	**4**
Transfers from Stage 1 to Stage 2	**(83,850)**	**(412)**	**83,850**	**412**	**—**	**—**	**—**	**—**
Transfers from Stage 2 to Stage 1	**31,928**	**599**	**(31,928)**	**(599)**	**—**	**—**	**—**	**—**
Transfers to Stage 3	**(403)**	**(2)**	**(2,127)**	**(217)**	**2,530**	**219**	**—**	**—**
Transfers from Stage 3	**221**	**27**	**903**	**99**	**(1,124)**	**(126)**	**—**	**—**
Net re-measurement of ECL on stage transfer		**(471)**		**1,542**		**322**		**1,393**
Changes in risk parameters (model inputs)		**230**		**492**		**182**		**904**
Other changes in net exposure	**83,263**	**172**	**(10,163)**	**(192)**	**(820)**	**(44)**	**72,280**	**(64)**
Other (P&L only items)		**—**		**(3)**		**(61)**		**(64)**
Income statement (releases)/charges		**(69)**		**1,839**		**399**		**2,169**
Amounts written-off	**—**	**—**	**—**	**—**	**(523)**	**(523)**	**(523)**	**(523)**
Unwinding of discount		**—**		**—**		**(49)**		**(49)**
At 31 December 2020	**303,032**	**365**	**60,326**	**2,060**	**3,272**	**1,285**	**366,630**	**3,710**
Net carrying amount	**302,667**		**58,266**		**1,987**		**362,920**	
At 1 January 2019	266,834	184	17,393	452	3,071	1,163	287,298	1,799
2019 movements	3,859	39	2,561	66	113	118	6,533	223
At 31 December 2019	270,693	223	19,954	518	3,184	1,281	293,831	2,022
Net carrying amount	270,470		19,436		1,903		291,809	

Credit risk – Banking activities continued
Flow statements

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
Retail Banking - mortgages	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2020	**118,299**	**11**	**7,697**	**58**	**816**	**128**	**126,812**	**197**
Currency translation and other adjustments	**—**	**—**	**—**	**—**	**13**	**11**	**13**	**11**
Transfers from Stage 1 to Stage 2	**(25,903)**	**(7)**	**25,903**	**7**	**—**	**—**	**—**	**—**
Transfers from Stage 2 to Stage 1	**7,518**	**15**	**(7,518)**	**(15)**	**—**	**—**	**—**	**—**
Transfers to Stage 3	**(13)**	**—**	**(408)**	**(16)**	**421**	**16**	**—**	**—**
Transfers from Stage 3	**9**	**—**	**238**	**15**	**(247)**	**(15)**	**—**	**—**
Net re-measurement of ECL on stage transfer		**(13)**		**145**		**3**		**135**
Changes in risk parameters (model inputs)		**7**		**(3)**		**39**		**43**
Other changes in net exposure	**18,580**	**8**	**(1,497)**	**(10)**	**(145)**	**(8)**	**16,938**	**(10)**
Other (P&L only items)		**—**		**—**		**(17)**		**(17)**
Income statement (releases)/charges		**2**		**132**		**17**		**151**
Amounts written-off	**—**	**—**	**—**	**—**	**(9)**	**(9)**	**(9)**	**(9)**
Unwinding of discount		**—**		**—**		**(22)**		**(22)**
At 31 December 2020	**118,490**	**21**	**24,415**	**181**	**849**	**143**	**143,754**	**345**
Net carrying amount	**118,469**		**24,234**		**706**		**143,409**	
At 1 January 2019	107,618	8	7,268	50	760	114	115,646	172
2019 movements	10,681	3	429	8	56	14	11,166	25
At 31 December 2019	118,299	11	7,697	58	816	128	126,812	197
Net carrying amount	118,288		7,639		688		126,615	

Key points

- The increase in ECL in Stage 2 was primarily due to the deterioration in the economic outlook, causing both PDs and LGDs to increase. Stage 1 ECL increased reflecting the economic environment, and also approximately £9 million of ECL resulted from the acquisition of the owner-occupied mortgage portfolio from Metro Bank.
- The updated economics also resulted in a net migration of assets from Stage 1 to Stage 2 with a consequent increase from a 12 month ECL to a lifetime ECL. While the granting of a COVID-19 related payment holiday did not automatically trigger a migration to Stage 2, a subset of customers who had accessed payment holiday support, and where their risk profile was identified as relatively high risk, were collectively migrated to Stage 2 and their ECL uplifted, refer to the Governance and post model adjustments section for further details.
- In Stage 3, reflecting the various customer support mechanisms available, ECL was less affected than in Stage 2. The relatively small ECL cost for net re-measurement on stage transfer included the effect of risk targeted ECL adjustments when previously in Stage 2. Refer to the Governance and post model adjustments section for further details.
- In Stage 3, the ECL cost within changes in risk parameters included the monthly assessment of the loss requirement, capturing underlying portfolio movements.
- Write-off occurs once the repossessed property has been sold and there is a residual shortfall balance remaining outstanding. Write-off would typically be within five years from default but can be longer.

Risk and capital management

Credit risk – Banking activities continued
Flow statements

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
Retail Banking - Personal cards	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2020	**2,108**	**31**	**907**	**99**	**90**	**64**	**3,105**	**194**
Currency translation and other adjustments	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Transfers from Stage 1 to Stage 2	**(1,161)**	**(46)**	**1,161**	**46**	**—**	**—**	**—**	**—**
Transfers from Stage 2 to Stage 1	**791**	**85**	**(791)**	**(85)**	**—**	**—**	**—**	**—**
Transfers to Stage 3	**(14)**	**—**	**(81)**	**(31)**	**95**	**31**	**—**	**—**
Transfers from Stage 3	**—**	**—**	**8**	**5**	**(8)**	**(5)**	**—**	**—**
Net re-measurement of ECL on stage transfer		**(59)**		**214**		**31**		**186**
Changes in risk parameters (model inputs)		**8**		**(50)**		**8**		**(34)**
Other changes in net exposure	**(48)**	**22**	**(133)**	**(20)**	**(25)**	**(1)**	**(206)**	**1**
Other (P&L only items)		**—**		**—**		**—**		**—**
Income statement (releases)/charges		**(29)**		**144**		**38**		**153**
Amounts written-off	**—**	**—**	**—**	**—**	**(69)**	**(69)**	**(69)**	**(69)**
Unwinding of discount		**—**		**—**		**(4)**		**(4)**
At 31 December 2020	**1,676**	**41**	**1,071**	**178**	**83**	**55**	**2,830**	**274**
Net carrying amount	**1,635**		**893**		**28**		**2,556**	
At 1 January 2019	1,896	26	904	87	73	50	2,873	163
2019 movements	212	5	3	12	17	14	232	31
At 31 December 2019	2,108	31	907	99	90	64	3,105	194
Net carrying amount	2,077		808		26		2,911	

Key points

- The increase in ECL in Stage 1 and Stage 2 was primarily due to the deterioration in the economic outlook, causing PDs to increase.
- The updated economics also resulted in a net migration of assets from Stage 1 to Stage 2 with a consequent increase from a 12 month ECL to a lifetime ECL.
- In Stage 3, reflecting the various customer support mechanisms available, new flows to default were suppressed and consequently the ECL requirement reduced.
- Charge-off (analogous to partial write-off) typically occurs after 12 missed payments.

Risk and capital management

Credit risk – Banking activities continued
Flow statements

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
Retail Banking - other personal unsecured	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2020	**4,295**	**53**	**1,792**	**206**	**476**	**405**	**6,563**	**664**
Currency translation and other adjustments	**—**	**—**	**—**	**—**	**3**	**3**	**3**	**3**
Transfers from Stage 1 to Stage 2	**(3,184)**	**(84)**	**3,184**	**84**	**—**	**—**	**—**	**—**
Transfers from Stage 2 to Stage 1	**1,071**	**81**	**(1,071)**	**(81)**	**—**	**—**	**—**	**—**
Transfers to Stage 3	**(12)**	**—**	**(296)**	**(103)**	**308**	**103**	**—**	**—**
Transfers from Stage 3	**1**	**—**	**48**	**16**	**(49)**	**(16)**	**—**	**—**
Net re-measurement of ECL on stage transfer		**(53)**		**285**		**88**		**320**
Changes in risk parameters (model inputs)		**39**		**22**		**50**		**111**
Other changes in net exposure	**497**	**13**	**(855)**	**(57)**	**(49)**	**(11)**	**(407)**	**(55)**
Other (P&L only items)		**—**		**—**		**(11)**		**(11)**
Income statement (releases)/charges		**(1)**		**250**		**116**		**365**
Amounts written-off	**—**	**—**	**—**	**—**	**(210)**	**(210)**	**(210)**	**(210)**
Unwinding of discount		**—**		**—**		**(14)**		**(14)**
At 31 December 2020	**2,668**	**49**	**2,802**	**372**	**479**	**398**	**5,949**	**819**
Net carrying amount	**2,619**		**2,430**		**81**		**5,130**	
At 1 January 2019	3,931	44	1,557	196	388	309	5,876	549
2019 movements	364	9	235	10	88	96	687	115
At 31 December 2019	4,295	53	1,792	206	476	405	6,563	664
Net carrying amount	4,242		1,586		71		5,899	

Key points

- The increase in ECL in Stage 2 was primarily due to the deterioration in the economic outlook, causing PDs to increase.
- The updated economics also resulted in a net migration of assets from Stage 1 to Stage 2 with a consequent increase from a 12 month ECL to a lifetime ECL. While the granting of a COVID-19 related payment holiday did not automatically trigger a migration to Stage 2, a subset of customers who had accessed payment holiday support, and where their risk profile was identified as relatively high risk, were collectively migrated to Stage 2 and their ECL uplifted, refer to the Governance and post model adjustments section for further details.
- In Stage 3, reflecting the various customer support mechanisms available that mitigated against defaults, ECL was affected relatively less. In addition, debt sales also contributed to a slight ECL reduction year-on-year.
- Write-off occurs once recovery activity with the customer has been concluded or there are no further recoveries expected, but no later than six years after default.

Credit risk – Banking activities continued
Flow statements

Commercial Banking - commercial real estate	Stage 1 Financial assets £m	Stage 1 ECL £m	Stage 2 Financial assets £m	Stage 2 ECL £m	Stage 3 Financial assets £m	Stage 3 ECL £m	Total Financial assets £m	Total ECL £m
At 1 January 2020	**14,714**	**20**	**1,456**	**17**	**403**	**157**	**16,573**	**194**
Currency translation and other adjustments	**(281)**	**(2)**	**(329)**	**—**	**(4)**	**(5)**	**(614)**	**(7)**
Inter-group transfers	**(251)**	**—**	**—**	**—**	**—**	**—**	**(251)**	**—**
Transfers from Stage 1 to Stage 2	**(9,159)**	**(62)**	**9,159**	**62**	**—**	**—**	**—**	**—**
Transfers from Stage 2 to Stage 1	**2,462**	**43**	**(2,462)**	**(43)**	**—**	**—**	**—**	**—**
Transfers to Stage 3	**(115)**	**—**	**(306)**	**(10)**	**421**	**10**	**—**	**—**
Transfers from Stage 3	**63**	**6**	**205**	**18**	**(268)**	**(24)**	**—**	**—**
Net re-measurement of ECL on stage transfer		**(35)**		**155**		**35**		**155**
Changes in risk parameters (model inputs)		**67**		**52**		**36**		**155**
Other changes in net exposure	**3,242**	**29**	**(1,002)**	**(10)**	**(39)**	**2**	**2,201**	**21**
Other (P&L only items)		**—**		**—**		**1**		**1**
Income statement (releases)/charges		**61**		**197**		**74**		**332**
Amounts written-off	**—**	**—**	**—**	**—**	**(14)**	**(14)**	**(14)**	**(14)**
Unwinding of discount		**—**		**—**		**(2)**		**(2)**
At 31 December 2020	**10,675**	**66**	**6,721**	**241**	**499**	**195**	**17,895**	**502**
Net carrying amount	**10,609**		**6,480**		**304**		**17,393**	
At 1 January 2019	12,785	17	717	8	505	188	14,007	213
2019 movements	1,929	3	739	9	(102)	(31)	2,566	(19)
At 31 December 2019	14,714	20	1,456	17	403	157	16,573	194
Net carrying amount	14,694		1,439		246		16,379	

Key points

- The increase in ECL in Stage 1 and Stage 2 was primarily due to the deterioration in the economic outlook, causing both PDs and LGDs to increase.
- The updated economics also resulted in a migration of assets from Stage 1 to Stage 2 with a consequential increase from a 12 month ECL to a lifetime ECL.
- Flows into Stage 3 were mainly due to a relatively small number of individual cases. Government support mechanisms continued to suppress a higher level of flows into Stage 3.
- Stage 3 recovery values started to show evidence of being negatively affected by deteriorated market conditions, leading to higher ECL charges.
- Other changes in net exposures increased in Stage 1 as customers drew down on existing facilities and undertook new lending supported by government schemes.

Risk and capital management

Credit risk – Banking activities continued
Flow statements

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
Commercial Banking - business banking	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2020	**5,123**	**24**	**623**	**37**	**188**	**147**	**5,934**	**208**
Currency translation and other adjustments	**—**	**—**	**—**	**—**	**(2)**	**(2)**	**(2)**	**(2)**
Transfers from Stage 1 to Stage 2	**(2,076)**	**(15)**	**2,076**	**15**	**—**	**—**	**—**	**—**
Transfers from Stage 2 to Stage 1	**665**	**49**	**(665)**	**(49)**	**—**	**—**	**—**	**—**
Transfers to Stage 3	**(26)**	**—**	**(113)**	**(27)**	**139**	**27**	**—**	**—**
Transfers from Stage 3	**8**	**4**	**37**	**14**	**(45)**	**(18)**	**—**	**—**
Net re-measurement of ECL on stage transfer		**(47)**		**125**		**37**		**115**
Changes in risk parameters (model inputs)		**11**		**24**		**10**		**45**
Other changes in net exposure	**6,470**	**8**	**(194)**	**(18)**	**(33)**	**(9)**	**6,243**	**(19)**
Other (P&L only items)		**1**		**—**		**(37)**		**(36)**
Income statement (releases)/charges		**(27)**		**131**		**1**		**105**
Amounts written-off	**—**	**—**	**—**	**—**	**(58)**	**(58)**	**(58)**	**(58)**
Unwinding of discount		**—**		**—**		**(2)**		**(2)**
At 31 December 2020	**10,164**	**34**	**1,764**	**121**	**189**	**132**	**12,117**	**287**
Net carrying amount	**10,130**		**1,643**		**57**		**11,830**	
At 1 January 2019	4,917	18	743	35	170	114	5,830	167
2019 movements	206	6	(120)	2	18	33	104	41
At 31 December 2019	5,123	24	623	37	188	147	5,934	208
Net carrying amount	5,099		586		41		5,726	

Key points

- The increase in ECL in Stage 1 and Stage 2 was primarily due to the deterioration in the economic outlook, causing both PDs and LGDs to increase.
- The updated economics also resulted in a migration of assets from Stage 1 to Stage 2 with a consequential increase from a 12 month ECL to a lifetime ECL.
- Flows of defaulted exposure into Stage 3 were suppressed reflecting the various government customer support mechanisms available, with ECL reducing during the year including the effect of a debt sale.
- Other changes in net exposures increased in Stage 1 as customers drew down on existing facilities and undertook new lending supported by government schemes.
- The portfolio continued to benefit from cash recoveries post write-off, which are reported as other (P&L only items). Write-off occurs once recovery activity with the customer has been concluded or there are no further recoveries expected, but no later than five years after default.

Risk and capital management

***Credit risk – Banking activities** continued*
Flow statements

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
Commercial Banking - other	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2020	**39,836**	**73**	**6,926**	**95**	**1,033**	**354**	**47,795**	**522**
Currency translation and other adjustments	**581**	**2**	**128**	**—**	**15**	**16**	**724**	**18**
Inter-group transfers	**186**	**(1)**	**50**	**5**	**(8)**	**—**	**228**	**4**
Transfers from Stage 1 to Stage 2	**(38,074)**	**(173)**	**38,074**	**173**	**—**	**—**	**—**	**—**
Transfers from Stage 2 to Stage 1	**17,694**	**306**	**(17,694)**	**(306)**	**—**	**—**	**—**	**—**
Transfers to Stage 3	**(149)**	**(1)**	**(837)**	**(30)**	**986**	**31**	**—**	**—**
Transfers from Stage 3	**114**	**16**	**362**	**31**	**(476)**	**(47)**	**—**	**—**
Net re-measurement of ECL on stage transfer		**(249)**		**560**		**123**		**434**
Changes in risk parameters (model inputs)		**58**		**436**		**27**		**521**
Other changes in net exposure	**10,194**	**83**	**(6,433)**	**(79)**	**(474)**	**(16)**	**3,287**	**(12)**
Other (P&L only items)		**(1)**		**(3)**		**2**		**(2)**
Income statement (releases)/charges		**(109)**		**914**		**136**		**941**
Amounts written-off	**—**	**—**	**—**	**—**	**(159)**	**(159)**	**(159)**	**(159)**
Unwinding of discount		**—**		**—**		**(4)**		**(4)**
At 31 December 2020	**30,382**	**114**	**20,576**	**885**	**917**	**325**	**51,875**	**1,324**
Net carrying amount	**30,268**		**19,691**		**592**		**50,551**	
At 1 January 2019	39,753	55	5,687	65	892	286	46,332	406
2019 movements	83	18	1,239	30	141	68	1,463	116
At 31 December 2019	39,836	73	6,926	95	1,033	354	47,795	522
Net carrying amount	39,763		6,831		679		47,273	

Key points

- The increase in ECL in Stage 1 and Stage 2 was primarily due to the deterioration in the economic outlook, causing both PDs and LGDs to increase.
- The updated economics also resulted in the migration of assets from Stage 1 to Stage 2 with a consequential increase from a 12 month ECL to a lifetime ECL.
- The migration of exposures from Stage 2 to Stage 1 included the effect of the slight reduction in PDs arising from the relative improvement in the multiple economic scenarios in the second half of the year compared to the mid-year point, partially reversing some migrations into Stage 2 in the first half of 2020.
- For flows into Stage 3, defaults were suppressed reflecting the various government customer support mechanisms available.
- Other changes in net exposures increased in Stage 1 as customers drew down on existing facilities and undertook new borrowings supported by the government schemes.

Credit risk – Banking activities continued
Stage 2 decomposition – arrears status and contributing factors
The tables below show Stage 2 decomposition for the Personal and Wholesale portfolios.

	UK mortgages		Credit cards		Other		Total	
	Loans	ECL	Loans	ECL	Loans	ECL	Loans	ECL
2020	£m	£m	£m	£m	£m	£m	£m	£m
Personal								
Currently >30 DPD	**298**	**14**	**8**	**4**	**57**	**21**	**363**	**39**
Currently <=30 DPD	**23,946**	**167**	**1,050**	**176**	**2,642**	**351**	**27,638**	**694**
- PD deterioration	***11,165***	***127***	***685***	***133***	***1,784***	***291***	***13,634***	***551***
- PD persistence	***9,106***	***21***	***277***	***26***	***761***	***47***	***10,144***	***94***
- Other driver (adverse credit, forbearance etc)	***3,675***	***19***	***88***	***17***	***97***	***13***	***3,860***	***49***
Total Stage 2	**24,244**	**181**	**1,058**	**180**	**2,699**	**372**	**28,001**	**733**
2019								
Personal								
Currently >30 DPD	380	9	12	5	74	15	466	29
Currently <=30 DPD	7,403	49	899	95	1,734	192	10,036	336
- PD deterioration	*2,907*	*40*	*525*	*70*	*1,171*	*155*	*4,603*	*265*
- PD persistence	*1,428*	*4*	*303*	*14*	*416*	*24*	*2,147*	*42*
- Other driver (adverse credit, forbearance etc)	*3,068*	*5*	*71*	*11*	*147*	*13*	*3,286*	*29*
Total Stage 2	7,783	58	911	100	1,808	207	10,502	365

Key points

- The deteriorated economic outlook, including forecast increases in unemployment, resulted in increased account level IFRS 9 PDs. Consequently, compared to 2019, a larger proportion of accounts exhibited a SICR causing Stage 2 exposures to increase significantly.
- In the absence of PD deterioration or other backstop SICR triggers, the granting of a COVID-19 related payment holiday did *not automatically result in a migration to Stage 2.*
- However, a subset of customers who had accessed payment holiday support, and where their risk profile was identified as *relatively high risk, were collectively migrated to Stage 2.* For mortgages, in Retail Banking, approximately £875 million of exposures were collectively migrated from Stage 1 to Stage 2. The impact of collective migrations on unsecured lending was much more limited.
- As expected, ECL coverage was higher in accounts that were more than 30 days past due than those in Stage 2 for other reasons.

	Property		Corporate		Financial institutions		Other		Total	
	Loans	ECL	Loans	ECL	Loans	ECL	Loans	ECL	Loans	ECL
2020	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Wholesale										
Currently >30 DPD	**89**	**4**	**148**	**11**	**1**	**—**	**—**	**—**	**238**	**15**
Currently <=30 DPD	**7,659**	**300**	**20,559**	**978**	**1,360**	**34**	**47**	**—**	**29,625**	**1,312**
- PD deterioration	***6,921***	***268***	***17,697***	***878***	***1,279***	***32***	***7***	**—**	***25,904***	***1,178***
- PD persistence	***131***	***4***	***493***	***16***	***6***	**—**	**—**	**—**	***630***	***20***
- Other driver (forbearance, RoCL etc)	***607***	***28***	***2,369***	***84***	***75***	***2***	***40***	**—**	***3,091***	***114***
Total Stage 2	**7,748**	**304**	**20,707**	**989**	**1,361**	**34**	**47**	**—**	**29,863**	**1,327**
2019										
Wholesale										
Currently >30 DPD	35	2	193	4	1	—	—	—	229	6
Currently <=30 DPD	1,569	25	6,929	120	162	2	1	—	8,661	147
- PD deterioration	*944*	*18*	*4,564*	*100*	*129*	*2*	—	—	*5,637*	*120*
- PD persistence	*38*	*1*	*146*	*4*	*2*	—	—	—	*186*	*5*
- Other driver (forbearance, RoCL etc)	*587*	*6*	*2,219*	*16*	*31*	—	*1*	—	*2,838*	*22*
Total Stage 2	1,604	27	7,122	124	163	2	1	—	8,890	153

Key points

- The deteriorated economic outlook due to COVID-19, including significant reductions in GDP and commercial real estate valuations, resulted in increased IFRS 9 PDs. Consequently, compared to 2019, a larger proportion of the exposures exhibited a SICR causing Stage 2 exposures to increase significantly.
- PD deterioration remained the primary trigger for identifying a SICR and Stage 2 treatment, although there was also an increase in arrears.
- *There was an increase in flows on to the Risk of Credit Loss* framework. However, these were recorded under PD deterioration if the Stage 2 trigger was also met.

Credit risk – Banking activities continued

Stage 2 decomposition by a significant increase in credit risk trigger

2020	UK mortgages £m	UK mortgages %	Credit cards £m	Credit cards %	Other £m	Other %	Total £m	Total %
Personal trigger (1)								
PD movement	**11,455**	**47.2**	**692**	**65.4**	**1,838**	**68.1**	**13,985**	**50.0**
PD persistence	**9,106**	**37.6**	**277**	**26.2**	**762**	**28.2**	**10,145**	**36.2**
Adverse credit bureau recorded with credit reference agency	**2,420**	**10.0**	**37**	**3.5**	**37**	**1.4**	**2,494**	**8.9**
Forbearance support provided	**100**	**0.4**	**1**	**0.1**	**7**	**0.3**	**108**	**0.4**
Customers in collections	**113**	**0.5**	**1**	**0.1**	**11**	**0.4**	**125**	**0.4**
Other reasons	**1,045**	**4.3**	**50**	**4.7**	**44**	**1.6**	**1,139**	**4.1**
Days past due >30	**5**	**—**	**—**	**—**	**—**	**—**	**5**	**—**
	24,244	**100**	**1,058**	**100**	**2,699**	**100**	**28,001**	**100**
2019								
Personal trigger (1)								
PD movement	3,202	41.1	537	58.9	1,216	67.3	4,955	47.2
PD persistence	1,430	18.4	304	33.4	416	23.0	2,150	20.5
Adverse credit bureau recorded with credit reference agency	2,557	32.9	42	4.6	81	4.5	2,680	25.5
Forbearance support provided	109	1.4	—	—	8	0.4	117	1.1
Customers in collections	116	1.5	2	0.2	29	1.6	147	1.4
Other reasons	291	3.7	26	2.9	36	2.0	353	3.4
Days past due >30	78	1.0	—	—	22	1.2	100	1.0
	7,783	100	911	100	1,808	100	10,502	100

Key points

- The primary driver of credit deterioration was PD, which including persistence, accounted for the majority of movements into Stage 2. There was also a collective migration of a subset of customers who had accessed payment holiday support, and where their risk profile was identified as relatively high risk.
- The increase in exposures in Stage 2 due to persistence, primarily within UK mortgages, reflected the slight reduction in PDs arising from the relative improvement in the multiple economic scenarios in the second half of the year compared to the mid-year point; exposures cannot migrate back to Stage 1 until their PD has been back within the criteria threshold for three consecutive months.
- High risk back-stops, for example, forbearance and adverse credit bureau, provide additional valuable discrimination. However, with a larger proportion of exposures triggering PD deterioration following the deteriorated economic outlook, the proportion of accounts triggering high risk backstops alone decreased.

2020	Property £m	Property %	Corporate £m	Corporate %	FI £m	FI %	Other £m	Other %	Total £m	Total %
Wholesale trigger (1)										
PD movement	**6,993**	**90.3**	**17,778**	**85.8**	**1,280**	**94.1**	**7**	**14.9**	**26,058**	**87.3**
PD persistence	**131**	**1.7**	**494**	**2.4**	**6**	**0.4**	**—**	**—**	**631**	**2.1**
Risk of Credit Loss	**220**	**2.8**	**1,461**	**7.1**	**53**	**3.9**	**40**	**85.1**	**1,774**	**5.9**
Forbearance support provided	**22**	**0.3**	**71**	**0.3**	**3**	**0.2**	**—**	**—**	**96**	**0.3**
Customers in collections	**24**	**0.3**	**94**	**0.5**	**—**	**—**	**—**	**—**	**118**	**0.4**
Other reasons (2)	**341**	**4.4**	**746**	**3.6**	**19**	**1.4**	**—**	**—**	**1,106**	**3.7**
Days past due >30	**17**	**0.2**	**63**	**0.3**	**—**	**—**	**—**	**—**	**80**	**0.3**
	7,748	**100**	**20,707**	**100**	**1,361**	**100**	**47**	**100**	**29,863**	**100**
2019										
Wholesale trigger (1)										
PD movement	958	59.7	4,602	64.7	130	79.8	—	—	5,690	63.9
PD persistence	38	2.4	146	2.0	2	1.2	—	—	186	2.1
Risk of Credit Loss	439	27.4	1,605	22.5	23	14.1	—	—	2,067	23.3
Forbearance support provided	16	1.0	79	1.1	—	—	—	—	95	1.1
Customers in collections	7	0.4	31	0.4	—	—	—	—	38	0.4
Other reasons (2)	133	8.3	524	7.4	8	4.9	1	100.0	666	7.5
Days past due >30	13	0.8	135	1.9	—	—	—	—	148	1.7
	1,604	100	7,122	100	163	100	1	100	8,890	100

Notes:
(1) The table is prepared on a hierarchical basis from top to bottom, for example, accounts with PD deterioration may also trigger backstop(s) but are only reported under PD deterioration.
(2) Includes customers where a PD assessment cannot be undertaken due to missing PDs.

Key points

- PD deterioration continued to be the primary trigger of migration of exposures from Stage 1 to Stage 2. As the economic outlook deteriorated, it accounted for a higher proportion of the balances migrated to Stage 2.
- Moving exposures on to the Risk of Credit Loss framework remained an important backstop indicator of a SICR. The exposures classified under the Stage 2 Risk of Credit Loss framework trigger decreased over the period as more exposures were captured under the PD deterioration Stage 2 trigger.
- PD persistence relates to the business banking portfolio only, with the reason for the year-on-year increase the same as described above for the Personal portfolio.

Risk and capital management

Capital, liquidity and funding risk
NWH Group continually ensures a comprehensive approach is taken to the management of capital, liquidity and funding, underpinned by frameworks, risk appetite and policies, to manage and mitigate capital, liquidity and funding risks. The framework ensures the tools and capability are in place to facilitate the management and mitigation of risk ensuring the Group operates within its regulatory requirements and risk appetite.

Definitions
Regulatory capital consists of reserves and instruments issued that are available, have a degree of permanency and are capable of absorbing losses. A number of strict conditions set by regulators must be satisfied to be eligible as capital.

Capital adequacy risk is the risk that there is or will be insufficient capital and other loss absorbing debt instruments to operate effectively including meeting minimum regulatory requirements, operating within Board approved risk appetite and supporting its strategic goals.

Liquidity consists of assets that can be readily converted to cash within a short timeframe at a reliable value. Liquidity risk is the risk of being unable to meet financial obligations as and when they fall due.

Funding consists of on-balance sheet liabilities that are used to provide cash to finance assets. Funding risk is the risk of not maintaining a diversified, stable and cost-effective funding base. Liquidity and funding risks arise in a number of ways, including through the maturity transformation role that banks perform. The risks are dependent on factors such as:

- Maturity profile;
- Composition of sources and uses of funding;
- The quality and size of the liquidity portfolio;
- Wholesale market conditions; and
- Depositor and investor behaviour.

Sources of risk
Capital
The eligibility of instruments and financial resources as regulatory capital is laid down by applicable regulation. Capital is categorised by applicable regulation under two tiers (Tier 1 and Tier 2) according to the ability to absorb losses on either a going or gone concern basis, degree of permanency and the ranking of absorbing losses. There are three broad categories of capital across these two tiers:

- CET1 capital - CET1 capital must be perpetual and capable of unrestricted and immediate use to cover risks or losses as soon as these occur. This includes ordinary shares issued and retained earnings.
- Additional Tier 1 (AT1) capital - This is the second type of loss absorbing capital and must be capable of absorbing losses on a going concern basis. These instruments are either written down or converted into CET1 capital when the CET1 ratio falls below a pre-specified level.
- Tier 2 capital - Tier 2 capital is the bank entities' supplementary capital and provides loss absorption on a gone concern basis. Tier 2 capital absorbs losses after Tier 1 capital. It typically consists of subordinated debt securities with a minimum maturity of five years.

Minimum requirement for own funds and eligible liabilities (MREL)
In addition to capital, other specific loss absorbing instruments, including senior notes issued by NWB Plc, may be used to cover certain gone concern capital requirements which, is referred to as MREL. Gone concern refers to the situation in which resources must be available to enable an orderly resolution, in the event that the Bank of England (BoE) deems that NWB Group has failed or is likely to fail.

Liquidity
Liquidity risk within NWB Plc is managed as part of the UK Domestic Liquidity Sub-Group (UK DoLSub), which is regulated by the PRA and comprises NWH Group's four licensed deposit taking UK banks: National Westminster Bank Plc, The Royal Bank of Scotland plc, Coutts & Company, and Ulster Bank Limited.

NWH Group maintains a prudent approach to the definition of liquidity resources. NWH Group manages its liquidity to ensure it is always available when and where required, taking into account regulatory, legal and other constraints.

Liquidity resources are divided into primary and secondary liquidity as follows:

- Primary liquid assets include cash and balances at central banks, Treasury bills and other high quality government and US agency bonds.
- Secondary liquid assets are eligible as collateral for local central bank liquidity facilities. These assets include own-issued securitisations or whole loans that are retained on balance sheet and pre-positioned with a central bank so that they may be converted into additional sources of liquidity at very short notice.

Funding
NWB Plc maintains a diversified set of funding sources, including customer deposits, wholesale deposits and term debt issuance. NWB Plc also retains access to central bank funding facilities.

For further details on capital constituents and the regulatory framework covering capital, liquidity and funding requirements, please refer to the NatWest Group Pillar 3 Report 2020 on page 7. For MREL refer to page 9.

Managing capital requirements: regulated entities
In line with paragraph 135 of IAS 1 'Presentation of Financial Statements', NWB Group manages capital having regard to regulatory requirements. Regulatory capital is monitored and reported on an individual regulated bank legal entity basis ('bank entities'), as relevant in the jurisdiction for large subsidiaries of NatWest Group. NatWest Group itself is monitored and reported on a consolidated basis.

Capital management
Capital management is the process by which the bank entities ensure that they have sufficient capital and other loss-absorbing instruments to operate effectively including meeting minimum regulatory requirements, operating within Board-approved risk appetite, maintaining credit ratings and supporting strategic goals.
Capital management is critical in supporting the bank entities' businesses and is also considered at Group level. It is enacted through a NatWest Group-wide end to end framework.

Capital planning is integrated into NWB Group's wider annual budgeting process and is assessed and updated at least monthly. This is summarised below. Other elements of capital management, including risk appetite and stress testing, are set out on pages 14 and 15.

Capital, liquidity and funding risk continued

Produce capital plans	• Capital plans are produced for NWB Group, its key operating entities and its businesses over a five year planning horizon under expected and stress conditions. Stressed capital plans are produced to support internal stress testing in the ICAAP for regulatory purposes. • Shorter term forecasts are developed frequently in response to actual performance, changes in internal and external business environment and to manage risks and opportunities.
Assess capital Adequacy	• Capital plans are developed to maintain capital of sufficient quantity and quality to support NWB Group's business, its subsidiaries and strategic plans over the planning horizon within approved risk appetite, as determined via *stress testing, and minimum regulatory* requirements. • Capital resources and capital requirements are assessed across a defined planning horizon. • Impact assessment captures input from across NWB Group including from businesses.
Inform capital actions	• Capital planning informs potential capital actions including buy backs, redemptions, dividends and new issuance to external investors or via internal transactions. • *Decisions on capital actions will be influenced* by strategic and regulatory requirements, risk appetite, costs and prevailing market conditions. • As part of capital planning, NatWest Group will monitor its portfolio of issued capital securities and assess the optimal blend and most cost effective means of financing.

Capital planning is one of the tools that NWB Group uses to monitor and manage capital risk on a going and gone concern basis, including the risk of excessive leverage.

Liquidity risk management
NWH Group manages its liquidity risk taking into account regulatory, legal and other constraints to ensure sufficient liquidity is available where required to cover liquidity stresses.

The size of the liquidity portfolio held in the UK DoLSub is determined by referencing NWH's liquidity risk appetite. NWH Group retains a prudent approach to setting the composition of the liquidity portfolio, which is subject to internal policies and limits over quality of counterparty, maturity mix and currency mix.

NWB Plc manages the majority of the UK DoLSub's liquidity portfolio under the responsibility of the NatWest Group Treasurer.

Funding risk management
NWB Group manages funding risk through a comprehensive framework which measures and monitors the funding risk on the balance sheet.

The asset and liability types broadly match. Customer deposits provide more funding than customer loans utilise.

Relief measures
The economic impact of COVID-19 was significant. While liquidity, capital and funding were closely monitored throughout, NatWest Group benefited from its strong positions, particularly in relation to CET1, going into the crisis. Prudent risk management continues to be important as the full economic effects of the global pandemic unfold.

In response to COVID-19 a number of relief measures to alleviate the financial stability impact have been announced and recommended by regulatory and supervisory bodies. One significant announcement in the quarter was on 26 June when the European Parliament passed an amended regulation to the CRR in response to the COVID-19 pandemic ("the CRR COVID-19 amendment"); NatWest Group has applied a number of the CRR amendments for FY 2020 reporting. The impact on capital and leverage of the CRR amendment and other relief measures are set out below.

- IFRS 9 Transition – NatWest Group has elected to take advantage of the transitional regulatory capital rules in respect of expected credit losses following the adoption of IFRS 9; it had previously had a negligible impact up to Q4 2019. The CRR COVID-19 amendment now requires a full CET1 addback for the movement in stage 1 and stage 2 ECL from 1 January 2020 for the next two years. The IFRS 9 transitional arrangement impact on NWB Plc CET1 regulatory capital at 31 December 2020 is £1 billion.
- CRR Leverage exposure – The CRR COVID-19 amendment accelerated a change in CRR2 to allow the netting of regular-way purchase and sales settlement balances. This has had no impact on NWB plc leverage exposure as at 31 December 2020.
- Infrastructure and SME RWA supporting factors – The CRR COVID-19 amendment allowed an acceleration of the planned changes to the SME supporting factor and the introduction of an Infrastructure supporting factor. NWB Group has implemented these beneficial changes to supporting factors which have reduced RWAs by c.£0.6 billion for SMEs and c.£0.5 billion for Infrastructure.
- Capital buffers – Many countries announced reductions in their countercyclical capital buffer rates in response to COVID-19. Most notably for NatWest Group, the Financial Policy Committee reduced the UK rate from 1% to 0% effective from 11 March 2020. The CBI also announced a reduction of the Republic of Ireland rate from 1% to 0% effective from 1 April 2020.
- Software Assets – The CRR COVID-19 amendment accelerated the change to the regulatory treatment of software assets, so this revision came in prior to the year end. The change introduces the concept of prudential amortisation for software assets so that unamortised software is no longer deducted from CET1. By applying this amendment, the impact to NWB Plc is an increase of 43 bps.

Risk and capital management

Capital, liquidity and funding risk continued

Key points

CET1 Ratio

2020 **17.8%**

2019 **15.9%**

Increase of 190 basis points reflecting the £5.8 billion increase in RWAs and CET1 increase of £2.6 billion. CET1 increase is primarily driven by a reduction in the regulatory capital deductions for significant investments in other financial institutions of £0.4 billion, software development costs of £0.5 billion due to the implementation of CRR2 amended Article 36 and a £1.0 billion increase for IFRS 9 transitional arrangements on expected credit losses, which offsets the impact of the increased impairment losses charged to the attributable profit of £0.6 billion.

RWA

2020 **£86.9bn**

2019 **£81.1bn**

Total RWAs increased by £5.8 billion mainly due to increases in credit risk RWAs of £5.7 billion during the year. The increase in credit risk RWAs was largely attributed to increased utilisation of existing facilities and new lending under the Government lending schemes in Commercial Banking. The acquisition of prime UK mortgages from Metro Bank resulted in a £1.2 billion increase in credit risk RWAs. There were offsetting reductions in credit risk RWAs of c.£1.1 billion due to the CRR COVID-19 amendment for SME and Infrastructure factors.

Leverage

2020 **4.7%**

2019 **5.0%**

CRR leverage ratio decreased by c.30 basis points driven by a £76.1 billion increase in the leverage exposure due to balance sheet exposures, partially offset by a £2.5 billion increase in Tier 1 capital.

Liquidity portfolio

2020 **£179.0bn**

2019 **£124.9bn**

The Liquidity portfolio increased by £54 billion in 2020 to £179 billion, with primary liquidity increasing by £37 billion to £100 billion. The increase in primary liquidity is driven primarily by an increased customer surplus. The increase in secondary liquidity is driven by collateral pool top-ups along with unencumbrance of assets following Term Funding Scheme (TFS) repayments during the year.

Liquidity Coverage Ratio

2020 **152%**

2019 **145%**

The DoLSub Liquidity Coverage Ratio (LCR) increased by 7% during the year to 152% driven by an increase in the liquidity portfolio offset by a lower level of increased net outflows. The increased liquidity portfolio was primarily driven by significant growth in customer deposits which outstripped growth in customer lending during the year.

NSFR

2020 **144%**

2019 **137%**

The net stable funding ratio (NSFR) for FY 2020 was 144% compared to 137% in prior year. The increase is mainly due to deposits growth.

Risk and capital management

Capital, liquidity and funding risk continued
Minimum requirements
Capital adequacy ratios
The bank entities are subject to minimum capital requirements relative to RWAs. The table below summarises the minimum ratios of capital to RWAs that the UK bank entities are expected to have to meet.

Type	CET1	Total Tier 1	Total capital
Minimum capital requirements	**4.5%**	**6.0%**	**8.0%**
Capital conservation buffer	**2.5%**	**2.5%**	**2.5%**
Countercyclical capital buffer (1)	**—**	**—**	**—**
Total (2)	**7.0%**	**8.5%**	**10.5%**

Notes:
(1) Many countries announced reductions in their countercyclical capital buffer rates in response to COVID-19. Most notably for NatWest Group, the Financial Policy Committee reduced the UK rate from 1% to 0% effective from 11 March 2020. The CBI also announced a reduction of the Republic of Ireland rate from 1% to 0% effective from 1 April 2020.
(2) The minimum requirements do not include any capital that the bank entities may be required to hold as a result of the Pillar 2 assessment.

Leverage ratio
Following the joint announcement of UK Treasury, PRA and FCA on 16 November 2020, we expect the PRA to consult on the application of leverage ratios to individual legal entities and sub Groups during 2021.

Liquidity and funding ratios
The table below summarises the minimum requirements for key liquidity and funding metrics, under the relevant legislative framework. NWB Plc is a member of the UK DoLSub which is presented below.

Type	
Liquidity coverage ratio (LCR)	**100%**
Net stable funding ratio (NSFR) (1)	**N/A**

Note:
(1) NSFR reported in line with CRR2 regulations finalised in June 2019. Following the joint announcement of UK Treasury, PRA and FCA on 16 November 2020 to postpone the future EU CRR2 element of the Basel 3 package, we understand the PRA is due to consult on a binding Net Stable Funding ratio (NSFR) requirement to be introduced from January 2022.

Measurement
Capital, RWAs and leverage
The table below sets out the key Capital and leverage ratios on a PRA transitional basis. Refer to Note 26 on the consolidated accounts for a more detailed breakdown of regulatory capital.

	2020	2019
Capital (1)	£m	£m
CET1	**15,424**	12,851
Tier 1	**17,590**	15,047
Total	**20,765**	17,801
RWAs		
Credit risk	**73,445**	67,778
Counterparty credit risk	**576**	605
Market risk	**18**	17
Operational risk	**12,843**	12,669
Total RWAs	**86,882**	81,069
Capital adequacy ratios	%	%
CET1	**17.8**	15.9
Tier 1	**20.2**	18.6
Total	**23.9**	22.0
Leverage		
Tier 1 capital (£m)	**17,590**	15,047
Leverage exposure (£m)	**376,527**	300,438
Leverage ratio (%) (1)	**4.7**	5.0

Note:
(1) Includes the IFRS 9 transitional adjustment of £1.0 billion. Excluding this adjustment, the CET1 ratio would be 16.6% and the leverage ratio would be 4.4%.

Capital, liquidity and funding risk continued

Liquidity key metrics

Liquidity within NWB Plc is managed and regulated as part of the UK DoLSub. The table below sets out the key liquidity and related metrics for the UK DoLSub.

2020	UK DoLSub
Liquidity coverage ratio (1)	**152%**
Stressed outflow coverage (2)	**168%**
Net stable funding ratio (3)	**144%**
2019	
Liquidity coverage ratio (1)	145%
Stressed outflow coverage (2)	134%
Net stable funding ratio (3)	137%

Notes:
(1) On 1 October 2015 the LCR became the PRA's primary regulatory liquidity standard. It is a Pillar 1 metric to which the PRA apply Pillar 2 add-ons. The published LCR excludes Pillar 2 add-ons. NatWest Group calculates the LCR using its own interpretations of the EU LCR Delegated Act, which may change over time and may not be fully comparable with those of other financial institutions.
(2) NatWest Group's stressed outflow coverage (SOC) is an internal measure calculated by reference to liquid assets as a percentage of net stressed contractual and behavioural outflows over three months under the worst of three severe stress scenarios of a market-wide stress, an idiosyncratic stress and a combination of both as per ILAAP. This assessment is performed in accordance with PRA guidance.
(3) In November 2016, the European Commission published its proposal for Net Stable Funidng ratio (NSFR) rules within the EU as part of its CRR2 package of regulatory reforms. CRR2 NSFR is expected to become the regulatory requirement in future within the EU Following the joint announcement of UK Treasury, PRA and FCA on 16 November 2020 to postpone the future EU CRR2 element of the Basel 3 package, we understand the PRA is due to consult on a binding NSFR requirement to be introduced from January 2022.

Leverage exposure

The leverage exposure is based on the CRR delegated act.

Leverage	2020 £m	2019 £m
Cash and balances at central banks	**62,878**	26,377
Derivatives	**3,438**	3,404
Other financial assets	**306,946**	273,508
Other assets	**7,341**	7,665
Total assets	**380,603**	310,954
Derivatives		
- netting and variation margin	**(3,882)**	(3,665)
- potential future exposures	**1,386**	1,494
Securities financing transactions gross up	**191**	516
Undrawn commitments	**22,857**	17,862
Regulatory deductions and other adjustments	**(666)**	(2,699)
Exclusion of core UK-group exposure	**(23,962)**	(24,024)
Leverage exposure	**376,527**	300,438

Liquidity portfolio

The table below shows the liquidity portfolio by product, with primary liquidity aligned to internal stressed outflow coverage and regulatory Liquidity coverage ratio (LCR) categorisation. Secondary liquidity comprises assets eligible for discount at central banks, which do not form part of the liquid asset portfolio for LCR or internal stressed outflow purposes.

	31 December 2020		31 December 2019	
	NWH UK DoLSub (1) £m	NWB Plc £m	NWH UK DoLSub (1) £m	NWB Plc £m
Cash and balances at central banks	**86,575**	**61,944**	51,080	26,451
AAA to AA- rated governments	**35,875**	**35,875**	34,585	34,585
A+ and lower rated governments	**—**	**—**	—	—
Government guaranteed issuers, PSEs and GSEs	**141**	**141**	90	90
International Organisations and MDBs	**2,154**	**2,154**	1,717	1,717
Level 1 Bonds	**38,170**	**38,170**	36,392	36,392
LCR Level 1 Eligible Assets	**124,745**	**100,114**	87,472	62,843
LCR Level 2 Eligible Assets	**—**	**—**	—	—
Non-LCR Eligible Assets	**—**	**—**	—	—
Primary liquidity	**124,745**	**100,114**	87,472	62,843
Secondary liquidity (2)	**88,774**	**78,916**	73,332	62,089
Total liquidity value	**213,519**	**179,030**	160,804	124,932

Notes:
(1) The UK DoLSub comprises NatWest Holding Group's four licensed deposit-taking UK banks: NWB Plc, RBS plc, Coutts and Co and Ulster Bank Limited.
(2) Comprises assets eligible for discounting at the Bank of England and other central banks.

Risk and capital management

Capital, liquidity and funding risk continued

Funding sources

	2020 Short-term less than 1 year £m	2020 Long-term more than 1 year £m	2020 Total £m	2019 Short-term less than 1 year £m	2019 Long-term more than 1 year £m	2019 Total £m
Bank deposits						
Repos	**6,270**	**—**	**6,270**	2,218	—	2,218
Other bank deposits (1)	**3,601**	**5,000**	**8,601**	3,287	10,000	13,287
	9,871	**5,000**	**14,871**	5,505	10,000	15,505
Customer deposits						
Repos	**5,167**	**—**	**5,167**	1,765	—	1,765
Personal	**157,157**	**942**	**158,099**	137,636	984	138,620
Corporate	**110,459**	**21**	**110,480**	84,970	38	85,008
Non-bank financial institutions	**19,848**	**11**	**19,859**	16,703	21	16,724
	292,631	**974**	**293,605**	241,074	1,043	242,117
Other financial liabilities (2)						
Bank and customer deposits	**—**	**—**	**—**	112	—	112
Debt securities in issue						
Commercial papers and certificates of deposit	**3,291**	**—**	**3,291**	1,573	—	1,573
Covered bonds	**53**	**2,967**	**3,020**	3,051	2,897	5,948
Securitisations	**—**	**772**	**772**	—	672	672
	3,344	**3,739**	**7,083**	4,736	3,569	8,305
Subordinated liabilities	**313**	**917**	**1,230**	14	1,228	1,242
Amounts due to holding company and fellow subsidiaries (3)						
Bank and customer deposits	**29,940**	**401**	**30,341**	15,158	352	15,510
CRR-compliant internal MREL	**26**	**3,882**	**3,908**	24	3,092	3,116
Subordinated liabilities	**18**	**3,291**	**3,309**	12	2,775	2,787
	29,984	**7,574**	**37,558**	15,194	6,219	21,413
Total funding	**336,143**	**18,204**	**354,347**	266,523	22,059	288,582
Of which: available in resolution (4)	***—***	***8,138***	***8,138***	*50*	*7,118*	*7,168*

Notes:
(1) Long-term more than 1 year includes £5.0 billion of Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises participation which has been repaid early in January 2021.
(2) Excludes settlement balances of £3,297 million (2019 – nil) and derivative cash collateral of £3 million (2019 – £2 million).
(3) Amounts due to holding companies and fellow subsidiaries relating to non-financial instruments of £1 million (2019 - £34 million) have been excluded from the table.
(4) Eligible liabilities (as defined in the Banking Act 2009 as amended from time to time) that meet the eligibility criteria set out in the regulations, rules, policies, guidelines, or statements of the Bank of England including the Statement of Policy published by the Bank of England in June 2018.

Risk and capital management

Capital, liquidity and funding risk continued

Contractual maturity

The table shows the residual maturity of third party financial instruments, based on contractual date of maturity of NWB Group's banking activities, including third party and intercompany hedging derivatives. Trading activities comprising Mandatory fair value through profit or loss (MFVTPL) assets and held-for-trading (HFT) liabilities have been excluded from the maturity analysis due to their short-term nature and are shown in total in the table below.

	Banking activities										
2020	Less than 1 month £m	1-3 months £m	3-6 months £m	6 months - 1 year £m	Subtotal £m	1-3 years £m	3-5 years £m	More than 5 years £m	Total £m	Trading activities £m	Total £m
Cash and balances at central banks	62,983	—	—	—	62,983	—	—	—	62,983	—	62,983
Derivatives	—	1	—	—	1	—	—	—	1	3,287	3,288
Loans to banks - amortised cost	1,882	447	1,006	—	3,335	9	—	—	3,344	—	3,344
Loans to customers - amortised cost (1)	23,900	14,603	14,182	15,008	67,693	41,215	31,176	135,088	275,172	—	275,172
Personal	4,082	2,161	2,999	5,554	14,796	19,059	16,754	115,500	166,109	—	166,109
Corporate	16,455	2,833	3,372	5,595	28,255	20,913	13,836	19,236	82,240	—	82,240
NBFI	3,363	9,609	7,811	3,859	24,642	1,243	586	352	26,823	—	26,823
Other financial assets	1,146	381	433	1,845	3,805	6,264	7,858	19,592	37,519	476	37,995
Total financial assets	89,911	15,432	15,621	16,853	137,817	47,488	39,034	154,680	379,019	3,763	382,782
2019											
Total financial assets	56,710	10,482	9,206	13,116	89,514	46,312	35,240	134,560	305,626	3,675	309,301
2020											
Bank deposits excluding repos (2)	3,377	224	—	—	3,601	—	5,000	—	8,601	—	8,601
Bank repos	4,846	1,164	260	—	6,270	—	—	—	6,270	—	6,270
Customer repos	5,167	—	—	—	5,167	—	—	—	5,167	—	5,167
Customer deposits excluding repos	280,670	2,008	3,334	1,452	287,464	954	4	16	288,438	—	288,438
Personal	152,890	1,279	1,866	1,122	157,157	942	—	—	158,099	—	158,099
Corporate	108,500	646	1,052	261	110,459	1	4	16	110,480	—	110,480
NBFI	19,280	83	416	69	19,848	11	—	—	19,859	—	19,859
Derivatives	—	10	28	—	38	65	33	37	173	6,379	6,552
Other financial liabilities	940	4,420	656	625	6,641	750	2,513	476	10,380	3	10,383
CPs and CDs	725	1,289	652	625	3,291	—	—	—	3,291	—	3,291
Covered bonds	49	—	4	—	53	750	2,217	—	3,020	—	3,020
Securitisations	—	—	—	—	—	—	296	476	772	—	772
Bank deposits	—	—	—	—	—	—	—	—	—	1	1
Customer deposits	—	—	—	—	—	—	—	—	—	2	2
Settlement balances	166	3,131	—	—	3,297	—	—	—	3,297	—	3,297
Subordinated liabilities	1	—	3	309	313	90	—	827	1,230	—	1,230
Notes in circulation	1,012	—	—	—	1,012	—	—	—	1,012	—	1,012
Lease liabilities	14	25	35	68	142	237	201	818	1,398	—	1,398
Total financial liabilities	296,027	7,851	4,316	2,454	310,648	2,096	7,751	2,174	322,669	6,382	329,051
2019											
Total financial liabilities	239,535	4,649	4,471	3,555	252,210	11,667	3,110	2,453	269,440	4,950	274,390

Notes:

(1) Loans to customers excludes £3,591 million (2019 - £1,956 million) of impairment provisions.

(2) 3-5 years includes £5.0 billion of Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises participation which has been repaid early in January 2021.

Capital, liquidity and funding risk continued

Encumbrance

NWB Group evaluates the extent to which assets can be financed in a secured form (encumbrance), but certain asset types lend themselves more readily to encumbrance. The typical characteristics that support encumbrance are an ability to pledge those assets to another counterparty or entity through operation of law without necessarily requiring prior notification, homogeneity, predictable and measurable cash flows, and a consistent and uniform underwriting and collection process. Retail assets including residential mortgages and credit card receivables display many of these features.

NWB Group categorises its assets into four broad groups, those that are:

- Already encumbered and used to support funding currently in place through own-asset securitisations, covered bonds and securities repurchase agreements.
- Pre-positioned with central banks as part of funding schemes and those encumbered under such schemes.
- Ring-fenced to meet regulatory requirements, where NWB Group has in place an operational continuity in resolution (OCIR) investment mandate wherein the PRA requires critical service providers to hold segregated liquidity buffers covering at least 50% of their annual fixed overheads.
- Not currently encumbered. In this category, NWB Group has in place an enablement programme which seeks to identify assets capable of being encumbered and to identify the actions to facilitate such encumbrance whilst not affecting customer relationships or servicing.

Balance sheet encumbrance - third party

	Encumbered as a result of transactions with counterparties other than central banks					Unencumbered assets not pre-positioned with central banks				
2020	Covered bonds and securitisations (1) £bn	SFT, Derivatives & similar (2) £bn	Total (3) £bn	Pre-positioned & encumbered assets held at central bank (4) £bn	Collateral ring-fenced to meet reg requirement (5) £bn	Readily available (6) £bn	Other available (7) £bn	Cannot be used (8) £bn	Total £bn	Total third party £bn
Cash and balances at central banks	—	2.8	2.8	—	—	60.2	—	—	60.2	63.0
Derivatives	—	—	—	—	—	—	—	3.3	3.3	3.3
Loans to banks - amortised cost	—	0.1	0.1	—	—	2.7	0.3	0.2	3.2	3.3
Loans to customers - amortised cost	10.0	—	10.0	114.6	—	29.2	76.9	40.9	147.0	271.6
- residential mortgages	10.0	—	10.0	113.8	—	21.2	10.0	—	31.2	155.0
- credit cards	—	—	—	—	—	2.5	0.3	—	2.8	2.8
- personal loans	—	—	—	—	—	3.8	2.1	1.1	7.0	7.0
- other	—	—	—	0.8	—	1.7	64.5	39.8	106.0	106.8
Other financial assets	—	14.1	14.1	—	2.1	21.4	—	0.4	21.8	38.0
Other assets	—	—	—	—	—	—	1.6	5.4	7.0	7.0
Total assets	10.0	17.0	27.0	114.6	2.1	113.5	78.8	50.2	242.5	386.2
Amounts due from holding companies and fellow subsidiaries										3.3
										389.5
2019										
Total assets	8.8	8.9	17.7	98.1	2.2	91.0	66.4	39.2	196.6	314.6
Amounts due from holding companies and fellow subsidiaries										3.8
										318.4

Notes:
(1) Covered bonds and securitisations include securitisations, conduits and covered bonds.
(2) Repos and other secured deposits, cash, coin and nostro balance held with the Bank of England as collateral against deposits and notes in circulation are included here rather than within those positioned at the central bank as they are part of normal banking operations. Securities financing transactions (SFT) include collateral given to secure derivative liabilities.
(3) Total assets encumbered as a result of transactions with counterparties other than central banks are those that have been pledged to provide security and are therefore not available to secure funding or to meet other collateral needs.
(4) Assets pre-positioned at the central banks include loans provided as security as part of funding schemes and those encumbered under such schemes.
(5) Ring-fenced to meet regulatory requirement includes assets ring fenced to meet operational continuity in resolution (OCIR) investment mandate.
(6) Readily available for encumbrance: including assets that have been enabled for use with central banks but not pre-positioned; cash and high quality debt securities that form part of NWB Group's liquidity portfolio and unencumbered debt securities.
(7) Other assets that are capable of being encumbered are those assets on the balance sheet that are available for funding and collateral purposes but are not readily realisable in their current form. These assets include loans that could be prepositioned with central banks but have not been subject to internal and external documentation review and diligence work.
(8) Cannot be used includes:
    a. Derivatives, reverse repurchase agreements and trading related settlement balances.
    b. Non-financial assets such as intangibles, prepayments and deferred tax.
    c. Loans that cannot be pre-positioned with central banks based on criteria set by the central banks, including those relating to date of origination and level of documentation.
    d. Non-recourse invoice financing balances and certain shipping loans whose terms and structure prohibit their use as collateral
(9) In accordance with market practice, NWB Group employs securities recognised on the balance sheet, and securities received under reverse repo transactions as collateral for repos.

Risk and capital management

Non-traded market risk

Definition

Non-traded market risk is the risk to the value of assets or liabilities outside the trading book, or the risk to income, that arises from changes in market prices such as interest rates, foreign exchange rates and equity prices, or from changes in managed rates.

Sources of risk

The key sources of NWB Group's non-traded market risk are interest rate risk, credit spread risk and foreign exchange risk.

Each of these risk types are largely managed separately. For detailed qualitative and quantitative information on each of them, refer to the separate sub-sections following the VaR table below.

Key developments in 2020

- The outbreak of COVID-19 triggered exceptional volatility in non-traded market risk factors in March 2020 and a global sell-off across all asset classes. This notably affected credit spreads (the spread between bond yield and swap rates) arising from the liquidity portfolios held by Treasury and resulted in a sharp increase in total non-traded VaR for 2020.
- Sterling weakened against the euro to 1.11 at 31 December 2020 from 1.18 at 31 December 2019. Structural foreign currency exposures increased, in sterling equivalent terms, by £25 million over the period.

Governance

Responsibility for identifying, measuring, monitoring and controlling market risk arising from non-trading activities lies with the relevant business. Oversight is provided by the independent Risk function.

Risk positions are reported monthly to the NatWest Holdings Executive Risk Committee and quarterly to the NatWest Holdings Board Risk Committee, as well as to the NatWest Holdings Asset & Liability Management Committee (monthly in the case of interest rate and credit spread risks and quarterly in the case of foreign exchange risk). Market risk policy statements set out the governance and risk management framework.

Risk appetite

NWB Group's qualitative appetite is set out in the non-traded market risk appetite statement.

Its quantitative appetite is expressed in terms of exposure limits. NWB Group's limit framework comprises value-at-risk (VaR), stressed value-at-risk (SVaR), sensitivities and earnings-at-risk limits. The limits are reviewed to reflect changes in risk appetite, business plans, portfolio composition and the market and economic environments.

To ensure approved limits are not breached and that NWB Group remains within its risk appetite, triggers have been set such that if exposures exceed a specified level, action plans are developed and implemented.

For further information on risk appetite and risk controls, refer to page 14.

Measurement

Non-traded internal VaR (1-day 99%)

The following table presents one-day internal banking book VaR at a 99% confidence level, split by risk type. VaR metrics are explained on page 65. Each of the key risk types are discussed in greater detail in their individual sub-sections following this table.

	2020				2019			
	Average £m	Maximum £m	Minimum £m	Period end £m	Average £m	Maximum £m	Minimum £m	Period end £m
Interest rate	**14.4**	**19.2**	**10.5**	**11.1**	11.5	16.7	8.5	12.3
Euro	**1.5**	**1.9**	**1.1**	**1.7**	1.3	3.0	0.5	1.3
Sterling	**9.4**	**16.1**	**4.8**	**8.4**	10.4	14.6	7.5	10.7
US dollar	**6.7**	**10.2**	**3.5**	**5.3**	1.8	3.1	0.8	2.7
Other	**0.5**	**0.7**	**0.3**	**0.3**	0.4	0.7	0.1	0.3
Credit spread	**96.2**	**114.8**	**60.7**	**93.6**	55.3	58.4	52.9	58.4
Pipeline risk	**0.4**	**0.7**	**0.2**	**0.4**	0.4	1.0	0.2	0.2
Diversification (1)	**(9.8)**			**(10.3)**	(11.2)			(13.7)
Total	**101.2**	**116.8**	**64.3**	**94.8**	56.0	62.3	50.9	57.2

Note:
(1) NWB Group benefits from diversification across various financial instrument types, currencies and markets. The extent of the diversification benefit depends on the correlation between the assets and risk factors in the portfolio at a particular time. The diversification factor is the sum of the VaR on individual risk types less the total portfolio VaR.

Key point

- The increase in credit spread and total VaR reflects the outbreak of COVID-19 in March 2020, as explained under 'Key developments in 2020' above.

Non-traded market risk continued

Interest rate risk

Non-traded interest rate risk (NTIRR) arises from the provision to customers of a range of banking products with differing interest rate characteristics. When aggregated, these products form portfolios of assets and liabilities with varying degrees of sensitivity to changes in market interest rates. Mismatches can give rise to volatility in net interest income as interest rates vary.

NTIRR comprises the following three primary risk types:

- Gap risk – arises from the timing of rate changes in non-trading book instruments. The extent of gap risk depends on whether changes to the term structure of interest rates occur consistently across the yield curve (parallel risk) or differentially by period (non-parallel risk).
- Basis risk – captures the impact of relative changes in interest rates for financial instruments that have similar tenors but are priced using different interest rate indices, or on the same interest rate indices but with different tenors.
- Option risk – arises from option derivative positions or from optional elements embedded in assets, liabilities and/or off-balance sheet items, where NWB Group or its customer can alter the level and timing of their cash flows. Option risk also includes pipeline risk.

To manage exposures within its risk appetite, NWB Group aggregates its interest rate positions and hedges its residual exposure, primarily with interest rate swaps.

Structural hedging aims to reduce gap risk and the sensitivity of earnings to interest rate shocks. It also provides some protection against prolonged periods of falling rates. Structural hedging is explained in greater detail below, followed by information on how NWB Group measures NTIRR from both an economic value-based and an earnings-based perspective.

Structural hedging

NWB Group has a significant pool of stable, non and low interest-bearing liabilities, principally comprising equity and money transmission accounts. NatWest Group has a policy of hedging these balances, either by investing directly in longer-term fixed-rate assets (primarily fixed-rate mortgages) or by using interest rate swaps, in order to provide a consistent and predictable revenue stream from these balances.

At 31 December 2020, NWB Group's structural hedge had a notional of £122 billion (compared to £110 billion at 31 December 2019) with an average life of approximately three years. This includes a notional of £11 billion relating to Coutts & Co UK and Ulster Bank Limited (£11 billion at 31 December 2019).

Interest rate risk measurement

NTIRR can be measured from either an economic value-based or earnings-based perspective, or a combination of the two. Value-based approaches measure the change in value of the balance sheet assets and liabilities including all cash flows. Earnings-based approaches measure the potential impact on the income statement of changes in interest rates over a defined horizon, generally one to three years.

NWB Group uses VaR as its value-based approach and sensitivity of net interest earnings as its earnings-based approach.

These two approaches provide complementary views of the impact of interest rate risk on the balance sheet at a point in time. The scenarios employed in the net interest earnings sensitivity approach may incorporate assumptions about how NWB Group and its customers will respond to a change in the level of interest rates. In contrast, the VaR approach measures the sensitivity of the balance sheet at a point in time. Capturing all cash flows, VaR also highlights the impact of duration and repricing risks beyond the one-to-three-year period shown in earnings sensitivity calculations.

Value-at-risk

VaR is a statistical estimate of the potential change in the market value of a portfolio (and, thus, the impact on the income statement) over a specified time horizon at a given confidence level. NWB Group's standard VaR metrics – which assume a time horizon of one trading day and a confidence level of 99% – are based on interest rate repricing gaps at the reporting date. Daily rate moves are modelled using observations from the last 500 business days. These incorporate customer products plus associated funding and hedging transactions as well as non-financial assets and liabilities. Behavioural assumptions are applied as appropriate.

The non-traded interest rate risk VaR metrics for NWB Group's retail and commercial banking activities are included in the banking book VaR table above. The VaR captures the risk resulting from mismatches in the repricing dates of assets and liabilities.

It also includes any mismatch between the maturity profile of external hedges and NWB Group's target maturity profile for the hedge.

Sensitivity of net interest earnings

Net interest earnings are sensitive to changes in the level of interest rates, mainly because maturing structural hedges are replaced at higher or lower rates and changes to coupons on managed rate customer products do not match changes in market rates of interest or central bank policy rates.

Earnings sensitivity is derived from a market-implied forward rate curve. Assumptions are applied to this curve to derive central bank policy rates. A simple scenario is shown that projects forward earnings over a 12-month period based on the 31 December 2020 balance sheet. A base-case earnings forecast is derived from the market-implied rate curve, which is then subject to interest rate shocks. The difference between the base-case forecast and the shock gives an indication of underlying sensitivity to interest rate movements.

Non-traded market risk continued

The sensitivity of net interest earnings table below shows the expected impact of an immediate upward or downward change of 25 and 100 basis points to all interest rates. Yield curves are expected to move in parallel except that interest rates are assumed to floor at zero per cent or, for euro rates, at the current negative rate. At 31 December 2020, the floor also affects sterling interest rates, reducing the size of the down-rate shock at most maturities.

Reported sensitivities should not be considered a forecast of future performance in these rate scenarios. Actions that could reduce interest earnings sensitivity include changes in pricing strategies on customer loans and deposits as well as hedging. Management action may also be taken to stabilise total income also taking into account non-interest income.

	2020				2019			
Shifts in yield curve	+25 basis points £m	-25 basis points with floor at 0% £m	+100 basis points £m	-100 basis points with floor at 0% £m	+25 basis points £m	-25 basis points with floor at 0% £m	+100 basis points £m	-100 basis points with floor at 0% £m
12-month interest earnings sensitivity	**229**	**(21)**	**771**	**(23)**	121	(119)	525	(539)

Key points

- The sensitivity to the 25 and 100-basis-point downward shift in yield curves was significantly affected by the changes to the level of interest rates. In the shock scenario, rates fell less at 31 December 2020 before hitting an assumed 0% floor compared to 31 December 2019. This resulted in a lower adverse impact at 31 December 2020, which was particularly notable in the 100-basis-point downward shock.
- The increased favourable sensitivity to the 25 and 100-basis-point upward shifts in yield curves over 2020 was mainly driven by (i) the significantly increased volumes of savings and current accounts over the period and (ii) changes to estimates of the extent to which NWB passes through the impact of changes in interest rates to these products. These estimates are reviewed regularly and are influenced by the overall level of interest rates, NWB Group's competitive position and other strategic considerations.

Sensitivity of fair value through other comprehensive income (FVOCI) to interest rate movements.
NWB Group holds most of the bonds in its liquidity portfolio at fair value. Valuation changes that are not hedged (or not in effective hedge accounting relationships) are recognised in FVOCI reserves.

Interest rate swaps are used to implement the structural hedging programme and to hedge some personal and commercial lending portfolios, primarily fixed-rate mortgages. Changes in the valuation of swaps that are in effective cash flow hedge accounting relationships are recognised in cash flow hedge reserves.

The table below shows the sensitivity of FVOCI reserves and cash flow hedge reserves to a parallel shift in all rates. In this analysis, interest rates have not been floored at zero. Cash flow hedges are assumed to be fully effective and interest rate hedges of bonds in the liquidity portfolio are also assumed to be subject to fully effective hedge accounting. Hedge accounting ineffectiveness would result in some deviation from the results below, with some gains or losses recognised in P&L instead of reserves. Hedge ineffectiveness P&L is monitored, and the effectiveness of cash flow and fair value hedge relationships is regularly tested in accordance with IFRS requirements. Note that a movement in the FVOCI reserve would have an impact on CET1 capital but a movement in the cash flow hedge reserve would not be expected to do so. Volatility in both reserves affects tangible net asset value.

	2020				2019			
Parallel shifts in yield curve	+25 basis points £m	-25 basis points £m	+100 basis points £m	-100 basis points £m	+25 basis points £m	-25 basis points £m	+100 basis points £m	-100 basis points £m
FVOCI reserves	**(27)**	**25**	**(114)**	**86**	(35)	33	(144)	125
Cash flow hedge reserves	**129**	**(129)**	**512**	**(521)**	108	(109)	426	(445)
Total	**102**	**(104)**	**398**	**(435)**	73	(76)	282	(320)

Key point

- The main driver of NWB Group's cash flow hedge reserve sensitivity is the interest rate swaps that hedge mortgage funding.

Non-traded market risk continued

Credit spread risk

Credit spread risk arises from the potential adverse economic impact of a change in the spread between bond yields and swap rates, where the bond portfolios are accounted at FVOCI.

NWB Group's bond portfolios primarily comprise high-quality securities maintained as a liquidity buffer to ensure it can continue to meet its obligations in the event that access to wholesale funding markets is restricted. Additionally, other high-quality bond portfolios are held for collateral purposes and to support payment systems.

Credit spread risk is monitored daily through sensitivities and VaR measures. The dealing authorities in place for the bond portfolios further mitigate the risk by imposing constraints by duration, asset class and credit rating. Exposures and limit utilisations are reported to senior management on a daily basis.

Foreign exchange risk

Non-traded foreign exchange risk arises from three main sources:

- Structural foreign exchange risk – arises from the capital deployed in foreign subsidiaries, branches and joint arrangements and related currency funding where it differs from sterling.
- Non-trading book foreign exchange risk – arises from customer transactions and profits and losses that are in a currency other than the functional currency of the transacting operation.
- Forecast earnings or costs in foreign currencies – NWB Group assesses its potential exposure to forecast foreign currency income and expenses. NWB Group hedges forward some forecast expenses.

Structural foreign exchange exposures arise from investments in foreign subsidiaries, branches and associates and their related currency funding. These exposures are assessed and managed to predefined risk appetite levels under delegated authority from the Asset & Liability Management Committee. NWH Group seeks to limit the potential volatility impact on its CET1 ratio from exchange rate movements by maintaining a structural open currency position. Gains or losses arising from the retranslation of net investments in overseas operations are recognised in equity reserves and reduce the sensitivity of capital ratios to foreign exchange rate movements primarily arising from the retranslation of non-sterling denominated RWAs. Sensitivity is minimised where, for a given currency, the ratio of the structural open position to RWAs equals the CET1 ratio.

The sensitivity of the NWH ratio to exchange rates is monitored monthly and reported to the Asset & Liability Management Committee at least quarterly. Foreign exchange exposures arising from customer transactions are sold down by businesses on a regular basis in line with NWH Group policy.

Foreign exchange risk

The table below shows structural foreign currency exposures.

	2020			2019		
	Net investments in foreign operations £m	Net investment hedges £m	Structural foreign currency exposures £m	Net investments in foreign operations £m	Net investment hedges £m	Structural foreign currency exposures £m
Euro	**295**	**(275)**	**20**	147	(130)	17
Other non-sterling	**437**	**(129)**	**308**	409	(123)	286
Total	**732**	**(404)**	**328**	556	(253)	303

Key points

- Sterling weakened against the euro over the period.
- Changes in foreign currency exchange rates affect equity in proportion to structural foreign currency exposure. For example, a 5% strengthening or weakening in foreign currencies against sterling would result in a gain or loss of £0.02 billion in equity, respectively.

Risk and capital management

Pension risk

Definition

Pension risk is the risk to NWB Group caused by its contractual or other liabilities to, or with respect to, a pension scheme (whether established for its employees or those of a related company or otherwise). It is also the risk that NWB Group will make payments or other contributions to, or with respect to, a pension scheme because of a moral obligation or because NatWest Group considers that it needs to do so for some other reason.

Sources of risk

NWB Group has exposure to pension risk through its defined benefit schemes worldwide. The Main section of The NatWest Group Pension Fund (the Main section) is the largest source of pension risk as NatWest Bank Plc is the principal employer to the Main section with £51.3 billion of assets and £43.9 billion of liabilities at 31 December 2020 (2019 – £46.6 billion of assets and £39.7 billion of liabilities). Refer to Note 5 to the financial statements, for further details on NWB Group's pension obligations, including sensitivities to the main risk factors.

Pension scheme liabilities vary with changes in long-term interest rates and inflation as well as with pensionable salaries, the longevity of scheme members and legislation. Pension scheme assets vary with changes in interest rates, inflation expectations, credit spreads, exchange rates, and equity and property prices. NWB Group is exposed to the risk that the schemes' assets, together with future returns and additional future contributions, are estimated to be insufficient to meet liabilities as they fall due. In such circumstances, NWB Group could be obliged (or might choose) to make additional contributions to the schemes or be required to hold additional capital to mitigate this risk.

Key developments in 2020

- There have been no material changes to NWB Group's exposure to pension risk during the year. In particular, the interest rate and inflation hedging, along with limited exposure to equities, has meant that the positions of the main defined benefit schemes that NWB Group sponsors have remained resilient despite the market shocks caused by COVID-19. More details on the assets held by the schemes are set out in Note 5 to the financial statements.
- During 2020, the NatWest Group Pension Committee, a key component of NatWest Group's approach to managing pension risk, was subsumed into the NatWest Group Asset & Liability Management Committee, including taking on the responsibilities previously held by the NatWest Group Pension Committee. This change was made to increase efficiency, reflecting the steps NatWest Group has taken to reduce the level of pension risk within NatWest Group in recent years, but to ensure that pension risk still receives appropriate executive attention.
- The Royal Bank of Scotland Group Pension Fund formally changed its name to the NatWest Group Pension Fund on 1 August 2020, to align with the name of NatWest Group's parent company.
- The next triennial actuarial valuation for the Main section will have an effective date of 31 December 2020. Under current legislation, agreement with the Trustee would need to be reached no later than 31 March 2022.

Governance

The NatWest Group Asset & Liability Management Committee is chaired by the NatWest Group Chief Financial Officer. Having replaced the NatWest Group Pension Committee during 2020, the NatWest Group Asset & Liability Management Committee is a key component of NatWest Group's approach to managing pension risk and it considers the pension impact of the capital plan for NatWest Group and reviews performance of NatWest Group's material pension funds (including those sponsored by NWB Group) and other issues material to NatWest Group's pension strategy on behalf of NatWest Group. It also considers investment strategy proposals from the Trustee of the Main section.

For further information on governance, refer to page 12.

Risk appetite

NWB Group maintains an independent view of the risk inherent in its pension funds. NWB Group has an annually reviewed pension risk appetite statement relating to the Main section, for which it is the principal sponsoring employer, incorporating defined metrics against which risk is measured.

Policies and standards are in place to provide formal controls for pension risk reporting, modelling, governance and stress testing. A pension risk policy, which sits within the NatWest Group policy framework, is also in place and is subject to associated framework controls.

Monitoring and measurement

Pension risk is monitored by the NWH Group Executive Risk Committee and the NatWest Group Board Risk Committee by way of the monthly Risk Management Report.

NatWest Group also undertakes stress tests on its material defined benefit pension schemes each year. These tests are also used to satisfy the requests of regulatory bodies such as the Bank of England.

The stress testing framework includes pension risk capital calculations for the purposes of the Internal Capital Adequacy Assessment Process as well as additional stress tests for a number of internal management purposes. The results of the stress tests and their consequential impact on NWB Group's balance sheet, income statement and capital position are incorporated into NWB Group's and overall NatWest Group stress test results.

NatWest Bank Plc is the principal employer of the Main section and could be required to fund any deficit that arises.

Mitigation

Following risk mitigation measures taken by the Trustee in recent years, the Main section is now well protected against interest rate and inflation risks and is being run on a low risk basis with relatively small equity risk exposure. The Main section also uses derivatives to manage the allocation of the portfolio to different asset classes and to manage risk within asset classes.

The potential impact of climate change is one of the factors considered in managing the assets of the Main section. The Trustee monitors the risk to its investments from changes in the global environment and invests, where return justifies the risk, in sectors that reduce the world's reliance on fossil fuels, or that may otherwise promote environmental benefits. Further details regarding the Main section Trustee's approach to managing climate change risk can be found in its Responsible Ownership Policy. The Trustee has reported in line with the Task Force on Climate-related Financial Disclosures in its Annual Report and Accounts.

Compliance & conduct risk

Definition

Compliance risk is the risk that the behaviour of NatWest Group towards customers fails to comply with laws, regulations, rules, standards and codes of conduct. Such a failure may lead to breaches of regulatory requirements, organisational standards or customer expectations and could result in legal or regulatory sanctions, material financial loss or reputational damage.

Conduct risk is the risk that the conduct of NatWest Group and its subsidiaries and its staff towards customers – or in the markets in which it operates – leads to unfair or inappropriate customer outcomes and results in reputational damage, financial loss or both.

Sources of risk

Compliance and conduct risks exist across all stages of NatWest Group's relationships with its customers and arise from a variety of activities including product design, marketing and sales, complaint handling, staff training, and handling of confidential insider information.

Compliance & conduct risk continued

Key developments in 2020

- A customer-focused COVID-19 response was mobilised, which included prioritised resource and operational capacity, forbearance and participation in government schemes.
- In-life monitoring of customer outcomes was extended to ensure treatment strategies remained timely, relevant and consistent, as a result of the continued economic uncertainty arising from COVID-19 and Brexit.
- Specialist training was delivered to support the continuous oversight of ring-fencing embeddedness.
- Work to develop a Digitised Rules Mapping platform was a significant management focus. The platform aims to facilitate risk-based rules mapping to regulatory obligations. This will enable more efficient risk management of regulatory compliance matters as well as intelligent risk taking.
- The roll-out of the Banking My Way service – which enables vulnerable customers to record their support needs – was also a focus, helping to drive tailored solutions and outcomes.
- A review of historic investment advice remediation was conducted in order to ensure the appropriate customer outcomes were achieved.

Governance

NatWest Group defines appropriate standards of compliance and conduct and ensures adherence to those standards through its risk management framework. Relevant compliance and conduct matters are escalated through Executive Risk Committee and Board Risk Committee.

Risk appetite

Risk appetite for compliance and conduct risks is set at Board level. Risk appetite statements articulate the levels of risk that legal entities, businesses and functions work within when pursuing their strategic objectives and business plans.

A range of controls is operated to ensure the business delivers good customer outcomes and is conducted in accordance with legal and regulatory requirements. A suite of policies addressing compliance and conduct risks set appropriate standards across NatWest Group. Examples of these include the Complaints Management Policy, Client Assets & Money Policy, and Product Lifecycle Policy as well as policies relating to customers in vulnerable situations, cross-border activities and market abuse. Continuous monitoring and targeted assurance is carried out as appropriate.

Monitoring and measurement

Compliance and conduct risks are measured and managed through continuous assessment and reporting to NatWest Group's senior risk committees and at Board level. The compliance and conduct risk framework facilitates the consistent monitoring and measurement of compliance with laws and regulations and the delivery of consistently good customer outcomes. The first line of defence is responsible for effective risk identification, reporting and monitoring, with oversight, challenge and review by the second line. Compliance and conduct risk management is also integrated into NatWest Group's strategic planning cycle.

Mitigation

Activity to mitigate the most-material compliance and conduct risks is carried out across NatWest Group with specific areas of focus in the customer- facing businesses and legal entities. Examples of mitigation include consideration of customer needs in business and product planning, targeted training, complaints management, as well as independent monitoring activity. Internal policies help support a strong customer focus across NatWest Group.

Financial crime risk

Definition

Financial crime risk is presented by criminal activity in the form of money laundering, terrorist financing, bribery and corruption, sanctions and tax evasion. It does not include fraud risk management.

Sources of risk

Financial crime risk may be presented if NWB Group's customers, employees or third parties undertake or facilitate financial crime, or if NWB Group's products or services are used to facilitate such crime. Financial crime risk is an inherent risk across all lines of business.

Key developments in 2020

- In view of the challenges presented by COVID-19, financial crime policies were reviewed and, where appropriate, updated to reflect the evolving environment as well as industry best practice.
- A new enterprise-wide Financial Crime Hub was established in the first line to detect and prevent financial crime. The Hub will facilitate a common, consistent approach to managing financial crime.
- A multi-year transformation plan was developed to ensure that, as the financial crime threat evolves with changes in technology, the economy and wider society, risks relating to money-laundering, terrorist-financing, tax evasion, bribery and corruption and financial sanctions are managed, mitigated and controlled as effectively as possible.
- A new Financial Crime executive steering committee was established to provide oversight of the transformation plan and its implementation.

Governance

The NatWest Group Financial Crime Risk Executive Committee, which is chaired by the NatWest Group Chief Financial Crime Risk Officer, is the principal financial crime risk management forum. The committee reviews and, where appropriate, escalates material financial crime risks and issues across NatWest Group to the NatWest Group Executive Risk Committee and the NatWest Group Board Risk Committee.

Risk appetite

There is no appetite to operate in an environment where systems and controls do not enable the identification, assessment, monitoring, management and mitigation of financial crime risk. NWB Group's systems and controls must be comprehensive and proportionate to the nature, scale and complexity of its businesses. There is no tolerance to systematically or repeatedly breach relevant financial crime regulations and laws.

NWB Group operates a framework of preventative and detective controls designed to mitigate the risk that it could facilitate financial crime. These controls are supported by a suite of policies, procedures and detailed instructions to ensure they operate effectively.

Monitoring and measurement

Financial crime risks are identified and reported through continuous risk management and regular monthly reporting to NatWest Group's senior risk committees and the NatWest Group Board. Quantitative and qualitative data is reviewed and assessed to measure whether financial crime risk is within risk appetite.

Mitigation

Through the financial crime framework, relevant policies, systems, processes and controls are used to mitigate financial crime risk. This includes the use of dedicated screening and monitoring controls to identify people, organisations, transactions and behaviours that may require further investigation or other actions. Centralised expertise is available to detect and disrupt threats to NWB Group and its customers. Intelligence is shared with law enforcement, regulators and government bodies to strengthen national and international defences against those who would misuse the financial system for criminal motives.

Risk and capital management

Climate-related risk

Definition

Climate-related risk is the threat of financial loss or adverse non-financial impacts associated with climate change and the political, economic and environmental responses to it.

Sources of risk

Physical risks may arise from climate and weather-related events such as heatwaves, droughts, floods, storms and sea level rises. They can potentially result in financial losses, impairing asset values and the creditworthiness of borrowers. NWB Plc could be exposed to physical risks directly by the effects on its property portfolio and, indirectly, by the impacts on the wider economy as well as on the property and business interests of its customers.

Transition risks may arise from the process of adjustment towards a low-carbon economy. Changes in policy, technology and sentiment could prompt reassessment of customers' financial risk and may lead to falls in the value of a large range of assets. NWB Plc could be exposed to transition risks directly through the costs of adaptation within economic sectors and markets as well as supply chain disruption leading to financial impacts on it and its customers. Potential indirect effects include the erosion of NWB Plc's competitiveness, profitability, or reputation damage.

Within these broad categories specific climate risk factors have been identified, which give rise to climate-related risks over the short, medium and long-term.

Key developments in 2020

- Climate-related risk was elevated to a principal risk. In line with NatWest Group's risk management framework, the elevation will see the implementation of a dedicated risk policy, risk appetite statement and risk appetite measures, which are reportable to the NatWest Group Board Risk Committee.
- To support alignment with the 2015 Paris Agreement, NatWest Group developed the capability to estimate financed emissions and emissions intensities for the following: residential mortgages, agriculture (primary farming), automotive manufacturers and oil & gas extractors. The residential mortgage portfolio and these three sectors were deemed the most material in terms of their proportion of NatWest Group's total loans and investments and susceptibility to disruption resulting from climate change.
- In preparation for the Bank of England's 2021 Climate Biennial Exploratory Scenario, NatWest Group developed and tested a scenario analysis methodology to quantify a range of climate-related risks to support business decision making and the development of management actions. Dry runs were conducted on a cross section of NatWest Group's wholesale and retail counterparties.
- Climate-related risk was included as a factor in setting sector oversight classifications, which drive the frequency and level at which sector credit risk appetite is reviewed.
- Guidance was issued to ensure appropriate consideration of climate-related risk in internal risk and control assessments.
- Within operational risk, a scenario analysis pilot was performed on NatWest Group's operations in India to assess the potential effects of climate driven events including disruption to business services, damage to physical assets and health & safety.
- Enhancements have been made to the Environmental, Social & Ethical risk management framework to mitigate reputational risk from carbon intensive sectors and support the transition to a lower carbon economy.

Governance

The NatWest Group Board is responsible for monitoring and overseeing climate-related risk within NatWest Group's overall business strategy and risk appetite.

NatWest Group Board approved the allocation of Senior Management Function responsibility for identifying and managing financial risks from climate change jointly to the NatWest Group Chief Executive Officer (CEO) and the NatWest Group Chief Risk Officer. This updated accountability supports the CEO's ownership of NatWest Group's strategic climate purpose.

A NatWest Group-wide Climate Change Programme (GCCP) supports the delivery of climate-related objectives. The GCCP is overseen by an Executive Steering Group (ESG) which is responsible for coordinating its Group's response across climate-related regulations, risks and opportunities. The ESG is co-chaired by the NatWest Group CEO and NatWest Group Chief Risk Officer.

Risk appetite

NatWest Group's ambition is to be a leading bank in the UK and the Republic of Ireland in helping to address climate change. Its stated purpose is to reduce the climate impact of its financing activity by at least 50% by 2030 and to do what is necessary to achieve alignment with the 2015 Paris Agreement.

Work continued in 2020 to integrate climate-related risk into the risk management framework, including the development of appropriate risk appetite metrics. Where climate-related risk is deemed to have a material impact on a particular risk discipline, then changes to policies and procedures will be made accordingly. Availability of data and the robustness of risk measurement methodologies will influence the timing of any proposed changes.

Monitoring and measurement

Plans have been developed to ensure climate-related risks are considered in the tools made available to risk disciplines for risk monitoring and measurement purposes.

In 2020, NatWest Group became the first major UK bank to join the Partnership for Carbon Accounting (PCAF), underlining its commitment to measuring and reducing its climate impact in accordance with the 2015 Paris Agreement.

To align NatWest Group's financing activity with the goals of the 2015 Paris Agreement, work is underway to formulate emissions targets that are consistent with limiting global warming to well-below 2°C. Furthermore, in 2020, NatWest Group also joined the Science Based Targets initiative (SBTi), following its launch of guidance to support financial institutions in aligning lending and investment activities with the 2015 Paris Agreement.

Risk and capital management

Operational risk

Definition

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or external events. It arises from day-to-day operations and is relevant to every aspect of the business.

Sources of risk

Operational risk may arise from a failure to manage operations, systems, transactions and assets appropriately. This can take the form of human error, an inability to deliver change adequately or on time, the non-availability of technology services, or the loss of customer data. Fraud and theft – as well as the threat of cyber attacks – are sources of operational risk, as is the impact of natural and man-made disasters. Operational risk can also arise from a failure to account for changes in law or regulations or to take appropriate measures to protect assets.

Key developments in 2020

- The impact of COVID-19 led to significant disruption and heightened the operational risk profile as NWB Group adapted to new ways of working as a result of the lockdown protocols. The control environment was continually monitored to ensure the resulting challenges were safely addressed.
- A NatWest Group-wide response was mobilised – supported by additional reporting on customer needs, people, processes and systems – to ensure the Board and senior management were regularly updated and to facilitate decision-making as COVID-19 evolved.
- The transformation agenda was impacted by COVID-19, with some activities being re-prioritised. A full risk assessment on the impact of the reprioritised activity was completed to ensure the potential impacts were understood and mitigated.
- Operational resilience remained a key focus. A series of scenarios – setting out the crystallisation of severe but plausible combinations of significant risks – were developed in order to support planning and appropriate forward-looking risk management strategies.
- The security threat and the potential for cyber attacks on NatWest Group's supply chain remains an area for close monitoring. Significant enhancements in managing such incidents and the broader security control environment were made. This included completion of work in response to the outcome of the 2019 CBEST test.
- NatWest Group's preparations for Brexit and the end of the transition period enabled NatWest Group to ensure that its processes and systems would ensure continuity of service for customers.

Governance

A strong operational risk management function is vital to support NWB Group's ambitions to serve its customers better. Improved management of operational risk against defined appetite is vital for stability and reputational integrity.

The first line of defence is responsible for managing operational risks directly while the second line is responsible for proactive oversight and continuous monitoring of operational risk management across NWB Group. The second line is responsible for reporting and escalating key concerns to Executive Risk Committee and Board Risk Committee.

Risk appetite

Operational risk appetite supports effective management of material operational risks. It expresses the level and types of operational risk NWB Group is willing to accept to achieve its strategic objectives and business plans. NWB Group's operational risk appetite statement encompasses the full range of operational risks faced by its legal entities, businesses and functions.

Mitigation

The Control Environment Certification (CEC) process is a half-yearly self-assessment by the CEOs of NatWest Group's principal businesses, functions and legal entities. It provides a consistent and comparable view on the adequacy and effectiveness of the internal control environment.

CEC covers material risks and the underlying key controls, including financial, operational and compliance controls, as well as supporting risk management frameworks. The CEC outcomes, including forward-looking assessments for the next two half-yearly cycles and progress on control environment improvements, are reported to the NatWest Group Audit Committee and Board Risk Committee. They are also shared with external auditors.

The CEC process helps to ensure compliance with the NatWest Group Policy Framework, Sarbanes-Oxley 404 requirements concerning internal control over financial reporting (as referenced in the Compliance report on page 152 of the NatWest Group Annual Report and Accounts), and certain requirements of the UK Corporate Governance Code.

Risks are mitigated by applying key preventative and detective controls, an integral step in the risk assessment methodology which determines residual risk exposure. Control owners are accountable for the design, execution, performance and maintenance of key controls. Key controls are regularly assessed for adequacy and tested for effectiveness. The results are monitored and, where a material change in performance is identified, the associated risk is re-evaluated.

In H1 2020, due to the impacts of COVID-19, the formal certification process was suspended. It resumed again in H2.

Monitoring and measurement

Risk and control assessments are used across all business areas and support functions to identify and assess material operational and conduct risks and key controls. All risks and controls are mapped to NWB Group's Risk Directory. Risk assessments are refreshed at least annually to ensure they remain relevant and capture any emerging risks and also ensure risks are reassessed.

The process is designed to confirm that risks are effectively managed in line with risk appetite. Controls are tested at the appropriate frequency to verify that they remain fit-for-purpose and operate effectively to reduce identified risks.

NWB Group uses the standardised approach to calculate its Pillar 1 operational risk capital requirement. This is based on multiplying three years' average historical gross income by coefficients set by the regulator based on business line. As part of the wider Internal Capital Adequacy Assessment Process an operational risk economic capital model is used to assess Pillar 2A, which is a risk-sensitive add-on to Pillar 1. The model uses historical loss data (internal and external) and forward-looking scenario analysis to provide a risk-sensitive view of NWB Group's Pillar 2A capital requirement.

Scenario analysis is used to assess how severe but plausible operational risks will affect NWB Group. It provides a forward-looking basis for evaluating and managing operational risk exposures.

Refer to the Capital, liquidity and funding risk section for operational risk capital requirement figures.

Operational resilience

NWB Group manages and monitors operational resilience through its risk and control assessment methodology. This is underpinned by setting and monitoring risk indicators and performance metrics for key business services. Progress continues on the response to regulator expectations on operational resilience, with involvement in a number of industry-wide operational resilience forums. This enables a more holistic view of the operational resilience risk profile and the pace of ongoing innovation and change, both internally and externally.

Risk and capital management

Operational risk continued

Event and loss data management

The operational risk event and loss data management process ensures NWB Group captures and records operational risk financial and non-financial events that meet defined criteria. Loss data is used for regulatory and industry reporting and is included in capital modelling when calculating economic capital for operational risk. The most serious events are escalated in a simple, standardised process to all senior management, by way of a Group Notifiable Event Process.

All financial impacts associated with an operational risk event are reported against the date they were recorded in NWB Group's financial accounts. A single event can result in multiple losses (or recoveries) that may take time to crystallise. Losses and recoveries with a financial accounting date in 2020 may relate to events that occurred, or were identified in, prior years. NWB Group purchases insurance against specific losses and to comply with statutory or contractual requirements.

Model risk

Definition

Model risk is the potential for adverse consequences arising from decisions based on model results that may be incorrect, misinterpreted, used inappropriately or based on an outdated model. NWB Group defines a model as a quantitative method, system, or approach that applies statistical, economic, financial, accounting, mathematical or data science theories, techniques and assumptions to process input data into quantitative estimates.

Sources of risk

NWB Group uses a variety of models in the course of its business activities. Examples include the use of model outputs to support customer decisioning, measuring and assessing risk exposures (including credit, market, and climate risk), as well as calculating regulatory capital and liquidity requirements.

Key developments in 2020

- Progress was made in embedding the model risk framework across NWB Group to ensure all models are identified and managed as per requirements.
- Enhanced model risk appetite measures were approved and monitored throughout 2020, with remediation plans under close management.
- All NWB Group models are now recorded within a single model inventory, providing increased transparency.
- As a result of COVID-19, there was an increased reliance on model performance monitoring to identify model limitations and qualitative overlays to ensure model outputs were used appropriately.

Governance

A governance framework is in place to ensure policies and processes relating to models are appropriate and effective. Two roles are key to this – Model Risk Owners and Model Risk Officers. Model Risk Owners, in the first line, are responsible for model approval and ongoing performance monitoring. Model Risk Officers, in the second line, are responsible for oversight, including ensuring that models are independently validated prior to use and on an ongoing basis aligned to the model's risk rating.

Model risk matters are escalated to senior management through the NWB Group Model Oversight Committee. The NatWest Group Model Risk Oversight Committee provides a direct escalation route to the NatWest Group Executive Risk Committee and, where applicable, onwards to the NatWest Group Board Risk Committee.

Risk appetite

Model risk appetite is set in order to limit the level of model risk that NWB Group is willing to accept in the course of its business activities. It is approved by the NWB Group Executive Risk Committee. Business areas are responsible for monitoring performance against appetite and remediating models outside appetite.

Risk controls

Policies and procedures related to the development, validation, approval and ongoing monitoring of models are in place to ensure adequate control across the lifecycle of an individual model. Validation of material models is conducted by an independent risk function comprised of skilled, well-informed subject matter experts. This is completed for new models or amendments to existing models and as part of an ongoing periodic programme to assess model performance. The frequency of periodic validation is aligned to the risk rating of the model. The independent validation focuses on a variety of model features, including modelling approach, the nature of the assumptions used, the model's predictive ability and complexity, the data used in the model, its implementation and its compliance with regulation.

Risk monitoring and measurement

The level of risk relating to an individual model is assessed through a model risk rating. A quantitative approach is used to determine the risk rating of each model, based on the model's materiality and validation rating. This approach provides the basis for model risk appetite measures and enables model risk to be robustly monitored and managed across NWB Group.

Ongoing performance monitoring is conducted by the first line and overseen by the second line to ensure parameter estimates and model constructs remain fit for purpose, model assumptions remain valid and that models are being used consistently with their intended purpose. This allows timely action to be taken to remediate poor model performance and/or any control gaps or weaknesses.

Risk mitigation

By their nature – as approximations of reality – model risk is inherent in the use of models. It is managed by refining or redeveloping models where appropriate – either due to changes in market conditions, business assumptions or processes – and by applying adjustments to model outputs (either quantitative or based on expert opinion). Enhancements may also be made to the process within which the model output is used in order to further limit risk levels.

Reputational risk

Definition

Reputational Risk is defined as the risk of damage to stakeholder trust due to negative consequences arising from internal actions or external events.

Sources of risk

Reputational risks originate from internal actions and external events. The three primary drivers of reputational risk have been identified as: failure in internal execution; a conflict between NWB Group's values and the public agenda; and contagion (when NWB Group's reputation is damaged by failures in the wider financial sector).

Key developments in 2020

- Reputational risks arising from COVID-19 remained a key focus from Q1 onwards.
- A review of the reputational risk framework and policy began in 2020. This was required to reflect the purpose, capture a more complete view of reputation at a strategic level and align with more progressive industry leaders.
- The correlation between reputational risk and climate change issues remained a significant area of focus, supported by work to enhance the consideration of such issues within the reputational risk framework. As part of this work, enhancements were made to the Environmental, Social & Ethical risk management framework to mitigate reputational risk from carbon intensive sectors and support the transition to a lower carbon economy.

Reputational risk continued

Governance

A reputational risk policy supports reputational risk management across NWB Group. Reputational risk committees review relevant issues at an individual business or entity level, while the Reputational Risk Committee – which has delegated authority from the Executive Risk Committee – opines on cases, issues, sectors and themes that represent a material reputational risk. The Board Risk Committee oversees the identification and reporting of reputational risk. The NatWest Group Sustainable Banking Committee has a specific focus on environmental, social and ethical issues.

Risk appetite

NWB Group manages and articulates its appetite for reputational risk through a qualitative reputational risk appetite statement and quantitative measures. NWB Group seeks continuous improvement in the identification, assessment and management of customers, transactions, products and issues that present a material reputational risk.

Standards of conduct are in place across NWB Group requiring strict adherence to policies, procedures and ways of working to ensure business is transacted in a way that meets – or exceeds – stakeholder expectations.

Monitoring and measurement

Relevant internal and external factors are monitored through regular reporting to the reputational risk committees at business or entity level and escalated, where appropriate, to the NatWest Group Reputational Risk Committee, NatWest Group Board Risk Committee or the NatWest Group Sustainable Banking Committee.

Mitigation

Reputational risk is mitigated through the policy and governance framework, with ongoing staff training to ensure early identification, assessment and escalation of material issues. External events that could cause reputational damage are identified and mitigated through NatWest Group's top and emerging risks process. The most material threats to NatWest Group's reputation continued to originate from historical and more recent conduct issues. NatWest Group has in recent years been the subject of investigations and reviews by a number of regulators and governmental authorities, some of which have resulted in past fines, settlements and public censure. Refer to the Litigation and regulatory matters section of Note 26 to the NatWest Group consolidated financial statements for details of material matters currently impacting NatWest Group.

Report of the directors

The directors present their report together with the audited accounts for the year ended 31 December 2020.

Other information incorporated into this report by reference can be found at:

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Stakeholder engagement and s.172(1) statement	3
Board of directors and secretary	5
Financial review	7
Segmental analysis	Note 4
Share capital and reserves	Note 22
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NWB Group structure
National Westminster Bank Plc ('NWB Plc') is a wholly-owned subsidiary of NatWest Holdings Limited ('NWH Ltd' or 'the intermediate holding company'). NatWest Bank Group ('NWB Group') comprises NWB Plc and its subsidiary and associated undertakings. NatWest Holdings Group ('NWH Group') comprises NWH Ltd and its subsidiary and associated undertakings. NatWest Group plc is 'the ultimate holding company'. The term 'NatWest Group' comprises NatWest Group plc and its subsidiary and associated undertakings. NatWest Group plc is incorporated in the United Kingdom and has its registered office at 36 St Andrew Square, Edinburgh, EH2 2YB.

Details of NWB Plc's principal subsidiary undertakings and their activities are shown in Note 14 on the accounts. A full list of NWB Plc's related undertakings is shown in Note 36 on the accounts.

The financial statements of NatWest Group plc can be obtained from Legal, Governance & Regulatory Affairs, Gogarburn, Edinburgh, EH12 1HQ, the Registrar of Companies or through NatWest Group's website natwestgroup.com.

Activities
NWB Group is engaged principally in providing a wide range of banking and other financial services.

Results and dividends
The profit attributable to the ordinary shareholders of NWB Plc for the year ended 31 December 2020 was £380 million compared with a profit of £714 million for the year ended 31 December 2019, as set out in the consolidated income statement on page 91.

No ordinary dividends were paid in 2020. NWB Plc paid an ordinary dividend to NWH Ltd in 2019 totalling £700 million.

Employees
As at 31 December 2020, NWB Group employed 52,100 people (excluding temporary staff). Details of related costs are included in Note 3 on the consolidated accounts.

NWB Plc employs the majority of NWB Group UK customer-facing staff, with costs recharged. NWB Plc also provides the majority of shared services (including technology) and operational processes under Intra-Group Agreements.

Corporate Governance statement
Following the introduction of new reporting requirements in 2019, the directors of NWB Plc are required to provide a statement in the report of the directors stating which corporate governance code, if any, NWB Plc followed during the year, how it applied the code and any part of the code it did not follow.

For the financial year ended 31 December 2020 NWB Plc has chosen to report against the Wates Corporate Governance Principles for Large Private Companies, published by the Financial Reporting Council (FRC) in December 2018 and available on the FRC website (the Wates Principles). The disclosures below explain how NWB Plc has applied the Wates Principles in the context of its corporate governance arrangements.

1. Purpose and leadership
NatWest Group's purpose is established by the NatWest Group plc Board, promoted across NatWest Group and cascaded to subsidiaries including NWB Plc. In February 2020, and following an extensive period of stakeholder engagement, the NatWest Group plc Board approved a new purpose and strategy for NatWest Group.

NatWest Group's purpose is "we champion potential, helping people, families and businesses to thrive". It has been a galvanising force across the organisation as its response to the COVID-19 pandemic has evolved, acting as an important point of reference during Board discussions, debate and decision-making.

NatWest Group's strategy is set and approved by the NatWest Group plc Board. The board of directors of NWB Plc (the Board) reviews and sets the strategic direction of the NWH Group and, as appropriate, the strategies for each of its businesses, within the parameters set by the NatWest Group plc Board. The Board also oversees the execution of NWH Group strategy and holds executive management to account for its delivery.

Further information on NatWest Group's progress against its purpose and strategy can be found in the NatWest Group plc 2020 Annual Report and Accounts.

Building a healthy culture that embodies Our Values is a core priority for NatWest Group.'Our Values' are at the heart of Our Code (the NatWest Group-wide Code of Conduct). They guide the way NatWest Group identifies the right people to serve customers well, and how NatWest Group manages, engages and rewards colleagues.

The Board assesses and monitors culture in several ways. In February 2020, representatives from the Banking Standards Board (BSB) joined a Board meeting to present the results of their 2019 industry-wide survey and thematic reports, together with their 2019 Assessment report on NatWest Group. The Board also discussed an internal review of the BSB's thematic reports on 'Technology & Culture' and 'Decision-Making' from a NatWest Group perspective, including impacts for customers and employees.

Colleague opinion survey results were another useful culture oversight tool available to the Board. Directors considered the results of colleague pulse surveys conducted in May and June 2020, and in October 2020, reviewed the results of the annual colleague opinion survey, Our View. Key themes noted and discussed by the Board were culture, inclusion, capability, resilience and wellbeing (including financial wellbeing and colleague advocacy).

Directors are mindful of their responsibility to set the 'tone from the top' and take every opportunity to role model the desired culture both within the Boardroom and beyond.

While opportunities for face to face interaction with colleagues were significantly curtailed during 2020, directors continued to engage with colleagues virtually where possible, for example through Colleague Advisory Panel events, Committee function visits and a virtual talent engagement session.

In December, as part of a spotlight on colleagues, the Board received an update on future ways of working and how this might evolve in a way that is consistent with NatWest Group purpose and strategy; continues to support colleagues; drives greater collaboration; and supports the long-term sustainability of NatWest Group.

The activities described above have supported the Board in meeting the Wates Principle 1 requirement to ensure that purpose, values, strategy and culture are aligned, within the wider NatWest Group governance structure.

2. Board composition
The Board has thirteen directors comprising the Chairman, two executive directors and ten independent non-executive directors, one of whom is the Senior Independent Director.

The names of the current directors and secretary are shown on page 6.

The Board considers that the Chairman was independent on appointment and that all the non-executive directors are independent. Non-executive director independence and individual directors continuing contribution to NWB Plc are considered at least annually.

The Board operates a Boardroom Inclusion Policy which reflects the most recent industry targets and is aligned to the Inclusion Guidelines applying to the wider NatWest

Group. The Boardroom Inclusion policy provides a framework to ensure that the Board attracts, motivates and retains the best talent and avoids limiting potential caused by bias, prejudice or discrimination. It currently applies to the Boards of NatWest Group plc, NWH Ltd, RBS plc, NWB Plc and Ulster Bank Limited (UBL). A copy of the Boardroom Inclusion Policy is available on natwestgroup.com.

The Boardroom Inclusion Policy contains a number of measurable objectives, targets and ambitions reflecting the ongoing commitment of the Board to inclusion progress. The Board aims to meet the highest industry standards and recommendations wherever possible.

That 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 boards) and the Parker Report: Beyond 1 by '21 (at least one director from an ethnic minority background on the boards) by 2020/2021. The policy supports the NatWest Group-wide commitment to being fully gender balanced by 2030.

The Board currently meets the Parker target and exceeds the Hampton-Alexander target with a female representation of 38%.

The role of the Chairman is to lead the Board and ensure its overall effectiveness. This is distinct and separate from that of the Chief Executive Officer (CEO) who manages the business day-to-day.

All directors receive accurate, timely and clear information on relevant matters and have access to the advice and services of the Company Secretary. In addition, all directors are able, if necessary, to obtain independent professional advice at NWB Plc's expense.

The Senior Independent Director acts as a sounding board for the Chairman and as an intermediary for other directors when necessary.

NWH Ltd is the holding company for NatWest Group's ring-fenced operations, which include the retail, commercial and wealth services. A common board structure is operated such that directors of NWH Ltd are also directors of RBS plc, NWB Plc and Ulster Bank Limited (UBL). Known collectively as the NWH Sub Group, the boards of these four entities meet concurrently.

An integral part of NatWest Group's governance arrangements is the appointment of three Double Independent Non-Executive Directors (DINEDs) to the Boards and Board Committees, of the NWH Sub Group.

The DINEDs are independent in two respects: (i) independent of management as non-executives; and (ii) independent of the rest of NatWest Group by virtue of their NWH Sub Group only directorships.

The DINEDs play a critical role in NatWest Group's ring-fencing governance structure, and are responsible for exercising appropriate oversight of the independence and effectiveness of the NWH Sub Group's governance arrangements, including the ability of each board to take decisions independently. The DINEDs also have an enhanced role in managing any conflicts which may arise between the interests of NWB Plc and other members of NatWest Group.

All NWH Sub Group directors who are not DINEDs are directors of NatWest Group plc. All DINEDs attend NatWest Group plc Board meetings in an observer capacity.

The governance arrangements for the Boards and Board Committees of NatWest Group plc and the NWH Sub Group have been designed to enable NatWest Group plc to exercise appropriate oversight and to ensure that, as far as is reasonably practicable, the NWH Sub Group is able to take decisions independently of the wider Group.

The Board is structured to ensure that the directors provide NWB Plc with the appropriate balance of skills, experience and knowledge as well as independence. Given the nature of NWH Group's businesses, experience of banking and financial services is clearly of benefit. A number of directors have substantial experience in that area, including retail and commercial banking. In addition, the directors have relevant experience in customer service; government and regulatory matters; mergers and acquisitions; corporate recovery, resolution and insolvency; stakeholder management; environmental, social and governance; technology, digital and innovation; finance and accountancy; risk; and change management.

Board Committees also comprise directors with a variety of skills and experience so that no undue reliance is placed on any one individual.

The independent non-executive directors combine broad business and commercial experience with independent and objective judgement and provide independent challenge to the executive directors and the leadership team. The balance between independent non-executive and executive directors enables the Board to provide clear and effective leadership across NWH Group's business activities.

The Board monitors the commitment 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. Any additional external appointments require prior Board approval.

There is an induction programme for all new directors which is tailored to their specific experience and knowledge. Each new director receives a formal induction on joining the Board, which is co-ordinated by the Chief Governance Officer and Company Secretary and tailored to suit the requirements of the individual concerned. This includes visits to NatWest Group's major businesses and functions and meetings with directors and senior management. Meetings with external auditors, counsel and stakeholders are also arranged as appropriate.

All new directors receive a copy of the *NatWest Group Director Handbook*. The Handbook operates as a consolidated governance support manual for directors of NatWest Group plc and the NWH Sub Group, providing both new and current directors with a single source of information relevant to their role. It covers a range of topics including NatWest Group's corporate structure; the Board and Board Committee operating model; Board policies and processes and a range of technical guidance on relevant matters including directors' duties, conflicts of interest, and the UK Senior Managers' Regime. The Handbook forms part of a wider library of reference materials available via a resources portal.

The Board is supported in its succession planning activities, including the recruitment of non-executive directors, by the Nominations Committee, which is responsible for considering and making recommendations to the Board in respect of Board appointments. The Nominations Committee reviews the structure, size and composition of the Board, and makes recommendations to the Board in relation to any necessary changes, having regard to the overall balance of skills, knowledge, experience and diversity on the Board, the length of service of the Board as a whole; and the requirement to keep membership regularly refreshed. The Nominations Committee considers Board composition and succession planning at least annually. The NatWest Group plc Group Nominations and Governance Committee also approves all appointments to the Board, reflecting NWB Plc's position as a subsidiary within NatWest Group.

A review of the effectiveness of the Board, including the Chairman, individual directors and Board Committees, is conducted at least annually.

2020 Performance evaluation

The 2020 evaluation of the NWH Sub Group Boards was facilitated by the Chief Governance Officer and Company Secretary, Jan Cargill, during Q4 2020, alongside the evaluation of the NatWest Group plc Board. The conclusion of the 2020 Board evaluation was that the Board operated effectively throughout the year and fulfilled its remit as set out in its terms of reference. Directors noted the progress made against the 2019 evaluation actions, which were consistent across the NatWest Group plc and NWH Sub Group Boards and are described in more detail in the NatWest Group plc 2020 Annual Report and Accounts. Directors engaged fully with the evaluation exercise and commented positively in relation to many aspects of the Board's operations.

Key findings and recommendations were closely aligned with the NatWest Group plc findings and included the following:

- COVID-19 response - Directors felt that management had responded well to the pandemic. The Board had been kept regularly informed throughout, providing constructive challenge and support as appropriate, and virtual board meetings had worked efficiently.
- Purpose and strategy – Directors agreed that NatWest Group's purpose was clear and compelling, and that it was starting to embed and guide Board discussions and decision-making. The annual Board objectives were considered useful, but directors said a shorter list of focus items would be more impactful.
- Board stakeholder engagement – Engagement activity during the year had been worthwhile, despite limited opportunities for face to face meetings. Board sessions with institutional investors had been particularly useful, and the Colleague Advisory Panel was working well. Directors were keen to explore different options to engage with customers and understand their views. They were also interested in deeper customer insights and further focus on key supplier relationships.
- Board composition and succession planning – The majority of directors felt the Board is now right-sized with no material skills gaps. Directors expressed a desire for greater visibility of ExCo successors.
- Board culture and dynamics – The 2019 evaluation had identified Board dynamics as an area for further improvement. In 2020, directors commented positively on Board culture and dynamics, noting an improvement over the past 12 months. Relationships were considered to be good, although directors missed the opportunity for informal interaction due to COVID-19 restrictions. Directors felt the balance of responsibilities between the Board and Board Committees was appropriate.
- How the Board operates - The Board's operating rhythm and increased meeting frequency had worked well. Directors expressed an interest in more in depth business discussions and some observed there was scope to streamline Committee Chair reporting. Directors appreciated the enhanced approach to management reporting, and observed that Board paper templates continued to drive better and shorter papers.

Actions

Following Board discussion of the evaluation report, a number of actions were agreed for 2021, including the following: -

- Agree a shorter and more focused set of Board objectives for 2021.
- Explore different options for directors to engage with customers.
- Review potential enhancements to Board MI on customers and suppliers.
- Enhance Board visibility of ExCo successors
- Implementation of the 2020 Board evaluation actions will be overseen by the Nominations Committee during 2021.

The Chairman met each director individually to discuss their own performance and continuing professional development and establish whether each director continues to contribute effectively to the company's long-term sustainable success. The Chairman also shared peer feedback provided to the Company Secretary as part of the individual evaluation process.

Separately, the Senior Independent Director sought feedback on the Chairman's performance from the non-executive directors, executive directors and other key internal and external stakeholders and discussed it with the Chairman.

Non-executive directors discuss professional development annually with the Chairman and they participate in scheduled Board training sessions and other external sessions, as appropriate. With significant demands on Board time due to COVID-19, the Board training programme prioritised key areas of focus including financial crime and climate. Directors may also request individual in-depth briefings from time to time on areas of particular interest.

3. Director responsibilities

All directors receive guidance on their statutory duties under the Companies Act and are supported in the discharge of their duties by the Company Secretary, as further described on page 3.

Each director has a role profile which clearly articulates their responsibilities and accountabilities and any additional regulatory responsibilities and accountabilities are set out in their Statement of Responsibilities.

NatWest Group also produces and maintains a document called 'Our Governance' which sets out the governance, systems and controls applicable to NatWest Group plc and the NWH Sub Group. Our Governance is made available to all directors and is reviewed and approved by the Board at least annually.

The Directors' Conflicts of Interest policy sets out procedures to ensure that the Board's management of conflicts of interest and its powers for authorising certain conflicts are operating effectively. This includes the management of conflicts that may arise during Board decisions where the interests of NWB Plc conflict with the interests of other members of NatWest Group. NWB Plc maintains a register of directors' interests and appointments, which is reviewed annually by the Board, and there is discussion of directors' conflicts in Board meetings, as required.

The Board is the main decision-making forum for NWB Plc. The Board is collectively responsible for the long-term success of NWB Plc and the delivery of sustainable value to its shareholders. The Board's role is to provide leadership of NWB Plc.

It monitors and maintains the consistency of NWB Plc's activities within the strategic direction of NatWest Group; it reviews and approves risk appetite for strategic and material risks in accordance with the NatWest Group Risk Appetite Framework and it monitors performance against risk appetite for NWB Plc. It approves NWB Plc's key financial objectives and keeps the capital and liquidity positions of NWB Plc under review. 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.

The Board held seven scheduled meetings during the year. In March, reflecting the scale of the COVID-19 pandemic and lockdown restrictions, the Board's operating rhythm was revised to facilitate regular updates from the Group CEO and executive management team. A cycle of weekly meetings, later moving to fortnightly, supplemented the Board's scheduled meetings, and all meetings took place virtually.

The Chairman, CEO and Company Secretary are responsible for the quality and integrity of information provided to directors. At each scheduled Board meeting the directors received reports from the Chairman, Board Committee Chairs, CEO, CFO, and other members of the executive management team, as appropriate. Other senior executives attended Board meetings throughout the year to present reports to the Board. This provided the Board with an opportunity to engage directly with management on key issues and supports succession planning.

The format for Board and Board Committee papers was further enhanced during 2020 and now includes a dedicated section which explains how the proposal or update aligns to purpose, alongside existing sections detailing stakeholder impacts. This ensures that due consideration is given to purpose and stakeholders in the boardroom

The Board's key areas of focus for 2020 included coronavirus updates; purpose; risk appetite framework; customer experience outcomes; colleagues; and Brexit planning and preparedness.

The Board has established a number of Board committees with particular responsibilities. The Audit, Performance & Remuneration, and Nominations Committees of NWH Ltd operate as committees of each of NWH Ltd, NWB Plc, RBS plc and UBL, with meetings running concurrently.

Report of the directors

The Audit Committee comprises at least three independent non-executive directors, two of whom are DINEDs. The Committee assists the Board in discharging its responsibilities in relation to the disclosure of financial affairs. It also reviews accounting and financial reporting and regulatory compliance practices of NWB Plc, NWB Plc's system of standards of internal controls, and monitors NWB Plc's processes for internal audit and external audit.

The Board Risk Committee comprises at least four independent non-executive directors, one of whom is the Chairman of the Audit Committee and two of whom are DINEDs. It provides oversight and advice to the Board in relation to current and potential future risk exposures, future risk profile, including oversight of NWB Plc's Risk Management Framework and (in conjunction with the Audit Committee) internal controls required to manage risk.

The Performance and Remuneration Committee (RemCo) comprises at least four independent non-executive directors, one of whom is a DINED. It assists the NatWest Group plc Group Performance and Remuneration Committee with the oversight and implementation of NatWest Group's remuneration policy and also considers and makes recommendations on remuneration arrangements for senior executives of NWB Plc.

The Nominations Committee comprises the Chairman, Senior Independent Director and at least three further independent non-executive directors. It is responsible for assisting the Board in the formal selection and appointment of directors. It reviews the structure, size and composition of the Board, and membership and chairmanship of Board Committees.

The Executive Committee comprises NWB Plc's most senior executives and supports the CEO to discharge her individual accountabilities including matters relating to strategy, financials, capital, risk, customer and operational issues, as well as monitoring the implementation of cultural change and executive succession planning.

4. Opportunity and risk
The role of the Board is to promote the long-term sustainable success of NWB Plc.

The Board held 2 strategy sessions with the executive management team, in June and October. Within the context of a wider discussion at NatWest Group level, this provided an opportunity for the Board to assess opportunities and risks to the future success of the business, the sustainability of the business model and how its governance contributes to the delivery of its strategy.

The Board reviews and approves risk appetite for strategic and material risks in accordance with the NatWest Group risk appetite framework; monitors performance against risk appetite for NWB Plc; and considers any material risks and approves, as appropriate, recommended actions escalated by the Board Risk Committee.

NWB Plc's risk strategy is informed and shaped by an understanding of the risk landscape including a range of significant risks and uncertainties in the external economic, political and regulatory environments.

NWB Plc complies with NatWest Group's risk appetite framework, which is approved annually by the NatWest Group plc Board, in line with NatWest Group's risk appetite statements, frameworks and policies. NatWest Group risk appetite is set in line with overall strategy.

NatWest Group operates an integrated risk management framework, which is centred around the embedding of a strong risk culture. The framework ensures the tools and capability are in place to facilitate sound risk management and decision-making across the organisation.

During 2020, a number of enhancements to the risk management framework were developed. The increasing significance of climate risk was considered as part of these developments and will be fully integrated as part of the implementation of the enhanced framework in 2021. Alignment with climate change regulation is also reported to the NatWest Group Executive Risk Committee and the NatWest Group Board Risk Committee.

NWB Plc also complies with the NatWest Group Policy Framework, the purpose of which is to ensure that NatWest Group establishes and maintains NatWest Group-wide policies that adequately address the material inherent risks it faces in its business activities.

Further information on the NWB Plc risk management framework including risk culture, risk governance, risk appetite, risk controls and limits, and risk identification and measurement can be found in the risk and capital management section of this report (pages 11 to 73).

5. Remuneration
The NatWest Group remuneration policy provides a consistent policy across all NatWest Group companies and ensures compliance with regulatory requirements. The remuneration policy is aligned with the business strategy, objectives, values and long-term interests of NWB Plc. The policy supports a culture where individuals are rewarded for delivering sustained performance in line with risk appetite and for demonstrating the right conduct and behaviours.

RemCo reviews remuneration for executives of NWB Plc and considers reports on the wider workforce including annual pay outcomes and diversity information. The RemCo helps to ensure that the remuneration policies, procedures and practices being applied are appropriate for NWB Plc.

Executive remuneration structures incentivise individuals to deliver sustainable performance based on strategic objectives for NatWest Group and the relevant business area.

Performance is assessed against a balanced scorecard of financial and non-financial measures and variable pay is subject to deferral as well as malus and clawback provisions to ensure rewards are justified in the long-term.

The approach to performance management provides clarity for colleagues about how their contribution links to NatWest Group's purpose and all employees have goals set across a balanced scorecard of measures. NatWest Group continues to ensure employees are paid fairly for the work they do and are supported by simple and transparent pay structures in line with industry best practices.

This clarity and certainty on how pay is delivered is also helping to improve colleagues' financial wellbeing, which is a priority. Employees are provided with flexibility in terms of how they wish to receive pay to suit their circumstances. Pay is compared against the external market so that pay and benefits are competitive. NatWest Group is a fully accredited Living Wage Employer in the UK with rates of pay that continue to exceed the Living Wage Foundation Benchmarks.

NatWest Group ensures that colleagues have a common awareness of the financial and economic factors affecting its performance through quarterly 'Results Explained' communications and Workplace Live events with the Group CEO and Group CFO.

Further information on the remuneration policy, pay ratios and employee share plans can be found in the Directors' remuneration report of the NatWest Group plc 2020 Annual Report and Accounts. Gender and Ethnicity Pay Gap information can be found in the Strategic report section of the NatWest Group plc 2020 Annual Report and Accounts, along with the steps being taken to build an inclusive and engaged workforce.

6. Stakeholder relationships and engagement
In February 2020 the Board approved its annual objectives and confirmed the Board's key stakeholder groups. The Board's agenda and engagement plans were structured to enhance the Board's understanding of these stakeholders' views and interests. This in turn has informed Board discussions and decision-making.

Report of the directors

For further details on Board engagement with shareholders and other stakeholders, including how planned engagement activity was adapted in light of COVID-19 restrictions, see pages to of the Strategic report which includes a section 172(1) statement.

Engagement with Colleagues, Suppliers, Customers and Others
For further details on the Board's engagement with colleagues, customers, suppliers and others, and how these stakeholders' interests have influenced Board discussions and principal decisions, see pages to of the Strategic report which includes a section 172(1) statement.

Internal control over financial reporting
The internal controls over financial reporting for NWB Group are consistent with those at NatWest Group level. NWB Group has designed and assessed the effectiveness of its internal control over financial reporting as of 31 December 2020 based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in the 2013 publication of 'Internal Control – Integrated Framework'. Any deficiencies identified are reported to NWB Plc's Audit Committee along with management's remediation plans.

NatWest Group's auditors have audited the effectiveness of NatWest Group's internal control over financial reporting and have given an unqualified opinion.

Directors' interests
Where directors of NWB Plc are also directors of NatWest Group plc, their interests in the shares of the ultimate holding company at 31 December 2020 are shown in the Corporate governance, Annual report on remuneration section of the 2020 Annual Report and Accounts of NatWest Group plc. None of the directors held an interest in the loan capital of the ultimate holding company or in the shares or loan capital of NWB Plc or any of its subsidiaries, during the period from 1 January 2020 to 18 February 2021.

Directors' indemnities
In terms of section 236 of the Companies Act 2006 (the 'Companies Act'), Qualifying Third Party Indemnity Provisions have been issued by the ultimate holding company to its directors, members of NWB Plc's Executive Committee, individuals authorised by the PRA/FCA and certain directors and/or officers of NatWest Group's subsidiaries and trustees of NatWest Group's pension scheme.

Going concern
NWB Group's business activities and financial position, the factors likely to affect its future development and performance and its objectives and policies in managing the financial risks to which it is exposed, and its capital are discussed in the Business review. NWB Group's regulatory capital resources and significant developments in 2020, and anticipated future developments are detailed in the Capital, liquidity and funding section on pages to . This section also describes NWB Group's funding and liquidity profile, including changes in key metrics and the build up of liquidity reserves.

Having reviewed NWB Plc's forecasts, projections and other relevant evidence, the directors have a reasonable expectation that NWB Plc will continue in operational existence for a period of not less than twelve months. Accordingly, the financial statements of NWB Plc have been prepared on a going concern basis.

Political donations
During 2020, no political donations were made in the UK or EU, nor any political expenditure incurred in the UK or EU.

Directors' disclosure to auditors
Each of the directors at the date of approval of this report confirms that:
(a) so far as the director is aware, there is no relevant audit information of which NWB Plc's auditors are unaware; and
(b) the director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that NWB Plc's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act.

Auditors
Ernst & Young LLP (EY LLP) are NWB Plc's auditors and have indicated their willingness to continue in office. A resolution to re-appoint EY LLP as NWB Plc's auditors will be proposed at the forthcoming Annual General Meeting.

By order of the Board

Jan Cargill

Jan Cargill
Company Secretary
18 February 2021

National Westminster Bank Plc
Is registered in England No. 929027

Statement of directors' responsibilities

This statement should be read in conjunction with the responsibilities of the auditor set out in their report on pages to of the NatWest Bank Group 2020 Annual Report and Accounts.

The directors are responsible for the preparation of the Annual Report and Accounts. The directors are required by Article 4 of the IAS Regulation (European Commission Regulation No 1606/2002) to prepare Group accounts, and as permitted by the Companies Act 2006 have elected to prepare company accounts, for each financial year in accordance with International Financial Reporting Standards as adopted by the European Union. They are responsible for preparing accounts that present fairly the financial position, financial performance and cash flows of NWB Group and NWB Plc. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of NWB Group and to enable them to ensure that the Annual Report and Accounts complies with the Companies Act 2006. They are also responsible for safeguarding the assets of NWB Plc and NWB Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Bank and the undertakings included in the consolidation taken as a whole; and
- the Strategic report and Directors' report (incorporating the Financial review) includes a fair review of the development and performance of the business and the position of the Bank and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Howard Davies
Chairman

Alison Rose-Slade
Chief Executive Officer

Katie Murray
Chief Financial Officer

18 February 2021

Board of directors
Chairman
Howard Davies

Executive directors
Alison Rose-Slade
Katie Murray

Non-executive directors
Francesca Barnes
Graham Beale
Ian Cormack
Patrick Flynn
Morten Friis
Robert Gillespie
Yasmin Jetha
Mike Rogers
Mark Seligman
Lena Wilson

Statement of directors' responsibilities

This statement should be read in conjunction with the responsibilities of the auditor set out in their report on pages to .

The directors are responsible for the preparation of the Annual Report and Accounts. The directors are required to prepare Group accounts, and as permitted by the Companies Act 2006 have elected to prepare company accounts, for each financial year in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union They are responsible for preparing accounts that present fairly the financial position, financial performance and cash flows of NWB Group and NWB Plc. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of NWB Group and to enable them to ensure that the Annual Report and Accounts complies with the Companies Act 2006. They are also responsible for safeguarding the assets of NWB Plc and NWB Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Bank and the undertakings included in the consolidation taken as a whole; and
- the Strategic report and Directors' report (incorporating the Financial review) includes a fair review of the development and performance of the business and the position of the Bank and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Howard Davies
Chairman

Alison Rose-Slade
Chief Executive Officer

Katie Murray
Chief Financial Officer

18 February 2021

Board of directors

Chairman
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Executive directors
Alison Rose-Slade
Katie Murray

Non-executive directors
Francesca Barnes
Graham Beale
Ian Cormack
Patrick Flynn
Morten Friis
Robert Gillespie
Yasmin Jetha
Mike Rogers
Mark Seligman
Lena Wilson

Financial statements

Independent auditor's report to the members of National Westminster Bank Plc

Opinion
In our opinion:

- the financial statements of National Westminster Bank Plc's (the 'Bank') and its subsidiaries (together the 'Group') give a true and fair view of the state of the Group's and of the Bank's affairs as at 31 December 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union;
- the Bank financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 as applied in accordance with section 408 of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements (see table below) of the Bank and the Group for the year ended 31 December 2020 which comprise:

Group	Bank
• Consolidated balance sheet as at 31 December 2020; • Consolidated income statement for the year then ended; • Consolidated statement of comprehensive income for the year then ended; • Consolidated statement of changes in equity for the year then ended; • Consolidated cash flow statement for the year then ended; • Accounting policies; • Related Notes 1 to 36 to the financial statements; and • Risk and capital management section of the Strategic report indicated by a bracket in the margins.	• Balance sheet as at 31 December 2020; • Statement of changes in equity for the year then ended; • Cash flow statement for the year then ended; and • Related Notes 1 to 36 to the financial statements including a summary of the significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006 and , as regards to the group financial statements, International Financial Reporting Standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union and as regards the parent company financial statements, as applied in accordance with section 408 of the Companies Act 2006.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern
In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Group and Bank's ability to continue to adopt the going concern basis of accounting included:

- In conjunction with our walkthrough of the Group's financial close process, we confirmed our understanding of management's Going Concern assessment process and also engaged with management early to ensure all key factors were considered in their assessment;
- We evaluated management's going concern assessment which included reviewing their evaluation of long-term business and strategic plans, capital adequacy, liquidity and funding positions. It also assessed these positions considering internal stress tests which included consideration of principal and emerging risks. The Group's risk profile and risk management practices were considered including credit risk, market risk, compliance and conduct risk, and operational risk;
- We evaluated management's assessment by considering their viability in different scenarios considering the economic impact of COVID-19. We used economic specialists in assessing the macroeconomic assumptions in the forecast through benchmarking to institutional forecasts, HMT consensus and peer comparative economic forecasts;
- We considered the Group's operational resilience and their response to the impact COVID-19 had on its business operations, including the operations of its third party providers; and
- We reviewed the Group's going concern disclosures included in the annual report in order to assess that the disclosures were appropriate and in conformity with the reporting standards.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and Bank's ability to continue as a going concern for a period of up to 18 February 2022, being not less than twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Independent auditor's report to the members of National Westminster Bank Plc

An overview of the scope of the Bank and group audits

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each company within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account the size and risk profile of the component and its activities, the organisation of the Group and effectiveness of group wide controls, changes in the business environment and other factors such as recent internal audit results when assessing the level of work to be performed at each component. The scoping below is consistent with the prior year.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the five reporting components of the Group, we selected four components based on size and risk, which represent the principal business units within the Group.

Component	Scope	Key locations
Retail Banking	Full	United Kingdom
Commercial Banking	Full	United Kingdom
Private Banking	Specific	United Kingdom
Central items and other*	Full	United Kingdom, India

**including Services, and Treasury*

The table below illustrates the coverage obtained from the work performed by our audit teams. We considered total assets, total equity and total income to verify we had appropriate overall coverage.

	Full scope (1)	Specific scope (2)	Other procedures (3)	Total
Total assets	90%	10%	-	100%
Total equity	87%	10%	3%	100%
Total income	94%	5%	1%	100%

Notes:
(1) Full scope: audit procedures on all significant accounts.
(2) Specific scope: audit procedures on selected accounts.
(3) Other procedures: considered in analytical procedures and specified procedures, as appropriate.

The audit scope of the specific scope component may not have included testing of all significant accounts within the component, however, the testing will have contributed to the total coverage of significant accounts tested for the overall Group.

As a result of the COVID-19 outbreak and resulting lockdown restrictions in all of the countries where full or specific scope audit procedures have been performed, we have modified our audit strategy to allow for the audit to be performed remotely at both the Group and component locations. This approach was supported through remote user access to the Group's financial systems and the use of EY software collaboration platforms for the secure and timely delivery of requested audit evidence.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction.

The primary audit engagement team interacted regularly with the component audit teams where appropriate throughout the course of the audit, which included holding planning meetings, maintaining regular communications on the status of the audits, reviewing key working papers and taking responsibility for the scope and direction of the audit process. The primary audit team continued to follow a programme of oversight visits that has been designed to ensure that the Senior Statutory Auditor, or another Group audit partner, visits all full scope and specific scope locations. During the current year's audit cycle, due to COVID-19, the visits undertaken by the primary audit team were necessarily virtual visits. These visits involved video call meetings with local management, and discussions on the audit approach with the component team and any issues arising from their work. The primary team interacted regularly with the component teams and maintained a continuous and open dialogue with component teams, as well as holding formal closing meetings quarterly, to ensure that the primary team were fully aware of their progress and results of their procedures. The primary team also reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk

Expected Credit Loss Provisions

At 31 December 2020 the Group reported total gross loans of £281 billion (2019: £241 billion) and £3.7 billion of expected credit losses (ECL) (2019: £2.0 billion).

Management's judgements and estimates are especially subjective due to significant uncertainty associated with the assumptions used. Uncertainty associated with COVID-19 and its consequent implications including lockdowns and recovery assumptions as well as government intervention, increased the level of judgement in ECL. Assumptions with increased complexity in respect of the timing and measurement of ECL include:

- Staging - Allocation of assets to stage 1, 2, or 3 on a timely basis using criteria in accordance with IFRS 9 considering the impact of COVID-19 and related government support measures, such as payment deferrals, on customer behaviours and the identification of underlying significant deterioration in credit risk;
- Model estimations - Accounting interpretations, modelling assumptions and data used to build and run the models that calculate the ECL considering the impact of COVID-19 on model performance and any additional data to be considered in the ECL calculation;
- Economic scenarios - Inputs, assumptions and weightings used to estimate the impact of multiple economic scenarios particularly those influenced by COVID-19 and Brexit including any changes to scenarios required through 31 December 2020;
- Adjustments - Appropriateness, completeness and valuation of model adjustments including any COVID-19 specific adjustments due to the increased uncertainty and less reliance on modelled outputs which increases the risk of management override;
- Individual provisions - Measurement of individual provisions including the assessment of multiple scenarios considering the impact of COVID-19 on exit strategies, collateral valuations and time to collect; and
- Disclosure - The completeness and preparation of disclosures considering the key judgments, sources of data and the design of the disclosures.

Our response to the risk

Controls testing: We evaluated the design and operating effectiveness of controls across the processes relevant to ECL, including the judgements and estimates noted. These controls, among others, included:

- the allocation of assets into stages including management's monitoring of stage effectiveness;
- recording and approval of payment deferrals and government supported lending such as bounce back loans and Coronavirus Business Interruption Loan Schemes (CBILs);
- model governance including monitoring, the governance and review of both in-model adjustments and post model adjustments, model validation;
- data accuracy and completeness;
- credit monitoring;
- multiple economic scenarios;
- individual provisions and
- production of journal entries and disclosures.

In evaluating the governance process we observed the executive finance and risk committee meetings where the inputs, assumptions and adjustments to the ECL were discussed and approved, among other procedures.

We performed an overall assessment of the ECL provision levels by stage to assess if they were reasonable by considering the overall credit quality of the Group's portfolios, risk profile, impact of the COVID-19 including geographic considerations and high risk industries, the impact government support measures, such as payment deferrals, may have had on delaying expected defaults, credit risk management practices and the macroeconomic environment by considering trends in the economy and industries to which the Group is exposed. We also considered the appropriateness of provisions applied to government supported lending such as bounce back loans and CBILs which included assessing the respective eligibility criteria. We performed peer benchmarking where available to assess overall staging and provision coverage levels.

For a sample of industries, we also assessed the ECL against an independently developed methodology estimating unsustainable debt levels.

Based on our assessment of the key judgements we used specialists to support the audit team in the areas of economics, modelling and, collateral and business valuations.

Staging: We evaluated the criteria used to allocate a financial asset to stage 1, 2 or 3 in accordance with IFRS 9; this included peer benchmarking to assess staging levels. We recalculated the assets in stage 1, 2 and 3 to assess if they were allocated to the appropriate stage and performed sensitivity analysis to assess the impact of different criteria on the ECL and also considered the impact of performing collective staging downgrades to industries and geographic regions particularly impacted by COVID-19.

To test credit monitoring which drives the probability of default estimates used in the staging calculation, we recalculated the risk ratings for a sample of performing loans and focused our testing on high risk industries impacted by COVID-19. We also assessed the timing of the annual review performed by management on each wholesale loan exposure to evaluate whether it appropriately considered COVID-19 risk factors by considering independent publicly available information.

Model estimations - We performed a risk assessment on all models involved in the ECL calculation to select a sample of models to test. We involved modelling specialists to assist us to test this sample of ECL models by testing the assumptions, inputs and formulae used. This included a combination of assessing the appropriateness of model design and formulae used, alternative modelling techniques, recalculating the Probability of Default, Loss Given Default and Exposure at Default, and model implementation. We also considered the results of internal model validation results.

To evaluate data quality, we agreed a sample of ECL calculation data points to source systems, including balance sheet data used to run the models and historic loss data to monitor models. We also tested the ECL data points from the calculation engine through to the general ledger and disclosures. We included COVID-19 specific data points in this testing.

Economic scenarios - We involved economic specialists to assist us to evaluate the base case and alternative economic scenarios, including evaluating probability weights and comparing these to other scenarios from a variety of external sources. This assessment included the latest developments related to COVID-19 and Brexit at 31 December 2020, including the announcement of planned vaccines. We assessed whether forecasted macroeconomic variables were complete and appropriate, such as GDP, unemployment rate, interest rates and the House Price Index. With the support of our modelling specialists we evaluated the correlation and translation of the macroeconomic factors to the ECL.

Adjustments - We tested material in-model and post-model adjustments including those which were applied as a result of COVID-19. With our modelling specialists, we assessed the completeness of these adjustments and their appropriateness by considering the data, judgments, methodology, sensitivities, and governance of these adjustments as well as considering model shortcomings.

Individual provisions - We involved valuation specialists to recalculate a sample of individual provisions including the alternative scenarios and evaluating probability weights assigned. The sample was based on a number of factors, including higher risk sectors such as commercial real estate, retail, leisure and aviation, and materiality. We considered the impact COVID-19 had on collateral valuations and time to collect as well as whether planned exit strategies remained viable.

Disclosure - We tested the data flows used to populate the disclosures and assessed the adequacy of disclosures for compliance with the accounting standards and regulatory considerations including expectations of COVID-19 specific disclosures.

Expected Credit Loss Provisions continued

Key observations communicated to the NatWest Holdings (NWH) Group Audit Committee (1)

We are satisfied that provisions for the impairment of loans were reasonable and recognised in accordance with IFRS 9. We highlighted the following matters to the NWH Group Audit Committee:

- Overall provision levels were reasonable which also considered available peer information and our understanding of the credit environment;
- Our testing of models and model assumptions identified some instances of under estimation. We aggregated these differences and were satisfied that the overall estimate recorded was reasonable;
- The in-model and post-model adjustments applied were reasonable and addressed model shortcomings identified;
- We recalculated the staging of all retail and wholesale exposures in material portfolios and noted no material differences. We also performed sensitivity analysis on the staging criteria and noted that substantial changes would be needed to the criteria to result in a material difference;
- For individually assessed impairments, in a few instances we reported judgemental differences in respect of the extent of the impairment identified, however, none of these differences were considered material; and
- We noted improvements to the governance framework throughout the year to respond to the challenges posed by COVID-19. Control deficiencies were identified, particularly in data processes and models where compensating controls were identified and operated effectively.

Relevant references in the Annual Report and Accounts

Report of the Group Audit Committee
Credit Risk section of the Risk and capital management section
Accounting policies
Note 13 on the financial statements

Note:
(1) NWH Audit Committee covers the ring-fenced bank legal entities of NatWest Group, including the Group.

<table>
<tr><th>Risk</th><th>Our response to the risk</th></tr>
<tr><td colspan="2">Impairment of goodwill and deferred tax assets and, in the Bank's financial statements, Investments in Group undertakings</td></tr>
<tr><td>At 31 December 2020, NatWest Bank plc had reported deferred tax assets of £1.1 billion (2019: £1.1 billion). The Bank has reported investments in group undertakings of £2.4 billion (2019: £2.4 billion).

The recognition and carrying value of deferred tax assets, goodwill and, in the Bank's financial statements, investments in group undertakings are based on estimates of future profitability, which require significant management judgement and include the risk of management bias. The recognition of deferred tax assets considers the future profit forecasts of the legal entities as well as interpretation of recent changes to tax rates and laws.

Judgements and especially challenging, complex and subjective assumptions that are difficult to audit due to the forward-looking nature and inherent uncertainties associated with such assumptions include:
• Revenue forecasts which are also impacted by delivery of the Group's Strategy
• Cost forecasts in particular given the intention to significantly reduce costs over time;
• Macroeconomic and model assumptions used in the recoverability and valuation assessments (discount rates, growth rates, macroeconomic assumptions, etc.) including assumptions regarding the economic consequences of COVID -19, Brexit and other political developments over an extended period.
• Disclosure adequacy including key assumptions, the sensitivity of changes to these assumptions as well as an explanation of the impairment testing performed.</td><td>Controls testing: We evaluated the design and operating effectiveness of controls over the preparation and review of the forecasts, the significant assumptions (such as discount rate and long-term growth rate) used in the value in use model, inputs, calculations, methodologies and judgements. This included testing controls over the selection of macroeconomic assumptions in addition to revenue and cost projections, as well as the precision applied to these. In evaluating the governance processes, we reviewed Board meeting materials and minutes where forecasts were discussed and approved, and we observed the committee meetings where the value in use model and outcomes were discussed and approved.

Macroeconomic and model assumptions: With the support of our internal economic specialists, we tested whether macroeconomic assumptions, including the impact of COVID-19, the outcome of Brexit and other geopolitical considerations at 31 December 2020, used in the Group's forecasts were reasonable by comparing these to other scenarios from a variety of external sources. We evaluated how the discount rates and long-term growth rates used by management compared to our ranges which were assessed using peer practice, external market data and calculations performed by our valuation specialists.

Revenue forecasts: We evaluated the underlying business strategies, comparing to expected market trends and considering anticipated balance sheet growth. We obtained an understanding of the Group's strategy and considered its expected impact on the forecasts and the extent to which decisions had been factored into the forecasts, where appropriate, in accordance with the relevant accounting standards.

We also inspected the findings from the review performed by management including their own sensitivity analysis of the forecasts.

Cost forecasts: We tested how previous management forecasts, including the impact of cost reduction programmes, compared to actual results to evaluate the accuracy of the forecasting process. We involved our cost transformation specialists to assist us in assessing the achievability of future cost reduction plans by evaluating the details of the underlying initiatives and how cost ratios compared to peer banks and commentaries from external analysts.

Sensitivity analysis: We evaluated how management considered alternative assumptions and performed our own sensitivity and scenario analyses on certain assumptions such as cost and revenue forecasts, discount rate and long-term growth rate.

Disclosure: We evaluated the adequacy of disclosures in the financial statements including the appropriateness assumptions and sensitivities disclosed. We tested the data and calculations included in the disclosures.</td></tr>
</table>

Key observations communicated to the NWH Group Audit Committee

We are satisfied that management methodologies, judgements and assumptions supporting the carrying value of deferred tax assets and, in the Bank's financial statements, investments in group undertakings, were reasonable and in accordance with IFRS. We highlighted the following matters to the NWH Group Audit Committee:

- There is inherent uncertainty in predicting revenue and costs over the five-year forecast period, particularly with respect to the impact of COVID-19 and a continuing low interest rate environment, the achievement of new strategic objectives, execution risk in the planned cost reductions, the impact of regulatory and climate change developments, and the impact of competition and disruption in banking business models over an extended period.
- The directors impaired National Westminster Bank Plc's investment in Ulster Bank Limited. Our independent procedures supported this assessment;
- We are satisfied that the disclosures appropriately reflect the sensitivity of the carrying value of investments in group undertakings to certain reasonable alternative outcomes.

Relevant references in the Annual Report and Accounts

Accounting policies

Note 7 and 14 on the financial statements.

Risk	Our response to the risk
Provisions for conduct and litigation claims	
At 31 December 2020, the Group has reported £0.9 billion (2019: £1.4 billion) of provisions for liabilities and charges, including £0.4 billion (2019: £0.9 billion) for conduct and litigation claims, including Payment Protection Insurance (PPI) as detailed in Note 21 of the financial statements. Regulatory scrutiny and the continued litigious environment give rise to a high level of management judgement in determining appropriate provisions and disclosures. Management judgement is needed to determine whether a present obligation exists, and a provision should be recorded at 31 December 2020 in accordance with the accounting criteria set out under IAS 37. The most significant areas of judgement are: • Judgement and risk of management bias - Auditing the adequacy of these provisions is complex because judgement is involved in the selection and use of assumptions (such as expected claim rates, legal costs, and the timing of settlement) in the estimation of material provisions and there is a risk of management bias in the determination of whether an outflow in respect of identified material conduct or legal matters is probable and can be estimated reliably; and • Disclosure - Judgement is required to assess the adequacy of disclosures of provision for contingent liabilities given the underlying estimation uncertainty in the provisions.	Controls testing: We evaluated the design and operating effectiveness of controls over the identification, estimation, monitoring and disclosure of provisions related to legal and conduct matters considering the potential for management override of controls. The controls tested, among others, included those to identify and monitor claims, determine when a provision is required and to ensure the completeness and accuracy of data used to estimate provisions. Examination of regulatory correspondence: Among other procedures, we examined the relevant regulatory and legal correspondence to assess developments in certain cases. We also considered regulatory developments to identify actual or possible non-compliance with laws and regulations that might have a material effect on the financial statements. For cases which were settled during the period, we compared the actual outflows with the provision that had been recorded, considered whether further risk existed, and evaluated the level of disclosures provided. Inquiry of legal counsel: For significant legal matters, we received confirmations from the Group's external legal counsel for significant matters to evaluate the existence of the obligation and management's estimate of the outflow at year-end. We also conducted inquiries with internal legal counsel over the existence of the legal obligations and related provision. We performed a test for unrecorded provisions to assess if there were cases not considered in the provision estimate by assessing against external legal confirmations and discussing with internal counsel. Testing of assumptions: Where appropriate, we involved our conduct risk specialists to assist us in evaluating the provision. We tested the underlying data and assumptions used in the determination of the provisions recorded, including expected claim rates, legal costs, and the timing of settlement. We considered the accuracy of management's historical estimates and peer bank settlement in similar cases by comparing the actual settlement to the provision. We assessed the reasonableness of the assumptions used by management by comparing to the results of our independently performed benchmarking and sensitivity analysis. We also developed our own range of reasonable alternative estimates and compared them to management's provision. We tested utilisations of the PPI provision during the year and assessed the sufficiency of the remaining provision for PPI customer redress yet to be paid. Disclosure: We evaluated the disclosures provided on conduct, litigation, regulatory, customer remediation and claims provisions to assess whether they complied with accounting standards.

Key observations communicated to the NWH Group Audit Committee

We are satisfied that provisions for conduct, litigation and regulatory matters, customer remediation and claims are reasonable and recognised in accordance with IFRS. We concurred with the recognition, measurement and level of disclosures of other conduct and litigation provisions. We did not identify any material unrecorded provisions. We communicated the following matters to the NWH Group Audit Committee:

- The level of provisions by their nature incorporate significant judgements to be made and may change as a result of future developments.
- Continued vigilance in assessing conduct risks from the impact of COVID-19, which may not manifest until well after the pandemic has passed.

Relevant references in the Annual Report and Accounts

Accounting policies

Note 21 on the financial statements

Risk	Our response to the risk
Pension valuation and net pension balance	
The Group operates a number of defined benefit schemes which in aggregate are significant in the context of the overall balance sheet. At 31 December 2020, the Group reported a net pension liability of £55 million (2019: £48 million) comprising £2 million of schemes in surplus and £57 million of schemes in deficit (2019: £5 million and £53 million respectively). The net pension liability is sensitive to changes in the key judgements and estimates, which include: • Assumptions -Actuarial assumptions and inputs including discount rate, inflation, pension payment and longevity to determine the valuation of retirement benefit liabilities; • Valuations - Pricing inputs and calibrations for illiquid or complex model-dependent valuations of certain investments held by the schemes; • Augmentation cap - Quantification of trustee's rights to unilaterally augment benefits (Augmentation cap) to determine the recognition of surplus; • Equalisation adjustments - due to court rulings in respect of Guaranteed Minimum Pensions (GMP).	Controls testing - We evaluated the design and operating effectiveness of controls over the actuarial assumptions setting process, the data inputs used in the actuarial calculation and the measurement of the fair value of the schemes' assets. Assumptions - We involved actuarial specialists to evaluate the actuarial assumptions (including the impact from the recent government announcement of RPI/CPIH transition) by comparing them to independently obtained third party sources and market practice. We assessed the impact on pension liabilities due to changes in financial, demographic and longevity assumptions over the year, including the effects of COVID-19, and whether these were supported by objective external evidence and rationales. Valuations - We involved valuation specialists to assess the appropriateness of management's valuation methodology including the judgements made in determining significant assumptions, including their consideration of the impact of COVID-19, used in the valuation of complex and illiquid pension assets. We tested the fair value of scheme assets by independently calculating fair value for a sample of the assets held. Our sample included cash, equity and debt instruments, derivative financial instruments and illiquid assets. Augmentation cap and equalisation adjustments - We involved actuarial specialists to test the estimation of the augmentation cap and GMP equalisation adjustments including the inputs used in the calculation. We also assessed the methodology and judgements made in calculating these estimates and the associated accounting treatment in accordance with IAS 19 and IFRIC 14. Disclosure - We assessed the adequacy of the disclosures made in the financial statements, including the appropriateness of the assumptions and sensitivities disclosed.

Key observations communicated to the NWH Group Audit Committee

We are satisfied that the valuation and disclosure of the net pension balance are reasonable and in accordance with IFRS. We highlighted the following matters to the NWH Group Audit Committee:

- Our benchmarking of key actuarial assumptions including the discount rate, inflation, longevity and pension payments concluded that assumptions were within a reasonable range;
- No material differences were identified through our independent valuation testing for a sample of pension assets; and
- Management's estimate of the impact of the GMP liability and augmentation cap was materially consistent with our independent estimate using our own model.

Relevant references in the Annual Report and Accounts

Accounting policies

Note 5 on the financial statements

Independent auditor's report to the members of National Westminster Bank Plc

Risk	Our response to the risk
IT access management	
The IT environment is complex and pervasive to the operations of the Group due to the large volume of transactions processed in numerous locations daily and the reliance on automated and IT dependent manual controls. Appropriate IT controls are required to ensure that applications process data as expected and that changes are made in an appropriate manner. This risk is also impacted by the greater dependency on third-parties, increasing use of cloud platforms, decommissioning of legacy systems, and migration to new systems. Such controls contribute to mitigating the risk of potential fraud or errors as a result of changes to applications and data. **Controls** • User access management across application, database and operating systems. We have identified user access deficiencies in the past and while the number of deficiencies has reduced year over year, there remains a risk of inappropriate access.	We evaluated the design and operating effectiveness of IT general controls over the applications, operating systems and databases that are relevant to financial reporting. During our planning and test of design phases, we performed procedures to determine whether the ongoing global COVID-19 pandemic had caused material changes in IT processes or controls and noted no such changes that would result in an increased IT risk. Controls testing We tested user access by assessing the controls in place for in-scope applications and verifying the addition and periodic recertification of users' access. During 2020, the Group consolidated their access management tools and moved further in-scope application onto a strategic platform (SLX) which will facilitate most of the Group's Manage Access IT General Controls across applications and infrastructure platforms. We performed procedures around the transition process between IT tools, focusing on the completeness of user data and the adequacy of the control environment. A number of systems are outsourced to third party service providers. For these systems, we tested IT general controls through evaluating the relevant Service Organisation Controls reports (where available). This included assessing the timing of the reporting, the controls tested by the service auditor and whether they address relevant IT risks and the impact COVID-19 had on the overall control environment. We also tested required complementary user entity controls performed by management. Where a SOC report was not available we identified and reviewed compensating business controls to address this risk. Where control deficiencies were identified, we tested remediation activities performed by management and compensating controls in place and assessed what additional testing procedures were necessary to mitigate any residual risk.

Key observations communicated to the NWH Group Audit Committee

We are satisfied that IT controls impacting financial reporting are designed and operating effectively. The following matters were reported to the NWH Group Audit Committee:

- We have seen an overall reduction in the number of discrete IT control deficiencies identified compared to prior year.
- Improvements were made to standardise access management processes and controls across the Group. However, particular attention should continue to be paid to controls over user access management including ensuring the completeness and accuracy of the data used to perform access controls. Where issues were noted in relation to access management these were remediated by year end or mitigated by compensating controls. We also performed additional testing in response to deficiencies identified, where required.
- For a robust control environment, the Group should seek to build and end-to-end view of controls across both infrastructure and application layers, including documentation of automated business controls, and IT general controls at the application layer.
- A high volume of control deficiencies had been remediated prior to year-end, and the remaining compensated for, however, we have seen examples where further diligence could be applied to ensure consistent and continued effective control operation.

In the prior year, our auditor's report included a key audit matter in relation to Legal entity transactions. In the current year, the process was enhanced and control improved and was no longer considered a key audit matter.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £144 million (2019: £105 million), which is 5% (2019: 5%) of profit before tax of the Group of £602 million (2019: £1,326 million) adjusted for certain loan impairment charges arising from COVID-19, conduct releases, strategic costs and certain non-recurring transactions. The largest impact was a result of adjusting the loan impairment charge to pre-COVID-19 levels by £1.5 billion using 2019 as a basis. We believe removing items that would otherwise have a disproportionate impact on materiality reflects the most useful measure for users of the financial statements and is consistent with the prior year. The 5% basis used for Group materiality is consistent with the wider industry and is the standard for listed and regulated entities.

We determined materiality for the Bank to be £144 million (2019: £105 million) which is 0.8% (2019: 0.6%) of equity of the Bank and is consistent with the prior year. We believe this reflects the most useful measure for users of the financial statements as the Bank's primary purpose is to act as a holding company with investments in the Group's subsidiaries, not to generate operating profits and therefore a profit based measure is not relevant.

Independent auditor's report to the members of National Westminster Bank Plc

Performance materiality
The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% (2019: 50%) of our planning materiality, namely £72 million (2019: £52 million). We have set performance materiality at this percentage (which is at the lowest end of the range of our audit methodology) based on various considerations including the past history of misstatements, the effectiveness of the control environment and other factors affecting the entity and its financial reporting. Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £40 million to £70 million (2019: £25 million to £50 million).

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the NWH Group Audit Committee that we would report to them all uncorrected audit differences in excess of £8 million (2019: £5 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information
The other information comprises the information included in the Annual Report and Accounts, including the Strategic report, Report of the directors, Statement of directors' responsibilities, Risk Factors, and Forward-looking statements, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.
Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:
- the information given in the Strategic report and the Report of the directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and Report of the directors have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the Group and the Bank and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Report of the directors.
We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept by the Bank, or returns adequate for our audit have not been received from branches not visited by us; or
- the Bank financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors
As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the financial statements, the directors are responsible for assessing the Group and Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Bank or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Independent auditor's report to the members of National Westminster Bank Plc

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined below, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.
However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are the regulations, licence conditions and supervisory requirements of the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA); and Companies Act 2006.
- We understood how the Group is complying with those frameworks by making inquiries of management, internal audit and those responsible for legal and compliance matters. We also reviewed correspondence between the Group and regulatory bodies; reviewed minutes of the Board and Risk Committees; and gained an understanding of the Group's governance framework.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by considering the controls established to address risks identified to prevent or detect fraud. We also identified the risks of fraud in our key audit matters as described above and identified areas that we considered when performing our fraud procedures, such as cybersecurity, the impact of remote working, implementation of new government supported lending products, and the appropriateness of sources used when performing confirmation testing on accounts such as cash, loans and securities.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiries of legal counsel, executive management, and internal audit. We also tested controls and performed procedures to respond to the fraud risks as identified in our key audit matters. These procedures were performed by both the primary team and component teams with oversight from the primary team.
- The Group operates in the banking industry which is a highly regulated environment. As such, the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, involving specialists where appropriate.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- Following the recommendation from the NWH Group Audit Committee we were appointed by the Group at its annual general meeting on 4 May 2016 to audit the financial statements of the Group for the year ending 31 December 2016 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is 5 years, covering periods from our appointment through 31 December 2020.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Bank and we remain independent of the Group and the Bank in conducting the audit.
- The audit opinion is consistent with the additional report to the NWH Group Audit Committee.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Simon Michaelson (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London, United Kingdom
18 February 2021

Consolidated income statement for the year ended 31 December 2020

	Note	2020 £m	2019 £m
Interest receivable		**6,825**	7,408
Interest payable		**(1,015)**	(1,572)
Net interest income	1	**5,810**	5,836
Fees and commissions receivable		**1,685**	2,208
Fees and commissions payable		**(301)**	(485)
Other operating income		**1,761**	1,604
Non-interest income	2	**3,145**	3,327
Total income		**8,955**	9,163
Staff costs		**(2,823)**	(2,859)
Premises and equipment		**(1,044)**	(1,078)
Other administrative expenses		**(1,476)**	(2,450)
Depreciation and amortisation		**(832)**	(834)
Impairment of other intangible assets		**(9)**	(44)
Operating expenses	3	**(6,184)**	(7,265)
Profit before impairment losses		**2,771**	1,898
Impairment losses	13	**(2,169)**	(572)
Operating profit before tax		**602**	1,326
Tax charge	7	**(66)**	(442)
Profit for the year		**536**	884
Attributable to:			
Ordinary shareholders		**380**	714
Paid-in equity holders		**152**	166
Non-controlling interests		**4**	4
		536	884

Consolidated statement of comprehensive income for the year ended 31 December 2020

	Note	2020 £m	2019 £m
Profit for the year		**536**	884
Items that do not qualify for reclassification			
Remeasurement of retirement benefit schemes	5	**(76)**	(127)
Tax		**35**	30
		(41)	(97)
Items that do qualify for reclassification			
FVOCI financial assets		**47**	(6)
Cash flow hedges		**(218)**	36
Currency translation		**7**	(85)
Tax		**41**	(3)
		(123)	(58)
Other comprehensive loss after tax		**(164)**	(155)
Total comprehensive income for the year		**372**	729
Attributable to:			
Ordinary shareholders		**216**	559
Paid-in equity holders		**152**	166
Non-controlling interests		**4**	4
		372	729

The accompanying notes on pages 100 to 159, the accounting policies on pages 95 to 99 and the audited sections of the Financial Review and Risk and capital management on pages 8 to 73 form an integral part of these financial statements.

Balance sheet as at 31 December 2020

	Note	NWB Group 2020 £m	NWB Group 2019 £m	NWB Plc 2020 £m	NWB Plc 2019 £m
Assets					
Cash and balances at central banks	10	**62,983**	27,457	**62,878**	26,377
Derivatives	9	**3,288**	3,302	**3,438**	3,404
Loans to banks - amortised cost	10	**3,344**	3,325	**2,798**	2,741
Loans to customers - amortised cost	10	**271,581**	232,313	**238,366**	198,504
Amounts due from holding companies and fellow subsidiaries	10	**3,305**	3,828	**28,176**	31,705
Securities subject to repurchase agreements		**11,438**	4,175	**11,438**	4,175
Other financial assets excluding securities subject to repurchase agreements		**26,557**	36,773	**26,168**	36,383
Other financial assets	15	**37,995**	40,948	**37,606**	40,558
Investment in group undertakings	14	**—**	—	**2,374**	2,394
Other assets	16	**7,043**	7,320	**4,967**	5,271
Total assets		**389,539**	318,493	**380,603**	310,954
Liabilities					
Bank deposits	10	**14,871**	15,505	**14,866**	15,487
Customer deposits	10	**293,605**	242,117	**255,290**	208,698
Amounts due to holding companies and fellow subsidiaries	10	**37,559**	21,447	**69,617**	51,019
Derivatives	9	**6,552**	4,898	**6,769**	5,013
Other financial liabilities	19	**10,383**	8,307	**9,612**	7,635
Subordinated liabilities	20	**1,230**	1,242	**1,230**	1,242
Notes in circulation		**1,012**	842	**1,266**	—
Other liabilities	21	**4,435**	4,463	**3,489**	3,834
Total liabilities		**369,647**	298,821	**362,139**	292,928
Owners' equity	22	**19,882**	19,666	**18,464**	18,026
Non-controlling interests		**10**	6	**—**	—
Total equity		**19,892**	19,672	**18,464**	18,026
Total liabilities and equity		**389,539**	318,493	**380,603**	310,954

Owners' equity of NWB Plc as at 31 December 2020 includes the profit for the year of £722 million (2019 - £724 million).

As permitted by section 408(3) of the Companies Act 2006, the primary financial statements of the company do not include an income statement or a statement of comprehensive income.

The accompanying notes on pages to , the accounting policies on pages to and the audited sections of the Financial review and Risk and capital management on pages to form an integral part of these financial statements.

The accounts were approved by the Board of directors on 18 February 2021 and signed on its behalf by:

Howard Davies Chairman	Alison Rose-Slade Chief Executive Officer	Katie Murray Chief Financial Officer	National Westminster Bank Plc Registration No 929027

Statement of changes in equity for the year ended 31 December 2020

	NWB Group 2020 £m	NWB Group 2019 £m	NWB Plc 2020 £m	NWB Plc 2019 £m
Called-up share capital - at 1 January and 31 December	**1,678**	1,678	**1,678**	1,678
Paid-in equity - at 1 January and 31 December	**2,370**	2,370	**2,370**	2,370
Share premium - at 1 January and 31 December	**2,225**	2,225	**2,225**	2,225
Merger reserve - at 1 January	**167**	412	**(231)**	(294)
Addition (1)	**(34)**	—	**—**	—
Amortisation	**(124)**	(245)	**91**	63
At 31 December	**9**	167	**(140)**	(231)
FVOCI reserve - at 1 January	**250**	250	**251**	249
Unrealised gains/(losses)	**157**	(22)	**155**	(20)
Realised (gains)/losses	**(110)**	16	**(110)**	16
Tax	**(17)**	6	**(17)**	6
At 31 December	**280**	250	**279**	251
Cash flow hedging reserve - at 1 January	**27**	—	**27**	—
Amount recognised in equity	**(275)**	36	**(275)**	36
Amount transferred from equity to earnings	**57**	—	**57**	—
Tax	**58**	(9)	**58**	(9)
At 31 December	**(133)**	27	**(133)**	27
Foreign exchange reserve - at 1 January	**(70)**	15	**(14)**	(13)
Retranslation of net assets	**13**	(30)	**(2)**	(16)
Foreign currency (losses)/gains on hedges of net assets	**(5)**	5	**3**	—
Recycled to profit or loss on disposal businesses	**(1)**	(60)	**—**	15
Tax	**—**	—	**—**	—
At 31 December	**(63)**	(70)	**(13)**	(14)
Capital redemption reserve - at 1 January and 31 December	**796**	796	**796**	796
Retained earnings - at 1 January	**12,223**	12,121	**10,924**	11,265
Implementation of IFRS 16 on 1 January 2019	**—**	(153)	**—**	(150)
Profit attributable to ordinary shareholders and other equity owners	**532**	880	**722**	724
Ordinary dividends paid	**—**	(700)	**—**	(700)
Paid-in equity dividends paid	**(152)**	(166)	**(152)**	(166)
Remeasurement of retirement benefit schemes				
- gross	**(76)**	(127)	**(70)**	(108)
- tax	**35**	30	**35**	29
Shares issued under employee share schemes	**(11)**	(6)	**(11)**	(6)
Share based payments	**45**	99	**45**	99
Amortisation of merger reserve	**124**	245	**(91)**	(63)
At 31 December	**12,720**	12,223	**11,402**	10,924
Owners' equity at 31 December	**19,882**	19,666	**18,464**	18,026
Non-controlling interests - at 1 January	**6**	7	**—**	—
Profit attributable to non-controlling interests	**4**	4	**—**	—
Dividends paid	**—**	(5)	**—**	—
At 31 December	**10**	6	**—**	—
Total equity at 31 December	**19,892**	19,672	**18,464**	18,026
Attributable to:				
Ordinary shareholders	**17,512**	17,296	**16,094**	15,656
Paid-in equity holders	**2,370**	2,370	**2,370**	2,370
Non-controlling interests	**10**	6	**—**	—
	19,892	19,672	**18,464**	18,026

Note:
(1) A new merger reserve of £34 million was created at NWB Group relating to the purchase of NWM SIPL from NWM Group.

The accompanying notes on pages 100 to 159, the accounting policies on pages 95 to 99 and the audited sections of the Financial Review and *Risk and capital management on pages 8 to 73 form an integral part of these financial statements.*

Cash flow statement for the year ended 31 December 2020

		NWB Group		NWB Plc	
	Note	2020 £m	2019 £m	2020 £m	2019 £m
Cash flows from operating activities					
Operating profit before tax		**602**	1,326	**689**	1,045
Adjustments for:					
Impairment losses		**2,169**	572	**1,934**	540
Amortisation of discounts and premiums of other financial assets		**213**	219	**212**	219
Depreciation, amortisation and impairment of other assets		**841**	935	**650**	737
Write-down of investment in group undertakings		**—**	—	**50**	87
Change in fair value taken to profit or loss of other financial assets		**(1,436)**	(807)	**(1,436)**	(807)
Change in fair value taken to profit or loss of other financial liabilities and subordinated liabilities		**237**	229	**237**	229
Elimination of foreign exchange differences		**(758)**	452	**(749)**	484
Other non-cash items		**146**	35	**124**	64
Interest receivable on other financial assets		**(250)**	(520)	**(251)**	(520)
(Profit)/loss on sale of other financial assets		**(113)**	16	**(113)**	16
Dividends receivable from group undertakings		**—**	—	**(489)**	(454)
(Profit)/loss on sale of subsidiaries and associates		**(4)**	—	**—**	—
Profit on sale of other assets and net assets/liabilities sold		**(16)**	(44)	**(16)**	(40)
Interest payable on MRELs and subordinated liabilities		**344**	302	**339**	300
Charges and releases on provisions		**189**	899	**183**	854
Defined benefit pension schemes		**168**	161	**136**	121
Net cash flows from trading activities		**2,332**	3,775	**1,500**	2,875
Increase in derivative assets		**(261)**	(2,049)	**(309)**	(2,127)
(Increase)/decrease in net loans to banks		**(401)**	3,259	**(391)**	477
Increase in net loans to customers		**(38,384)**	(28,787)	**(38,781)**	(27,387)
Decrease in amounts due from holding companies and fellow subsidiaries		**146**	328	**891**	3,542
Decrease in other financial assets		**20**	138	**20**	220
(Increase)/decrease in other assets		**(145)**	74	**(59)**	(27)
Decrease in bank deposits		**(634)**	(2,058)	**(621)**	(1,941)
Increase in customer deposits		**51,488**	4,347	**46,592**	4,419
Increase/(decrease) in amounts due to holding companies and fellow subsidiaries		**14,799**	(2,547)	**17,285**	(1,390)
Increase in derivative liabilities		**1,654**	4,119	**1,756**	3,828
(Decrease)/increase in other financial liabilities		**(1,051)**	1,810	**(1,150)**	1,747
Increase in notes in circulation		**170**	21	**1,266**	—
Decrease in other liabilities		**(672)**	(685)	**(862)**	(603)
Changes in operating assets and liabilities		**26,729**	(22,030)	**25,637**	(19,242)
Income taxes received/(paid)		**170**	(221)	**363**	(136)
Net cash flows from operating activities (1)		**29,231**	(18,476)	**27,500**	(16,503)
Cash flows from investing activities					
Sale and maturity of other financial assets		**12,091**	13,158	**11,702**	12,768
Purchase of other financial assets		**(7,816)**	(12,405)	**(7,428)**	(12,016)
Income received on other financial assets		**250**	520	**251**	520
Net movement in business interests and intangible assets	28	**(387)**	(387)	**(353)**	(391)
Dividends received from group undertakings		**—**	—	**489**	454
Sale of property, plant and equipment		**319**	382	**125**	241
Purchase of property, plant and equipment		**(344)**	(497)	**(176)**	(231)
Net cash flows from investing activities		**4,113**	771	**4,610**	1,345
Cash flows from financing activities					
Movement in MRELs		**648**	1,330	**654**	1,072
Movement in subordinated liabilities		**321**	(290)	**321**	(282)
Dividends paid		**(152)**	(871)	**(152)**	(866)
Net cash flows from financing activities		**817**	169	**823**	(76)
Effects of exchange rate changes on cash and cash equivalents		**621**	(646)	**641**	(638)
Net increase/(decrease) in cash and cash equivalents		**34,782**	(18,182)	**33,574**	(15,872)
Cash and cash equivalents at 1 January		**33,266**	51,448	**33,620**	49,492
Cash and cash equivalents at 31 December	30	**68,048**	33,266	**67,194**	33,620

Note:
(1) NWB Group includes interest received of £6,736 million (2019 - £7,422 million) and interest paid of £1,092 million (2019 - £1,570 million), and NWB Plc includes interest received of £6,063 million (2019 – £6,711 million) and interest paid of £1,345 million (2019 - £1,760 million).

The accompanying notes on pages 100 to 159, the accounting policies on pages 95 to 99 and the audited sections of the Financial Review and Risk and capital management on pages 8 to 73 form an integral part of these financial statements.

Accounting policies

1. Presentation of accounts
The accounts, set out on pages 90 to 159, including these accounting policies on pages 94 to 99 and the audited sections of the Financial review: Risk and capital management on pages 11 to 73, are prepared on a going concern basis (see the Report of the directors, page 78) and in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The significant accounting policies and related judgments are set out below.

National Westminster Bank Plc (NWB Plc) is incorporated in the UK and registered in England and Wales. Its accounts are presented in accordance with the Companies Act 2006.

The accounts are presented in the functional currency, pounds sterling.

With the exception of investment property and certain financial instruments as described in Accounting policies 8, 13 and 21, the accounts are presented on a historical cost basis.

Accounting changes effective 1 January 2020

Amendments to IFRS 3 Business Combinations (IFRS 3) - Changes to the definition of a business
The IASB amended IFRS 3 to provide additional guidance on the definition of a business. The amendment aims to help entities when determining whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendments are in line with current accounting policy and therefore did not affect the accounts.

Definition of material – Amendments to IAS 1 – Presentation of Financial Statements (IAS 1) and IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors (IAS 8)
The IASB clarified the definition of 'material' and aligned the definition of material used in the Conceptual Framework and in other IFRS standards. The amendments clarify that materiality will depend on the nature or magnitude of information. Under the amended definition of materiality, an entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the accounts. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. NWB Group's definition and application of materiality is in line with the definition in the amendments.

Interest Rate Benchmark Reform (IBOR reform) Phase 1 amendments to IFRS 9 and IAS 39
The IASB issued 'Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)' as a first reaction to the potential effects the IBOR reform could have on financial reporting. The amendments focused on hedge accounting and allow hedge relationships affected by the IBOR reform to be accounted for as continuing hedges. Amendments are effective for annual reporting periods beginning on or after 1 January 2020 with early application permitted. NWB Group early adopted these amendments for the annual period ending on 31 December 2019.

Interest Rate Benchmark Reform (IBOR reform) Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16
Phase 2 of the IASB's IBOR project (published in August 2020) addresses the wider accounting issues arising from the IBOR reform. The amendments are effective for annual reporting periods beginning on or after 1 January 2021 with early application permitted. As NWB Group early adopted these amendments for the annual period ending on 31 December 2020, which have been endorsed by the EU and UK in January 2021, NWB Group has applied International Accounting Standards, which have been adopted for use within the UK. NWB Group's IBOR transition program remains on-track and key milestones have been met. Conversion from rates subject to reform to alternative risk-free rates (RFRs) is expected to increase as RFR-based products become more widely available and key market-driven conversion events occur.

2. Basis of consolidation
The consolidated accounts incorporate the accounts of NWB Plc and entities (including certain structured entities) that give access to variable returns and that are controlled by NWB Group. Control is assessed by reference to our ability to enforce our will on the other entity, typically through voting rights.

On the acquisition of a business from an NatWest Group company, the assets, liabilities and IFRS reserves, such as the cash flow hedging reserve, are recognised at their inherited values taken from the consolidated accounts of NatWest Group plc and include the accounting history since initial recognition. The acquirer recognises, in merger reserve, any difference between the consideration paid and the net items recognised at inherited values.

All intergroup balances, transactions, income and expenses are eliminated on consolidation. The consolidated accounts are prepared under uniform accounting policies.

3. Revenue recognition
Interest income or expense relates to financial instruments measured at amortised cost and debt instruments classified as fair value through OCI using the effective interest rate method, the effective part of any related accounting hedging instruments, and finance lease income recognised at a constant periodic rate of return before tax on the net investment on the lease. Negative effective interest accruing to financial assets is presented in interest payable.

Other interest relating to financial instruments measured at fair value is recognised as part of the movement in fair value.

Fees in respect of services are recognised as the right to consideration accrues through the performance of each distinct service obligation to the customer. The arrangements are generally contractual and the cost of providing the service is incurred as the service is rendered. The price is usually fixed and always determinable.

4. Employee benefits
Short-term employee benefits, such as salaries, paid absences, and other benefits are accounted for on an accruals basis over the period in which the employees provide the related services. Employees may receive variable compensation satisfied by cash, by debt instruments issued by NatWest Group or by NatWest plc shares. NatWest Group operates a number of share-based compensation schemes under which it awards NatWest Group plc shares and share options to its employees. Such awards are generally subject to vesting conditions.

Variable compensation that is settled in cash or debt instruments is charged to profit or loss on a straight-line basis over the vesting period, taking account of forfeiture and clawback criteria.

Contributions to defined contribution pension schemes are recognised in profit or loss when payable.

For defined benefit schemes, the defined benefit obligation is measured on an actuarial basis. Actuarial gains and losses (i.e. gains and/or losses on re-measuring the net defined benefit asset or liability) are recognised in other comprehensive income in full in the period in which they arise. The difference between scheme assets and scheme liabilities, the net defined benefit asset or liability, is recognised in the balance sheet subject to the asset ceiling test which requires the net defined benefit surplus to be limited to the present value of any economic benefits available to NWB Group in the form of refunds from the plan or reduced contributions to it.

The charge to profit or loss for pension costs (mainly the service cost and the net interest on the net defined benefit asset or liability) is recorded in operating expenses.

5. Intangible assets and goodwill
Intangible assets acquired by NWB Group are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to profit or loss over the assets' estimated useful economic lives.

Computer software	3 to 12 years
Other acquired intangibles	5 to 10 years

Accounting policies

Expenditure on internally generated goodwill and brands is written-off as incurred. Direct costs relating to the development of internal-use computer software are capitalised once technical feasibility and economic viability have been established. These costs include payroll, the costs of materials and services, and directly attributable overheads. Capitalisation of costs ceases when the software is capable of operating as intended. During and after development, accumulated costs are reviewed for impairment against the benefits that the software is expected to generate. Costs incurred prior to the establishment of technical feasibility and economic viability are expensed as incurred, as are all training costs and general overheads. The costs of licences to use computer software that are expected to generate economic benefits beyond one year are also capitalised.

6. *Property, plant and equipment*
Items of property, plant and equipment (except investment property - see Accounting policy 8) are stated at cost less accumulated depreciation and impairment losses. Where an item of property, plant and equipment comprises major components having different useful lives, these are accounted for separately.

Depreciation is charged to profit or loss on a straight-line basis so as to write-off the depreciable amount of property, plant and equipment (including assets owned and let on operating leases) over their estimated useful lives. The depreciable amount is the cost of an asset less its residual value. Freehold land is not depreciated.

The estimated useful lives of NWB Group's property, plant and equipment are:

Freehold buildings	50 years
Long leasehold property (leases with more than 50 years to run)	50 years
Short leaseholds	unexpired period of lease
Property adaptation costs	10 to 15 years
Computer equipment	up to 5 years
Other equipment	4 to 15 years

The residual value and useful life of property, plant and equipment are reviewed at each balance sheet date and updated for any changes to previous estimates.

7. Impairment of non-financial assets
At each balance sheet date, NWB Group assesses whether there is any indication that its intangible assets, rights of use or property, plant and equipment are impaired. If any such indication exists, NWB Group estimates the recoverable amount of the asset and the impairment loss, if any. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

The recoverable amount of an asset that does not generate cash flows that are independent from those of other assets or groups of assets, is determined as part of the cash-generating unit to which the asset belongs. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. For the purposes of impairment testing, goodwill acquired in a business combination is allocated to each of NWB Group's cash-generating units or groups of cash-generating units expected to benefit from the combination. The recoverable amount of an asset or cash-generating unit is the higher of its fair value less cost to sell or its value in use. Value in use is the present value of future cash flows from the asset or cash-generating unit discounted at a rate that reflects market interest rates adjusted for risks specific to the asset or cash-generating unit that have not been taken into account in estimating future cash flows.

An impairment loss is recognised if the recoverable amount of an intangible or tangible asset is less than its carrying value. The carrying value of the asset is reduced by the amount of the loss and a charge recognised in profit or loss. A reversal of an impairment loss on intangible assets (excluding goodwill) or property, plant and equipment can be recognised when an increase in service potential arises provided the increased carrying value is not greater than it would have been had no impairment loss been recognised. Impairment losses on goodwill are not reversed.

8. *Investment property*
Investment property comprises freehold and leasehold properties that are held to earn rentals or for capital appreciation or both. Investment property is not depreciated but is stated at fair value. Fair value is based on current prices for similar properties in the same location and condition. Any gain or loss arising from a change in fair value is recognised in profit or loss. Rental income from investment property is recognised on a straight-line basis over the term of the lease in Other operating income. Lease incentives granted are recognised as an integral part of the total rental income.

9. Foreign currencies
Assets and liabilities of foreign operations are translated into sterling at foreign exchange rates ruling at the balance sheet date. Income and expenses of foreign operations are translated into sterling at average exchange rates unless these do not approximate to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on the translation of a foreign operation are recognised in other comprehensive income. The amount accumulated in equity is reclassified from equity to profit or loss on disposal of a foreign operation.

10. Leases
As lessor
Finance lease contracts are those which transfer substantially all the risks and rewards of ownership of an asset to a customer. All other contracts with customers to lease assets are classified as operating leases.

Loans to customers include finance lease receivables measured at the net investment in the lease, comprising the minimum lease payments and any unguaranteed residual value discounted at the interest rate implicit in the lease. Interest receivable includes finance lease income recognised at a constant periodic rate of return before tax on the net investment. Unguaranteed residual values are subject to regular review; if there is a reduction in their value, income allocation is revised and any reduction in respect of amounts accrued is recognised immediately.

Rental income from operating leases is recognised in other operating income on a straight-line basis over the lease term unless another systematic basis better represents the time pattern of the asset's use. Operating lease assets are included within Property, plant and equipment and depreciated over their useful lives.

As lessee
On entering a new lease contract, NWB Group recognises a right of use asset and a liability to pay future rentals. The liability is measured at the present value of future lease payments discounted at the applicable incremental borrowing rate. The right of use asset is depreciated over the shorter of the term of the lease and the useful economic life, subject to review for impairment. Short term and low value leased assets are expensed on a systematic basis.

11. Provisions and contingent liabilities
NWB Group recognises a provision for a present obligation resulting from a past event when it is more likely than not that it will be required to transfer economic benefits to settle the obligation and the amount of the obligation can be estimated reliably.

Provision is made for restructuring costs, including the costs of redundancy, when NWB Group has a constructive obligation to restructure. An obligation exists when NWB Group has a detailed formal plan for the restructuring and has raised a valid expectation in those affected by starting to implement the plan or by announcing its main features.

NWB Group recognises any onerous cost of the present obligation under a contract as a provision. An onerous cost is the unavoidable cost of meeting NWB Group's contractual obligations that exceed the expected economic benefits. When NWB Group vacates a leasehold property, the right of use asset would be tested for impairment and a provision may be recognised for the ancillary contractual occupancy costs, such as rates.

Contingent liabilities are possible obligations arising from past events, whose existence will be confirmed only by uncertain future events, or present obligations arising from past events that are not recognised because either an outflow of economic benefits is not probable or the amount of the obligation cannot be reliably measured. Contingent liabilities are not recognised but information about them is disclosed unless the possibility of any outflow of economic benefits in settlement is remote.

12. Tax

Income tax expense or income, comprising current tax and deferred tax, is recorded in the income statement except income tax on items recognised outside profit or loss which is credited or charged to other comprehensive income. The tax consequences of servicing equity instruments are recognised in the income statement.

Current tax is income tax payable or recoverable in respect of the taxable profit or loss for the year arising in profit or loss, other comprehensive income or equity. Provision is made for current tax at rates enacted, or substantively enacted, at the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable in respect of temporary differences between the carrying amount of an asset or liability for accounting purposes and the carrying amount for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent their recovery is probable.

Deferred tax is not recognised on temporary differences that arise from initial recognition of an asset or a liability in a transaction (other than a business combination) that at the time of the transaction affects neither accounting, nor taxable profit or loss. Deferred tax is calculated using tax rates expected to apply in the periods when the assets will be realised or the liabilities settled, based on tax rates and laws enacted, or substantively enacted, at the balance sheet date.

Deferred tax assets and liabilities are offset where NWB Group has a legally enforceable right to offset and where they relate to income taxes levied by the same taxation authority either on an individual NWB Group company or on NWB Group companies in the same tax group that intend, in future periods, to settle current tax liabilities and assets on a net basis or on a gross basis simultaneously.

Accounting for taxes is judgmental and carries a degree of uncertainty because tax law is subject to interpretation, which might be questioned by the relevant tax authority. NWB Group recognises the most likely current and deferred tax liability or asset, assessed for uncertainty using consistent judgments and estimates. Current and deferred tax assets are only recognised where their recovery is deemed probable, and current and deferred tax liabilities are recognised at the amount that represents the best estimate of the probable outcome having regard to their acceptance by the tax authorities.

13. Financial instruments

Financial instruments are classified either by product, by business model or by reference to the IFRS default classification.

Classification by product relies on specific designation criteria which are applicable to certain classes of financial assets or circumstances where accounting mismatches would otherwise arise. Classification by business model reflects how NWB Group manages its financial assets to generate cash flows. A business model assessment determines if cash flows result from holding financial assets to collect the contractual cash flows, from selling those financial assets, or both.

The product classifications apply to financial assets that are either designated at fair value through profit or loss (DFV), or to equity investments designated as at fair value through other comprehensive income (FVOCI). Financial assets may also be irrevocably designated at fair value through profit or loss upon initial recognition if such designation eliminates, or significantly reduces, accounting mismatch. In all other instances, fair value through profit or loss (MFVTPL) is the default classification and measurement category for financial assets.

Regular way purchases of financial assets classified as amortised cost, are recognised on the settlement date; all other regular way transactions in financial assets are recognised on the trade date.

Business model assessment of assets is made at portfolio level, being the level at which they are managed to achieve a predefined business objective. This is expected to result in the most consistent classification of assets because it aligns with the stated objectives of the portfolio, its risk management, manager's remuneration and the ability to monitor sales of assets from a portfolio.

Financial assets which are managed under a 'held to collect' business model, and have contractual cash flows that comprise solely payments of principal and interest are measured at amortised cost.

Other financial assets which are managed under a business model of both 'held to collect and sell' and have contractual cash flows comprising solely of payments of principal and interest are measured at fair value through other comprehensive income ('FVOCI').

The contractual terms of a facility; any leverage features; prepayment and extension terms; and triggers that might reset the effective rate of interest; are considered in determining whether cash flows comprise solely payments of principal and interest.

All financial instruments are measured at fair value on initial recognition.

All liabilities not subsequently measured at fair value are measured at amortised cost.

14. Impairment: expected credit losses (ECL)

At each balance sheet date each financial asset or portfolio of loans measured at amortised cost or at fair value through other comprehensive income, issued financial guarantee and loan commitment is assessed for impairment and presented as impairments in the income statement. Loss allowances are forward-looking, based on 12 month ECL where there has not been a significant increase in credit risk rating, otherwise allowances are based on lifetime expected losses.

ECL are a probability-weighted estimate of credit losses. The probability is determined by the risk of default which is applied to the cash flow estimates. In the absence of a change in credit rating, allowances are recognised when there is a reduction in the net present value of expected cash flows. On a significant increase in credit risk, allowances are recognised without a change in the expected cash flows, although typically expected cash flows do change also; and ECL are adjusted from 12 month to lifetime expectations.

Judgement is exercised as follows:

- Models – in certain low default portfolios, Basel parameter estimates are also applied for IFRS 9.
- Non-modelled portfolios, mainly in Private Banking and Lombard, use a standardised capital requirement under Basel II. Under IFRS 9, they have bespoke treatments for the identification of significant increase in credit risk. Benchmark PDs, EADs and LGDs are reviewed annually for appropriateness. The ECL calculation is based on expected future cash flows, which is typically applied at a portfolio level.
- Multiple economic scenarios (MES) – the central, or base, scenario is most critical to the ECL calculation, independent of the method used to generate a range of alternative outcomes and their probabilities.
- Significant increase in credit risk - IFRS 9 requires that at each reporting date, an entity shall assess whether the credit risk on an account has increased significantly since initial recognition. Part of this assessment requires a comparison to be made between the current lifetime PD (i.e. the current probability of default over the remaining lifetime) with the equivalent lifetime PD as determined at the date of initial recognition.

On restructuring a financial asset without causing derecognition of the original asset, the revised cash flows are used in re-estimating the credit loss. Where restructuring causes derecognition of the original financial asset, the fair value of the replacement asset is used as the closing cash flow of the original asset.

Accounting policies

Where, in the course of the orderly realisation of a loan, it is exchanged for equity shares or property, the exchange is accounted for as the sale of the loan and the acquisition of equity securities or investment property. Where NWB Group's interest in equity shares following the exchange is such that NWB Group controls an entity, that entity is consolidated.

Impaired loans are written off and therefore derecognised from the balance sheet when NWB Group concludes that there is no longer any realistic prospect of recovery of part, or all, of the loan. For loans that are individually assessed for impairment, the timing of the write-off is determined on a case by case basis. Such loans are reviewed regularly and write-off will be prompted by bankruptcy, insolvency, renegotiation and similar events.

The typical time frames from initial impairment to write-off for NWB Group's collectively-assessed portfolios are:

- Retail mortgages: write-off usually occurs within five years, or earlier, when an account is closed, but can be longer where the customer engages constructively,
- Credit cards: the irrecoverable amount is typically written-off after twelve arrears cycles or at four years post default any remaining amounts outstanding are written off,
- Overdrafts and other unsecured loans: write-off occurs within six years,
- Commercial loans: write-offs are determined in the light of individual circumstances; and Business loans are generally written off within five years.

15. Financial guarantee contracts
Under a financial guarantee contract, NWB Group, in return for a fee, undertakes to meet a customer's obligations under the terms of a debt instrument if the customer fails to do so. A financial guarantee is recognised as a liability; initially at fair value and, if not designated as at fair value through profit or loss, subsequently at the higher of its initial value less cumulative amortisation and any provision under the contract measured in accordance with Accounting policy 13. Amortisation is calculated to recognise fees receivable in profit or loss over the period of the guarantee.

16. Loan commitments
Provision is made for ECL on loan commitments, other than those classified as held-for-trading. Syndicated loan commitments in excess of the level of lending under the commitment approved for retention by NWB Group are classified as held-for-trading and measured at fair value through profit or loss.

17. Derecognition
A financial asset is derecognised when the contractual right to receive cash flows from the asset has expired or when it has been transferred and the transfer qualifies for derecognition. Conversely, an asset is not derecognised by a contract under which NWB Group retains substantially all the risks and rewards of ownership. If substantially all the risks and rewards have been neither retained nor transferred, NWB Group does not derecognise an asset over which it has retained control but limits its recognition to the extent of its continuing involvement.

A financial liability is removed from the balance sheet when the obligation is discharged, or is cancelled, or expires. Cancellation includes the issuance of a substitute instrument on substantially different terms.

18. Sale and repurchase transactions
Securities subject to a sale and repurchase agreement under which substantially all the risks and rewards of ownership are retained by NWB Group continue to be shown on the balance sheet and the sale proceeds recorded as a financial liability. Securities acquired in a reverse sale and repurchase transaction under which NWB Group is not exposed to substantially all the risks and rewards of ownership are not recognised on the balance sheet and the consideration paid is recorded as a financial asset. Sale and repurchase transactions that are not accounted for at fair value through profit or loss are measured at amortised cost. The difference between the consideration paid or received and the repurchase or resale price is treated as interest and recognised in interest income or (interest expense over the life of the transaction.

19. Netting
Financial assets and financial liabilities are offset and the net amount presented in the balance sheet when, and only when, NWB Group currently has a legally enforceable right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. NWB Group is party to a number of arrangements, including master netting agreements, that give it the right to offset financial assets and financial liabilities, but where it does not intend to settle the amounts net or simultaneously, the assets and liabilities concerned are presented gross.

20. Capital instruments
NWB Group classifies a financial instrument that it issues as a liability if it is a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities on potentially unfavourable terms and as equity if it evidences a residual interest in the assets of NWB Group after the deduction of liabilities. The components of a compound financial instrument issued by NWB Group are classified and accounted for separately as financial assets, financial liabilities or equity as appropriate. Incremental costs and related tax that are directly attributable to an equity transaction are deducted from equity.

21. Derivatives and hedging
Derivative financial instruments are initially recognised, and subsequently measured, at fair value. NWB Group's approach to determining the fair value of financial instruments is set out in the Critical accounting policies section and key sources of estimation uncertainty entitled Fair value - financial instruments; further details are given in Note 11 on the accounts.

A derivative embedded in a financial liability contract is accounted for as a stand-alone derivative if its economic characteristics are not closely related to the economic characteristics of the host contract; unless the entire contract is measured at fair value with changes in fair value recognised in profit or loss.

Gains and losses arising from changes in the fair value of derivatives that are not the hedging instrument in a qualifying hedge hedge and hedge and derivatives that are managed together with financial instruments designated at fair value; these gains and losses are included in Other operating income;.

Hedge relationships are formally designated and documented at inception in line with the requirements of IAS 39 *Financial instruments – Recognition and measurement.*. The documentation identifies the hedged item, the hedging instrument and details of the risk that is being hedged, and the way in which effectiveness will be assessed at inception and during the period of the hedge. If the hedge is not highly effective in offsetting changes in fair values or cash flows attributable to the hedged risk, consistent with the documented risk management strategy, hedge accounting is discontinued. Hedge accounting is also discontinued if NWB Group revokes the designation of a hedge relationship.

Fair value hedge - in a fair value hedge, the gain or loss on the hedging instrument is recognised in profit or loss. The gain or loss on the hedged item attributable to the hedged risk is recognised in profit or loss and, where the hedged item is measured at amortised cost, adjusts the carrying amount of the hedged item. Hedge accounting is discontinued if the hedge no longer meets the criteria for hedge accounting; or if the hedging instrument expires or is sold, terminated or exercised; or if hedge designation is revoked. If the hedged item is one for which the effective interest rate method is used, any cumulative adjustment is amortised to profit or loss over the life of the hedged item using a recalculated effective interest rate.

Cash flow hedge - in a cash flow hedge, the effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income and the ineffective portion in profit or loss. When the forecast transaction results in the recognition of a financial asset or financial liability, the cumulative gain or loss is reclassified from equity to profit or loss in the same periods in which the hedged forecast cash flows affect profit or loss. Otherwise the cumulative gain or loss is removed from equity and recognised in profit or loss at the same time as the hedged transaction. Hedge accounting is discontinued if the hedge no longer meets the criteria for hedge accounting; if the hedging instrument expires or is sold, terminated or exercised; if the forecast transaction is no longer expected to occur; or if hedge designation is revoked. On the discontinuation of hedge accounting (except where a forecast transaction is no longer expected to occur), the cumulative unrealised gain or loss is reclassified from equity to profit or loss when the hedged cash flows occur or, if the forecast transaction results in the recognition of a financial asset or financial liability, when the hedged forecast cash flows affect profit or loss. Where a forecast transaction is no longer expected to occur, the cumulative unrealised gain or loss is reclassified from equity to profit or loss immediately.

Hedge of net investment in a foreign operation - in the hedge of a net investment in a foreign operation, the portion of foreign exchange differences arising on the hedging instrument determined to be an effective hedge is recognised in other comprehensive income. Any ineffective portion is recognised in profit or loss. Non-derivative financial liabilities as well as derivatives may be the hedging instrument in a net investment hedge. On disposal or partial disposal of a foreign operation, the amount accumulated in equity is reclassified from equity to profit or loss.

22. Cash and cash equivalents
In the cash flow statement, cash and cash equivalents comprises cash and deposits with banks with an original maturity of less than three months together with short-term highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value.

23. Shares in NWB Group entities
The NWB Plc's investments in its subsidiaries are stated at cost less any impairment.

Critical accounting policies and key sources of estimation uncertainty
The reported results of NWB Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its accounts. UK company law and IFRS require the directors, in preparing NWB Group's accounts, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent. In the absence of an applicable standard or interpretation, IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', requires management to develop and apply an accounting policy that results in relevant and reliable information in the light of the requirements and guidance in IFRS dealing with similar and related issues and the IASB's 'Conceptual Framework for Financial Reporting'. The judgements and assumptions involved in NWB Group's accounting policies that are considered by the Board to be the most important to the portrayal of its financial condition are discussed below. The use of estimates, assumptions or models that differ from those adopted by NWB Group would affect its reported results. During 2020, estimation uncertainty has been affected by the COVID-19 pandemic. The COVID-19 pandemic has continued to cause significant economic and social disruption during 2020. Key financial estimates are based on management's latest five-year revenue and cost forecasts. Measurement of goodwill, deferred tax and expected credit losses are highly sensitive to reasonably possible changes in those anticipated conditions. Other reasonably possible assumptions about the future include a prolonged financial effect of the COVID-19 pandemic on the economy of the UK and other countries. Changes in judgements and assumptions could result in a material adjustment to those estimates in the next reporting periods. Consideration of this source of estimation uncertainty has been set out in the notes below (as applicable).

Critical Accounting policy	Note
Deferred tax	7
Fair value – financial instruments	11
Loan impairment provisions	13
Provisions for liabilities and charges	21

Future accounting developments
International Financial Reporting Standards

COVID-19 amendments on lease modifications – Amendments to IFRS 16 – Leases (IFRS 16)
The IASB published 'amendments to IFRS 16 covering COVID-19-Related Rent Concessions'. These provide lessees with an exemption from assessing whether a COVID-19 related rent concession is a lease modification. The amendment is effective for annual reporting periods beginning on or after 1 June 2020. The effect of the amendment on NWB Group's accounts is immaterial and will be adopted from 1 January 2021.

Other new standards and amendments that are effective for annual periods beginning after 1 January 2022, with earlier application permitted, are set out below.

Effective 1 January 2022
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37).
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).
- Reference to Conceptual Framework (Amendments to IFRS 3).
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1).
- Fees in the "10 per cent" test for Derecognition of Financial Liabilities (Amendments to IFRS 9).

Effective 1 January 2023
- IFRS 17 Insurance Contracts (Amendments to IFRS 17 Insurance Contracts).

NWB Group is assessing the effect of adopting these standards and amendments on its financial statements but do not expect the effect to be material.

Notes to the financial statements

1 Net interest income

	2020 £m	2019 £m
Balances at central banks	**43**	166
Loans to banks - amortised cost	**36**	165
Loans to customers - amortised cost	**6,493**	6,512
Amounts due from holding companies and fellow subsidiaries	**2**	45
Other financial assets	**251**	520
Interest receivable	**6,825**	7,408
Bank deposits	**80**	213
Customer deposits	**452**	723
Amounts due to holding companies and fellow subsidiaries	**272**	414
Other financial liabilities	**163**	165
Subordinated liabilities	**48**	57
Interest payable	**1,015**	1,572
Net interest income	**5,810**	5,836

Interest income on financial instruments measured at amortised cost and debt instruments classified as FVOCI is measured using the effective interest rate which allocates the interest income or interest expense over the expected life of the asset or liability at the rate that exactly discounts all estimated future cash flows to equal the instrument's initial carrying amount. Calculation of the effective interest rate takes into account fees payable or receivable that are an integral part of the instrument's yield, premiums or discounts on acquisition or issue, early redemption fees and transaction costs. All contractual terms of a financial instrument are considered when estimating future cash flows. Included in interest receivable is finance lease income which is recognised at a constant periodic rate of return before tax on the net investment.

2 Non-interest income

	2020 £m	2019 £m
Net fees and commissions (1)	**1,384**	1,723
Other operating income		
Operating lease and other rental income	**240**	255
Changes in fair value of other financial assets held at mandatory fair value through profit or loss (2)	**7**	6
Hedge ineffectiveness	**(38)**	(12)
Cost of economic hedging	**66**	(9)
(Loss)/profit on disposal of amortised cost assets	**(20)**	26
Profit/(loss) on disposal of fair value through other comprehensive income assets	**113**	(16)
Profit on sale of property, plant and equipment	**10**	44
Share of loss on associated entities	**(8)**	(1)
Profit on disposal of subsidiaries and associates	**4**	71
Other income (3, 4)	**1,387**	1,240
	1,761	1,604
	3,145	3,327

Notes:
(1) Refer to Note 4 for further analysis.
(2) *Includes instruments that have failed SPPI testing under IFRS 9.*
(3) Includes income from recharging shared services to other NatWest Group subsidiaries and income from activities other than banking.
(4) 2020 includes £58 million loss on acquisition of a £3.0 billion prime UK mortgages portfolio from Metro Bank plc.

Notes to the financial statements

3 Operating expenses

	2020 £m	2019 £m
Wages, salaries and other staff costs	**2,110**	2,069
Temporary and contract costs	**213**	334
Social security costs	**236**	217
Pension costs	**264**	239
- defined benefit schemes (see Note 5)	**168**	155
- defined contribution schemes	**96**	84
Staff costs	**2,823**	2,859
Premises and equipment (1)	**1,044**	1,078
Depreciation and amortisation (2)	**832**	834
Other administrative expenses (3)	**1,476**	2,450
Administrative expenses (4)	**3,352**	4,362
Impairment of intangible assets (see Note 16)	**9**	44
	6,184	7,265

Notes:
(1) 2020 includes a cost of £144 million including accelerated depreciation of £71 million (2019 - £161 million including £40 million accelerated depreciation) in relation to the planned reduction of the property portfolio (2020 – freehold £1 million; leasehold £143 million; 2019 - freehold £4million; leasehold £157 million).
(2) 2020 includes a £100 million charge relating to the reduction in property portfolio, leasehold £81 million and freehold £19 million (2019 - £275 million charge, leasehold £20 million and freehold £255 million).
(3) Includes litigation and conduct costs. Further details are provided in Note 21.
(4) In 2019 NWB Group became the provider of shared services to NatWest Group. Direct costs incurred are recovered through legal entity recharging and recorded in Other operating income. For periods prior to 2019 NWB Group was a net receiver of shared services from fellow NatWest Group companies.

The average number of persons employed in continuing operations, rounded to the nearest hundred, during the year, excluding temporary staff, was 51,900 (2019 – 53,600). The number of people employed in continued operations at 31 December 2020, excluding temporary staff was as follows:

	2020	2019
Retail Banking	**15,800**	18,000
Commercial Banking	**9,100**	9,100
Private Banking	**2,100**	1,800
Central items & other	**25,100**	22,800
Total	**52,100**	51,700
UK	**37,800**	38,400
Europe	**1,200**	1,300
Rest of the World	**13,100**	12,000
Total	**52,100**	51,700

During the year a number of roles transferred from Retail Banking and Commercial Banking into centralised functions. Comparatives have been re-stated. In addition, a number of front office and support functions roles transferred from NatWest Markets Group into NatWest Holdings Group.

Share-based payments

NWB Group grants share-based awards to employees principally on the following bases:

Award plan	Eligible employees	Nature of award	Vesting conditions (1)	Settlement
Sharesave	UK, Republic of Ireland, Channel Islands, Gibraltar and Isle of Man	Option to buy shares under employee savings plan	Continuing employment or leavers in certain circumstances	2021 to 2024
Deferred performance awards	All	Awards of ordinary shares	Continuing employment or leavers in certain circumstances	2021 to 2027
Long-term incentives (2)	Senior employees	Awards of ordinary shares and conditional shares	Continuing employment or leavers in certain circumstances and/or satisfaction of the pre-vest assessment and underpins	2021 to 2027

Notes:
(1) All awards have vesting conditions and therefore some may not vest.
(2) Long-term incentives include the Executive Share Option Plan, the Long-Term Incentive Plan and the Employee Share Plan.

The fair value of options granted in 2020 was determined using a pricing model that included: expected volatility of shares determined at the grant date based on historical volatility over a period of up to five years; expected option lives that equal the vesting period; expected dividends on equity shares; and risk-free interest rates determined from UK gilts with terms matching the expected lives of the options.

The strike price of options and the fair value on granting awards of fully paid shares is the average market price over the five trading days (three trading days for Sharesave) preceding grant date.

3 Operating expenses continued

Bonus awards

The following tables analyse NWB Group's bonus awards.

	2020 £m	2019 £m	Change %
Non-deferred cash awards (1)	**27**	30	(10%)
Total non-deferred bonus awards	**27**	30	(10%)
Deferred bond awards	**66**	125	(47%)
Deferred share awards	**14**	37	(62%)
Total deferred bonus awards	**80**	162	(51%)
Total bonus rewards (2)	**107**	192	(44%)

Reconciliation of bonus awards to income statement charge

	2020 £m	2019 £m
Bonus awarded	**107**	192
Less: deferral of charge for amounts awarded for current year	**(36)**	(67)
Income statement charge for amounts awarded in current year	**71**	125
Add: current year charge for amounts deferred from prior years	**63**	66
Less: forfeiture of amounts deferred from prior years	**(7)**	(10)
Income statement charge for amounts deferred from prior years	**56**	56
Income statement charge for bonus awards (2)	**127**	181

Notes:
(1) Cash awards are limited to £2,000 for all employees.
(2) Excludes other performance related compensation.

4 Segmental analysis

Reportable operating segments

The reportable operating segments are as follows:

Retail Banking serves individuals and mass affluent customers in the UK and includes Ulster Bank customers in Northern Ireland.

Commercial Banking serves start-up, SME, commercial and corporate customers in the UK.

Private Banking serves UK-connected high net worth individuals and their business interests.

Central items & other includes corporate functions, such as NatWest Group treasury, finance, risk management, compliance, legal, communications and human resources. NWB Plc is the main provider of shared services and treasury activities for NatWest Group. The services are mainly provided to NWH Group, however, in certain instances, where permitted, services are also provided to the wider NatWest Group including the non-ring fenced business.

2020	Retail Banking £m	Commercial Banking £m	Private Banking £m	Central items & other £m	Total £m
Net interest income	**3,114**	**2,302**	**466**	**(72)**	**5,810**
Net fees and commissions	**300**	**854**	**235**	**(5)**	**1,384**
Other operating income	**(28)**	**80**	**16**	**1,693**	**1,761**
Total income	**3,386**	**3,236**	**717**	**1,616**	**8,955**
Operating expenses	**(2,064)**	**(1,862)**	**(444)**	**(982)**	**(5,352)**
Depreciation and amortisation	**—**	**(149)**	**(8)**	**(675)**	**(832)**
Impairment losses	**(669)**	**(1,378)**	**(106)**	**(16)**	**(2,169)**
Operating profit/(loss)	**653**	**(153)**	**159**	**(57)**	**602**

2019	Retail Banking £m	Commercial Banking £m	Private Banking £m	Central items & other £m	Total £m
Net interest income	3,343	2,166	511	(184)	5,836
Net fees and commissions	551	976	209	(13)	1,723
Other operating income	205	198	30	1,171	1,604
Total income	4,099	3,340	750	974	9,163
Operating expenses	(2,969)	(2,167)	(467)	(828)	(6,431)
Depreciation and amortisation	—	(142)	(4)	(688)	(834)
Impairment (losses)/releases	(329)	(247)	7	(3)	(572)
Operating profit/(loss)	801	784	286	(545)	1,326

	2020			2019		
Total revenue (1)	External £m	Inter segment £m	Total £m	External £m	Inter segment £m	Total £m
Retail Banking	**4,490**	**26**	**4,516**	5,153	183	5,336
Commercial Banking	**2,909**	**196**	**3,105**	3,275	150	3,425
Private Banking	**662**	**199**	**861**	666	285	951
Central items & other	**2,210**	**(421)**	**1,789**	2,126	(618)	1,508
Total	**10,271**	**—**	**10,271**	11,220	—	11,220

Note:
(1) Total revenue comprises interest receivable, fees and commissions receivable and other operating income.

	2020			2019		
Total income	External £m	Inter segment £m	Total £m	External £m	Inter segment £m	Total £m
Retail Banking	**3,374**	**12**	**3,386**	3,937	162	4,099
Commercial Banking	**3,185**	**51**	**3,236**	3,590	(250)	3,340
Private Banking	**613**	**104**	**717**	551	199	750
Central items & other	**1,783**	**(167)**	**1,616**	1,085	(111)	974
Total	**8,955**	**—**	**8,955**	9,163	—	9,163

4 Segmental analysis continued

Analysis of net fees and commissions

2020	Retail Banking £m	Commercial Banking £m	Private Banking £m	Central items & other £m	Total £m
Fees and commissions receivable					
- Payment services	**209**	**390**	**26**	**—**	**625**
- Credit and debit card fees	**239**	**96**	**9**	**—**	**344**
- Lending and financing	**34**	**382**	**7**	**—**	**423**
- Brokerage	**41**	**—**	**6**	**—**	**47**
- Investment management, trustee and fiduciary services (1)	**3**	**—**	**205**	**—**	**208**
- Other	**1**	**82**	**26**	**(71)**	**38**
Total	**527**	**950**	**279**	**(71)**	**1,685**
Fees and commissions payable	**(227)**	**(96)**	**(44)**	**66**	**(301)**
Net fees and commissions	**300**	**854**	**235**	**(5)**	**1,384**

2019	Retail Banking £m	Commercial Banking £m	Private Banking £m	Central items & other £m	Total £m
Fees and commissions receivable					
- Payment services	231	498	31	—	760
- Credit and debit card fees	341	107	12	—	460
- Lending and financing	311	357	2	—	670
- Brokerage	42	—	5	—	47
- Investment management, trustee and fiduciary services	37	3	172	—	212
- Other	2	87	26	(56)	59
Total	964	1,052	248	(56)	2,208
Fees and commissions payable	(413)	(76)	(39)	43	(485)
Net fees and commissions	551	976	209	(13)	1,723

Note:
(1) Comparisons with prior periods are impacted by the transfer of the Private Client Advice business to Private Banking from 1 January 2020.

	2020		2019	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Retail Banking	**156,829**	**143,638**	140,415	123,092
Commercial Banking	**84,629**	**125,635**	75,466	99,285
Private Banking	**17,113**	**30,392**	15,383	26,587
Central items & other	**130,968**	**69,982**	87,229	49,857
Total	**389,539**	**369,647**	318,493	298,821

The geographical analysis has in the tables below has been comprised on the basis of location of office where the transactions are recorded.

2020	UK £m	RoW £m	Total £m
Total revenue	**10,219**	**52**	**10,271**
Interest receivable	**6,825**	**—**	**6,825**
Interest payable	**(1,001)**	**(14)**	**(1,015)**
Net fees and commissions	**1,384**	**—**	**1,384**
Other operating income	**1,710**	**51**	**1,761**
Total income	**8,918**	**37**	**8,955**
Operating profit/(loss) before tax	**986**	**(384)**	**602**
Total assets	**375,223**	**14,316**	**389,539**
Total liabilities	**369,441**	**206**	**369,647**
Contingent liabilities and commitments	**77,766**	**25**	**77,791**
Cost to acquire property, plant and equipment and intangible assets	**750**	**32**	**782**

2019	UK £m	RoW £m	Total £m
Total revenue	11,191	29	11,220
Interest receivable	7,408	—	7,408
Interest payable	(1,532)	(40)	(1,572)
Net fees and commissions	1,723	—	1,723
Other operating income*	1,537	67	1,604
Total income	9,136	27	9,163
Operating profit/(loss) before tax	1,696	(370)	1,326
Total assets*	305,035	13,458	318,493
Total liabilities	298,632	189	298,821
Contingent liabilities and commitments	74,929	46	74,975
Cost to acquire property, plant and equipment and intangible assets	917	49	966

*2019 re-presented.

Notes to the financial statements

5 Pensions

Defined contribution schemes

NWB Group sponsors a number of defined contribution pension schemes in different territories, which new employees are offered the opportunity to join.

Defined benefit schemes

NWB Group sponsors a number of pension schemes in the UK and overseas, including the Main section of the NatWest Group Pension Fund (the "Main section") which operates under UK trust law and is managed and administered on behalf of its members in accordance with the terms of the trust deed, the scheme rules and UK legislation.

Pension fund trustees are appointed to operate each fund and ensure benefits are paid in accordance with the scheme rules and national law. The trustees are the legal owner of a scheme's assets, and have a duty to act in the best interests of all scheme members.

The schemes generally provide a pension of one-sixtieth of final pensionable salary for each year of service prior to retirement up to a maximum of 40 years and are contributory for current members. These have been closed to new entrants for over ten years, although current members continue to build up additional pension benefits, currently subject to 2% maximum annual salary inflation, while they remain employed by NWB Group.

The Main section corporate trustee is NatWest Pension Trustee Limited (the Trustee), a wholly owned subsidiary of NWB Plc, Principal Employer of the Main section. The Board of the Trustee comprises four member trustee directors selected from eligible active staff, deferred and pensioner members who apply and six appointed by NatWest Group. Under UK legislation, a defined benefit pension scheme is required to meet the statutory funding objective of having sufficient and appropriate assets to cover its liabilities (the pensions that have been promised to members).

Similar governance principles apply to NWB Group's other pension schemes.

Investment strategy

The assets of the Main section, which is typical of other group schemes, represent 97% of plan assets at 31 December 2020 (2019 - 97%) and are invested as shown below.

The Main section employs derivative instruments to achieve a desired asset class exposure and to reduce the section's interest rate, inflation and currency risk. This means that the net funding position is considerably less sensitive to changes in market conditions than the value of the assets or liabilities in isolation.

	2020			2019		
Major classes of plan assets as a percentage of total plan assets of the Main section	Quoted %	Unquoted %	Total %	Quoted %	Unquoted %	Total %
Equities	**3.9**	**4.6**	**8.5**	3.9	4.8	8.7
Index linked bonds	**49.4**	**—**	**49.4**	47.8	—	47.8
Government bonds	**6.2**	**—**	**6.2**	9.3	—	9.3
Corporate and other bonds	**11.8**	**5.0**	**16.8**	11.6	5.0	16.6
Real estate	**—**	**4.2**	**4.2**	—	4.8	4.8
Derivatives	**—**	**10.0**	**10.0**	—	7.8	7.8
Cash and other assets	**—**	**4.9**	**4.9**	—	5.0	5.0
	71.3	**28.7**	**100.0**	72.6	27.4	100.0

The Main section's holdings of derivative instruments are summarised in the table below:

	2020			2019		
	Notional amounts £bn	Fair value Assets £m	Fair value Liabilities £m	Notional amounts £bn	Fair value Assets £m	Fair value Liabilities £m
Inflation rate swaps	**18**	**1,390**	**1,716**	16	909	1,094
Interest rate swaps	**68**	**11,197**	**6,215**	57	6,407	2,992
Currency forwards	**11**	**334**	**38**	9	215	42
Equity and bond call options	**1**	**169**	**1**	1	122	—
Equity and bond put options	**3**	**1**	**19**	5	3	1
Other	**2**	**63**	**17**	3	124	13

Notes to the financial statements

5 Pensions continued

Swaps have been executed at prevailing market rates and within standard market bid/offer spreads with a number of counterparty banks, including NWB Plc.

At 31 December 2020, the gross notional value of the swaps was £88 billion (2019 - £75 billion) and had a net positive fair value of £4,706 million (2019 - £3,340 million) against which the banks had posted approximately 104% collateral.

The schemes do not invest directly in NWB Group but can have exposure to NWB Group. The trustees of the respective UK schemes are responsible for ensuring that indirect investments in NWB Group do not exceed the 5% regulatory limit.

	NWB Group				NWB Plc			
Changes in value of net pension (asset)/liability	Fair value of plan assets £m	Present value of defined benefit obligation (1) £m	Asset ceiling/ minimum funding (2) £m	Net pension (asset)/ liability £m	Fair value of plan assets £m	Present value of defined benefit obligation (1) £m	Asset ceiling/ minimum funding (2) £m	Net pension (asset)/ liability £m
At 1 January 2019	45,061	36,435	8,644	18	43,807	35,466	8,340	(1)
Currency translation and other adjustments	(2)	1	—	3	—	—	—	—
Income statement	1,281	1,185	251	155	1,245	1,124	242	121
Statement of comprehensive income	3,156	4,999	(1,716)	127	3,021	4,825	(1,696)	108
Contributions by employer	268	—	—	(268)	229	—	—	(229)
Contributions by plan participants and other scheme members	24	24	—	—	41	41	—	—
Benefits paid	(1,837)	(1,837)	—	—	(1,788)	(1,788)	—	—
Transfer to/from fellow subsidiaries	2	15	—	13	—	15	—	15
At 1 January 2020	**47,953**	**40,822**	**7,179**	**48**	**46,555**	**39,683**	**6,886**	**14**
Currency translation and other adjustments	**1**	**5**	**—**	**4**	**—**	**5**	**—**	**5**
Income statement								
Net interest expense	**963**	**821**	**146**	**4**	**936**	**795**	**141**	**—**
Current service cost	**—**	**170**	**—**	**170**	**—**	**156**	**—**	**156**
Less, direct contributions from other scheme members	**—**	**(11)**	**—**	**(11)**	**—**	**(23)**	**—**	**(23)**
Past service cost	**—**	**5**	**—**	**5**	**—**	**3**	**—**	**3**
	963	**985**	**146**	**168**	**936**	**931**	**141**	**136**
Statement of comprehensive income								
Return on plan assets excluding recognised interest income	**5,586**	**—**	**—**	**(5,586)**	**5,486**	**—**	**—**	**(5,486)**
Experience gains and losses	**—**	**(431)**	**—**	**(431)**	**—**	**(427)**	**—**	**(427)**
Effect of changes in actuarial financial assumptions	**—**	**5,590**	**—**	**5,590**	**—**	**5,419**	**—**	**5,419**
Effect of changes in actuarial demographic assumptions	**—**	**168**	**—**	**168**	**—**	**138**	**—**	**138**
Asset ceiling adjustments	**—**	**—**	**335**	**335**	**—**	**—**	**426**	**426**
	5,586	**5,327**	**335**	**76**	**5,486**	**5,130**	**426**	**70**
Contributions by employer	**243**	**—**	**—**	**(243)**	**212**	**—**	**—**	**(212)**
Contributions by plan participants and other scheme members	**23**	**23**	**—**	**—**	**31**	**31**	**—**	**—**
Benefits paid	**(1,950)**	**(1,950)**	**—**	**—**	**(1,897)**	**(1,897)**	**—**	**—**
Liabilities extinguished upon settlement	**—**	**(2)**	**—**	**(2)**	**—**	**—**	**—**	**—**
Transfer to/from fellow subsidiaries	**—**	**4**	**—**	**4**	**—**	**—**	**—**	**—**
At 31 December 2020	**52,819**	**45,214**	**7,660**	**55**	**51,323**	**43,883**	**7,453**	**13**

Notes:
(1) *Defined benefit obligations are subject to annual valuation by independent actuaries.*
(2) NWB Group recognises the net pension scheme surplus or deficit as a net asset or liability. In doing so, the funded status is adjusted to reflect any schemes with a surplus that NWB Group may not be able to access, as well as any minimum funding requirement to pay in additional contributions. This is most relevant *to the Main section, where the current surplus is not recognised.*
(3) NWB Group expects to make contributions to the Main section of £215 million in 2021. Additional contributions of up to £500 million will be paid to the Main section, should NatWest Group make distributions to shareholders during 2021, in line with the ring-fencing agreement with the Trustee.

5 Pensions *continued*

Amounts recognised on the balance sheet	All schemes 2020 £m	2019 £m
Fund assets at fair value	**52,819**	47,953
Present value of fund liabilities	**45,214**	40,822
Funded status	**7,605**	7,131
Asset ceiling/minimum funding	**7,660**	7,179
	(55)	(48)

Net pension asset/(liability) comprises	NWB Group 2020 £m	2019 £m	NWB Plc 2020 £m	2019 £m
Net assets of schemes in surplus (included in Other assets, Note 16)	**2**	5	**—**	—
Net liabilities of schemes in deficit (included in Other liabilities, Note 21)	**(57)**	(53)	**(13)**	(14)
	(55)	(48)	**(13)**	(14)

Funding and contributions by NWB Group
In the UK, the trustees of defined benefit pension schemes are required to perform funding valuations every three years. The trustees and the sponsor, with the support of the Scheme Actuary, agree the assumptions used to value the liabilities and a Schedule of Contributions required to eliminate any funding deficit. The funding assumptions incorporate a margin for prudence over and above the expected cost of providing the benefits promised to members, taking into account the sponsor's covenant and the investment strategy of the scheme. Similar arrangements apply in the other territories where the NWB Group sponsors defined benefit pension schemes. The last funding valuation of the Main section was at 31 December 2017. The next funding valuation, as at 31 December 2020, is to be agreed by 31 March 2022.

The triennial funding valuation of the Main section as at 31 December 2017 determined the funding level to be 96%, pension liabilities to be £47 billion and the deficit to be £2 billion, which was eliminated by a £2 billion cash payment in October 2018. The average cost of the future service of current members is 44% of salary before administrative expenses and contributions from those members.

In 2018, NWB Group recognised an updated estimate of the impact of guaranteed minimum pension equalisation (£102m) following the clarity provided by the October 2018 Court ruling. Discussions around implementing changes to benefits are well advanced, and the estimate has been revised to £169m (2019: £141m) to reflect this.

Assumptions
Placing a value on NWB Group's defined benefit pension schemes' liabilities requires NWB Group's management to make a number of assumptions, with the support of independent actuaries. The ultimate cost of the defined benefit obligations depends upon actual future events and the assumptions made are unlikely to be exactly borne out in practice, meaning the final cost may be higher or lower than expected.

Notes to the financial statements

5 Pensions continued

The most significant assumptions used for the Main section are shown below:

	Principal IAS 19 actuarial assumptions		Principal assumptions of Main section
	2020	2019	2017 triennial valuation
	%	%	
Discount rate	**1.4**	2.1	Fixed interest swap yield curve plus 0.8% per annum
Inflation assumption (RPI)	**2.9**	2.9	RPI swap yield curve
Rate of increase in salaries	**1.8**	1.8	
Rate of increase in deferred pensions	**3.0**	3.0	
Rate of increase in pensions in payment	**2.7**	2.8	Modelled allowance for relevant caps and floors
Lump sum conversion rate at retirement	**20**	20	18%
Longevity at age 60:	**years**	years	
Current pensioners			
Males	**27.1**	26.9	28.1
Females	**29.0**	28.7	29.7
Future pensioners, currently aged 40			
Males	**28.3**	28.2	29.3
Females	**30.4**	30.2	31.5

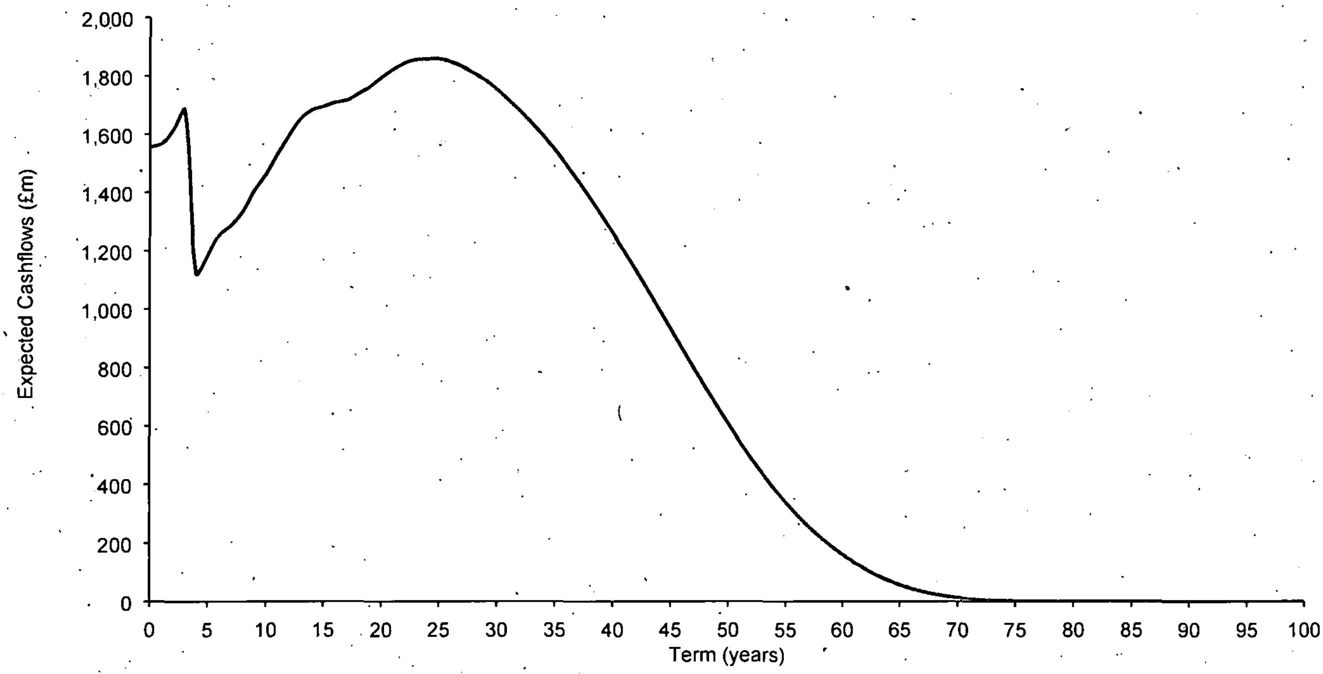
Discount rate

The IAS 19 valuation uses a single discount rate set by reference to the yield on a basket of 'high quality' sterling corporate bonds. For the triennial valuation discounting is by reference to a yield curve.

The weighted average duration of the Main section's defined benefit obligation at 31 December 2020 is 22 years (2019 - 21 years).

Significant judgement is required when setting the criteria for bonds to be included in the basket of bonds that is used to determine the discount rate used in the IAS 19 valuations. The criteria include issue size, quality of pricing and the exclusion of outliers. Judgement is also required in determining the shape of the yield curve at long durations: a constant credit spread relative to gilts is assumed. Sensitivity to the main assumptions is presented below.

The chart below shows the projected benefit payment pattern for the Main section in nominal terms. These cashflows are based on the most recent formal actuarial valuation, effective 31 December 2017.



The larger outflow in the first four years represents the expected level of transfers out to 31 December 2021.

5 Pensions continued
The table below shows how the defined benefit obligation of the Main section would change if the key assumptions used were changed independently. In practice the variables have a degree of correlation and do not move completely in isolation.

2020	(Decrease)/ increase in value of assets £m	(Decrease)/ increase in value of liabilities £m	Increase in net pension (obligations)/ assets £m
0.25% increase in interest rates/discount rate	**(2,585)**	**(2,384)**	**(201)**
0.25% increase in inflation	**2,204**	**1,603**	**601**
0.25% increase in credit spreads	**(6)**	**(2,384)**	**2,378**
Longevity increase of one year	**—**	**1,930**	**(1,930)**
0.25% additional rate of increase in pensions in payment	**—**	**1,608**	**(1,608)**
Increase in equity values of 10% (1)	**454**	**—**	**454**
2019			
0.25% increase in interest rates/discount rate	(2,330)	(1,973)	(357)
0.25% increase in inflation	1,923	1,394	529
0.25% increase in credit spreads	(5)	(1,973)	1,968
Longevity increase of one year	—	1,706	(1,706)
0.25% additional rate of increase in pensions in payment	—	1,326	(1,326)
Increase in equity values of 10% (1)	430	—	430

Note:
(1) Includes both quoted and private equity.

The funded status is most sensitive to movements in credit spreads and longevity. The table below shows the combined change in the funded status of the Main section as a result of larger movements in these assumptions, assuming no changes in other assumptions.

		Change in life expectancies				
2020		**-2 years £bn**	**-1 years £bn**	**No change £bn**	**+ 1 year £bn**	**+ 2 years £bn**
Change in credit spreads	+50 bps	**7.8**	**6.1**	**4.5**	**2.9**	**1.3**
	No change	**3.9**	**1.9**	**—**	**(1.9)**	**(3.9)**
	-50 bps	**(0.6)**	**(2.8)**	**(5.1)**	**(7.4)**	**(9.7)**

		Change in life expectancies				
2019		-2 years £bn	-1 years £bn	No change £bn	+ 1 year £bn	+ 2 years £bn
Change in credit spreads	+50 bps	6.9	5.4	3.9	2.3	0.8
	No change	3.6	1.7	—	(1.7)	(3.6)
	-50 bps	(0.2)	(2.3)	(4.4)	(6.5)	(8.7)

The defined benefit obligation of the Main section is attributable to the different classes of scheme members in the following proportions:

Membership category	2020 %	2019 %
Active members	**14.2**	13.6
Deferred members	**50.9**	49.7
Pensioners and dependants	**34.9**	36.7
	100.0	100.0

The experience history of NWB Group schemes is shown below:

	NWB Group					NWB Plc				
History of defined benefit schemes	**2020 £m**	2019 £m	2018 £m	2017 £m	2016 £m	**2020 £m**	2019 £m	2018 £m	2017 £m	2016 £m
Fair value of plan assets	**52,819**	47,953	45,061	46,199	45,311	**51,323**	46,555	43,807	44,653	43,824
Present value of defined benefit obligations	**45,214**	40,822	36,435	39,120	40,010	**43,883**	39,683	35,466	37,937	38,848
Net surplus/(deficit)	**7,605**	7,131	8,626	7,079	5,301	**7,440**	6,872	8,341	6,716	4,976
Experience (losses)/gains on plan liabilities	**431**	264	(124)	(107)	766	**427**	275	(122)	(108)	658
Experience (losses)/gains on plan assets	**5,586**	3,156	(1,937)	1,602	8,824	**5,486**	3,021	(1,892)	1,580	8,562
Actual return on plan assets	**6,549**	4,437	(782)	2,790	10,198	**6,422**	4,266	(769)	2,735	9,872
Actual return on plan assets	**13.7%**	9.8%	(1.7%)	6.2%	31.4%	**13.8%**	9.7%	(1.7%)	6.2%	32.2%

Notes to the financial statements.

6 Auditor's remuneration

Amounts payable to NWB Group's auditors for statutory audit and other services are set out below:

	2020 £m	2019 £m
Fees payable for:		
- the audit of NWB Group's annual accounts	**12.4**	9.5
- the audit of NWB Plc's subsidiaries	**2.1**	1.6
- audit-related assurance services	**—**	0.1
Total audit and audit-related assurance service fees	**14.5**	11.2

Fees payable to the auditor for non-audit services are disclosed in the consolidated financial statements of NatWest Group plc.

7 Tax

	2020 £m	2019 £m
Current tax		
Charge for the year	**(190)**	(457)
Over provision in respect of prior years	**10**	20
	(180)	(437)
Deferred tax		
Credit/(charge) for the year	**122**	(74)
Decrease in the carrying value of deferred tax assets in respect of UK losses	**(7)**	(2)
(Under)/over provision in respect of prior years	**(1)**	71
Tax charge for the year	**(66)**	(442)

The actual tax charge differs from the expected tax charge, computed by applying the standard rate of UK corporation tax of 19% (2019 – 19%), as follows:

	2020 £m	2019 £m
Expected tax charge	**(114)**	(252)
Foreign profits taxed at other rates	**(3)**	(5)
Items not allowed for tax:		
- losses on disposals and write-downs	**(5)**	(3)
- UK bank levy	**(18)**	(17)
- *regulatory and legal actions*	**22**	(133)
- other disallowable items	**(39)**	(46)
Non-taxable items	**6**	27
Decrease in the carrying value of deferred tax assets in respect of:		
- UK losses	**(7)**	(2)
Banking surcharge	**(28)**	(134)
Tax on paid in equity	**29**	32
UK tax rate change impact (1)	**82**	—
Adjustments in respect of prior years (2)	**9**	91
Actual tax charge	**(66)**	(442)

Notes:
(1) The Finance Bill 2020 amended the rate of UK corporation tax to 19% for the financial year beginning 1 April 2020. This reverses the rate reduction to 17% for the financial year beginning 1 April 2020 previously enacted. Deferred tax balances previously based on the lower rate have been restated accordingly.
(2) Prior year tax adjustments incorporate refinements to tax computations made on submission and agreement with the tax authorities. Current taxation balances include provisions in respect of uncertain tax positions, in particular in relation to restructuring and other costs where the taxation treatment remains subject to agreement with the relevant tax authorities.

Judgment: Tax contingencies

NWB Group's *income tax charge* and its *provisions for income taxes necessarily involves a significant degree of estimation and judgement.* The tax treatment of some transactions is uncertain and tax computations are yet to be agreed with the tax authorities in a number of jurisdictions. NWB Group recognises anticipated tax liabilities based on all available evidence and, where appropriate, in the light of external advice. Any difference between the final outcome and the amounts provided will affect current and deferred income tax assets and charges in the period when the matter is resolved.

	NWB Group		NWB Plc	
	2020 £m	2019 £m	2020 £m	2019 £m
Deferred tax liability	**166**	169	**—**	—
Deferred tax asset	**(1,289)**	(1,230)	**(1,248)**	(1,184)
Net deferred tax asset	**(1,123)**	(1,061)	**(1,248)**	(1,184)

Notes to the financial statements

7 Tax continued

	NWB Group						
	Pension £m	Accelerated capital allowances £m	Expense provisions £m	Financial instruments £m	Tax losses carried forward £m	Other £m	Total £m
At 1 January 2019	(614)	(220)	(86)	36	(524)	43	(1,365)
Implementation of IFRS16 on 1 January 2019	—	—	—	—	—	(51)	(51)
Acquisitions and disposals of subsidiaries	—	9	—	(6)	—	—	3
Charge/(credit) to income statement	12	20	18	(12)	(21)	(12)	5
Charge to other comprehensive income	353	—	—	—	—	—	353
Currency translation and other adjustments	—	(4)	—	—	—	(2)	(6)
At 31 December 2019	(249)	(195)	(68)	18	(545)	(22)	(1,061)
Acquisitions and disposals of subsidiaries	—	**(2)**	**(1)**	—	—	—	**(3)**
Charge/(credit) to income statement	**12**	**(84)**	**9**	**7**	**(55)**	**(3)**	**(114)**
Charge/(credit) to other comprehensive income	**101**	—	—	**(41)**	—	—	**60**
Currency translation and other adjustments	—	**(1)**	—	—	—	**(4)**	**(5)**
At 31 December 2020	**(136)**	**(282)**	**(60)**	**(16)**	**(600)**	**(29)**	**(1,123)**

	NWB Plc						
	Pension £m	Accelerated capital allowances £m	Expense provisions £m	Financial instruments £m	Tax losses carried forward £m	Other £m	Total £m
At 1 January 2019	(610)	(403)	(74)	12	(505)	34	(1,546)
Implementation of IFRS16 on 1 January 2019	—	—	—	—	—	(51)	(51)
Acquisitions and disposals of subsidiaries	—	9	—	—	—	—	9
Charge/(credit) to income statement	13	40	16	10	(25)	(6)	48
Charge to other comprehensive income	354	—	—	2	—	—	356
At 31 December 2019	(243)	(354)	(58)	24	(530)	(23)	(1,184)
Acquisitions and disposal of subsidiaries	—	**(2)**	—	—	—	—	**(2)**
Charge/(credit) to income statement	**12**	**(82)**	**11**	**4**	**(62)**	**(4)**	**(121)**
Charge/(credit) to other comprehensive income	**101**	—	—	**(41)**	—	—	**60**
Currency translation and other adjustments	—	—	**(1)**	—	—	—	**(1)**
At 31 December 2020	**(130)**	**(438)**	**(48)**	**(13)**	**(592)**	**(27)**	**(1,248)**

Deferred tax assets in respect of unused tax losses are recognised if the losses can be used to offset probable future taxable profits after taking into account the expected reversal of other temporary differences. Recognised deferred tax assets in respect of tax losses are analysed further below.

	2020 £m	2019 £m
UK tax losses carried forward		
- NWB Plc	**592**	530
- Ulster Bank Limited	**8**	15
	600	545

Critical accounting policy: Deferred tax

The deferred tax assets of £1,289 million as at 31 December 2020 (2019 - £1,230 million) principally comprises losses which arose in the UK, and temporary differences. These deferred tax assets are recognised to the extent that it is probable that there will be future taxable profits to recover them.

Judgment - NWB Group has considered the carrying value of deferred tax assets and concluded that, based on management's estimates, sufficient taxable profits will be generated in future years to recover recognised deferred tax assets.

Estimate - These estimates are based on forecast performance for management's detailed plans. They have regard to inherent uncertainties, such as Brexit, climate change, and the impact of COVID.

UK tax losses - Under UK tax rules, tax losses can be carried forward indefinitely. As the recognised tax losses in the Group arose prior to 1 April 2015, credit in future periods is given against 25% of profits at the main rate of UK corporation tax, excluding the Banking Surcharge 8% rate introduced by The Finance (No. 2) Act 2015. Deferred tax assets and liabilities at 31 December 2020 take into account the reduced rates in respect of tax losses and temporary differences and where appropriate, the banking surcharge inclusive rate in respect of other banking temporary differences.

National Westminster Bank Plc – A deferred tax asset of £592 million has been recognised in respect of total losses of £3,117 million. The losses arose principally as a result of significant impairment and conduct charges between 2009 and 2012 during challenging economic conditions in the UK banking sector. NWB Plc returned to tax profitability during 2015 and expects the deferred tax asset to be utilised against future taxable profits by the end of 2026.

Unrecognised deferred tax

Deferred tax assets of £191 million (2019 - £163 million) have not been recognised in respect of tax losses and other temporary differences carried forward of £1,003 million (2019 - £956 million) in jurisdictions where doubt exists over the availability of future taxable profits. The tax losses and other temporary differences carried forward have no expiry date.

Deferred tax liabilities of £103 million (2019 - £123 million) have not been recognised in respect of retained earnings of overseas subsidiaries and held-over gains on the incorporation of certain overseas branches. Retained earnings of overseas subsidiaries are expected to be reinvested indefinitely or remitted to the UK free from further taxation. No taxation is expected to arise in the foreseeable future in respect of held-over gains on which deferred tax is not recognised. Changes to UK tax legislation largely exempts from UK tax, overseas dividends received on or after 1 July 2009.

8 Profit/(loss) dealt with in the accounts of the NWB Plc

As permitted by section 408(3) of the Companies Act 2006, no income statement for the Bank has been presented as a primary financial statement.

9 Derivatives

Companies in NWB Group transact derivatives to manage balance sheet foreign exchange, interest rate and credit risk.

	NWB Group					
	2020			2019		
	Notional £bn	Assets £m	Liabilities £m	Notional £bn	Assets £m	Liabilities £m
Exchange rate contracts	**25**	**163**	**528**	16	105	258
Interest rate contracts	**389**	**3,113**	**6,024**	382	3,182	4,640
Credit derivatives	**—**	**12**	**—**	—	15	—
		3,288	**6,552**		3,302	4,898

	NWB Plc					
	2020			2019		
	Notional £bn	Assets £m	Liabilities £m	Notional £bn	Assets £m	Liabilities £m
Exchange rate contracts	**26**	**163**	**631**	19	106	293
Interest rate contracts	**400**	**3,263**	**6,138**	392	3,283	4,720
Credit derivatives	**—**	**12**	**—**	—	15	—
		3,438	**6,769**		3,404	5,013

Refer to Note 10 for amounts due from/to fellow NatWest Group subsidiaries.

9 Derivatives continued

NWB Group applies hedge accounting to manage the following risks; interest rate, foreign exchange and net investment in foreign operations.

NWB Group's interest rate hedging relate to the management of NWB Group's non-trading structural interest rate risk, caused by the mismatch between fixed interest rates and floating interest rates. NWB Group manages this risk within approved limits. Residual risk positions are hedged with derivatives principally interest rate swaps. Suitable larger financial instruments are fair value hedged; the remaining exposure, where possible, is hedged by derivatives documented as cash flow hedges.

Cash flow hedges of interest rate risk relate to exposures to the variability in future interest payments and receipts due to the movement of benchmark interest rates on forecast transactions and on recognised financial assets and financial liabilities. This variability in cash flows is hedged by interest rate swaps, fixing the hedged cash flows. For these cash flow hedge relationships, the hedged items are actual and forecast variable interest rate cash flows arising from financial assets and financial liabilities with interest rates linked to the relevant benchmark rate LIBOR, EURIBOR, SONIA or the Bank of England Official Bank Rate. The variability in cash flows due to movements in the relevant benchmark rate is hedged; this risk component is identified using the risk management systems of NWB Group. This risk component comprises the majority of cash flow variability risk.

Fair value hedges of interest rate risk involve interest rate swaps transforming the fixed interest rate risk in recognised financial assets and financial liabilities to floating. The hedged risk is the risk of changes in the hedged items fair value attributable to changes in the benchmark interest rate embedded in the hedged item. The significant embedded benchmark are LIBOR, EURIBOR and SONIA. This risk component is identified using the risk management systems of NWB Group. This risk component comprises the majority of the hedged items fair value risk.

NWB Group hedges the exchange rate risk of its net investment in foreign currency denominated operations with currency borrowings and forward foreign exchange contracts. NWB Group reviews the value of the investments net assets, executing hedges where appropriate to reduce the sensitivity of capital ratios to foreign exchange rate movement. Hedge accounting relationships will be designated where required.

Exchange rate risk also arises in NWB Group where payments are denominated in different currencies than the functional currency. Residual risk positions are hedged with forward foreign exchange contracts. Exposure to the variability in future payments due to the movement of foreign exchange rates is hedged, fixing the exchange rate the payments will be settled in. The derivatives are documented as cash flow hedges.

For all cash flow hedging and fair value hedge relationships NWB Group determines that there is an adequate level of offsetting between the hedged item and hedging instrument via assessing the initial and ongoing effectiveness by comparing movements in the fair value of the expected highly probable forecast interest cash flows/ fair value of the hedged item attributable to the hedged risk with movements in the fair value of the expected changes in cash flows from the hedging interest rate swap. Hedge effectiveness is measured on a cumulative basis over a time period management determines to be appropriate. NWB Group uses either the actual ratio between the hedged item and hedging instrument(s) or one that minimises hedge ineffectiveness to establish the hedge ratio for hedge accounting.

A number of the current cash flow and fair value hedges of interest rate risk that mature post 31 December 2021 will be directly affected by interest rate benchmark reform. NWB Group early adopted the amendments to IAS 39 and IFRS 7 issued in September 2019 for reporting periods beginning 1 January 2019; these amendments are known as Phase 1 relief. The relief allows, where uncertainty arising from benchmark rate reform exists, the following:

- When assessing if affected forecasted cash flows are highly probable or still expected to occur; it is assumed the IBOR based forecasted hedged cash flows are not altered as a result of interest rate benchmark reform.
- For the purpose of the prospective effectiveness assessment; it is assumed the IBOR based hedged cash flows and/ or hedged risk are not altered as a result of interest rate benchmark reform.
- Hedge accounting relationships will not be discontinued if they fall outside the 80 – 125% range when performing a retrospective effectiveness assessment.
- The assessment as to whether a non-contractually specified IBOR risk component is separately identifiable, is done only at the inception of the relationship.

The disclosures made for the notional of hedging instruments and risk exposures affected by interest rate benchmark reform contain information for both the hedging instrument and hedged risks even if only one of these will be directly impacted by the reform.
NWB Group early adopted the amendments to IAS 39 issued in August 2020 for reporting periods beginning 1 January 2021; these amendments are known as Phase 2 relief and apply at the point where components of a hedge accounting relationships transition to reference an alternative interest rate benchmark. Where relationships have transitioned in the year, the impacted hedge accounting relationships had their designations amended in line with the Phase 2 relief.

The following phase 2 reliefs have been applied:

- Where forecasted cash flows in cash flow hedge relationships have transitioned to an alternative benchmark interest rate, the relevant hedge accounting designations have been amended.
- As a result of the amended designations the balances in other comprehensive income linked to the transitioned forecasted cash flows are now deemed based on the alternative benchmark interest rate.

Included in the tables above are derivatives held for hedging purposes as follows:

	NWB Group							
	2020				2019			
	Notional £bn	**Assets £m**	**Liabilities £m**	**Change in fair value used for hedge ineffectiveness (1) £m**	Notional £bn	Assets £m	Liabilities £m	Change in fair value used for hedge ineffectiveness (1) £m
Fair value hedging - Interest rate contracts	**36.7**	**677**	**2,773**	**(1,366)**	36.6	456	1,401	(1,219)
Cash flow hedging - Interest rate contracts	**51.2**	**114**	**345**	**(250)**	19.7	58	23	56
Cash flow hedging - Exchange rate contracts	**2.0**	**—**	**19**	**2**	2.1	—	22	22
Net investment hedging - Exchange rate contracts	**0.1**	**—**	**3**	**7**	0.1	—	3	5
	90.0	**791**	**3,140**	**(1,607)**	58.5	514	1,449	(1,136)
IFRS netting		**(790)**	**(2,967)**			(501)	(1,387)	
		1	**173**			13	62	

9 Derivatives continued

	NWB Plc							
	2020				2019			
	Notional £bn	Assets £m	Liabilities £m	Change in fair value used for hedge ineffectiveness (1) £m	Notional £bn	Assets £m	Liabilities £m	Change in fair value used for hedge ineffectiveness (1) £m
Fair value hedging - Interest rate contracts	**36.7**	**677**	**2,752**	**(1,366)**	36.6	456	1,381	(1,218)
Cash flow hedging - Interest rate contracts	**51.2**	**114**	**345**	**(250)**	19.7	58	23	56
Cash flow hedging - Exchange rate contracts	**2.0**	**—**	**19**	**2**	2.1	—	22	22
	89.9	**791**	**3,116**	**(1,614)**	58.4	514	1,426	(1,140)
IFRS netting		**(790)**	**(2,967)**			(501)	(1,387)	
		1	**149**			13	39	

Note:
(1) The change in fair value used for hedge ineffectiveness includes instruments that were derecognised in the year.

The notional of hedging instruments affected by interest rate benchmark reform is as follows:

	NWB Group		NWB Plc	
	2020 £bn	2019 £bn	2020 £bn	2019 £bn
Fair value hedging				
- EURIBOR	**5.5**	4.5	**5.4**	4.4
- GBP LIBOR	**7.3**	8.6	**7.3**	8.6
- USD LIBOR	**12.4**	11.9	**12.4**	11.9
Cash flow hedging				
- EURIBOR	**0.2**	0.2	**0.2**	0.2
- GBP LIBOR	**6.8**	5.2	**6.8**	5.2
- USD LIBOR	**0.7**	0.6	**0.7**	0.6

The following table shows the period in which the hedging contract ends:

	NWB Group							
2020	0-3 months £bn	3-12 months £bn	1-3 years £bn	3-5 years £bn	5-10 years £bn	10-20 years £bn	20+ years £bn	Total £bn
Fair value hedging								
Hedging assets - interest rate risk	**1.1**	**1.5**	**3.8**	**6.4**	**7.7**	**3.8**	**3.5**	**27.8**
Hedging liabilities - interest rate risk	**—**	**0.3**	**0.6**	**5.7**	**2.3**	**—**	**—**	**8.9**
Cash flow hedging								
Hedging assets - interest rate risk	**—**	**0.1**	**2.3**	**2.2**	**2.3**	**—**	**—**	**6.9**
Average fixed interest rate (%)	**—**	**2.18**	**0.47**	**0.46**	**0.40**	**—**	**—**	**0.46**
Hedging liabilities - interest rate risk	**—**	**10.6**	**27.2**	**3.6**	**2.9**	**—**	**—**	**44.3**
Average fixed interest rate (%)	**—**	**0.59**	**0.28**	**0.48**	**0.41**	**—**	**—**	**0.38**
Hedging liabilities - exchange rate risk	**0.1**	**1.2**	**—**	**0.7**	**—**	**—**	**—**	**2.0**
Average INR - £ rate	**—**	**1.30**	**—**	**1.56**	**—**	**—**	**—**	**1.40**
Average USD - £ rate	**93.21**	**95.99**	**—**	**—**	**—**	**—**	**—**	**95.29**
Net investment hedging								
Exchange rate risk	**0.1**	**—**	**—**	**—**	**—**	**—**	**—**	**0.1**

	NWB Group							
2019	0-3 months £bn	3-12 months £bn	1-3 years £bn	3-5 years £bn	5-10 years £bn	10-20 years £bn	20+ years £bn	Total £bn
Fair value hedging								
Hedging assets - interest rate risk	0.5	1.4	6.1	4.0	11.0	2.7	3.6	29.3
Hedging liabilities - interest rate risk	—	—	0.3	5.4	1.6	—	—	7.3
Cash flow hedging								
Hedging assets - interest rate risk	—	—	0.5	0.5	0.4	—	—	1.4
Average fixed interest rate (%)	—	—	2.11	0.78	1.62	—	—	1.51
Hedging liabilities - interest rate risk	—	—	14.3	2.6	1.4	—	—	18.3
Average fixed interest rate (%)	—	—	0.68	0.73	0.88	—	—	0.70
Hedging liabilities - exchange rate risk	0.1	0.1	1.1	0.8	—	—	—	2.1
Average INR - £ rate	88.60	94.00	—	—	—	—	—	93.11
Average USD - £ rate	—	—	1.30	1.30	—	—	—	1.30
Net investment hedging								
Exchange rate risk	0.1	—	—	—	—	—	—	0.1

Notes to the financial statements

9 Derivatives continued

	NWB Plc							
2020	**0-3 months £bn**	**3-12 months £bn**	**1-3 years £bn**	**3-5 years £bn**	**5-10 years £bn**	**10-20 years £bn**	**20+ years £bn**	**Total £bn**
Fair value hedging								
Hedging assets - interest rate risk	**1.1**	**1.5**	**3.8**	**6.4**	**7.7**	**3.8**	**3.5**	**27.8**
Hedging liabilities - interest rate risk	**—**	**0.3**	**0.6**	**5.7**	**2.3**	**—**	**—**	**8.9**
Cash flow hedging								
Hedging assets - interest rate risk	**—**	**0.1**	**2.3**	**2.2**	**2.3**	**—**	**—**	**6.9**
Average fixed interest rate (%)	**—**	**2.18**	**0.47**	**0.46**	**0.40**	**—**	**—**	**0.46**
Hedging liabilities - interest rate risk	**—**	**10.6**	**27.2**	**3.6**	**2.9**	**—**	**—**	**44.3**
Average fixed interest rate (%)	**—**	**0.59**	**0.28**	**0.48**	**0.41**	**—**	**—**	**0.38**
Hedging liabilities - exchange rate risk	**0.1**	**1.2**	**—**	**0.7**	**—**	**—**	**—**	**2.0**
Average INR - £ rate	**—**	**1.30**	**—**	**1.56**	**—**	**—**	**—**	**1.40**
Average USD - £ rate	**93.21**	**95.99**	**—**	**—**	**—**	**—**	**—**	**95.29**

	NWB Plc							
2019	0-3 months £bn	3-12 months £bn	1-3 years £bn	3-5 years £bn	5-10 years £bn	10-20 years £bn	20+ years £bn	Total £bn
Fair value hedging								
Hedging assets - interest rate risk	0.5	1.4	6.1	4.0	11.0	2.7	3.6	29.3
Hedging liabilities - interest rate risk	—	—	0.3	5.4	1.6	—	—	7.3
Cash flow hedging								
Hedging assets - interest rate risk	—	—	0.5	0.5	0.4	—	—	1.4
Average fixed interest rate (%)	—	—	2.11	0.78	1.62	—	—	1.51
Hedging liabilities - interest rate risk	—	—	14.3	2.6	1.4	—	—	18.3
Average fixed interest rate (%)	—	—	0.68	0.73	0.88	—	—	0.70
Hedging liabilities - exchange rate risk	0.1	0.1	1.1	0.8	—	—	—	2.1
Average INR - £ rate	88.60	94.0	—	—	—	—	—	93.11
Average USD - £ rate	—	—	1.30	1.30	—	—	—	1.30

Notes to the financial statements

9 Derivatives continued

The table below analyses assets and liabilities, including intercompany, subject to hedging derivatives:

	NWB Group			
2020	Carrying value (CV) of hedged assets and liabilities £m	Impact on hedged items included in CV £m	Change in fair value used as a basis to determine ineffectiveness (1) £m	Impact of hedged items ceased to be adjusted for hedging gains or losses £m
Fair value hedging - interest rate				
Loans to customers – amortised cost	2,076	224	140	29
Other financial assets - securities	31,499	2,102	1,479	—
Total	33,575	2,326	1,619	29
Other financial liabilities - debt securities in issue	6,185	432	(172)	—
Subordinated liabilities	2,918	153	(92)	—
Total	9,103	585	(264)	—
Cash flow hedge - interest rate				
Loans to banks and customers – amortised cost	6,870		(37)	
Other financial assets - securities	38		(39)	
Total	6,908		(76)	
Customer deposits	43,472		292	
Other financial liabilities - debt securities in issue	804		7	
Cash flow hedge - exchange rate				
Other financial liabilities - debt securities in issue	1,982		(2)	
Total	46,258		297	
2019				
Fair value hedging - interest rate				
Loans to customers – amortised cost	593	65	32	30
Other financial assets - securities	32,959	1,205	1,409	—
Total	33,552	1,270	1,441	30
Other financial liabilities - debt securities in issue	5,320	262	(176)	39
Subordinated liabilities	2,396	71	(56)	—
Total	7,716	333	(232)	39
Cash flow hedge - interest rate				
Loans to banks and customers – amortised cost	1,331		6	
Other financial assets - securities	23		—	
Total	1,354		6	
Customer deposits	18,086		(63)	
Subordinated liabilities	228		(1)	
Cash flow hedge - exchange rate				
Other financial liabilities - debt securities in issue	2,054		(22)	
Total	20,368		(86)	

For the note to this table refer to the following page.

9 Derivatives continued

	NWB Plc			
2020	Carrying value (CV) of hedged assets and liabilities £m	Impact on hedged items included in CV £m	Change in fair value used as a basis to determine ineffectiveness (1) £m	Impact of hedged items ceased to be adjusted for hedging gains or losses £m
Fair value hedging - interest rate				
Loans to customers – amortised cost	1,935	202	139	1
Other financial assets - securities	31,499	2,102	1,479	—
Total	33,434	2,304	1,618	1
Other financial liabilities - debt securities in issue	6,185	432	(172)	—
Subordinated liabilities	2,918	153	(92)	—
Total	9,103	585	(264)	—
Cash flow hedge - interest rate				
Loans to banks and customers – amortised cost	6,870		(37)	
Other financial assets - securities	38		(39)	
Total	6,908		(76)	
Customer deposits	43,472		292	
Other financial liabilities - debt securities in issue	804		7	
Cash flow hedge - exchange rate				
Other financial liabilities - debt securities in issue	1,982		(2)	
Total	46,258		297	
2019				
Fair value hedging - interest rate				
Loans to customers – amortised cost	456	44	31	1
Other financial assets - securities	32,959	1,205	1,409	—
Total	33,415	1,249	1,440	1
Other financial liabilities - debt securities in issue	5,320	262	(176)	39
Subordinated liabilities	2,396	71	(57)	—
Total	7,716	333	(233)	39
Cash flow hedge - interest rate				
Loans to banks and customers – amortised cost	1,331		6	
Other financial assets - securities	23		—	
Total	1,354		6	
Customer deposits	18,086		(63)	
Other financial liabilities - debt securities in issue	228		(1)	
Cash flow hedge - exchange rate				
Other financial liabilities - debt securities in issue	2,054		(22)	
Total	20,368		(86)	

Note:
(1) The change in fair value used for ineffectiveness includes instruments that were derecognised in the year.

The following risk exposures will be affected by interest rate benchmark reform (notional, hedged adjustment):

	NWB Group				NWB Plc			
	2020		2019		2020		2019	
	Notional £bn	Hedged adjustment £m	Notional £bn	Hedged adjustment £m	Notional £bn	Hedged adjustment £m	Notional £bn	Hedged adjustment £m
Fair value hedging								
- EURIBOR	5.5	173	4.5	193	5.4	161	4.4	182
- GBP LIBOR	7.3	731	8.7	445	7.3	722	8.7	437
- USD LIBOR	12.4	270	11.9	88	12.4	270	11.9	88
Cash flow hedging								
- EURIBOR	0.2	1	0.2	(2)	0.2	1	0.2	(2)
- USD LIBOR	0.7	(18)	0.6	6	0.7	(18)	0.6	6
- BOE Base rate	6.8	93	5.2	(50)	6.8	93	5.2	(50)

Notes to the financial statements

9 Derivatives continued

The following shows analysis of cash flow hedge reserve and foreign exchange hedge reserve:

	NWB Group			
	2020		2019	
	Cash flow hedge reserve £m	Foreign exchange hedge reserve £m	Cash flow hedge reserve £m	Foreign exchange hedge reserve £m
Continuing				
Interest rate risk	(151)	—	57	—
Foreign exchange risk	(19)	5	(22)	10
De-designated				
Interest rate	(12)	—	—	—
Total	(182)	5	35	10

	NWB Plc			
	2020		2019	
	Cash flow hedge reserve £m	Foreign exchange hedge reserve £m	Cash flow hedge reserve £m	Foreign exchange hedge reserve £m
Continuing				
Interest rate risk	(151)	—	57	—
Foreign exchange risk	(19)	2	(22)	—
De-designated				
Interest rate	(12)	—	—	—
Total	(182)	2	35	—

	NWB Group			
	2020		2019	
	Cash flow hedge reserve £m	Foreign exchange hedge reserve £m	Cash flow hedge reserve £m	Foreign exchange hedge reserve £m
Interest rate risk				
Amount recognised in equity	(274)	—	60	—
Amount transferred from equity to net interest income	53	—	(3)	—
Foreign exchange risk				
Amount recognised in equity	(1)	(5)	(24)	5
Amount transferred from equity to net interest income	—	—	3	—
Amount transferred from equity to operating expenses	4	—	—	—
Total	(218)	(5)	36	5

Notes to the financial statements

9 Derivatives continued

	NWB Plc			
	2020		2019	
	Cash flow hedge reserve £m	Foreign exchange hedge reserve £m	Cash flow hedge reserve £m	Foreign exchange hedge reserve £m
Interest rate risk				
Amount recognised in equity	**(274)**	—	60	—
Amount transferred from equity to net interest income	**53**	—	(3)	—
Foreign exchange risk				
Amount recognised in equity	**(1)**	2	(24)	—
Amount transferred from equity to net interest income	**—**	—	3	—
Amount transferred from equity to operating expenses	**4**	—	—	—
Total	**(218)**	2	36	—

Hedge ineffectiveness recognised in other operating income comprised:

	NWB Group 2020 £m	2019 £m
Fair value hedging		
Gains on the hedged items attributable to the hedged risk	**1,355**	1,209
Losses on the hedging instruments	**(1,366)**	(1,219)
Fair value hedging ineffectiveness	**(11)**	(10)
Cash flow hedging		
- Interest rate risk	**(27)**	(2)
Cash flow hedging ineffectiveness	**(27)**	(2)
Total	**(38)**	(12)

The main sources of ineffectiveness for interest rate risk hedge accounting relationships are:

- the effect of the counterparty credit risk on the fair value of the interest rate swap, which is not reflected in the fair value of the hedged item attributable to the change in interest rate; and
- upfront present values on the hedging derivatives where hedge accounting relationships have been designated after the trade date.

Additional information on cash flow hedging and hedging of net assets can be found in the Statement of Changes in Equity.

Notes to the financial statements

10 Financial instruments - classification

The following tables analyse financial assets and liabilities in accordance with the categories of financial instruments on an IFRS 9 basis. Assets and liabilities outside the scope of IFRS 9 are shown within other assets and other liabilities.

	NWB Group				
	MFVTPL £m	FVOCI £m	Amortised cost £m	Other assets £m	Total £m
Assets					
Cash and balances at central banks			**62,983**		**62,983**
Derivatives (1)	**3,288**				**3,288**
Loans to banks - amortised cost (2)			**3,344**		**3,344**
Loans to customers - amortised cost (3)			**271,581**		**271,581**
Amounts due from holding companies and fellow subsidiaries	**556**		**2,683**	**66**	**3,305**
Other financial assets	**476**	**33,853**	**3,666**		**37,995**
Other assets				**7,043**	**7,043**
31 December 2020	**4,320**	**33,853**	**344,257**	**7,109**	**389,539**
Cash and balances at central banks			27,457		27,457
Derivatives (1)	3,302				3,302
Loans to banks - amortised cost (2)			3,325		3,325
Loans to customers - amortised cost (3)			232,313		232,313
Amounts due from holding companies and fellow subsidiaries	427		3,389	12	3,828
Other financial assets	385	36,401	4,162		40,948
Other assets				7,320	7,320
31 December 2019	4,114	36,401	270,646	7,332	318,493

	Held-for-trading £m	Amortised cost £m	Other liabilities £m	Total £m
Liabilities				
Bank deposits (4)		**14,871**		**14,871**
Customer deposits		**293,605**		**293,605**
Amounts due to holding companies and fellow subsidiaries		**37,558**	**1**	**37,559**
Derivatives (1)	**6,552**			**6,552**
Other financial liabilities	**3**	**10,380**		**10,383**
Subordinated liabilities		**1,230**		**1,230**
Notes in circulation		**1,012**		**1,012**
Other liabilities (5)		**1,509**	**2,926**	**4,435**
31 December 2020	**6,555**	**360,165**	**2,927**	**369,647**
Bank deposits (4)		15,505		15,505
Customer deposits		242,117		242,117
Amounts due to holding companies and fellow subsidiaries		21,413	34	21,447
Derivatives (1)	4,898			4,898
Other financial liabilities	114	8,193		8,307
Subordinated liabilities		1,242		1,242
Notes in circulation		842		842
Other liabilities (5)		1,540	2,923	4,463
31 December 2019	5,012	290,852	2,957	298,821

Notes:
(1) Includes net hedging derivative assets of £1 million (2019 – £13 million) and net hedging derivative liabilities of £173 million (2019 - £62 million).
(2) Includes items in the course of collection from other third party banks of £2 million (2019 - £4 million).
(3) Includes finance lease receivables of £8,577 million (2019 - £8,670 million).
(4) Includes items in the course of transmission to other banks are £1 million (2019 - nil).
(5) Includes lease liabilities of £1,398 million (2019 - £1,479 million) held at amortised cost.

Judgment: classification of financial assets

Classification of financial assets between amortised cost and fair value through other comprehensive income requires a degree of judgement in respect of business models and contractual cashflows.

- The business model criteria is assessed at a portfolio level to determine whether assets are classified as held to collect or held to collect and sell. Information that is considered in determining the applicable business model includes the portfolio's policies and objectives, how the performance and risks of the portfolio are managed, evaluated and reported to management; and the frequency, volume and timing of sales in prior periods, sales expectation for future periods, and the reasons for sales.
- The contractual cash flow characteristics of financial assets are assessed with reference to whether the cash flows represent SPPI. A level of judgement is made in assessing terms that could change the contractual cash flows so that it would not meet the condition for SPPI are considered, including contingent and leverage features, non-recourse arrangements and features that could modify the time value of money.

Notes to the financial statements

10 Financial instruments - classification continued

	NWB Plc				
	MFVTPL £m	FVOCI £m	Amortised cost £m	Other assets £m	Total £m
Assets					
Cash and balances at central banks			**62,878**		**62,878**
Derivatives (1)	**3,438**				**3,438**
Loans to banks - amortised cost (2)			**2,798**		**2,798**
Loans to customers - amortised cost (3)			**238,366**		**238,366**
Amounts due from holding companies and fellow subsidiaries	**937**		**27,067**	**172**	**28,176**
Other financial assets	**476**	**33,853**	**3,277**		**37,606**
Investment in group undertakings				**2,374**	**2,374**
Other assets				**4,967**	**4,967**
31 December 2020	**4,851**	**33,853**	**334,386**	**7,513**	**380,603**
Cash and balances at central banks			26,377		26,377
Derivatives (1)	3,404				3,404
Loans to banks - amortised cost (2)			2,741		2,741
Loans to customers - amortised cost (3)			198,504		198,504
Amounts due from holding companies and fellow subsidiaries	794		30,749	162	31,705
Other financial assets	385	36,400	3,773		40,558
Investment in group undertakings				2,394	2,394
Other assets				5,271	5,271
31 December 2019	4,583	36,400	262,144	7,827	310,954

	NWB Plc			
	Held-for-trading £m	Amortised cost £m	Other liabilities £m	Total £m
Liabilities				
Bank deposits (4)		**14,866**		**14,866**
Customer deposits		**255,290**		**255,290**
Amounts due to holding companies and fellow subsidiaries		**69,617**		**69,617**
Derivatives (1)	**6,769**			**6,769**
Other financial liabilities	**3**	**9,609**		**9,612**
Subordinated liabilities		**1,230**		**1,230**
Notes in circulation		**1,266**		**1,266**
Other liabilities (5)		**1,375**	**2,114**	**3,489**
31 December 2020	**6,772**	**353,253**	**2,114**	**362,139**
Bank deposits (4)		15,487		15,487
Customer deposits		208,698		208,698
Amounts due to holding companies and fellow subsidiaries		50,985	34	51,019
Derivatives (1)	5,013			5,013
Other financial liabilities	114	7,521		7,635
Subordinated liabilities		1,242		1,242
Notes in circulation				—
Other liabilities (5)		1,429	2,405	3,834
31 December 2019	5,127	285,362	2,439	292,928

Notes:
(1) Includes net hedging derivative assets of £1 million (2019 - £13 million) and net hedging derivative liabilities of £149 million (2019 - £39 million).
(2) Includes items in the course of collection from other banks of £2 million (2019 - £4 million).
(3) Includes finance lease receivables of £657 million (2019 - £534 million).
(4) Includes items in the course of transmission to other banks of £1 million (2019 - nil).
(5) Includes lease liabilities of £1,280 million (2019 - £1,372 million) held at amortised cost.

Notes to the financial statements

10 Financial instruments - classification continued

NWB Group's financial assets and liabilities include:

	NWB Group 2020 £m	NWB Group 2019 £m
Reverse repos		
Loans to banks - amortised cost	**147**	163
Loans to customers - amortised cost	**23,119**	10,637
Repos		
Bank deposits	**6,270**	2,218
Customer deposits	**5,167**	1,765

	NWB Plc 2020 £m	NWB Plc 2019 £m
Reverse repos		
Loans to banks - amortised cost	**147**	163
Loans to customers - amortised cost	**23,119**	10,637
Repos		
Bank deposits	**6,270**	2,218
Customer deposits	**5,167**	1,765

The below includes amounts due from/to holding companies and fellow subsidiaries:

NWB Group	2020			2019		
	Holding companies £m	Fellow subsidiaries £m	Total £m	Holding companies £m	Fellow subsidiaries £m	Total £m
Assets						
Loans to banks - amortised cost	**—**	**2,663**	**2,663**	—	3,207	3,207
Loans to customers - amortised cost	**8**	**12**	**20**	156	26	182
Other financial assets	**—**	**556**	**556**	—	427	427
Other assets	**63**	**3**	**66**	—	12	12
Amounts due from holding companies and fellow subsidiaries	**71**	**3,234**	**3,305**	156	3,672	3,828
Derivatives (1)	**83**	**959**	**1,042**	34	946	980
Liabilities						
Bank deposits	**—**	**22,722**	**22,722**	—	9,222	9,222
Customer deposits	**7,571**	**48**	**7,619**	5,998	290	6,288
CRR-compliant internal MREL	**3,908**	**—**	**3,908**	3,116	—	3,116
Subordinated liabilities	**3,309**	**—**	**3,309**	2,787	—	2,787
Other liabilities	**—**	**1**	**1**	—	34	34
Amounts due to holding companies and fellow subsidiaries	**14,788**	**22,771**	**37,559**	11,901	9,546	21,447
Derivatives (1)	**94**	**1,594**	**1,688**	43	1,134	1,177

NWB Plc	2020				2019			
	Holding companies £m	Fellow subsidiaries £m	Subsidiaries £m	Total £m	Holding companies £m	Fellow subsidiaries £m	Subsidiaries £m	Total £m
Assets								
Loans to banks - amortised cost	**—**	**2,079**	**9,310**	**11,389**	—	2,604	8,459	11,063
Loans to customers - amortised cost	**8**	**12**	**15,658**	**15,678**	156	21	19,509	19,686
Other financial assets	**—**	**556**	**381**	**937**	—	427	367	794
Other assets	**63**	**—**	**109**	**172**	—	12	150	162
Amounts due from holding companies and fellow subsidiaries	**71**	**2,647**	**25,458**	**28,176**	156	3,064	28,485	31,705
Derivatives (1)	**83**	**959**	**178**	**1,220**	34	943	124	1,101
Liabilities								
Bank deposits	**—**	**20,871**	**28,892**	**49,763**	—	5,994	24,957	30,951
Customer deposits	**7,571**	**34**	**5,032**	**12,637**	5,955	336	7,840	14,131
CRR-compliant internal MREL	**3,908**	**—**	**—**	**3,908**	3,116	—	—	3,116
Subordinated liabilities	**3,309**	**—**	**—**	**3,309**	2,787	—	—	2,787
Other liabilities	**—**	**—**	**—**	**—**	—	34	—	34
Amounts due to holding companies and fellow subsidiaries	**14,788**	**20,905**	**33,924**	**69,617**	11,858	6,364	32,797	51,019
Derivatives (1)	**94**	**1,593**	**218**	**1,905**	43	1,061	190	1,294

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

Notes to the financial statements

10 Financial instruments - classification continued
Interest rate benchmark reform
In 2020 NatWest Group continued to implement its entity-wide LIBOR programme with the view of being ready for the various transition events that are expected to occur prior to the cessation of the vast majority of the IBOR benchmark rates at the end of 2021 and the USD LIBOR in 2023. In the UK, regulators, most notably the Bank of England (BoE) and the Financial Conduct Authority (FCA), have issued guidance on how market participants are expected to approach transition as well as the regulatory expectations in relation to the credit adjustment spread calculation methodologies, conversion strategies amongst, existence of products referencing IBOR benchmark rates amongst other items.

The group-wide programme continued to address the key areas that will be affected by the IBOR reform most notably:

- Client stratification, engagement and education;
- Contract fall-back remediation;
- Transition on an economically equivalent basis;
- Effect of modifications to existing terms beyond those that are attributable to the IBOR reform;
- Funding and liquidity management, planning and forecast;
- Risk management;
- Financial reporting and valuation; and,
- Changes to processes and systems covering front-end, risk and finance systems.

NatWest Group continued to develop new products across its different segments that reference the new alternative risk-free rates and worked with clients to assess their readiness and ability to adopt new products or transition existing products. A comprehensive review of the effect of IBOR reform on funding, liquidity and risk management has also been conducted. This is expected to be fully implemented over the course of 2021. NatWest Group will continue to adapt its key systems, methodologies and processes to meet the requirements of the new risk-free rates. This is expected to be concluded in advance of the LIBOR cessation date at the end of 2021.

NatWest Group also remained engaged with regulators, standard setters and other market participants on key matters related to the IBOR reform and an open dialogue is expected throughout 2021. It is expected that the programme will meet all timelines set by the regulators.

The table below provides an overview of IBOR related exposure by currency and nature of financial instruments. Non-derivative financial instruments are presented on the basis of their carrying amounts excluding expected credit losses while derivative financial instruments are presented on the basis of their notional amount.

	NWB Group						
	Rates subject to IBOR reform				Balances not subject to IBOR reform	Expected credit losses	Total
	GBP LIBOR £m	USD IBOR (1) £m	EUR IBOR £m	Other IBOR £m	£m	£m	£m
Loans to banks - amortised cost	2	82	—	—	3,260	—	3,344
Loans to customers - amortised cost	25,113	3,192	60	97	246,713	(3,594)	271,581
Other financial assets	1,415	37	65	—	36,484	(6)	37,995
Amounts due from holding companies and fellow subsidiaries	—	—	—	—	3,241	(2)	3,239
Bank deposits	—	—	—	—	14,871		14,871
Customer deposits	—	—	—	—	293,605		293,605
Other financial liabilities	1,114	—	1,157	—	4,815		7,086
Subordinated liabilities	—	519	170	—	541		1,230
Amounts due to holding companies and fellow subsidiaries	733	4,696	—	—	32,130		37,559
Loan commitments (2)	15,260	4,809	1,071	570	53,148		74,858
Derivatives notional (£bn)	143.9	26.5	37.0	0.8	206.3		414.5

For the notes to this table refer to the following page.

Notes to the financial statements

10 Financial instruments - classification continued

	NWB Plc						
	Rates subject to IBOR reform				Balances not subject to IBOR reform	Expected credit losses	Total
	GBP LIBOR £m	USD IBOR (1) £m	EUR IBOR £m	Other IBOR £m	£m	£m	£m
Loans to banks - amortised cost	2	82	—	—	2,714	—	2,798
Loans to customers - amortised cost	20,487	2,557	7	48	218,367	(3,100)	238,366
Other financial assets	1,415	37	65	—	36,095	(6)	37,606
Amounts due from holding companies and fellow subsidiaries	588	—	80	—	27,361	(25)	28,004
Bank deposits	—	—	—	—	14,866		14,866
Customer deposits	—	—	—	—	255,290		255,290
Other financial liabilities	1,114	—	1,157	—	4,046		6,317
Subordinated liabilities	—	519	170	—	541		1,230
Amounts due to holding companies and fellow subsidiaries	730	4,696	—	—	64,191		69,617
Loan commitments (2)	15,040	4,808	1,065	565	47,158		68,636
Derivatives notional (£bn)	144.0	26.5	37.0	0.8	217.5		425.8

Notes:
(1) USD LIBOR is now expected to convert to alternative risk free rates in mid-2023 subject to consultation.
(2) Certain loan commitments are multi-currency facilities. Where these are fully undrawn, they are allocated to the principal currency of the facility. Where the facilities are partly drawn, the remaining loan commitment is allocated to the currency with the largest drawn amount.

Included within the above tables for derivatives were currency swaps with corresponding legs also subject to IBOR reform of GBP LIBOR of £2.7 billion with USD IBOR of £0.3 billion and EUR IBOR £2.4 billion. Currency swaps of USD IBOR of £0.8 billion with GBP LIBOR of £0.5 billion and EUR IBOR £0.3 billion. Currency swaps of EUR IBOR of £0.3 billion with USD IBOR of £0.3 billion.

AT1 issuances

NWB Plc has issued certain capital instruments (AT1), under which reset clauses are linked to IBOR rates subject to reform. Where under the contractual terms of the instrument the coupon resets to a rate which has IBOR as a specified component of its pricing structure these are subject to IBOR reform and are shown in Note 22.

As part of its capital management activities the NWB Plc has acquired certain equity instruments issued by its subsidiaries which contain coupons or reset clauses linked to IBOR rates subject to reform.

This is outlined below:

	£m
GBP£ 167 million 6%	167
GBP£ 35 million 6.09%	35
GBP£ 60 million 7.335%	60

Notes to the financial statements

10 Financial instruments - classification continued

The tables below present information on financial assets and liabilities that are offset on the balance sheet under IFRS or subject to enforceable master netting agreements together with financial collateral received or given.

NWB Group

	Offsetable instruments			Offsetable potential not recognised by IFRS					
2020	Gross £m	IFRS offset £m	Balance sheet £m	Effect of master netting and similar agreements £m	Cash collateral £m	Securities collateral £m	Net amount after the effect of netting agreements and related collateral £m	Amounts not subject to offset £m	Balance sheet total £m
Derivatives assets	**14,069**	**(10,807)**	**3,262**	**(2,445)**	**(2)**	**—**	**815**	**26**	**3,288**
Derivative liabilities	**18,090**	**(11,540)**	**6,550**	**(2,445)**	**(790)**	**(2,433)**	**882**	**2**	**6,552**
Net position (1)	**(4,021)**	**733**	**(3,288)**	**—**	**788**	**2,433**	**(67)**	**24**	**(3,264)**
Non trading reverse repos	**33,202**	**(9,936)**	**23,266**	**—**	**—**	**(23,266)**	**—**	**—**	**23,266**
Non trading repos	**21,373**	**(9,936)**	**11,437**	**—**	**—**	**(11,437)**	**—**	**—**	**11,437**
Net position	**11,829**	**—**	**11,829**	**—**	**—**	**(11,829)**	**—**	**—**	**11,829**
2019									
Derivatives assets	9,424	(7,037)	2,387	(2,343)	(3)	—	41	915	3,302
Derivative liabilities	11,647	(7,713)	3,934	(2,343)	(109)	—	1,482	964	4,898
Net position (1)	(2,223)	676	(1,547)	—	106	—	(1,441)	(49)	(1,596)
Non trading reverse repos	20,676	(9,876)	10,800	—	—	(10,800)	—	—	10,800
Non trading repos	13,859	(9,876)	3,983	—	—	(3,983)	—	—	3,983
Net position	6,817	—	6,817	—	—	(6,817)	—	—	6,817

NWB Plc

	Offsetable instruments			Offsetable potential not recognised by IFRS					
2020	Gross £m	IFRS offset £m	Balance sheet £m	Effect of master netting and similar agreements £m	Cash collateral £m	Securities collateral £m	Net amount after the effect of netting agreements and related collateral £m	Amounts not subject to offset £m	Balance sheet total £m
Derivatives assets	**14,188**	**(10,807)**	**3,381**	**(2,446)**	**(2)**	**—**	**933**	**57**	**3,438**
Derivative liabilities	**18,096**	**(11,540)**	**6,556**	**(2,446)**	**(790)**	**(2,433)**	**887**	**213**	**6,769**
Net position (1)	**(3,908)**	**733**	**(3,175)**	**—**	**788**	**2,433**	**46**	**(156)**	**(3,331)**
Non trading reverse repos	**33,202**	**(9,936)**	**23,266**	**—**	**—**	**(23,266)**	**—**	**—**	**23,266**
Non trading repos	**21,373**	**(9,936)**	**11,437**	**—**	**—**	**(11,437)**	**—**	**—**	**11,437**
Net position (1)	**11,829**	**—**	**11,829**	**—**	**—**	**(11,829)**	**—**	**—**	**11,829**
2019									
Derivatives assets	9,422	(7,037)	2,385	(2,343)	(3)	—	39	1,019	3,404
Derivative liabilities	11,645	(7,713)	3,932	(2,343)	(109)	—	1,480	1,081	5,013
Net position (1)	(2,223)	676	(1,547)	—	106	—	(1,441)	(62)	(1,609)
Non trading reverse repos	20,676	(9,876)	10,800	—	—	(10,800)	—	—	10,800
Non trading repos	13,859	(9,876)	3,983	—	—	(3,983)	—	—	3,983
Net position	6,817	—	6,817	—	—	(6,817)	—	—	6,817

Note:

(1) Within NWB Group and NWB Plc, the net IFRS offset balance of £733 million (2019 - £676 million) relates to variation margin netting reflected on other balance sheet lines.

Notes to the financial statements

11 Financial instruments - valuation

Critical accounting policy: Fair value - financial instruments

In accordance with Accounting policies 13 and 21, financial instruments classified as mandatory fair value through profit or loss, held-for-trading or designated as at fair value through profit or loss and financial assets classified as fair value through other comprehensive income are recognised in the financial statements at fair value. All derivatives are measured at fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. It also uses the assumptions that market participants would use when pricing the asset or liability. In determining fair value NWB Group maximises the use of relevant observable inputs and minimises the use of unobservable inputs.

Modelled approaches may be used to measure instruments classed as level 2 or 3. Estimation expertise is required in the selection, implementation and calibration of appropriate models. The resulting modelled valuations are considered for accuracy and reliability. Portfolio level adjustments consistent with IFRS 13 are raised to incorporate counterparty credit risk, funding and margining risks. Expert judgement is used in the initial measurement of modelled products by control teams.

Where NWB Group manages a group of financial assets and financial liabilities on the basis of its net exposure to either market risks or credit risk, it measures the fair value of a group of financial assets and financial liabilities on the basis of the price that it would receive to sell a net long position (i.e. an asset) for a particular risk exposure or to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction at the measurement date under current market conditions.

Credit valuation adjustments are made when valuing derivative financial assets to incorporate counterparty credit risk. Adjustments are also made when valuing financial liabilities measured at fair value to reflect NWB Group's own credit standing.

Where the market for a financial instrument is not active, fair value is established using a valuation technique. These valuation techniques involve a degree of estimation, the extent of which depends on the instrument's complexity and the availability of market-based data. Further details about the valuation methodologies and the sensitivity to reasonably possible alternative assumptions of the fair value of financial instruments valued using techniques where at least one significant input is unobservable are given below.

	2020				2019			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets								
Derivatives	—	**3,283**	**5**	**3,288**	—	3,298	4	3,302
Amounts due from holding companies and fellow subsidiaries	—	**556**	—	**556**	—	427	—	427
Other financial assets								
Securities	**27,707**	**6,146**	—	**33,853**	31,234	5,167	—	36,401
Loans - MFVTPL	—	**426**	**50**	**476**	—	385	—	385
Total financial assets held at fair value	**27,707**	**10,411**	**55**	**38,173**	31,234	9,277	4	40,515
Liabilities								
Derivatives	—	**6,324**	**228**	**6,552**	—	4,717	181	4,898
Other financial liabilities								
Deposits - HFT	—	**3**	—	**3**	—	114	—	114
Total financial liabilities held at fair value	—	**6,327**	**228**	**6,555**	—	4,831	181	5,012

Notes:

(1) Transfers between levels are deemed to have occurred at the beginning of the quarter in which the instruments were transferred. There were no significant transfers between level 1 and level 2.

(2) The determination of an instrument's level cannot be made at a global product level as a single product type can be in more than one level. For example, a single name corporate credit default swap could be in level 2 or level 3 depending on whether the reference counterparty's obligations are liquid or illiquid.

Notes to the financial statements

11 Financial instruments – valuation continued

Valuation of financial instruments carried at fair value

Fair Value Hierarchy

Financial Instruments carried at fair value have been classified under the IFRS fair value hierarchy as follows.

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., Examples include most government agency securities, investment-grade corporate bonds, certain mortgage products, including CLOs, most bank loans, repos and reverse repos, less liquid listed equities, state and municipal obligations, most notes issued, and certain money market securities and 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 cash instruments which trade infrequently, certain syndicated and commercial mortgage loans, certain emerging markets and derivatives with unobservable model inputs.

Valuation Techniques

NWB Group derives the fair value of its instruments differently depending on whether the instrument is a non-modelled or a modelled product.

Non-modelled products are valued directly from a price input typically on a position by position basis. Examples include equities and most debt securities.

Modelled Products that are priced using models range in complexity from comparatively vanilla such as interest rate swaps and options (e.g. interest rate caps and floors) through to more complex derivatives. The valuation of modelled products requires an appropriate model and inputs into this model. Sometimes models are also used to derive inputs (e.g. to construct volatility surfaces). NWB Group uses a number of modelling methodologies.

Inputs to valuation models

Values between and beyond available data points are obtained by interpolation and extrapolation. When utilising valuation techniques, the fair value can be significantly affected by the choice of valuation model and by underlying assumptions concerning factors such as the amounts and timing of cash flows, discount rates and credit risk. The principal inputs to these valuation techniques are as follows:

Bond prices - quoted prices are generally available for government bonds, certain corporate securities and some mortgage-related products.

Credit spreads - where available, these are derived from prices of credit default swaps or other credit based instruments, such as debt securities. For others, credit spreads are obtained from 3rd party benchmarking services. For counterparty credit spreads, adjustments are made to market prices (or parameters) when the creditworthiness of the counterparty differs from that of the assumed counterparty in the market price (or parameters).

Interest rates - these are principally benchmark interest rates such as the London Interbank Offered Rate (LIBOR), Overnight Index Swaps (OIS) rate and other quoted interest rates in the swap, bond and futures markets.

Foreign currency exchange rates - there generally are observable prices both for spot and forward contracts and futures in the world's major currencies.

Equity and equity index prices - quoted prices are generally readily available for equity shares listed on the world's major stock exchanges and for major indices on such shares.

Commodity prices - many commodities are actively traded in spot and forward contracts and futures on exchanges in London, New York and other commercial centres.

Price volatilities and correlations - volatility is a measure of the tendency of a price to change with time. Correlation measures the degree to which two or more prices or other variables are observed to move together.

Prepayment rates - the fair value of a financial instrument that can be prepaid by the issuer or borrower differs from that of an instrument that cannot be prepaid. In valuing pre-payable instruments that are not quoted in active markets, NWB Group considers the value of the prepayment option.

Recovery rates/loss given default - these are used as an input to valuation models and reserves for asset-backed securities and other credit products as an indicator of severity of losses on default. Recovery rates are primarily sourced from market data providers or inferred from observable credit spreads.

Valuation Control

NWB Group's control environment for the determination of the fair value of financial instruments includes formalised protocols for the review and validation of fair values independent of the businesses entering into the transactions.

Independent Price Verification (IPV) is a key element of the control environment. Valuations are first performed by the business which owns the transaction. Such valuations may be directly from available prices, or may be derived using a model and variable model inputs. *These valuations are reviewed, and if necessary amended, by a team* independent of those trading the financial instruments, in the light of available pricing evidence.

Where measurement differences are identified through the IPV process these are grouped by fair value level and quality of data. If the *size of the difference exceeds defined thresholds adjustment to* independent levels are made.

IPV takes place at least each monthly, for all fair value positions. The IPV control includes formalised reporting and escalation of any valuation differences in breach of established thresholds.

The Model Oversight Review Committee sets the policy for model documentation, testing and review, and prioritises models with significant exposure being reviewed by the NWB Group's Model Risk team. Valuation Committees are made up of valuation specialists and senior business representatives from various functions and oversees *pricing, reserving and valuations issues*. These committees meet monthly to review and ratify any methodology changes. The Executive Valuation Committee meets quarterly to address key material and subjective valuation issues, to review items escalated by Valuation Committees and to discuss other relevant matters including prudential valuation.

11 Financial instruments – valuation continued
Initial classification of a financial instrument is carried out following the principles in IFRS 13. These initial classifications are subject to senior management review. Particular attention is paid to instruments crossing from one level to another, new instrument classes or products, instruments that are generating significant profit and loss and instruments where valuation uncertainty is high.

NWB Group uses consensus prices for the IPV of some instruments. The consensus service encompasses the equity, interest rate, currency, commodity, credit, property, fund and bond markets, providing comprehensive matrices of vanilla prices and a wide selection of exotic products.

NWB Group contributes to consensus pricing services where there is a significant interest either from a positional point of view or to test models for future business use. Data sourced from consensus pricing services are used for a combination of control processes including direct price testing, evidence of observability and model testing. In practice this means that NWB Group submits prices for all material positions for which a service is available. Data from consensus services are subject to the same level of quality review as other inputs used for IPV process.

In order to determine a reliable fair value, where appropriate, management applies valuation adjustments to the pricing information gathered from the above sources. The sources of independent data are reviewed for quality and are applied in the IPV processes using a formalised input quality hierarchy. These adjustments reflect NWB Group's assessment of factors that market participants would consider in setting a price.

Where unobservable inputs are used, NWB Group may determine a range of possible valuations derived from differing stress scenarios to determine the sensitivity associated with the valuation. When establishing the fair value of a financial instrument using a valuation technique, NWB Group considers adjustments to the modelled price which market participants would make when pricing that instrument. Such adjustments include the credit quality of the counterparty and adjustments to compensate for model limitations.

When valuing financial instruments in the trading book, adjustments are made to mid-market valuations to cover bid-offer spread, liquidity and credit risk. These adjustments are presented in the table below.

	2020 £m	2019 £m
Funding – FVA	**19**	47
Credit – CVA	**2**	2
Bid – Offer	**24**	27
	45	76

The decrease in valuation reserves was primarily driven by FVA reserves on customer and pension derivatives.

Funding valuation adjustment (FVA)
FVA represents an estimate of the adjustment that a market participant would make to incorporate funding costs and benefits that arise in relation to derivative exposures. FVA is calculated as a portfolio level adjustment and can result in either a funding charge or funding benefit.

Funding levels are applied to estimated potential future exposures. For uncollateralised derivatives, the modelling of the exposure is consistent with the approach used in the calculation of CVA, and the counterparty contingent nature of the exposure is reflected in the calculation. For collateralised derivatives, the exposure reflects initial margin posting requirements.

Credit valuation adjustments (CVA)
CVA represents an estimate of the adjustment to fair value that a market participant would make to incorporate the counterparty credit risk inherent in derivative exposures. CVA is actively managed by a credit and market risk hedging process, and therefore movements in CVA are partially offset by trading revenue on the hedges.

The CVA is calculated on a portfolio basis reflecting an estimate of the amount a third party would charge to assume the credit risk.

Collateral held under a credit support agreement is factored into the CVA calculation. In such cases where NWB Group holds collateral against counterparty exposures, CVA is held to the extent that residual risk remains.

Bid-offer
Fair value positions are adjusted to bid (long positions) or offer (short positions) levels, by marking individual cash positions directly to bid or offer or by taking bid-offer reserves calculated on a portfolio basis for derivatives exposures. The bid-offer approach is based on current market spreads and standard market bucketing of risk.

Bid-offer spreads vary by maturity and risk type to reflect different spreads in the market. For positions where there is no observable quote, the bid-offer spreads are widened in comparison to proxies to reflect reduced liquidity or observability. Bid-offer methodologies may also incorporate liquidity triggers whereby wider spreads are applied to risks above pre-defined thresholds.

As permitted by IFRS 13, netting is applied on a portfolio basis to reflect the value at which NWB Group believes it could exit the portfolio, rather than the sum of exit costs for each of the portfolio's individual trades. This is applied where the asset and liability positions are managed as a portfolio for risk and reporting purposes.

The discount rates applied to derivative cash flows in determining fair value reflect any underlying collateral agreements. Collateralised derivatives are generally discounted at the relevant OIS-related rates at an individual trade level. Reserves are held to the extent that the discount rates applied do not reflect all of the terms of the collateral agreements.

Product and deal specific
On initial recognition of financial assets and liabilities valued using valuation techniques incorporating information other than observable market data, any difference between the transaction price and that derived from the valuation technique is deferred. Such amounts are recognised in profit or loss over the life of the transaction; when market data becomes observable; or when the transaction matures or is closed out as appropriate.

Where system generated valuations do not accurately recover market prices, manuals valuation adjustments are applied either at a position or portfolio level. Manual adjustments are subject to the scrutiny of independent control teams and are subject to monthly review by senior management

Notes to the financial statements

11 Financial instruments – valuation continued
Level 3 ranges of unobservable inputs

Financial instrument	Valuation technique	Unobservable inputs	Units	2020 Low	2020 High	2019 Low	2019 High
Other financial assets							
Loans	Discount cash flow	Discount margin	bps	**154**	**194**	—	—
Derivative assets and liabilities							
Interest rate & FX	Discount cash flow	Conditional prepayment risk	%	**6**	**8**	80	120
derivatives	Risk based sensitivities	Tri currency discount curve	bps	**—**	**—**	(1)	10
	Option pricing	Inflation basis	bps	**—**	**8**	—	—

Notes:
(1) The table above presents the range of values for significant inputs used in the valuation of level 3 assets and liabilities. The range represents the highest and lowest values of the input parameters and therefore is not a measure of parameter uncertainty. Movements in the underlying input may have a favourable or unfavourable impact on the valuation depending on the particular terms of the contract and the exposure. For example, an increase in the credit spread of a bond would be favourable for the issuer but unfavourable for the note holder. Whilst NWB Group indicates where it considers that there are significant relationships between the inputs, their inter-relationships will be affected by macro economic factors including interest rates, foreign exchange rates or equity index levels.
(2) Credit spreads and discount margins: credit spreads and margins express the return required over a benchmark rate or index to compensate for the credit risk associated with a cash instrument. A higher credit spread would indicate that the underlying instrument has more credit risk associated with it. Consequently, investors require a higher yield to compensate for the higher risk.
(3) Conditional prepayment risk: estimation of the percentage of cancellable fixed rate loans, in a pool of loans that will not trigger a redemption charge upon prepayment, applied to the national balance on guarantee swaps.
(4) Tri currency discount curve: NWB Group entered into a CSA agreement where each counterparty agreed to pay the collateral on the cheapest to deliver currency among GBP, USD and EUR when MTM of portfolio goes against. Hence portfolio is discounting on DOEGU (Tri Currency) curve where currency basis of EUR vs USD and GBP vs USD are considered along with the underlying EUR, GBP and USD LIBOR curves.
(5) Inflation basis: measure of the inflation rate basis that exists between bilateral and cleared trades.
(6) NWB Group does not have any material liabilities measured at fair value that are issued with an inseparable third party credit enhancement.

Notes to the financial statements

11 Financial instruments – valuation continued

Financial instruments – Valuation - Areas of judgment

The majority of NWB Group's financial instruments carried at fair value are classified as level 2: inputs are observable either directly (i.e. as a price) or indirectly (i.e. derived from prices).

Active and inactive markets

A key input in the decision making process for the allocation of assets to a particular level is market activity. In general, the degree of valuation uncertainty depends on the degree of liquidity of an input.

Where markets are liquid, little judgment is required. However, when the information regarding the liquidity in a particular market is not clear, a judgment may need to be made. This can be more difficult as assessing the liquidity of a market is not always straightforward. For an equity traded on an exchange, daily volumes of trading can be seen, but for an over-the-counter (OTC) derivative assessing the liquidity of the market with no central exchange is more difficult.

A key related matter is where a market moves from liquid to illiquid or vice versa. Where this change is considered to be temporary, the classification is not changed. For example, if there is little market trading in a product on a reporting date but at the previous reporting date and during the intervening period the market has been considered to be liquid, the instrument will continue to be classified in the same level in the hierarchy. This is to provide consistency so that transfers between levels are driven by genuine changes in market liquidity and do not reflect short term or seasonal effects. Material movements between levels are reviewed quarterly.

The breadth and depth of the IPV data allows for a rules based quality assessment to be made of market activity, liquidity and pricing uncertainty, which assists with the process of allocation to an appropriate level. Where suitable independent pricing information is not readily available, the quality assessment will result in the instrument being assessed as level 3.

Modelled products

For modelled products the market convention is to quote these trades through the model inputs or parameters as opposed to a cash price equivalent. A valuation is derived from the use of the independent market inputs calculated using NWB Group's model.

The decision to classify a modelled instrument as level 2 or 3 will be dependent upon the product/model combination, the observability and quality of input parameters and other factors. All these must be assessed to classify the asset.

If an input fails the observability or quality tests then the instrument is considered to be in level 3 unless the input can be shown to have an insignificant effect on the overall valuation of the product.

The majority of derivative instruments for example vanilla interest rate swaps, foreign exchange swaps and liquid single name credit derivatives are classified as level 2 as they are vanilla products valued using observable inputs. The valuation uncertainty on these is considered to be low and both input and output testing may be available.

Non-modelled products

Non-modelled products are generally quoted on a price basis and can therefore be considered for each of the three levels. This is determined by the market activity, liquidity and valuation uncertainty of the instruments which is in turn measured from the availability of independent data used by the IPV process to allocate positions to IPV quality levels.

The availability and quality of independent pricing information are considered during the classification process. An assessment is made regarding the quality of the independent information. If the depth of contributors falls below a set hurdle rate, the instrument is considered to be level 3. This hurdle rate is that used in the IPV process to determine the IPV quality rating. However, where an instrument is generally considered to be illiquid, but regular quotes from market participants exist, these instruments may be classified as level 2 depending on frequency of quotes, other available pricing and whether the quotes are used as part of the IPV process or not.

For some instruments with a wide number of available price sources, there may be differing quality of available information and there may be a wide range of prices from different sources. In these situations the highest quality source is used to determine the classification of the asset.

	2020			2019		
	Level 3 £m	Favourable £m	Unfavourable £m	Level 3 £m	Favourable £m	Unfavourable £m
Assets						
Derivatives	**5**	—	—	4	—	—
Other financial assets						
Loans - MFVTPL	**50**	—	—	—	—	—
	55	—	—	4	—	—
Liabilities						
Derivatives	**228**	—	—	181	10	(60)
	228	—	—	181	10	(60)

Notes to the financial statements

11 Financial instruments: valuation – level 3 sensitivities

The level 3 sensitivities presented above are calculated at a trade or low level portfolio basis. They are not calculated on an overall portfolio basis and therefore do not reflect the likely potential uncertainty on the portfolio as a whole. The figures are aggregated and do not reflect the correlated nature of some of the sensitivities. In particular, for some of the portfolios the sensitivities may be negatively correlated where a downwards movement in one asset would produce an upwards movement in another, but due to the additive presentation of the above figures this correlation cannot be displayed. The actual potential downside sensitivity of the total portfolio may be less than the non-correlated sum of the additive figures as shown in the above table.

Reasonably plausible alternative assumptions of unobservable inputs are determined based on specified target level of certainty of 90%. The assessments recognise different favourable and unfavourable valuation movements where appropriate. Each unobservable input within a product is considered separately and sensitivity is reported on an additive basis.

Alternative assumptions are determined with reference to all available evidence including consideration of the following: quality of independent pricing information taking into account consistency between different sources, variation over time, perceived tradability or otherwise of available quotes; consensus service dispersion ranges; volume of trading activity and market bias (e.g. one-way inventory); day 1 profit or loss arising on new trades; number and nature of market participants; market conditions; modelling consistency in the market; size and nature of risk; length of holding of position; and market intelligence.

Other considerations

Whilst certain inputs used to calculate CVA, FVA and own credit adjustments are not based on observable market data, the uncertainty of the inputs is not considered to have a significant effect on the net valuation of the related derivative portfolios and issued debt. The classification of the derivative portfolios and issued debt is not determined by the observability of these inputs, and any related sensitivity does not form part of the level 3 sensitivities presented.

Level 3

The following table shows the movement in level 3 assets and liabilities in the year.

	2020				2019			
	Trading assets (2) £m	Other financial assets (3) £m	Total assets £m	Total liabilities £m	Trading assets (2) £m	Other financial assets (3) £m	Total assets £m	Total liabilities £m
At 1 January	4	—	4	181	9	—	9	41
Amounts recorded in the income statement (1)	4	—	4	70	3	—	3	9
Level 3 transfers in	—	50	50	—	(4)	—	(4)	(7)
Purchases	—	—	—	—	—	—	—	157
Settlements	(3)	—	(3)	(23)	(4)	—	(4)	(19)
At 31 December	5	50	55	228	4	—	4	181
Amounts recorded in the income statement in respect of balances held at year end:								
- unrealised	4	—	4	48	2	—	2	(9)
- realised	—	—	—	23	3	—	3	19

Notes:

(1) Net losses on trading assets and liabilities of £66 million (2019 - £6 million) were recorded in income from trading activities.

(2) Trading assets comprise assets held at fair value in trading portfolios.

(3) Other financial assets comprise fair value through other comprehensive income, designated as at fair value through profit or loss and mandatory fair value through profit or loss.

11 Financial instruments: fair value of financial instruments measured at amortised cost

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

	NWB Group						NWB Plc					
	Items where fair value approximates carrying value	Carrying value	Fair value	Fair value hierarchy level			Items where fair value approximates carrying value	Carrying value	Fair value	Fair value hierarchy level		
2020	£bn	£bn	£bn	Level 1 £bn	Level 2 £bn	Level 3 £bn	£bn	£bn	£bn	Level 1 £bn	Level 2 £bn	Level 3 £bn
Financial assets												
Cash and balances at central banks	63.0						62.9					
Loans to banks		3.3	3.3	—	2.4	0.9		2.8	2.8	—	2.4	0.4
Loans to customers		271.6	271.1	—	23.3	247.8		238.4	237.7	—	23.2	214.5
Amounts due from holding companies and fellow subsidiaries		2.7	2.7	—	0.3	2.4		27.1	27.8	—	17.3	10.5
Other financial assets - securities		3.7	3.8	2.2	1.2	0.4		3.3	3.4	2.2	1.2	—
Financial liabilities												
Bank deposits	3.4	11.5	11.5	—	11.3	0.2	3.4	11.5	11.5	—	11.3	0.2
Customer deposits	253.3	40.3	40.4	—	9.2	31.2	230.0	25.3	25.4	—	9.2	16.2
Amounts due to holding companies and fellow subsidiaries	16.8	20.8	21.1	—	8.0	13.1	16.1	53.5	54.1	—	20.2	33.9
Other financial liabilities												
Debt securities in issue		7.1	7.2	—	3.1	4.1		6.3	6.4	—	3.1	3.3
Settlement balances	3.3						3.3					
Subordinated liabilities		1.2	1.3	—	1.3	—		1.2	1.3	—	1.3	—
Notes in circulation	1.0						1.3					
2019												
Financial assets												
Cash and balances at central banks	27.5						26.4					
Loans to banks		3.3	3.3	—	2.9	0.4		2.7	2.7	—	2.6	0.1
Loans to customers		232.3	230.5	—	10.8	219.7		198.5	196.8	—	10.6	186.2
Amounts due from holding companies and fellow subsidiaries		3.4	3.4	—	0.4	3.0		30.7	31.2	—	19.1	12.1
Other financial assets - securities		4.2	4.3	2.6	1.3	0.4		3.8	3.9	2.6	1.3	—
Financial liabilities												
Bank deposits	2.8	12.7	12.7	—	12.2	0.5	2.8	12.7	12.7	—	12.2	0.5
Customer deposits	206.5	35.6	35.6	—	6.4	29.2	188.1	20.6	20.6	—	6.4	14.2
Amounts due to holding companies and fellow subsidiaries	4.4	17.0	16.9	—	8.4	8.5	2.2	48.8	48.7	—	19.7	29.0
Other financial liabilities												
Debt securities in issue		8.2	8.2	—	5.9	2.3		7.5	7.5	—	5.9	1.6
Settlement balances	—						—					
Subordinated liabilities		1.2	1.3	—	1.3	—		1.2	1.3	—	1.3	—
Notes in circulation	0.8						—					

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Quoted market values are used where available; otherwise, fair values have been estimated based on discounted expected future cash flows and other valuation techniques. These techniques involve uncertainties and require assumptions and judgments covering prepayments, credit risk and discount rates. Furthermore there is a wide range of potential valuation techniques. Changes in these assumptions would significantly affect estimated fair values. The fair values reported would not necessarily be realised in an immediate sale or settlement. 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, customer demand deposits and notes in circulation, 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, NWB Group's loans are segregated into appropriate portfolios reflecting the characteristics of the constituent loans. Two principal methods are used to estimate fair value:

(a) Contractual cash flows are discounted using a market discount rate that incorporates the current spread for the borrower or where this is not observable, the spread for borrowers of a similar credit standing. This method is used for portfolios where counterparties have external ratings:

(b) Expected cash flows (unadjusted for credit losses) are discounted at the current offer rate for the same or similar products. The current methodology caps all loan values at par rather than modelling clients' option to repay loans early. This approach is adopted for lending portfolios in Retail Banking, Commercial Banking (SME loans) and Private Banking in order to reflect the homogeneous nature of these portfolios.

For certain portfolios where there are very few or no recent transactions a bespoke approach is used.

Debt securities

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

Bank and customer deposits

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

Debt securities in issue and subordinated liabilities

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 to the financial statements

12 Financial instruments - maturity analysis

Remaining maturity

The following table shows the residual maturity of financial instruments, based on contractual date of maturity.

	NWB Group					
	2020			2019		
	Less than 12 months £m	More than 12 months £m	Total £m	Less than 12 months £m	More than 12 months £m	Total £m
Assets						
Cash and balances at central banks	**62,983**	**—**	**62,983**	27,457	—	27,457
Derivatives	**197**	**3,091**	**3,288**	225	3,077	3,302
Loans to banks - amortised cost	**3,335**	**9**	**3,344**	3,317	8	3,325
Loans to customers - amortised cost	**64,102**	**207,479**	**271,581**	53,265	179,048	232,313
Amounts due from holding companies and fellow subsidiaries (1)	**2,936**	**303**	**3,239**	3,521	295	3,816
Other financial assets	**4,180**	**33,815**	**37,995**	3,798	37,150	40,948
Liabilities						
Bank deposits (2)	**9,871**	**5,000**	**14,871**	5,505	10,000	15,505
Customer deposits	**292,631**	**974**	**293,605**	241,074	1,043	242,117
Derivatives	**336**	**6,216**	**6,552**	117	4,781	4,898
Amounts due to holding companies and fellow subsidiaries (3)	**29,984**	**7,574**	**37,558**	15,194	6,219	21,413
Other financial liabilities	**6,644**	**3,739**	**10,383**	4,738	3,569	8,307
Subordinated liabilities	**313**	**917**	**1,230**	14	1,228	1,242
Notes in circulation	**1,012**	**—**	**1,012**	842	—	842
Lease liabilities	**142**	**1,256**	**1,398**	142	1,337	1,479

	NWB Plc					
	2020			2019		
	Less than 12 months £m	More than 12 months £m	Total £m	Less than 12 months £m	More than 12 months £m	Total £m
Assets						
Cash and balances at central banks	**62,878**	**—**	**62,878**	26,377	—	26,377
Derivatives	**197**	**3,241**	**3,438**	225	3,179	3,404
Loans to banks - amortised cost	**2,798**	**—**	**2,798**	2,741	—	2,741
Loans to customers - amortised cost	**51,137**	**187,229**	**238,366**	38,320	160,184	198,504
Amounts due from holding companies and fellow subsidiaries (1)	**12,577**	**15,427**	**28,004**	17,238	14,305	31,543
Other financial assets	**3,791**	**33,815**	**37,606**	3,408	37,150	40,558
Liabilities						
Bank deposits (2)	**9,866**	**5,000**	**14,866**	5,487	10,000	15,487
Customer deposits	**254,317**	**973**	**255,290**	207,656	1,042	208,698
Amounts due to holding companies and fellow subsidiaries (3)	**48,094**	**21,523**	**69,617**	29,467	21,518	50,985
Derivatives	**340**	**6,429**	**6,769**	75	4,938	5,013
Other financial liabilities	**6,644**	**2,968**	**9,612**	4,738	2,897	7,635
Subordinated liabilities	**313**	**917**	**1,230**	14	1,228	1,242
Notes in circulation	**1,266**	**—**	**1,266**	—	—	—
Lease liabilities	**132**	**1,148**	**1,280**	131	1,242	1,373

Notes:

(1) Amounts due from holding companies and fellow subsidiaries relating to non-financial instruments of £66 million (2019 - £12 million) for NWB Group and £172 million (2019 – £162 million) for NWB Plc have been excluded from the tables.

(2) More than 12 months includes £5.0 billion of Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises participation which has been repaid early in January 2021.

(3) Amounts due to holding companies and fellow subsidiaries relating to non-financial instruments of £1 million (2019 - £34 million) for NWB Group and nil (2019 – £34 million) for NWB Plc have been excluded from the tables.

Notes to the financial statements

12 Financial instruments - maturity analysis continued

Liabilities by contractual cash flow maturity

The tables below show the timing of cash outflows to settle financial liabilities, prepared on the following basis:

Financial liabilities are included at the earliest date on which the counterparty can require repayment regardless of whether or not such early repayment results in a penalty. If repayment is triggered by, or is subject to, specific criteria such as market price hurdles being reached, the liability is included at the earliest possible date that conditions could be fulfilled without considering the probability of the conditions being met. For example, if a structured note automatically prepays hen an equity index exceeds a certain level, the cash outflow will be included in the less than three months period whatever the level of the index at year end.

The settlement date of debt securities issued by certain securitisation vehicles consolidated by the Group depends on when cash flows are received from the securitised assets. Where these assets are prepayable, the timing of cash outflow relating to securities assumes that each asset will be prepaid at the earliest possible date.

The principal amounts of financial liabilities that are repayable after 20 years or where the counterparty has no right to repayment of the principal are excluded from the table along with interest payments after 20 years.

The maturity of guarantees and commitments is based on the earliest possible date they would be drawn in order to evaluate NWB Group's liquidity position.

Held-for-trading liabilities amounting to £6.4 billion (2019 - £5.0 billion) for the NWB Group and £6.6 billion (2019 - £5.1 billion) for the bank have been excluded from the tables.

	NWB Group					
2020	0-3 months £m	3-12 months £m	1-3 years £m	3-5 years £m	5-10 years £m	10-20 years £m
Liabilities by contractual maturity						
Bank deposits (1)	**9,612**	**258**	**—**	**5,001**	**—**	**—**
Customer deposits	**287,847**	**4,789**	**955**	**5**	**18**	**—**
Amounts due to holding companies and fellow subsidiaries (2)	**24,562**	**5,679**	**940**	**4,094**	**2,618**	**106**
Derivatives held for hedging	**11**	**35**	**82**	**41**	**31**	**12**
Other financial liabilities	**5,368**	**1,286**	**870**	**2,476**	**397**	**79**
Subordinated liabilities	**14**	**344**	**133**	**37**	**90**	**315**
Notes in circulation	**1,012**	**—**	**—**	**—**	**—**	**—**
Lease liabilities	**40**	**103**	**233**	**201**	**358**	**409**
	328,466	**12,494**	**3,213**	**11,855**	**3,512**	**921**
Guarantees and commitments notional amount						
Guarantees (2)	**762**	**—**	**—**	**—**	**—**	**—**
Commitments (3)	**74,858**	**—**	**—**	**—**	**—**	**—**
	75,620	**—**	**—**	**—**	**—**	**—**
2019						
Liabilities by contractual maturity						
Bank deposits	5,119	388	10,130	—	—	—
Customer deposits	237,047	4,036	1,023	6	21	—
Amounts due to holding companies and fellow subsidiaries (2)	10,560	4,897	725	3,922	2,029	160
Derivatives held for hedging	11	18	47	33	39	25
Other financial liabilities	1,145	3,519	133	2,929	594	79
Subordinated liabilities	7	49	479	56	137	275
Notes in circulation	842	—	—	—	—	—
Lease liabilities	35	106	238	199	382	473
	254,766	13,013	12,775	7,145	3,202	1,012
Guarantees and commitments notional amount						
Guarantees (3)	1,013	—	—	—	—	—
Commitments (4)	71,924	—	—	—	—	—
	72,937	—	—	—	—	—

Notes to the financial statements

12 Financial instruments - maturity analysis continued.

	NWB Plc					
2020	**0-3 months £m**	**3-12 months £m**	**1-3 years £m**	**3-5 years £m**	**5-10 years £m**	**10-20 years £m**
Liabilities by contractual maturity						
Bank deposits (1)	**9,607**	**258**	**—**	**5,001**	**—**	**—**
Customer deposits	**250,637**	**3,684**	**955**	**5**	**18**	**—**
Amounts due to holding companies and fellow subsidiaries (2)	**40,984**	**7,808**	**6,599**	**9,510**	**4,651**	**2,220**
Derivatives held for hedging	**11**	**32**	**76**	**36**	**23**	**11**
Other financial liabilities	**5,367**	**1,286**	**870**	**2,180**	**—**	**—**
Subordinated liabilities	**14**	**344**	**133**	**37**	**90**	**315**
Notes in circulation	**1,266**	**—**	**—**	**—**	**—**	**—**
Lease liabilities	**38**	**96**	**222**	**190**	**349**	**385**
	307,924	**13,508**	**8,855**	**16,959**	**5,131**	**2,931**
Guarantees and commitments notional amount						
Guarantees (2)	**674**	**—**	**—**	**—**	**—**	**—**
Commitments (3)	**68,636**	**—**	**—**	**—**	**—**	**—**
	69,310	**—**	**—**	**—**	**—**	**—**
2019						
Liabilities by contractual maturity						
Bank deposits	5,101	388	10,130	—	—	—
Customer deposits	204,083	3,577	1,023	6	21	—
Amounts due to holding companies and fellow subsidiaries (2)	21,946	8,424	6,012	8,879	4,663	3,130
Derivatives held for hedging	9	16	41	28	32	23
Other financial liabilities	1,145	3,519	133	2,929	—	—
Subordinated liabilities	7	49	479	56	137	275
Lease liabilities	34	97	228	195	376	443
	232,325	16,070	18,046	12,093	5,229	3,871
Guarantees and commitments notional amount						
Guarantees (3)	920	—	—	—	—	—
Commitments (4)	66,139	—	—	—	—	—
	67,059	—	—	—	—	—

Notes:
(1) 3 to 5 years includes £5.0 billion of Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises participation which has been repaid early in January 2021
(2) Amounts due to holding companies and fellow subsidiaries relating to non-financial instruments have been excluded from the tables.
(3) NWB Group is only called upon to satisfy a guarantee when the guaranteed party fails to meet its obligations. NWB Group expects most guarantees it provides to expire unused.
(4) NWB Group has given commitments to provide funds to customers under undrawn formal facilities, credit lines and other commitments to lend subject to certain conditions being met by the counterparty. NWB does not expect all facilities to be drawn, and some may lapse before drawdown.

13 Loan impairment provisions

Loan exposure and impairment metrics

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

	NWB Group		NWB Plc	
	31 December 2020 £m	31 December 2019 £m	**31 December 2020 £m**	31 December 2019 £m
Loans - amortised cost				
Stage 1	**217,575**	215,111	**192,484**	184,611
Stage 2	**57,864**	19,392	**49,473**	15,783
Stage 3	**3,254**	2,835	**2,438**	2,266
Inter-Group (1)	**2,685**	3,389	**27,092**	30,754
Total	**281,378**	240,727	**271,487**	233,414
ECL provisions (2)				
Stage 1	**365**	223	**305**	190
Stage 2	**2,060**	518	**1,808**	452
Stage 3	**1,285**	1,281	**1,093**	1,091
Inter-Group	**2**	—	**25**	4
	3,712	2,022	**3,231**	1,737
ECL provision coverage (3,4)				
Stage 1 (%)	**0.17**	0.10	**0.16**	0.10
Stage 2 (%)	**3.56**	2.67	**3.65**	2.86
Stage 3 (%)	**39.49**	45.19	**44.83**	48.15
Inter-Group (%)	**0.07**	—	**0.09**	0.01
	1.33	0.85	**1.31**	0.86
Impairment losses				
ECL charge (5)				
Stage 1	**(69)**	(122)	**(51)**	(79)
Stage 2	**1,839**	305	**1,638**	291
Stage 3	**397**	389	**327**	329
Third party	**2,167**	572	**1,914**	541
Inter-Group	**2**	—	**20**	(1)
	2,169	572	**1,934**	540
ECL loss rate - annualised (basis points)(4)	**78**	24	**78**	27
Amounts written-off	**517**	404	**487**	364

Notes:
(1) NWB Group's intercompany assets are classified in Stage 1.
(2) Includes £5 million (2019 – £2 million) related to assets classified as FVOCI.
(3) ECL provisions coverage is calculated as ECL provisions divided by loans - amortised cost and FVOCI.
(4) ECL provisions coverage and ECL loss rates are calculated on third party loans and related ECL provisions and charge respectively. ECL loss rate is calculated as annualised third party ECL charge divided by loans - amortised cost and FVOCI.
(5) Includes a £9 million charge (2019 – £28 million charge) related to other financial assets, of which a £2 million charge (2019 – £1 million charge) related to assets classified as FVOCI; and a £13 million charge (2019 – £27 million) related to contingent liabilities.
(6) The table shows gross loans only and excludes amounts that are outside the scope of the ECL framework. Refer to page 31 for Financial instruments within the scope of the IFRS 9 ECL framework for further details. Other financial assets within the scope of the IFRS 9 ECL framework were cash and balances at central banks totaling £62.0 billion (2019 – £26.8 billion) and debt securities of £37.1 billion (2019 – £40.2 billion).

Credit risk enhancement and mitigation

For information on Credit risk enhancement and mitigation held as security, refer to Risk and capital management – Credit risk enhancement and mitigation section.

Critical accounting policy: Loan impairment provisions

The loan impairment provisions have been established in accordance with IFRS 9. Accounting policy 14 sets out how the expected loss approach is applied. At 31 December 2020, customer loan impairment provisions amounted to £3,712 million (2019 - £2,022 million). A loan is impaired when there is objective evidence that the cash flows will not occur in the manner expected when the loan was advanced. Such evidence includes changes in the credit rating of a borrower, the failure to make payments in accordance with the loan agreement, significant reduction in the value of any security, breach of limits or covenants, and observable data about relevant macroeconomic measures.

The impairment loss is the difference between the carrying value of the loan and the present value of estimated future cash flows at the loan's original effective interest rate.

The measurement of credit impairment under the IFRS expected loss model depends on management's assessment of any potential deterioration in the creditworthiness of the borrower, its modelling of expected performance and the application of economic forecasts. All three elements require judgments that are potentially significant to the estimate of impairment losses. For further information and sensitivity analysis, refer to Risk and capital management – Measurement uncertainty and ECL sensitivity analysis section.

Notes to the financial statements

13 Loan impairment provisions continued

IFRS 9 ECL model design principles

To meet IFRS 9 requirements, PD, LGD and EAD used in ECL calculations must be:

- Unbiased – material regulatory conservatism has been removed to produce unbiased model estimates.
- Point-in-time – recognise current economic conditions.
- Forward-looking – incorporated into PD estimates and, where appropriate, EAD and LGD estimates.
- For the life of the loan – all PD, LGD and EAD models produce term structures to allow a lifetime calculation for assets in Stage 2 and Stage 3.

IFRS 9 requires that at each reporting date, an entity shall assess whether the credit risk on an account has increased significantly since initial recognition. Part of this assessment requires a comparison to be made between the current lifetime PD (i.e. the probability of default over the remaining lifetime at the reporting date) with the equivalent lifetime PD as determined at the date of initial recognition.

The general approach for the IFRS 9 LGD models is to leverage corresponding Basel LGD models with bespoke adjustments to ensure estimates are unbiased and where relevant forward-looking.

For wholesale, while conversion ratios in the historical data show temporal variations, these cannot be sufficiently explained by the CCI measure (unlike in the case of PD and some LGD models) and are presumed to be driven to a larger extent by exposure management practices. Therefore point-in-time best estimates measures for EAD are derived by estimating the regulatory model specification on a rolling five-year window.

Approach for multiple economic scenarios (MES)

The base scenario plays a greater part in the calculation of ECL than the approach to MES.

14 Investments in Group undertakings

Investments in Group undertakings are carried at cost less impairment losses. Movements during the year were as follows:

	NWB Plc 2020 £m	2019 £m
At 1 January	**2,394**	2,466
Currency translation and other adjustments	**14**	(12)
Additional investments in Group undertakings	**16**	21
Acquisitions	**—**	6
Impairment of investments	**(50)**	(87)
At 31 December	**2,374**	2,394

In 2020, additions relate to additional investments in Esme Loans Limited and Silvermere Holdings Limited. In 2019 additions were related to the acquisition of National Westminster Home Loans from NatWest Markets Plc.

The impairment in 2020 mainly relates to Ulster Bank Limited. The 2019 impairment was primarily related to Strand European Holdings AB.

The value in use review as at 31 December 2020 did not indicate the need for a further impairment in the investment in Coutts & Company. Future value in use is primarily affected by changes in profitability, and changes in discount rate. Adverse changes would lead to value in use falling below carrying value. The most likely cause for this would be a failure to meet budgeted targets, including cost targets, or external downgrades in the UK economy. If the carrying value is also not supported by the net asset value, an impairment will be recorded. Beneficial changes would lead to a reversal of historic impairment.

The principal subsidiary undertakings of the company are shown below. Their capital consists of ordinary shares and additional Tier 1 notes which are unlisted.

All of the subsidiary undertakings are owned directly or indirectly through intermediate holding companies, and are all wholly-owned. All of these subsidiary undertakings are included in NWB Group's consolidated financial statements and have an accounting reference date of 31 December.

	Nature of business	Country of incorporation and principal area of operations
Coutts & Company (1)	Private banking	Great Britain
Ulster Bank Limited	Banking	Northern Ireland
Lombard North Central PLC	Leasing	Great Britain

Note:
(1) Coutts & Company is incorporated with unlimited liability. Its registered office is 440 Strand, London WC2R OQS.

For full information on all related undertakings refer to Note 36.

Notes to the financial statements

15 Other financial assets

	NWB Group						
	Debt securities						
	Central and local government			Other			
	UK	US	Other	debt	Total	Loans	Total
2020	£m	£m	£m	£m	£m	£m	£m
Mandatory fair value through profit or loss	**—**	**—**	**—**	**—**	**—**	**476**	**476**
Fair value through other comprehensive income	**16,089**	**7,870**	**3,747**	**6,147**	**33,853**	**—**	**33,853**
Amortised cost	**2,096**	**—**	**—**	**1,570**	**3,666**	**—**	**3,666**
Total	**18,185**	**7,870**	**3,747**	**7,717**	**37,519**	**476**	**37,995**
2019							
Mandatory fair value through profit or loss	—	—	—	—	—	385	385
Fair value through other comprehensive income	18,203	8,739	4,291	5,168	36,401	—	36,401
Amortised cost	2,465	—	—	1,697	4,162	—	4,162
Total	20,668	8,739	4,291	6,865	40,563	385	40,948

	NWB Plc						
	Debt securities						
	Central and local government			Other			
	UK	US	Other	debt	Total	Loans	Total
2020	£m	£m	£m	£m	£m	£m	£m
Mandatory fair value through profit or loss	**—**	**—**	**—**	**—**	**—**	**476**	**476**
Fair value through other comprehensive income	**16,089**	**7,870**	**3,747**	**6,147**	**33,853**	**—**	**33,853**
Amortised cost	**2,096**	**—**	**—**	**1,181**	**3,277**	**—**	**3,277**
Total	**18,185**	**7,870**	**3,747**	**7,328**	**37,130**	**476**	**37,606**
2019							
Mandatory fair value through profit or loss	—	—	—	—	—	385	385
Fair value through other comprehensive income	18,203	8,739	4,291	5,167	36,400	—	36,400
Amortised cost	2,465	—	—	1,308	3,773	—	3,773
Total	20,668	8,739	4,291	6,475	40,173	385	40,558

Notes to the financial statements

16 Other assets

	NWB Group 2020 £m	NWB Group 2019 £m	NWB Plc 2020 £m	NWB Plc 2019 £m
Intangible assets (Note 17)	**1,092**	1,065	**977**	963
Property, plant and equipment (Note 18)	**3,671**	4,103	**1,968**	2,242
Pension schemes in net surplus (Note 5)	**2**	5	**—**	—
Assets of disposal groups	**17**	28	**8**	23
Prepayments	**307**	338	**264**	298
Accrued income	**134**	174	**79**	119
Tax recoverable	**23**	85	**—**	162
Deferred tax (Note 7)	**1,289**	1,230	**1,248**	1,184
Acceptances	**90**	129	**84**	123
Other assets	**418**	163	**339**	157
	7,043	7,320	**4,967**	5,271

17 Intangible assets

	NWB Group 2020 Goodwill £m	2020 Other (1) £m	2020 Total £m	2019 Goodwill £m	2019 Other (1) £m	2019 Total £m
Cost						
At 1 January	**664**	**2,276**	**2,940**	671	1,958	2,629
Currency translation and other adjustments	**—**	**—**	**—**	(7)	2	(5)
Additions	**—**	**340**	**340**	—	380	380
Disposals and write-off of fully amortised assets	**(41)**	**(46)**	**(87)**	—	(64)	(64)
At 31 December	**623**	**2,570**	**3,193**	664	2,276	2,940
Accumulated amortisation and impairment						
At 1 January	**606**	**1,269**	**1,875**	613	958	1,571
Currency translation and other adjustments	**(1)**	**2**	**1**	(7)	2	(5)
Disposals and impairment of fully amortised assets	**(41)**	**(24)**	**(65)**	—	(25)	(25)
Charge for the year	**—**	**281**	**281**	—	290	290
Impairment of intangible assets	**—**	**9**	**9**	—	44	44
At 31 December	**564**	**1,537**	**2,101**	606	1,269	1,875
Net book value at 31 December	**59**	**1,033**	**1,092**	58	1,007	1,065

	NWB Plc 2020 £m	NWB Plc 2019 £m
Cost		
At 1 January	**2,192**	1,892
Additions	**316**	364
Disposals and write-off of fully amortised assets	**(30)**	(64)
At 31 December	**2,478**	2,192
Accumulated amortisation		
At 1 January	**1,229**	926
Disposals and write-off of fully amortised assets	**(9)**	(27)
Charge for the year	**272**	286
Impairment of intangible assets	**9**	44
At 31 December	**1,501**	1,229
Net book value at 31 December	**977**	963

Note:
(1) Principally internally generated software.

Intangible assets are reviewed for indicators of impairment. In 2020 £9 million (2019 - £44 million) of previously capitalised software was impaired primarily as a result of software which was no longer expected to yield future economic benefit.

Impairment testing involves the comparison of the carrying value of each cash-generating unit (CGU) with its recoverable amount. The carrying values of the segments reflect the equity allocations made by management which are consistent with the NWB Group's capital targets. Recoverable amount is the higher of fair value and value in use. Value in use is the present value of expected future cash flows from the CGU. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants.

The recoverable amounts for all CGUs at 31 December 2018 were based on value in use, using management's latest five-year revenue and cost forecasts. The long-term growth rates have been based on expected nominal growth of the CGUs. The pre-tax risk discount rates are based on those observed to be applied to businesses regarded as peers of the CGUs.

Notes to the financial statements

18 Property, plant and equipment

	NWB Group			
2020	**Investment properties £m**	**Property, plant and equipment £m**	**Operating leases £m**	**Total £m**
Cost or valuation				
At 1 January	**868**	**7,124**	**1,120**	**9,112**
Transfers to disposal groups	**(71)**	**(6)**	**—**	**(77)**
Transfers from/(to) holding company and fellow subsidiaries	**—**	**15**	**—**	**15**
Currency translation and other adjustments	**46**	**(5)**	**—**	**41**
Additions	**11**	**299**	**132**	**442**
Change in fair value of investment properties	**(20)**	**—**	**—**	**(20)**
Disposals and write-off of fully depreciated assets	**(74)**	**(473)**	**(123)**	**(670)**
At 31 December	**760**	**6,954**	**1,129**	**8,843**
Accumulated impairment, depreciation and amortisation				
At 1 January	**—**	**4,542**	**467**	**5,009**
Transfers to disposal groups	**—**	**(5)**	**—**	**(5)**
Transfers from/(to) holding company and fellow subsidiaries	**—**	**7**	**—**	**7**
Currency translation and other adjustments	**—**	**(5)**	**—**	**(5)**
Disposals and write-off of fully depreciated assets	**—**	**(302)**	**(83)**	**(385)**
Charge for the year	**—**	**306**	**145**	**451**
Impairment of property, plant and equipment	**—**	**100**	**—**	**100**
At 31 December	**—**	**4,643**	**529**	**5,172**
Net book value at 31 December	**760**	**2,311**	**600**	**3,671**
2019				
Cost or valuation				
At 1 January	1,008	4,950	1,059	7,017
Implementation of IFRS 16 on 1 January 2019	—	2,416	—	2,416
Transfers to disposal groups	—	(455)	—	(455)
Currency translation and other adjustments	(51)	4	—	(47)
Additions	16	337	233	586
Change in fair value of investment properties	(20)	—	—	(20)
Disposals and write-off of fully depreciated assets	(85)	(128)	(172)	(385)
At 31 December	868	7,124	1,120	9,112
Accumulated impairment, depreciation and amortisation				
At 1 January	—	3,061	450	3,511
Implementation of IFRS 16 on 1 January 2019	—	1,406	—	1,406
Transfers to disposal groups	—	(251)	—	(251)
Currency translation and other adjustments	—	(3)	—	(3)
Disposals and write-off of fully depreciated assets	—	(77)	(121)	(198)
Charge for the year	—	311	138	449
Impairment of property, plant and equipment	—	95	—	95
At 31 December	—	4,542	467	5,009
Net book value at 31 December	868	2,582	653	4,103

Investment property valuations principally employ present value techniques that discount expected cash flows. Expected cash flows reflect rental income, occupancy and residual market values; valuations are sensitive to changes in these factors. The investment property fair value measurements are categorised as level 3. A 5% change in the most sensitive assumption, residual values, is £22 million (2019: £26 million) on the value of Investment property.

Valuations were carried out by qualified surveyors who are members of the Royal Institution of Chartered Surveyors, or an equivalent overseas body; property with a fair value of £270 million (2019 - £71 million) was valued by independent valuersfor the purposes of year end valuations.

Notes to the financial statements

18 Property, plant and equipment continued

2020	NWB Plc Investment properties £m	Property, plant and equipment £m	Total £m
Cost or valuation			
At 1 January	—	6,525	6,525
Transfers from/(to) disposal groups	6	5	11
Transfers from/(to) holding company and fellow subsidiaries	—	(10)	(10)
Currency translation and other adjustments	—	—	—
Additions	—	249	249
Disposals and write-off of fully depreciated assets	—	(423)	(423)
At 31 December	6	6,346	6,352
Accumulated impairment, depreciation and amortisation			
At 1 January	—	4,283	4,283
Transfers to disposal groups	—	2	2
Transfers from/(to) holding company and fellow subsidiaries	—	(7)	(7)
Currency translation and other adjustments	—	—	—
Disposals and write-off of fully depreciated assets	—	(261)	(261)
Charge for the year	—	270	270
Impairment of property, plant and equipment	—	97	97
At 31 December	—	4,384	4,384
Net book value at 31 December	6	1,962	1,968

2019			
Cost or valuation			
At 1 January	—	4,468	4,468
Implementation of IFRS 16 on 1 January 2019	—	2,306	2,306
Transfers to disposal groups	—	(440)	(440)
Currency translation and other adjustments	—	7	7
Additions	—	298	298
Disposals and write-off of fully depreciated assets	—	(114)	(114)
At 31 December	—	6,525	6,525
Accumulated impairment, depreciation and amortisation			
At 1 January	—	2,828	2,828
Implementation of IFRS 16 on 1 January 2019	—	1,392	1,392
Transfers to disposal groups	—	(241)	(241)
Currency translation and other adjustments	—	4	4
Disposals and write-off of fully depreciated assets	—	(70)	(70)
Charge for the year	—	281	281
Impairment of property, plant and equipment	—	89	89
At 31 December	—	4,283	4,283
Net book value at 31 December	—	2,242	2,242

19 Other financial liabilities

	NWB Group		NWB Plc	
	2020 £m	2019 £m	2020 £m	2019 £m
Bank deposits - held-for-trading	**1**	3	**1**	3
Customer deposits - held-for-trading	**2**	111	**2**	111
Settlement balances (1)	**3,297**	—	**3,297**	—
Debt securities in issue - amortised cost	**7,083**	8,193	**6,312**	7,521
Total	**10,383**	8,307	**9,612**	7,635

Note:
(1) *£3.1 billion in current year pertains to purchase price consideration of* Metro Bank's mortgage portfolio which is due to be settled in February 2021.

20 Subordinated liabilities

	NWB Group		NWB Plc	
	2020 £m	2019 £m	2020 £m	2019 £m
Dated loan capital	**309**	309	**309**	309
Undated loan capital	**778**	790	**778**	790
Preference shares	**143**	143	**143**	143
	1,230	1,242	**1,230**	1,242

Note:
(1) *The table above excludes amounts due to holding company and fellow subsidiaries of* £3,309 million (2019 - £2,787 million) for NWB Group and £3,309 million (2019 - £2,787 million) for NWB Plc. Refer to intercompany balances in Note 10.

The preference shares issued by NWB Plc are classified as liabilities; these securities remain subject to the capital maintenance rules of the Companies Act 2006.

The following tables analyse third party subordinated liabilities:

Dated loan capital	Capital Treatment	2020 £m	2019 £m
National Westminster Bank Plc			
£300 million 6.50% notes 2021 (not callable)	Tier 2	**309**	309
		309	309

Notes:
(1) In the event of certain changes in tax laws, dated loan capital issues may be redeemed in whole, but not in part, at the option of the issuer, at the principal amount thereof plus accrued interest, subject to prior regulatory approval.
(2) Except as stated above, claims in respect of NWB Group's dated loan capital are subordinated to the claims of other creditors. None of NWB Group's dated loan capital is secured.
(3) Interest on all floating rate subordinated notes is calculated by reference to market rates.

Undated loan capital	Capital Treatment	2020 £m	2019 £m
National Westminster Bank Plc			
US$193 million floating rate notes (callable semi-annually) (5)	Tier 2	**142**	147
US$229 million floating rate notes (callable semi-annually) (5)	Tier 2	**168**	175
US$285 million floating rate notes (callable semi-annually) (5)	Tier 2	**209**	217
€178 million floating rate notes (callable quarterly) (5)	Tier 2	**160**	152
€10 million floating rate notes (callable quarterly) (5)	Tier 2	**10**	9
£53 million 7.125% notes (callable every five years from October 2022)	Tier 2	**55**	55
£35 million 11.50% notes (callable December 2022) (1)	Tier 2	**34**	35
		778	790

Notes:
(1) Exchangeable at the option of the issuer into 8.392% (gross) non-cumulative preference shares of £1 each of NWB Plc at any time.
(2) NWB Group can satisfy *interest payment obligations by issuing sufficient ordinary shares to appointed Trustees to enable them, on selling these shares, to* settle the interest payment.
(3) Except as stated above, claims in respect of NWB Group's undated loan capital are subordinated to the claims of other creditors. None of NWB Group's undated loan capital is secured.
(4) In the event of certain changes in tax laws, undated loan capital issues may be redeemed in whole, but not in part, at the option of NWB Group, at the principal amount thereof plus accrued interest, subject to prior regulatory approval.
(5) Interest on all floating rate subordinated notes is calculated by reference to market rates.

Notes to the financial statements

20 Subordinated liabilities continued

Preference shares (1)	Capital Treatment	2020 £m	2019 £m
National Westminster Bank Plc			
£140 million 9.00% Series A Non-cumulative preference shares of £1 (not callable)	Tier 1	**143**	143
		143	143

Note:
(1) Further details of the contractual terms of the preference shares are given in Note 22.

There were no issuances or redemptions (2019 – £8 million) during the year.

The following tables analyse the intercompany subordinated liabilities.

Dated loan capital	Capital treatment	2020 £m	2019 £m
National Westminster Bank Plc			
US$1,900 million subordinated loan capital 2024	Tier 2	**1,519**	1,517
US$750 million 3.754% dated notes 2029	Tier 2	**580**	570
£500 million 3.622% dated notes 2030 (callable once in August 2025)	Tier 2	**510**	—
		2,609	2,087
Undated loan capital			
National Westminster Bank Plc			
£700 million floating rate notes (callable quarterly from September 2016)	Tier 2	**700**	700
		700	700

Issuances in the period (values as at date of transaction)	Capital treatment	2020 £m	2019 £m
National Westminster Bank Plc			
US$750 million 3.754% dated notes 2029	Tier 2	—	580
£500 million 3.622% dated notes 2030 (callable once in August 2025)	Tier 2	**500**	—
		500	580
Redemptions in the period (values as at date of transaction)			
National Westminster Bank Plc			
£700 million floating rate undated notes (callable every five years from January 2018)	Tier 2	—	700
		—	700

NWB Group has now resumed payments on all discretionary non-equity capital instruments following the end of the European Commission ban in 2012. Future coupons and dividends on hybrid capital instruments will only be paid subject to, and in accordance with, the terms of the relevant instruments.

The preference shares issued by the company are classified as liabilities; these securities remain subject to the capital maintenance rules of the Companies Act 2006.

Notes to the financial statements

21 Other liabilities

	NWB Group 2020 £m	NWB Group 2019 £m	NWB Plc 2020 £m	NWB Plc 2019 £m
Lease liabilities (Note 23)	**1,398**	1,479	**1,280**	1,372
Provisions for liabilities and charges	**943**	1,365	**868**	1,267
Retirement benefit liabilities (Note 5)	**57**	53	**13**	14
Accruals	**790**	708	**686**	702
Deferred income	**213**	214	**190**	183
Current tax	**160**	2	**154**	1
Deferred tax (Note 7)	**166**	169	**—**	—
Acceptances	**90**	129	**84**	123
Other liabilities	**618**	344	**214**	172
	4,435	4,463	**3,489**	3,834

	NWB Group			
Provisions for liabilities and charges	Payment protection insurance (1) £m	Other customer redress £m	Litigation and other (2) £m	Total £m
At 1 January	**732**	**124**	**509**	**1,365**
Expected credit losses impairment charge	**—**	**—**	**46**	**46**
Currency translation and other movements	**2**	**—**	**13**	**15**
Charge to income statement	**1**	**233**	**278**	**512**
Releases to income statement	**(177)**	**(22)**	**(124)**	**(323)**
Provisions utilised	**(361)**	**(91)**	**(220)**	**(672)**
At 31 December	**197**	**244**	**502**	**943**

	NWB Plc			
Provisions for liabilities and charges	Payment protection insurance (1) £m	Other customer redress £m	Other (2) £m	Total £m
At 1 January	**730**	**111**	**426**	**1,267**
Expected credit losses impairment charge	**—**	**—**	**38**	**38**
Currency translation and other movements	**—**	**1**	**19**	**20**
Charge to income statement	**—**	**220**	**237**	**457**
Releases to income statement	**(177)**	**(16)**	**(81)**	**(274)**
Provisions utilised	**(357)**	**(80)**	**(203)**	**(640)**
At 31 December	**196**	**236**	**436**	**868**

Notes:
(1) Balances at 31 December 2020 include provisions held in relation to offers made in 2019 and earlier years of £66 million.
(2) Materially comprises provisions relating to property closures and restructuring costs.

Critical accounting policy: Provisions for liabilities
The key judgement is involved in determining whether a present obligation exists. There is often a high degree of uncertainty and judgement is based on the specific facts and circumstances relating to individual events in determining whether there is a present obligation. Judgement is also involved in estimation of the probability, timing and amount of any outflows. Where NWB Group can look to another party such as an insurer to pay some or all of the expenditure required to settle a provision, any reimbursement is recognised when, and only when, it is virtually certain that it will be received.

Estimates - Provisions are liabilities of uncertain timing or amount and are recognised when there is a present obligation as a result of a past event, the outflow of economic benefit is probable and the outflow can be estimated reliably. Any difference between the final outcome and the amounts provided will affect the reported results in the period when the matter is resolved.

- PPI: The provision reflects the estimated cost of PPI redress attributable to claims prior to the Financial Conduct Authority (FCA) complaint deadline of 29 August 2019. All pre-deadline complaints have been processed which removes complaint volume estimation uncertainty from the provision estimate. NWB Group continues to conclude remaining bank-identified closure work and conclude cases with the Financial Ombudsmen Service.
- Other customer redress: Provisions reflect the estimated cost of redress attributable to claims where it is determined that a present obligation exists.
- Litigation and other regulatory: NWB Group is engaged in various legal proceedings, both in the UK and in overseas jurisdictions, including the US. For further information in relation to legal proceedings and discussion of the associated uncertainties, refer to Note 27.
- Other provisions: These materially comprise provisions for onerous contracts and restructuring costs. Onerous contract provisions comprise an estimate of the costs involved with fulfilling the terms and conditions of contracts net of any expected benefits to be received. This includes provision for contractual costs such as rates associated with vacant properties. Redundancy and restructuring provisions comprise the estimated cost of restructuring, including redundancy costs where an obligation exists.

Background information on all material provisions is given in Note 27.

Notes to the financial statements

22 Share capital and reserves

Allotted, called up and fully paid	2020 £m	2019 £m	Number of shares - 000s 2020	Number of shares - 000s 2019
Ordinary shares of £1	**1,678**	1,678	**1,678,177**	1,678,177
Non-cumulative preference shares of £1	**140**	140	**140,000**	140,000

Ordinary shares
No ordinary dividends were paid in 2020. NWB Plc paid an ordinary dividend to NWH Ltd in 2019 totalling £700 million.

Paid-in equity
Comprises equity instruments issued by NWB Plc other than those legally constituted as shares.

Additional Tier 1 Instruments issued by NWB Plc having the legal form of debt are classified as equity under IFRS. The coupons on these Instruments are non-cumulative and payable at NWB Plc's discretion.

	2020 £m	2019 £m
Additional Tier 1 instruments		
US$2,000 billion 3.8495% instruments callable August 2023	**1,436**	1,436
US$1,300 billion 6.49% instruments callable August 2023	**934**	934
	2,370	2,340

Capital recognised for regulatory purposes cannot be redeemed without Prudential Regulation Authority consent. This includes ordinary shares, preference shares and additional Tier 1 Instruments.

Preference shares
The 9% non-cumulative preference shares Series A of £1 each are non-redeemable.

The holders of sterling preference shares are entitled, on the winding-up of NWB Plc, to priority over the ordinary shareholders as regards payment of capital. Otherwise the holders of preference shares are not entitled to any further participation in the profits or assets of NWB Plc and accordingly these shares are classified as non-equity shares.

The holders of sterling preference shares are not entitled to receive notice of, attend, or vote at any general meeting unless the business of the meeting includes the consideration of a resolution for the winding-up of NWB Plc or the sale of the whole of the business of NWB Plc or any resolution directly affecting any of the special rights or privileges attached to any of the classes of preference shares.

Under IFRS, NWB Plc preference shares are classified as debt and are included in subordinated liabilities on the balance sheet (Note 20).

Reserves
Under UK companies legislation, when shares are redeemed or purchased wholly or partly out of NWB Plc's profits, the amount by which NWB Plc's issued share capital is diminished must be transferred to the capital redemption reserve. The capital maintenance provisions of UK companies legislation apply to the capital redemption reserve as if it were part of NWB Plc's paid up share capital.

UK law prescribes that only reserves of NWB Plc are taken into account for the purpose of making distributions and the permissible applications of the share premium account and capital redemption reserve of £608 million (2019 - £608 million) included within other reserves.

NWB Plc *optimises capital efficiency by maintaining reserves in* subsidiaries, including regulated entities. Certain preference shares and subordinated debt are also included within regulatory capital. The remittance of reserves to the parent company or the redemption of shares or subordinated capital by regulated entities may be subject to maintaining the capital resources required by the relevant regulator.

Notes to the financial statements

23 Leases

Lessees

The NWB Group is party to lease contracts as lessee to support its operations. The following table provides information in respect of those lease contracts as lessee.

	NWB Group	
	2020 £m	2019 £m
Amounts recognised in consolidated income statement		
Interest payable	**(33)**	(34)
Depreciation (1)	**(170)**	(170)
Rental expense on short term leases	**(1)**	(3)
Income from subleasing right-of-use assets	**14**	24

	NWB Group		NWB Plc	
	2020 £m	2019 £m	2020 £m	2019 £m
Amounts recognised on balance sheet				
Right of use assets included in property, plant and equipment (2)	**779**	913	**671**	809
Additions to right of use assets	**67**	42	**60**	21
Lease liabilities (3,4)	**(1,398)**	(1,479)	**(1,280)**	(1,373)

The total cash outflow for leases for NWB group was £168 million (2019: £168 million) and for NWB Plc £151 million (2019: £154 million). This included payment of principal for NWB Group of £135 million (2019: £132 million) and NWB Plc of £122 million (2019: £122 million). These amounts are included in the operating activities in cash flow statement.

Notes:

(1) Depreciation includes impairment of right of use assets of £80 million (2019 - £68 million).

(2) Includes right of use asset for plant and equipment of £8 million (2019 - £23 million) and depreciation of £2million (2019 - £5 million).

(3) Contractual cashflows of lease liabilities is shown in Note 12.

(4) NWB Plc lease liabilities include amounts due of nil (2019 - £1 million) to NWB Group.

Lessor

Acting as a lessor, NWB Group provides asset finance to its customers. It purchases plant, equipment and intellectual property, renting them to customers under lease arrangements that, depending on their terms, qualify as either operating or finance leases.

	NWB Group	
Amounts included in consolidated income statement	2020 £m	2019 £m
Finance leases		
Finance income on the net investment in leases	**266**	285
Operating leases		
Gross Lease income	**168**	165
Depreciation	**(145)**	(138)
Net Lease income	**23**	27

	NWB Group		NWB Plc	
Amount receivable under finance leases	2020 £m	2019 £m	2020 £m	2019 £m
Within 1 year	**3,053**	3,235	**22**	22
1 to 2 years	**2,152**	2,064	**195**	22
2 to 3 years	**1,550**	1,605	**266**	281
3 to 4 years	**950**	732	**101**	20
4 to 5 years	**455**	620	**33**	119
After 5 years	**1,664**	1,677	**75**	94
Lease payments total	**9,824**	9,933	**692**	558
Unguaranteed residual values	**(232)**	(215)	**—**	—
Future drawdowns	**(22)**	(30)	**—**	—
Unearned income	**(1,034)**	(1,129)	**(20)**	(22)
Present value of lease payments	**8,536**	8,559	**672**	536
Impairments	**(191)**	(104)	**(15)**	(2)
Net investment in finance leases	**8,345**	8,455	**657**	534

Notes to the financial statements

23 Leases continued

Amounts receivable under operating leases receivables	NWB Group 2020 £m	2019 £m
Within 1 year	**143**	154
1 to 2 years	**112**	123
2 to 3 years	**79**	83
3 to 4 years	**34**	48
4 to 5 years	**14**	17
After 5 years	**11**	12
Total	**393**	437

	NWB Group 2020 £m	2019 £m
Nature of operating lease assets on the balance sheet		
Transportation	**327**	334
Cars and light commercial vehicles	**28**	24
Other	**245**	295
	600	653

Investment properties are leased out on operating leases for £741 million (2019 - £854 million) and had lease income for £58 million (2019 - £66 million). The following table shows undiscounted lease receivables from investment properties:

Amounts receivable under investment properties	2020 £m	2019 £m
Within 1 year	**63**	110
1 to 2 years	**124**	153
2 to 3 years	**51**	126
3 to 4 years	**73**	52
4 to 5 years	**85**	95
After 5 years	**121**	158
Total	**517**	694

24 Structured entities

A structured entity (SE) is an entity that has been designed such that voting or similar rights are not the dominant factor in deciding who controls the entity, for example when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. SEs are usually established for a specific, limited purpose, they do not carry out a business or trade and typically have no employees. They take a variety of legal forms - trusts, partnerships and companies - and fulfil many different functions. As well as being a key element of securitisations, SEs are also used in fund management activities to segregate custodial duties from the fund management advice.

Consolidated structured entities

Securitisations

In a securitisation, assets, or interests in a pool of assets, are transferred generally to a SE which then issues liabilities to third party investors. The majority of securitisations are supported through liquidity facilities or other credit enhancements. NWB Group arranges securitisations to facilitate client transactions and undertakes own asset securitisations to sell or to fund portfolios of financial assets.

NWB Group also acts as an underwriter and depositor in securitisation transactions in both client and proprietary transactions.

NWB Group's involvement in client securitisations takes a number of forms. It may: sponsor or administer a securitisation programme; provide liquidity facilities or programme-wide credit enhancement; and purchase securities issued by the vehicle.

Other credit risk transfers securitisations

NWB Group also transfers credit risk on originated loans and mortgages without the transfer of the assets to an SE. As part of this, NWB Group enters into credit derivative and financial guarantee contracts with consolidated SEs. At 31 December 2020, debt securities in issue by such SEs (and held by third parties) were £772 million (2019 - £673 million). The associated loans and mortgages at 31 December 2020 were £10,027 million (2019 - £9,001 million). At 31 December, ECL in relation to non-defaulted assets was reduced by £183 million (2019 - £29 million) as a result of financial guarantee contracts with consolidated SEs.

Covered bond programme

Certain loans to customers have been assigned to bankruptcy remote limited liability partnerships to provide security for issues of debt securities by NWB Group. NWB Group retains all of the risks and rewards of these loans. The partnerships are consolidated by NWB Group, the loans retained on NWB Group's balance sheet and the related covered bonds included within debt securities in issue of the NWB Group. At 31 December 2020, £10,012 million of loans to customers have been assigned to bankruptcy remote limited liability partnerships to provide security for issues of debt securities by the NWB Group of £3,020 million (2019 - loans to customers - £8,481 million, debt securities in issue – £5,948 million).

Unconsolidated structured entities

NWB Group's interest in unconsolidated structured entities is analysed below.

	2020			2019		
	Asset backed securitisation vehicles £m	**Investment funds and other £m**	**Total £m**	Asset backed securitisation vehicles £m	Investment funds and other £m	Total £m
Non-trading assets						
Loans to customers	**15**	**216**	**231**	26	374	400
Other financial assets	**1,480**	**—**	**1,480**	1,501	—	1,501
Total	**1,495**	**216**	**1,711**	1,527	374	1,901
Liquidity facilities/loan commitments	**1**	**65**	**66**	7	68	75
Maximum exposure	**1,496**	**281**	**1,777**	1,534	442	1,976

25 Asset transfers

Transfers that do not qualify for derecognition

NWB Group enters into securities repurchase agreements and securities lending transactions under which it transfers securities in accordance with normal market practice. Generally, the agreements require additional collateral to be provided if the value of the securities falls below a predetermined level.

Under standard terms for repurchase transactions in the UK and US markets, the recipient of collateral has an unrestricted right to sell or re-pledge it, subject to returning equivalent securities on settlement of the transaction.

Securities sold under repurchase transactions are not derecognised if NWB Group retains substantially all the risks and rewards of ownership. The fair value (and carrying value) of securities transferred under such repurchase transactions included on the balance sheet, are set out below. All of these securities could be sold or re-pledged by the holder.

	NWB Group		NWB Plc	
The following assets have failed derecognition (1)	2020 £m	2019 £m	2020 £m	2019 £m
Loans to banks - amortised cost	**5**	—	**5**	—
Loans to customers - amortised cost	**39**	—	**39**	—
Other financial assets	**11,438**	4,267	**11,438**	4,267
	11,482	4,267	**11,482**	4,267

Note:
(1) Associated liabilities were £11,391 million for both NWB Group and NWB Plc (2019- £4,165 million).

Assets pledged as collateral

NWB Group pledges collateral with its counterparties in respect of derivative liabilities and bank and stock borrowings.

	NWB Group		NWB Plc	
Assets pledged against liabilities	2020 £m	2019 £m	2020 £m	2019 £m
Loans to banks - amortised cost	**49**	39	**—**	—
Loans to customers - amortised cost	**9,675**	15,921	**9,675**	15,921
Other financial assets (1)	**2,710**	1,920	**2,710**	1,920
	12,434	17,880	**12,385**	17,841

Note:
(1) Includes amount pledged for pension derivatives.

The following table analyses assets that have been transferred but have failed the derecognition rules under IFRS 9 and therefore continue to be recognised on NWB Plc's balance sheet.

Asset type (1)	2020 £m	2019 £m
UK mortgages - covered bond programme	**10,012**	8,481

Note:
(1) The associated liabilities are £9,916 million (2019 - £8,287 million).

Notes to the financial statements

26 Capital resources

The minimum requirement for own funds is set out under the Capital Requirements Regulation on a legal entity and consolidated basis. Transitional arrangements on the phasing in of end-point capital resources are set by the relevant regulatory authority.

The capital resources under the PRA transitional basis are set out below.

	2020 £m	2019 £m
Shareholders' equity (excluding non-controlling interests)		
Shareholders' equity	**18,464**	18,026
Other equity instruments	**(2,370)**	(2,370)
	16,094	15,656
Regulatory adjustments and deductions		
Cash flow hedging reserve	**133**	(27)
Deferred tax assets	**(523)**	(474)
Prudential valuation adjustments	**(9)**	(16)
Goodwill and other intangible assets	**(525)**	(963)
Expected losses less impairments	**—**	(109)
Instruments of financial sector entities where the institution has a significant investment	**(499)**	(716)
Significant investments in excess of secondary capital	**—**	(133)
Foreseeable charges	**(266)**	(365)
Adjustment under IFRS 9 transition arrangements	**1,019**	—
Other regulatory adjustments	**—**	(2)
	(670)	(2,805)
CET1 capital	**15,424**	12,851
Additional Tier 1 (AT1) capital		
Qualifying instruments and related share premium	**2,370**	2,370
Qualifying instruments and related share premium subject to phase out	**58**	88
	2,428	2,458
Tier 1 capital		
Instruments of financial sector entities where the institution has a significant investment	**(262)**	(262)
Tier 1 capital	**17,590**	15,047
Qualifying Tier 2 capital		
Qualifying instruments and related share premium	**3,386**	3,075
Tier 2 deductions		
Instruments of financial sector entities where the institution has a significant investment	**(332)**	(321)
Other regulatory adjustments	**121**	—
	(211)	(321)
Tier 2 capital	**3,175**	2,754
Total regulatory capital	**20,765**	17,801

In the management of capital resources, NWB Plc is governed by NatWest Group's policy to maintain a strong capital base, to expand it as appropriate and to utilise it efficiently throughout its activities to optimise the return to shareholders while maintaining a prudent relationship between the capital base and the underlying risks of the business. In carrying out this policy, NatWest Group has regard to the supervisory requirements of the PRA. The PRA uses capital ratios as a measure of capital adequacy in the UK banking sector, comparing a bank's capital resources with its risk-weighted assets (the assets and off-balance sheet exposures are 'weighted' to reflect the inherent credit and other risks); by international agreement, the Pillar 1 capital ratios, excluding capital buffers should be not less than 8% with a Common equity Tier 1 component of not less than 4%. NWB Plc has complied with the PRA's capital requirements throughout the year.

A number of subsidiaries and sub-groups within NWB Group, principally banking entities, are subject to various individual regulatory capital requirements in the UK and overseas. Furthermore, the payment of dividends by subsidiaries and the ability of members of NatWest Group to lend money to other members of NatWest Group may be subject to restrictions such as local regulatory or legal requirements, the availability of reserves and financial and operating performance.

27 Memorandum items

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 31 December 2020. Although NWB Group 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 NWB Group's expectation of future losses.

	NWB Group		NWB Plc	
	2020 £m	2019 £m	2020 £m	2019 £m
Contingent liabilities and commitments				
Guarantees	**762**	1,015	**674**	920
Other contingent liabilities	**1,404**	1,368	**1,361**	1,327
Standby facilities, credit lines and other commitments	**75,625**	72,592	**69,372**	66,799
	77,791	74,975	**71,407**	69,046

Note:
(1) In the normal course of business, NWB Plc guarantees specified third party liabilities of certain subsidiaries; it also gives undertakings that individual subsidiaries will fulfil their obligations to third parties under contractual or other arrangements.

Banking commitments and contingent obligations, which have been entered into on behalf of customers and for which there are corresponding obligations from customers, are not included in assets and liabilities. NWB Group's maximum exposure to credit loss, in the event of its obligation crystallising and all counterclaims, collateral or security proving valueless, is represented by the contractual nominal amount of these instruments included in the table above. These commitments and contingent obligations are subject to NWB Group's normal credit approval processes.

Guarantees - NWB Group gives guarantees on behalf of customers. A financial guarantee represents an irrevocable undertaking that NWB Group will meet a customer's specified obligations to a third party if the customer fails to do so. The maximum amount that NWB Group could be required to pay under a guarantee is its principal amount as disclosed in the table above. NWB Group expects most guarantees it provides to expire unused.

Other contingent liabilities - these include standby letters of credit, supporting customer debt issues and contingent liabilities relating to customer trading activities such as those arising from performance and customs bonds, warranties and indemnities.

Standby facilities and credit lines - under a loan commitment NWB Group agrees to make funds available to a customer in the future. Loan commitments, which are usually for a specified term, may be unconditionally cancellable or may persist, provided all conditions in the loan facility are satisfied or waived.

Commitments to lend include commercial standby facilities and credit lines, liquidity facilities to commercial paper conduits and unutilised overdraft facilities.

Other commitments - these include documentary credits, which are commercial letters of credit providing for payment by NWB Group to a named beneficiary against presentation of specified documents, forward asset purchases, forward deposits placed and undrawn note issuance and revolving underwriting facilities, and other short-term trade related transactions.

Indemnity deed

In April 2019, NWM Plc and NWB Plc entered into a cross indemnity agreement for losses incurred within the entities in relation to business transferred to or from the ring-fenced bank under the NatWest Group's structural re-organisation. Under the agreement, NWM Plc is indemnified by NWB Plc against losses relating to the NWB Plc transferring businesses and ring-fenced bank obligations and NWB Plc is indemnified by NWM Plc against losses relating to NWM Plc transferring businesses and non ring-fenced bank obligations with effect from the relevant transfer date.

Capital Support Deed

NWB Plc, together with certain other subsidiaries of NatWest Holdings Limited, is party to a Capital Support Deed (CSD). Under the terms of the CSD, the Bank may be required, if compatible with its legal obligations, to make distributions on, or repurchase or redeem, its ordinary shares. The amount of this obligation is limited to the NWB Plc's capital resources in excess of the capital and financial resources needed to meet its regulatory requirements. NWB Plc may also be obliged to make onward distribution to its ordinary shareholders of dividends or other capital distributions received from subsidiaries that are party to the CSD. The CSD also provides that, in certain circumstances, funding received by NWB Plc from other parties to the CSD becomes immediately repayable, such repayment being limited to the NWB Plc's available resources.

Contractual obligations for future expenditure not provided for in the accounts

The following table shows contractual obligations for future expenditure not provided for in the accounts at the year end.

	NWB Group		NWB Plc	
	2020 £m	2019 £m	2020 £m	2019 £m
Capital expenditure on other property, plant and equipment	**7**	9	**7**	7
Contracts to purchase goods or services (1)	**722**	607	**603**	497
	729	616	**610**	504

Note:
(1) Of which due within 1 year: £263 million (2019 - £281 million) for NWB Group and £239 million (2019 - £260 million) for NWB Plc.

27 Memorandum items continued

Trustee and other fiduciary activities

In its capacity as trustee or other fiduciary role, NWB Group may hold or place assets on behalf of individuals, trusts, companies, pension schemes and others. The assets and their income are not included in NWB Group's financial statements. NWB Group earned fee income of £185 million (2019 - £187 million) from these activities.

The Financial Services Compensation Scheme

The Financial Services Compensation Scheme (FSCS), the UK's statutory fund of last resort for customers of authorised financial services firms, pays compensation if a firm is unable to meet its obligations. The FSCS funds compensation for customers by raising management expenses levies and compensation levies on the industry. In relation to protected deposits, each deposit-taking institution contributes towards these levies in proportion to their share of total protected deposits on 31 December of the year preceding the scheme year (which runs from 1 April to 31 March), subject to annual maxima set by the Prudential Regulation Authority. In addition, the FSCS has the power to raise levies on a firm that has ceased to participate in the scheme and is in the process of ceasing to be authorised for the costs that it would have been liable to pay had the FSCS made a levy in the financial year it ceased to be a participant in the scheme.

Litigation and regulatory matters

NWB Plc and its subsidiary and associated undertakings ('NWB Group') are party to legal proceedings and involved in regulatory matters, including as the subject of investigations and other regulatory and governmental action ('Matters') in the United Kingdom (UK), the United States (US), the European Union (EU) and other jurisdictions.

NWB Group recognises a provision for a liability in relation to these 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 of these 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 NWB Group's reputation, businesses and operations. Numerous legal and factual issues may need to be resolved, including through potentially lengthy discovery and document production exercises and determination of important factual matters, and by addressing novel or unsettled legal questions relevant to the proceedings in question, before a liability can reasonably be estimated for any claim. NWB Group cannot predict if, how, or when such claims will be resolved or what the eventual settlement, damages, fine, penalty or other relief, if any, may be, particularly for claims that are at an early stage in their development or where claimants seek substantial or indeterminate damages.

There are situations where NWB Group may pursue an approach that in some instances leads to a settlement agreement. This may occur in order to avoid the expense, management distraction or reputational implications of continuing to contest liability, or in order to take account of the risks inherent in defending claims or regulatory matters, even for those Matters for which NWB Group believes it has credible defences and should prevail on the merits. The uncertainties inherent in all such Matters affect the amount and timing of any potential outflows for both Matters with respect to which provisions have been established and other contingent liabilities.

The future outflow of resources in respect of any Matter may ultimately prove to be substantially greater than or less than the aggregate provision that NWB Group has recognised. Where (and as far as) liability cannot be reasonably estimated, no provision has been recognised. NWB Group expects that in future periods, additional provisions, settlement amounts and customer redress payments will be necessary, in amounts that are expected to be substantial in some instances.

For a discussion of certain risks associated with NWB Group's litigation and regulatory matters (including investigations and customer redress programmes), see the Risk Factor relating to legal, regulatory and governmental actions and investigations set out on page 173.

Litigation

London Interbank Offered Rate (LIBOR) and other rates litigation

In January 2019, a class action antitrust complaint was filed in the United States District Court for the Southern District of New York alleging that the defendants (USD ICE LIBOR panel banks and affiliates) have conspired to suppress USD ICE LIBOR from 2014 to the present by submitting incorrect information to ICE about their borrowing costs. The NatWest Group defendants are NatWest Group plc, NatWest Markets Plc, NatWest Markets Securities Inc., and NWB Plc. The defendants made a motion to dismiss this case, which was granted by the court in March 2020. Plaintiffs' appeal of the dismissal is pending in the United States Court of Appeals for the Second Circuit.

In August 2020, a complaint was filed in the United States District Court for the Northern District of California by several United States consumer borrowers against the USD ICE LIBOR panel banks and their affiliates, alleging that the normal process of setting USD ICE LIBOR amounts to illegal price-fixing, and also that banks in the United States have illegally agreed to use LIBOR as a component of price in variable consumer loans. The NatWest Group defendants are NatWest Group plc, NatWest Markets Plc, NatWest Markets Securities Inc., and NWB Plc. The plaintiffs seek damages and to prevent the enforcement of LIBOR-based instruments through injunction. Defendants have filed a motion to transfer the matter to federal court in New York and will seek dismissal.

Offshoring VAT assessments

HMRC issued protective tax assessments in 2018 against NatWest Group plc totalling £143 million relating to unpaid VAT in respect of the UK branches of two NatWest Group companies registered in India. NatWest Group formally requested reconsideration by HMRC of their assessments, and this process was completed in November 2020. HMRC upheld their original decision and, as a result, NatWest Group plc lodged an appeal with the Tax Tribunal and an application for judicial review with the High Court of Justice of England and Wales, both in December 2020. In order to lodge the appeal with the Tax Tribunal, NatWest Group plc was required to pay the £143 million to HMRC, and payment was made on 16 December 2020.

US Anti-Terrorism Act litigation

NWB Plc is defending lawsuits filed in the United States District Court for the Eastern District of New York by a number of US nationals (or their estates, survivors, or heirs) who were victims of terrorist attacks in Israel. The plaintiffs allege that NWB Plc is liable for damages arising from those attacks pursuant to the US Anti-Terrorism Act because NWB Plc previously maintained bank accounts and transferred funds for the Palestine Relief & Development Fund, an organisation which plaintiffs allege solicited funds for Hamas, the alleged perpetrator of the attacks.

In October 2017, the trial court dismissed claims against NWB Plc with respect to two of the 18 terrorist attacks at issue. In March 2018, the trial court granted a request by NWB Plc for leave to file a renewed summary judgment motion in respect of the remaining claims, and in March 2019, the court granted summary judgment in favour of NWB Plc. The plaintiffs' appeal of the judgment to the United States Court of Appeals for the Second Circuit is pending.

Regulatory matters (including investigations and customer redress programmes)

NWB Group's financial condition can be affected by the actions of various governmental and regulatory authorities in the UK, the US, the EU and elsewhere. NWB Group and/or NatWest Group have engaged, and will continue to engage, in discussions with relevant governmental and regulatory authorities, including in the UK, the US, the EU and elsewhere, 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, including consumer

27 Memorandum items continued
Litigation and regulatory matters
protection, investment advice, business conduct, competition/anti-trust, VAT recovery, anti-bribery, anti-money laundering and sanctions regimes. Any matters discussed or identified during such discussions and inquiries may result in, among other things, further inquiry or investigation, other action being taken by governmental and regulatory authorities, increased costs being incurred by NWB Group, remediation of systems and controls, public or private censure, restriction of NWB Group's business activities and/or fines. Any of the events or circumstances mentioned in this paragraph or below could have a material adverse effect on NWB Group, its business, authorisations and licences, reputation, results of operations or the price of securities issued by it, or lead to material additional provisions being taken.

NWB Group is co-operating fully with the matters described below.

Investigations
FCA investigation into NatWest Group's compliance with the Money Laundering Regulations 2007
In July 2017, the FCA notified NatWest Group that it was undertaking an investigation into NatWest Group's compliance with the UK Money Laundering Regulations 2007 in relation to certain money service businesses and related parties. The investigation is assessing both criminal and civil culpability. NatWest Group is co-operating with the investigation, including responding to information requests from the FCA.

Systematic Anti-Money Laundering Programme assessment
In December 2018, the FCA commenced a Systematic Anti-Money Laundering Programme assessment of NatWest Group. The FCA provided its written findings to NatWest Group in June 2019, and NatWest Group responded on 8 August 2019. On 28 August 2019, the FCA instructed NatWest Group to appoint a Skilled Person under section 166 of the Financial Services and Markets Act 2000 to provide assurance on financial crime governance arrangements in relation to two financial crime change programmes. NatWest Group is co-operating with the Skilled Person's review, which is ongoing.

FCA mortgages market study
In December 2016, the FCA launched a market study into the provision of mortgages. In March 2019 the final report was published. This found that competition was working well for many customers but also proposed remedies to help customers shop around more easily for mortgages. A period of consultation is underway and the FCA has indicated that it intends to provide updates on the remedies in due course.

Customer redress programmes
FCA review of NatWest Group's treatment of SMEs
In 2014, the FCA appointed an independent Skilled Person under section 166 of the Financial Services and Markets Act 2000 to review NatWest Group's treatment of SME customers whose relationship was managed by NatWest Group's Global Restructuring Group (GRG) in the period 1 January 2008 to 31 December 2013. In response to the Skilled Person's final report and update in 2016, NatWest Group announced redress steps for SME customers in the UK and the Republic of Ireland that were in GRG between 2008 and 2013. These steps were (i) an automatic refund of certain complex fees; and (ii) a new complaints process, overseen by an independent third party. The complaints process has since closed to new complaints.

NWB Group's remaining provisions in relation to these matters at 31 December 2020 were £14 million.

Investment advice review
During October 2019, the FCA notified NatWest Group of its intention to appoint a Skilled Person under section 166 of the Financial Services and Markets Act 2000 to conduct a review of whether NatWest Group's past business review of investment advice provided during 2010 to 2015 was subject to appropriate governance and accountability and led to appropriate customer outcomes. NatWest Group is co-operating with the Skilled Person's review and, subject to discussion with the FCA, expects to conduct additional review / remediation work during 2021. Accordingly, NatWest Group recognised an increased provision in relation to these matters at 31 December 2020.

Notes to the financial statements

28 Analysis of the net investment in business interests and intangible assets

	NWB Group		NWB Plc	
	2020	2019	2020	2019
Acquisitions and disposals	£m	£m	£m	£m
Value recognised for business transferred from fellow subsidiary	(47)	(7)	(22)	(21)
Additional investments in group undertakings	—	—	(16)	(6)
Net assets purchased	(19)	—	(19)	—
Net outflow of cash in respect of purchases	(66)	(7)	(57)	(27)
Net assets disposed	14	—	14	—
Profit on disposal of net assets	6	—	6	—
Net inflow of cash in respect of disposals	20	—	20	—
Net cash expenditure on intangible assets	(341)	(380)	(316)	(364)
Net outflow of cash	(387)	(387)	(353)	(391)

29 Analysis of changes in financing during the year

	NWB Group						NWB Plc					
	Called up share capital, share premium, and paid-in equity		Subordinated liabilities		MRELs		Called up share capital, share premium, and paid-in equity		Subordinated liabilities		MRELs	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January	6,273	6,273	4,029	4,178	3,116	1,547	6,273	6,273	4,029	4,170	2,805	1,497
Issue of subordinated liabilities	—	—	500	580					500	580		
Redemption of subordinated liabilities			—	(708)					—	(700)		
Interest on subordinated liability			(179)	(162)					(179)	(162)		
Issue of MRELs					809	1,439					809	1,179
Interest on MRELs					(161)	(109)					(155)	(107)
Net cash outflow from financing	—	—	321	(290)	648	1,330	—	—	321	(282)	654	1,072
Effects of foreign exchange	—	—	(75)	(82)	(173)	(69)	—	—	(75)	(82)	(174)	(70)
Changes in fair value of subordinated liabilities/MRELs			82	54	155	175			82	54	155	175
Interest on subordinated liabilities/MRELs			182	169	162	133			182	169	157	131
At 31 December	6,273	6,273	4,539	4,029	3,908	3,116	6,273	6,273	4,539	4,029	3,597	2,805

30 Analysis of cash and cash equivalents

	NWB Group		NWB Plc	
	2020	2019	2020	2019
	£m	£m	£m	£m
At 1 January				
- cash	27,457	45,032	26,377	43,966
- cash equivalents	5,809	6,416	7,243	5,526
	33,266	51,448	33,620	49,492
Net cash inflow/(outflow)	34,782	(18,182)	33,574	(15,872)
At 31 December	68,048	33,266	67,194	33,620
Comprising:				
Cash and balances at central banks	62,983	27,457	62,878	26,377
Other financial assets	165	50	165	50
Loans to banks including intragroup balances - amortised cost (1)	4,900	5,759	4,151	7,193
Cash and cash equivalents	68,048	33,266	67,194	33,620

Note:
(1) Includes cash collateral posted with bank counterparties in respect of derivative liabilities of £165 million (2019 - £17 million).

Notes to the financial statements

31 Directors' and key management remuneration

The composition of NWB Plc's board of directors is aligned to its intermediate holding company NatWest Holdings Ltd. The directors are remunerated for their services to NatWest Group as a whole, and their remuneration cannot be apportioned in respect of their services to NWB Plc.

The directors' emoluments in the table below represent the NWH Group emoluments of the directors.

Directors' remuneration	2020 £000	2019 £000
Non-executive directors emoluments	**2,078**	2,276
Chairman and executive directors emoluments	**4,349**	6,471
	6,427	8,747
Amounts receivable under long-term incentive plans and share option plans	**609**	741
	7,036	9,488

The total emoluments and amounts receivable under long-term incentive plans and share option plans of the highest paid director were £2,561,000 (2019 - £2,082,000).

No directors accrued benefits under defined benefit schemes or defined contribution schemes during 2020 and 2019. The executive directors may participate in the NatWest Group's long-term incentive plans, executive share option and sharesave schemes. Where directors of NWB Plc are also directors of NatWest Group plc, details of their share interests can be found in the 2020 Annual Report and Accounts of NatWest Group plc, in line with regulations applying to NatWest Group plc as a premium listed company.

Compensation of key management

The aggregate remuneration of directors and other members of key management(1) during the year was as follows:

	2020 £000	2019 £000
Short-term benefits	**15,099**	17,295
Post-employment benefits	**363**	249
Share-based payments	**2,707**	1,686
	18,169	19,230

Note:
(1) *Key management comprises members of the NWH Ltd Executive Committee.*

32 Transactions with directors and key management

At 31 December 2020, amounts outstanding in relation to transaction, arrangements and agreements entered into by authorised institutions in NWB Group, as defined in UK legislation, were £1,329,122 in respect of loans to six persons who were directors of NWB Plc at any time during the financial period.

For the purposes of IAS 24 'Related Party Disclosures', key management comprise directors of NWB Plc and members of the NWB Plc Executive Committee. Applying the captions in NWB Group's primary financial statements the following amounts are attributable, in aggregate, to key management:

	2020 £000	2019 £000
Loans to customers - amortised cost	**5,105**	1,566
Customer deposits	**39,164**	29,887

The amounts in the above table are attributed to each person at their highest level of NatWest Group key management.

Key management have banking relationships with NatWest Group entities which are entered into in the normal course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with other persons of a similar standing or, where applicable, with other employees. These transactions did not involve more than the normal risk of repayment or present other unfavourable features. Key management had no reportable transactions or balances with the holding companies.

Notes to the financial statements

33 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 Group.

At 31 December 2020, HM Treasury's holding in NatWest Group's ordinary shares was 61.9%.

NWB Group enters into transactions with many of these bodies. Transactions include the payment of: taxes, principally UK corporation tax (Note 7) and value added tax; national insurance contributions; local authority rates; and 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

NWB Group may participate in a number of schemes operated by the Bank of England in the normal course of business.

Members of NWB Group that are UK authorised institutions are required to maintain non-interest bearing (cash ratio) deposits with the Bank of England amounting to 0.368% of their average eligible liabilities in excess of £600 million. They also have access to Bank of England reserve accounts: sterling current accounts that earn interest at the Bank of England Base Rate.

NWB Plc guarantees certain liabilities of NWH Group to the Bank of England.

Other related parties

(a) In their roles as providers of finance, NWB Group companies provide development and other types of capital support to businesses. These investments are made in the normal course of business. In some instances, the investment may extend to ownership or control over 20% or more of the voting rights of the investee company. However, these investments are not considered to give rise to transactions of a materiality requiring disclosure under IAS 24.

(b) NWB Group recharges NatWest Group Pension Fund with the cost of administration services incurred by it. The amounts involved are not material to NWB Group.

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

(d) The captions in the primary financial statements of the parent company include amounts attributable to subsidiaries. These amounts have been disclosed in aggregate in the relevant notes to the financial statements.

The table below discloses transactions between NWB Group and subsidiaries of NatWest Group.

	2020 £m	2019 £m
Interest receivable	**2**	45
Interest payable	**(272)**	(414)
Fees and commissions receivable	**—**	1
Fees and commissions payable	**(2)**	(2)
Other administrative expenses	**12**	1
	(260)	(369)

34 Ultimate holding company

NWB Group's ultimate holding company is NatWest Group plc (NatWest Group) and its intermediate parent company is NatWest Holdings Limited ('NWH Ltd' or 'the intermediate holding company').

All companies are incorporated in Great Britain and NatWest Group plc is registered in Scotland and NWH Ltd is registered in England. As at 31 December 2020, RBSG plc heads the largest group in which NWB Group is consolidated. Copies of the consolidated accounts of both companies may be obtained from The Secretary, NatWest Group plc, Gogarburn, PO Box 1000, Edinburgh EH12 1HQ.

Following placing and open offers by NatWest Group plc in December 2008 and April 2009, the UK Government, through HM Treasury, currently holds 61.9% of the issued ordinary share capital of the ultimate holding company and is therefore NWB Group's ultimate controlling party.

35 Post balance sheet events

On 18 February 2021, NWB Group reached final agreement with the Official Receiver in relation to a portfolio of historical PPI claims. NWB Group carried adequate provision for this outcome and there is no further charge/release as a result.

Notes to the financial statements

36 Related undertakings

Legal entities and activities at 31 December 2020

In accordance with the Companies Act 2006, NWB Plc's related undertakings and the accounting treatment for each are listed below. All undertakings are wholly-owned by NWB Plc or subsidiaries of NWB Plc and are consolidated by reason of contractual control (Section 1162(2) CA 2006), unless otherwise indicated. NWB Group interest refers to ordinary shares of equal values and voting rights unless further analysis is provided in the notes. Activities are classified in accordance with Annex I to the Capital Requirements Directive ("CRD IV") and the definitions in Article 4 of the Capital Requirements Regulation.

The following table details active related undertakings incorporated in the UK which are 100% owned by NWB Group and fully consolidated for accounting purposes

Entity name	Activity	Regulatory treatment	Notes
Caledonian Sleepers Rail Leasing Ltd	BF	FC	(2)
Coutts & Company	CI	FC	(25)
Coutts Finance Company	BF	FC	(25)
Esme Loans Ltd	BF	FC	(5)
FreeAgent Central Ltd	SC	FC	(6)
FreeAgent Holdings Ltd	SC	FC	(6)
G L Trains Ltd	BF	FC	(2)
Gatehouse Way Developments Ltd	INV	DE	(2)
KUC Properties Ltd	BF	DE	(1)
Land Options (West) Ltd	INV	DE	(1)
Lombard & Ulster Ltd	BF	FC	(22)
Lombard Business Finance Ltd	BF	FC	(5)
Lombard Business Leasing Ltd	BF	FC	(5)
Lombard Corporate Finance (December 1) Ltd	BF	FC	(5)
Lombard Corporate Finance (December 3) Ltd	BF	FC	(5)
Lombard Corporate Finance (June 2) Ltd	BF	FC	(5)
Lombard Discount Ltd	BF	FC	(5)
Lombard Finance Ltd	BF	FC	(5)
Lombard Industrial Leasing Ltd	BF	FC	(5)
Lombard Initial Leasing Ltd	BF	FC	(5)
Lombard Lease Finance Ltd	BF	FC	(5)
Lombard Leasing Company Ltd	BF	FC	(5)
Lombard Leasing Contracts Ltd	BF	FC	(2)
Lombard Lessors Ltd	BF	FC	(5)
Lombard Maritime Ltd	BF	FC	(5)
Lombard North Central Leasing Ltd	BF	FC	(5)
Lombard North Central PLC	BF	FC	(5)
Lombard Property Facilities Ltd	BF	FC	(2)
Lombard Technology Services Ltd	BF	FC	(5)
Mettle Ventures Ltd	OTH	FC	(5)
National Westminster Home Loans Ltd	BF	FC	(5)
National Westminster Properties No. 1 Ltd	SC	DE	(5)
NatWest Capital Finance Ltd	BF	FC	(2)
NatWest Corporate Investments	BF	FC	(5)
NatWest Invoice Finance Ltd	OTH	FC	(5)
NatWest Property Investments Ltd	INV	DE	(5)
Northern Isles Ferries Ltd	BF	FC	(5)
Pittville Leasing Ltd	BF	FC	(5)
Premier Audit Company Ltd	BF	FC	(5)
R.B. Capital Leasing Ltd	BF	FC	(5)
R.B. Leasing (September) Ltd	BF	FC	(5)
R.B. Quadrangle Leasing Ltd	BF	FC	(5)
RBS Asset Finance Europe Ltd	BF	FC	(5)
RBS Asset Management (ACD) Ltd	BF	FC	(25)
RBS Asset Management Holdings	BF	FC	(25)
RBS Collective Investment Funds Ltd	BF	FC	(8)
RBS Invoice Finance Ltd	BF	FC	(5)
RBSG Collective Investments Holdings Ltd	BF	FC	(8)
RBSSAF (2) Ltd	BF	FC	(5)
RBSSAF (7) Ltd	BF	FC	(5)
RBSSAF (8) Ltd	BF	FC	(5)
RBSSAF (25) Ltd	BF	FC	(5)
Royal Bank Leasing Ltd	BF	FC	(1)
Royal Bank of Scotland (Industrial Leasing) Ltd	BF	FC	(1)
Royal Scot Leasing Ltd	BF	FC	(1)
RoyScot Trust Plc	BF	FC	(5)
The Royal Bank of Scotland Group Independent Financial Services Ltd	BF	FC	(17)
Ulster Bank Ltd	CI	FC	(22)
Ulster Bank Pension Trustees Ltd	TR	DE	(22)
Voyager Leasing Ltd	BF	FC	(5)
Walton Lake Developments Ltd	INV	DE	(2)

The following table details active related undertakings incorporated outside the UK which are 100% owned by NWB Group and fully consolidated for accounting purposes

Entity name	Activity	Regulatory treatment	Notes
Airside Properties AB	BF	FC	(9)
Airside Properties ASP Denmark AS	BF	FC	(32)
Airside Properties Denmark AS	BF	FC	(32)
Arkivborgen KB	BF	FC	(9)
Artul Koy	BF	FC	(4)
Backsmedjan KB	BF	FC	(9)
BD Lagerhus AS	BF	FC	(10)
Bilfastighet i Akalla AB	BF	FC	(9)
Brödmagasinet KB	BF	FC	(9)
Eiendomsselskapet Apteno La AS	BF	FC	(10)
Eurohill 4 KB	BF	FC	(9)
Fab Ekenäs Formanshagen 4	BF	FC	(4)
Fastighets AB Flöjten I Norrköping	BF	FC	(9)
Fastighets Aktiebolaget Sambiblioteket	BF	FC	(9)
Fastighetsbolaget Holma I Höör AB	BF	FC	(9)
Forskningshöjden KB	BF	FC	(9)
Förvaltningsbolaget Dalkyrkan KB	BF	FC	(9)
Fyrsate Fastighets AB	BF	FC	(9)
Gredelinen KB	BF	FC	(9)
Grinnhagen KB	BF	FC	(9)
Hatros 1 AS	BF	FC	(10)
Horrsta 4:38 KB	BF	FC	(9)
IR Fastighets AB	BF	FC	(9)
IR IndustriRenting AB	BF	FC	(9)
Kallebäck Institutfastigheter AB	BF	FC	(9)
Kastrup Commuter K/S	BF	FC	(32)
Kastrup Hangar 5 K/S	BF	FC	(32)
Kastrup V & L Building K/S	BF	FC	(32)
KB Eurohill	BF	FC	(9)
KB IR Gamlestaden	BF	FC	(9)
KB Lagermannen	BF	FC	(9)
KB Likriktaren	BF	FC	(9)
Koy Lohjan Ojamonharjuntie 61	BF	FC	(4)
Koy Pennalan Johtotie 2	BF	FC	(4)
Koy Vantaan Rasti IV	BF	FC	(4)
Koy Espoon Entresse II	BF	FC	(4)

Notes to the financial statements

36 Related undertakings continued

Entity name	Activity	Regulatory treatment	Notes
Koy Helsingin Mechelininkatu 1	BF	FC	(4)
Koy Helsingin Osmontie 34	BF	FC	(4)
Koy Helsingin Panuntie 11	BF	FC	(4)
Koy Helsingin Panuntie 6	BF	FC	(4)
Koy Iisalmen Kihlavirta	BF	FC	(4)
Koy Jämsän Keskushovi	BF	FC	(4)
Koy Jasperintie 6	BF	FC	(7)
Koy Kokkolan Kaarlenportti Fab	BF	FC	(4)
Koy Kouvolan Oikeus ja Poliisitalo	BF	FC	(4)
Koy Millennium	BF	FC	(4)
Koy Nummelan Portti	BF	FC	(4)
Koy Nuolialan päiväkoti	BF	FC	(4)
Koy Peltolantie 27	BF	FC	(7)
Koy Puotikuja 2 Vaasa	BF	FC	(4)
Koy Raision Kihlakulma	BF	FC	(4)
Koy Ravattulan Kauppakeskus	BF	FC	(4)
Koy Tapiolan Louhi	BF	FC	(4)
Koy Vapaalan Service-Center	BF	FC	(4)
Läkten 1 KB	BF	FC	(9)
LerumsKrysset KB	BF	FC	(9)
Limstagården KB	BF	FC	(9)
Narmovegen 455 AS	BF	FC	(13)
National Westminster International Holdings B.V.	BF	FC	(33)
NatWest Services (Switzerland) Ltd	SC	FC	(26)
Nordisk Renting AB	BF	FC	(9)
Nordisk Renting AS	BF	FC	(10)
Nordisk Renting OY	BF	FC	(4)
Nordisk Specialinvest AB	BF	FC	(9)
Nordiska Strategifastigheter Holding AB	BF	FC	(9)
NWM Services India Private Ltd	SC	FC	(23)
Nybergflata 5 AS	BF	FC	(10)
RBS Asset Management (Dublin) Ltd	BF	FC	(31)
RBS Deutschland Holdings GmbH	BF	FC	(14)
RBS Polish Financial Advisory Services Sp. Z o.o.	BF	FC	(20)
RBS Services India Private Ltd	SC	FC	(11)
Ringdalveien 20 AS	BF	FC	(16)
SFK Kommunfastigheter AB	BF	FC	(9)
Sjöklockan KB	BF	FC	(9)
Skinnarängen KB	BF	FC	(9)
Solbänken KB	BF	FC	(9)
Strand European Holdings AB	BF	FC	(9)
Svenskt Energikapital AB	BF	FC	(9)
Svenskt Fastighetskapital AB	BF	FC	(9)
Svenskt Fastighetskapital Holding AB	BF	FC	(9)
Tygverkstaden 1 KB	BF	FC	(9)

The following table details active related undertakings which are 100% owned by NWB Group but are not consolidated for accounting purposes

Entity name	Activity	Regulatory treatment	Notes
West Granite Homes Inc.	INV	DE	(27)

The following table details active related undertakings incorporated in the UK where NWB Group ownership is less than 100%

Entity name	Activity	Accounting treatment	Regulatory treatment	Group %	Notes
Falcon Wharf Ltd	OTH	EAJV	PC	50	(30)
GWNW City Developments Ltd	BF	EAJV	DE	50	(30)
Jaguar Cars Finance Ltd	BF	FC	FC	50	(5)
JCB Finance (Leasing) Ltd	BF	FC	FC	75	(29)
JCB Finance Ltd	BF	FC	FC	75	(29)
Landpower Leasing Ltd	BF	FC	FC	75	(29)
Landpower Leasing Ltd	BF	FC	FC	75	(29)
London Rail Leasing Ltd	BF	EAJV	PC	50	(12)
Natwest Covered Bonds (LM) Ltd	BF	IA	PC	20	(24)
Natwest Covered Bonds LLP	BF	FC	FC	73	(2)
Pollinate Networks Ltd	OTH	EAA	DE	30	(34)
Silvermere Holdings Ltd	BF	FC	FC	95	(8)

The following table details active related undertakings incorporated outside the UK where NWB Group ownership is less than 100%

Entity name	Activity	Accounting treatment	Regulatory treatment	Group %	Notes
Förvaltningsbolaget Klöverbacken Skola KB	BF	FC	FC	51	(9)
Nightingale CRE 2018-1 Ltd	BF	FC	DE	0	(19)
Nightingale Project Finance 2019 1 Ltd	BF	FC	DE	0	(19)
Nightingale Securities 2017-1 Ltd	BF	FC	DE	0	(19)
Nightingale UK Corp 2020 2 Ltd	BF	FC	DE	0	(19)
Optimus KB	BF	FC	FC	51	(9)
Pharos Estates Ltd	OTH	EAA	DE	49	(28)
Wiśniowy Management sp. Z.o.o.	SC	EAA	DE	25	(21)

The following table details related undertakings that are not active (actively being dissolved)

Entity name	Accounting treatment	Regulatory treatment	Group %	Notes
Belfast Bankers' Clearing Company Ltd	EAA	DE	25	(3)
Euro Sales Finance Ltd	FC	FC	100	(5)
Lombard Ireland Group Holdings Unlimited	FC	FC	100	(15)
Lombard Ireland Ltd	FC	FC	100	(15)
NatWest Nominees Ltd	FC	FC	100	(2)
Royal Bank Invoice Finance Ltd	FC	FC	100	(5)
Safetosign Ltd	FC	FC	100	(5)
The Royal Bank of Scotland Invoice DIscounting Ltd	FC	FC	100	(5)

Notes to the financial statements

36 Related undertakings continued

The following table details related undertakings that are dormant

Entity name	Accounting treatment	Regulatory treatment	Group %	Notes
Dixon Vehicle Sales Ltd	FC	FC	100	(2)
Dunfly Trustee Ltd	FC	FC	100	(2)
JCB Finance Pension Ltd	FC	DE	88	(22)
NatWest FIS Nominees Ltd	FC	FC	100	(5)
NatWest Group Secretarial Services Ltd	FC	FC	100	(1)
NatWest Pension Trustee Ltd	NC	DE	100	(5)
NatWest PEP Nominees Ltd	FC	FC	100	(2)
Nordisk Renting A/S	FC	FC	100	(18)
Nordisk Renting HB	FC	FC	100	(9)
R.B. Leasing (March) Ltd	FC	FC	100	(5)
RBS Investment Executive Ltd	NC	DE	100	(1)
RBS Retirement Savings Trustee Ltd	FC	FC	100	(2)
RBSG Collective Investments Nominees Ltd	FC	FC	100	(8)
Strand Nominees Ltd	FC	FC	100	(25)
Syndicate Nominees Ltd	FC	FC	100	(2)
The Royal Bank of Scotland Group Ltd	FC	FC	100	(2)

The following table details the overseas branches of NWB Group

Subsidiary	Geographic location
National Westminster Bank Plc	Germany

Key:

BF Banking and financial institution
CI Credit institution
INV Investment (shares or property) holding company
SC Service company
TR Trustee
OTH Other
DE Deconsolidated
FC Full consolidation
PC *Pro-rata consolidation*
EAA Equity accounting – Associate
EAJV Equity accounting – Joint venture
IA Investment accounting
NC Not consolidated

Notes	Registered addresses	Country of incorporation
(1)	RBS Gogarburn, 175 Glasgow Road, Edinburgh, EH12 1HQ, Scotland	UK
(2)	1 Princes Street, London, EC2R 8BP, England	UK
(3)	Scottish Provident Building 7 Donegall Square West Belfast BT1 6JH, Northern Ireland	UK
(4)	c/o Epicenter, Mikonkatu 9, 6th Floor, 00100, Helsinki	Finland
(5)	250 Bishopsgate, London, EC2M 4AA, England	UK
(6)	One Edinburgh Quay, 133 Fountainbridge, Edinburgh, EH3 9QG, Scotland	UK
(7)	c/o Nordisk Renting Oy, Mikonkatu 9, 00100 Helsinki	Finland
(8)	6-8 George Street, Edinburgh, EH2 2PF, Scotland	UK
(9)	c/o Nordisk Renting AB, Jakobsbergsgatan 13, 8 storey, Box 14044, SE-111 44, Stockholm	Sweden
(10)	Hieronymus Heyerdahlsgate 1, Postboks 2020 Vika, 0125, Oslo	Norway
(11)	6th Floor, Building 2, Tower A, GIL IT/ITES SEZ, Candor TechSpace, Sector 21, Dundahera, Gurugram, Haryana, 122016	India
(12)	99 Queen Victoria Street, London, EC4V 4EH, England	UK
(13)	c/o Advokatfirmaet Wirsholm AS, Dokkveien 1, NO-0250, Oslo	Norway
(14)	Roßmarkt 10, Frankfurt am Main, 60311	Germany
(15)	Ulster Bank Group Centre, George's Quay, Dublin 2, D02 VR98	RoI
(16)	c/o Nordisk Renting AS, 9 Etasje, Klingenberggata 7, NO-0161, Oslo	Norway
(17)	24/25 St Andrew Square, Edinburgh, Midlothian, EH2 1AF, Scotland	UK
(18)	c/o Adv Jan-Erik Svensson, HC Andersens Boulevard 12, Kopenhaum V, 1553	Denmark
(19)	44 Esplanade, St Helier, JE4 9WG	Jersey
(20)	Wiśniowy Business Park, ul. 1-go Sierpnia 8A, Warsaw, 02-134	Poland
(21)	Wisniowy Business Park Ul Ilzecka 26, Building E, Warsaw, 02-135	Poland
(22)	11-16 Donegall Square East, Belfast, Co Antrim, BT1 5UB, Northern Ireland	UK
(23)	c/o CE Serviced Offices Pvt Ltd, Level 1, Tower A, Building No 10, Phase III, DLF Cyber City, Gurgaon, Haryana, 122002	India
(24)	1 Bartholomew Lane London EC2N 2AX, England	UK
(25)	440 Strand, London, WC2R OQS, England	UK
(26)	*Lerchenstrasse 18, Zurich, CH-8022*	*Switzerland*
(27)	200, Bellevue Parkway, Suite 210, Wilmington, DE 19809	USA
(28)	24 Demostheni Severi, 1st Floor, Nicosia, 1080	Cyprus
(29)	The Mill, High Street, Rocester, Staffordshire, ST14 5JW, England	UK
(30)	Gate House, Turnpike Road, High Wycombe, Buckinghamshire, HP12 3NR, England	UK
(31)	One Dockland Central, Guild Street, IFSC, Dublin 1, D01 E4X0	RoI
(32)	c/o Visma Services Danmark A/S, Lyskaer 3C-3D, 2730 Herlev, Hjortespring	Denmark
(33)	Kokermolen 16, 3994 Dh Houten	Netherlands
(34)	The Chestnuts Brewers End, Takeley, Bishop's Stortford, CM22 6QJ, England	UK

Risk factors

Principal Risks and Uncertainties
Set out below are certain risk factors that could adversely affect NWB Group's future results, its financial condition and prospects and cause them to be materially different from what is forecast or expected, and directly or indirectly impact the value of its securities in issue. These risk factors are broadly categorised and should be read in conjunction with other sections of this annual report, including the forward-looking statements section, the strategic report and the risk and capital management section. They should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties facing NWB Group. The current COVID-19 pandemic may exacerbate any of the risks described below.

Risks relating to the COVID-19 pandemic
The effects of the COVID-19 pandemic on the UK, global economies and financial markets and NWB Group's customers, as well as its competitive environment may continue to have a material adverse effect on NWB Group's business, results of operations and outlook.
In March 2020, the World Health Organization declared the spread of the COVID-19 virus a pandemic. Since then, many countries, including the UK (NWB Group's most significant market) have at times imposed strict social distancing measures, restrictions on non-essential activities and travel quarantines, in an attempt to slow the spread and reduce the impact of the COVID-19 pandemic.

The UK economy, as well as most countries, went into recession in 2020 as measures were introduced to reduce the spread of the virus. UK economic output fell again in November 2020, according to estimates from the Office for National Statistics, as many restrictions were re-introduced towards the end of 2020 and at the start of 2021. The COVID-19 pandemic has caused significant reductions in levels of personal and commercial activity, reductions in consumer spending, increased levels of corporate debt and, for some customers, personal debt, increased unemployment and significant market volatility in asset prices, interest rates and foreign exchange rates. It has also caused physical disruption and slow-down to global supply chains and working practices, all of which have affected NWB Group's customers. NWB Group has significant exposures to many of the commercial sectors economically impacted by the COVID-19 pandemic, including property, retail, leisure and travel.

Further waves of infection may result in further restrictions in affected countries and regions. While vaccine treatment is currently being deployed, the pace of deployment and ultimate effectiveness is uncertain, and vaccines may fail to achieve immunisation that is significant within the population. Therefore significant uncertainties remain as to how long the COVID-19 pandemic will last. Even when restrictions are relaxed, they may be re-imposed, sometimes at short notice if either immunisation is insufficient or new strains of the COVID-19 virus or other diseases develop into new epidemics or pandemics

Significant uncertainties continue as to the extent of the economic contraction and the path and length of time required to achieve economic recovery.

In response to the COVID-19 pandemic, central banks, governments, regulators and legislatures in the UK and elsewhere have announced historic levels of support and various schemes for impacted businesses and individuals including forms of financial assistance and legal and regulatory initiatives, including further reductions in interest rates. Whether or not these measures effectively mitigate the negative impacts of the COVID-19 pandemic on NWB Group, some of these measures, or further measures, such as negative interest rates, may also have a material adverse effect on NWB Group's business and performance. It is uncertain as to how long the above-mentioned financial assistance and legal and regulatory initiatives may last, how they may evolve in the future or how consumers and businesses may react to such initiatives. NWB Group's consumer customers and corporate clients may be negatively impacted when these support schemes and initiatives are scaled back and ultimately ended, which in turn could expose NWB Group to increased credit and counterparty risk. In addition, the COVID-19 pandemic related uncertainties and the range of prudential regulatory support has made reliance on analytical models, planning and forecasting for NWB Group more complex, and may result in uncertainty impacting the risk profile of NWB Group and/or that of the wider banking industry. The medium and long-term implications of the COVID-19 pandemic for NWB Group customers, the UK housing market, and the UK and global economies and financial markets remain uncertain, and may continue to have a material adverse effect on NWB Group's business, results of operations and outlook.

The adverse impact of the COVID-19 pandemic on the credit quality of NWB Group's counterparties and the implementation of support schemes in response of the COVID-19 pandemic has increased NWB Group's exposure to counterparty risk, which may adversely affect its business, results of operations and outlook.
The effects of the COVID-19 pandemic have adversely affected the credit quality of many of NWB Group's borrowers and other counterparties. As a result, NWB Group has experienced (and may continue to experience) elevated exposure to credit risk and demands on its funding from, for example, customers and borrowers drawing down upon committed credit facilities. If borrowers or other counterparties default or suffer deterioration in credit, this would increase impairment charges, credit reserves, write-downs and regulatory expected loss. An increase in drawings upon committed credit facilities may also increase NWB Group's RWAs. In addition, the level of household indebtedness in the UK remains high. The ability of households to service their debts could be worsened by a period of high unemployment caused by the COVID-19 pandemic, particularly if prolonged. NWB Group's mortgage and wholesale property loans portfolio may also be subject to higher impairment charges as a result of the COVID-19 pandemic if volatility in the property market results in weakened property prices, particularly if default rates increase. If NWB Group experiences losses and a reduction in future profitability, this is likely to affect the recoverable value of fixed assets, including deferred taxes, which may lead to further write-downs. See also, 'NWB Group has significant exposure to counterparty and borrower risk'.

NWB Group has applied an internal analysis of multiple economic scenarios (MES) together with the determination of specific overlay adjustments to inform its IFRS 9 ECL (Expected Credit Loss). The recognition and measurement of ECL is complex and involves the use of significant judgement and estimation. This includes the formulation and incorporation of multiple forward-looking economic scenarios 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. Going forward, NWB Group anticipates observable credit deterioration of a proportion of assets resulting in a systematic uplift in defaults, which is mitigated by those economic assumption scenarios being reflected in the Stage 2 ECL across portfolios, along with a combination of post model overlays in both wholesale and retail portfolios reflecting the uncertainty of credit outcomes. See also, 'Risk and capital management — Credit Risk'. A credit deterioration would also lead to RWA increases. Furthermore, the assumptions and judgments used in the MES and ECL assessment at 31 December 2020 may not prove to be adequate resulting in incremental ECL provisions for NWB Group. As government support schemes reduce, defaults are expected to rise with more ECLs cases moving from Stage 2 to Stage 3.

In line with certain mandated COVID-19 pandemic support schemes, NWB Group has sought to assist affected customers with a number of initiatives including NWB Group's participation in BBLS, CBILS and CLBILS products. NWB Group has sought to manage the risks of fraud and money laundering against the need for the fast and efficient release of funds to customers and businesses. NWB Group may be exposed to fraud, conduct and litigation risks arising from inappropriate approval (or denial) of BBLS or the enforcing or pursuing repayment of CBILS and BBLS (or a failure to exercise forbearance), which may have a material adverse effect on NWB Group's reputation and results of operations. The implementation of the initiatives and efforts mentioned above may result in litigation, regulatory and government actions and proceedings. These actions may result in judgments, settlements, penalties or fines. Any of the above could have a material adverse effect on NWB Group's business, results of operations and outlook.

Risk factors

The COVID-19 pandemic may adversely affect NWB Group's strategy and impair its ability to meet its targets and to achieve its strategic objectives.
The COVID-19 pandemic may impact NWB Group's ability to meet the financial, capital and operational targets which it has set as part of its strategy.

It is uncertain as to how the broader macroeconomic business environment and societal norms may be impacted by the COVID-19 pandemic, which is already resulting in several significant wider societal changes. For example, one of the most visible effects of the COVID-19 pandemic has been the impact on the most vulnerable groups of society and concerns about systemic racial biases and social inequalities.

In addition, the COVID-19 pandemic has accelerated existing economic trends that may radically change the way businesses are run and people live their lives. These trends include digitalisation, decarbonisation, automation, e-commerce and agile working, each of which has resulted in significant market volatility in asset prices. There is also increasing investor, regulatory and customer scrutiny regarding how businesses address these changes and related climate, environmental, social, governance and other sustainability issues, including workplace health, safety and wellbeing, diversity and inclusion, data privacy, workforce management, human rights and supply chain management. Any failure or delay by NWB Group to adapt its business strategy and to establish and maintain effective governance, procedures, systems and controls in response to these changes and to manage emerging climate, environmental, social, governance and other sustainability-related risks and opportunities may have a material adverse effect on NWB Group's reputation, business, results of operations and outlook and the value of NWB Group's securities. See also 'Any failure by NWB Group to implement effective and compliant climate change resilient systems, controls and procedures could adversely affect NWB Group's ability to manage climate-related risks' and 'A failure to adapt NWB Group's business strategy, governance, procedures, systems and controls to manage emerging sustainability-related risks and opportunities may have a material adverse effect on NWB Group's reputation, business, results of operations and outlook'.

The COVID-19 pandemic may also result in unexpected developments or changes in financial markets, the fiscal, tax and regulatory frameworks and consumer customer and corporate client behaviour, which could intensify competition in the financial services industry if NWB Group is not able to adapt or compete effectively, it could experience loss of business which in turn could adversely affect its business, results of operations and outlook.

The COVID-19 pandemic has heightened NWB Group's operational risks as many of its employees are working remotely which may also adversely affect NWB Group's ability to maintain effective internal controls.
Due to the COVID-19 pandemic, as at 31 January 2021, many of NatWest Group's employees continue to work remotely. This has increased reliance on the IT systems that enable remote working and increased exposure to fraud, conduct, operational and other risks and may place additional pressure on NWB Group's ability to maintain effective internal controls and governance frameworks. The IT systems that enable remote working interface with third-party systems, and NWB Group could experience service denials or disruptions if such systems exceed capacity or if a third-party system fails or experiences any interruptions, all of which could result in business and customer interruption and related reputational damage, significant compensation costs, regulatory sanctions and/or a breach of applicable regulations. See also, 'NWB Group's operations are highly dependent on its complex IT systems (including those that enable remote working) and any IT failure could adversely affect NWB Group'.

Sustained periods of remote working may also negatively affect workforce morale. While NWB Group has taken measures seeking to maintain the health, wellbeing and safety of its employees during the COVID-19 pandemic, these measures may be ineffective and could result in increased expenses and widespread illness could negatively affect staffing within certain functions, businesses or geographies. Certain areas of NWB Group also continue to experience workloads that are heavier than usual as a result of increased customer requirements, NWB Group's COVID-19-specific product offerings or other related direct and indirect effects. Resources have been diverted from certain ordinary course activities, and regulatory and other change projects, including the implementation of NatWest Group's Purpose-led Strategy, which may have implications for the execution of related deliverables and meeting regulatory and other deadlines. The economic impact of the COVID-19 pandemic may also necessitate changes in the remuneration of NWB Group employees, in particular at a senior level. For example, in March 2020 the PRA requested that bank boards in response to the COVID-19 pandemic should consider taking appropriate actions with regard to the accrual, payment and vesting of variable remuneration. Any of the above could impair NWB Group's ability to hire, retain and engage well-qualified employees, especially at a senior level, which in turn may adversely impact NWB Group's ability to serve its customers efficiently and impact productivity across NWB Group. This could also adversely affect NWB Group's reputation, and competitive position and its ability to grow its business.

Any of the above could have a material adverse effect on NWB Group's business, results of operations and outlook.

The effects of the COVID-19 pandemic could affect NWB Group's ability to access sources of liquidity and funding, which may result in higher funding costs and failure to comply with regulatory capital, funding and leverage requirements.
Depending on the severity and duration of market volatility resulting from COVID-19 pandemic related uncertainties and the impact on capital and RWAs, NWB Group and its subsidiaries may be required to adapt their funding plans in order to satisfy their respective capital and funding requirements, which may have a material adverse effect on NWB Group. Furthermore, significant fluctuation in foreign currency exchange rates, may affect capital deployed in NWB Group's foreign subsidiaries, branches and joint arrangements, securities issued by NWB Group in foreign currencies or the value of assets, liabilities, income, RWAs, capital base and expenses and the reported earnings of NWB Group's UK and non-UK subsidiaries. In response to the COVID-19 pandemic, there have been relaxations on certain countercyclical buffer requirements and stress tests as well as the calculation of RWAs and leverage, which may be reinstated in the future.

The COVID-19 pandemic has caused significant market volatility which would have increased NWB Group's market risk RWA significantly in the absence of temporary changes in regulatory treatment. The risk of further RWA inflation remains and the duration of such regulatory relief is uncertain. Any downgrading to the credit ratings and/or outlooks assigned to NatWest Group plc, NWB Plc or other NatWest Group subsidiaries and their respective debt securities could exacerbate funding and liquidity risk.

Economic and political risk
Continuing uncertainty regarding the effects of the UK's withdrawal from the European Union may continue to adversely affect NWB Group and its operating environment.
After the 2016 EU Referendum, the UK ceased to be a member of the EU and the European Economic Area ('EEA') on 31 January 2020 ('Brexit'). The 2020 EU-UK Trade and Cooperation Agreement ('TCA') ended the transition period on 31 December 2020 and provides for free trade between the UK and EU with zero tariffs and quotas on all goods that comply with the appropriate rules of origin, with minimal coverage, however, for financial services; UK-incorporated financial services providers no longer have EU passporting rights and there is no mutual recognition regime. Financial services may largely be subject to individual equivalence decisions by relevant regulators. A number of temporary equivalence decisions have been made that cover certain clearing and access to central securities deposits, but these do not cover all services offered by NWB Group. The EU's equivalence regime does not cover most lending and deposit taking, and

determinations in respect of third countries have not, to date, covered the provision of investment services. In addition, equivalence determinations do not guarantee permanent access rights and can be withdrawn with short notice. The TCA is accompanied by a Joint Declaration on financial services which sets out an intention for the EU and UK to cooperate on matters of financial regulation and to agree a Memorandum of Understanding by March 2021. There is no certainty, however, as to the form, scope and timing of any such Memorandum of Understanding.

NatWest Group has engaged in significant and costly Brexit planning and contingency planning. NatWest Group continues to monitor regulatory developments, and NatWest Group continues to seek advice on any transitional regimes being introduced by individual EU countries. It is updating its operating model accordingly. NatWest Group also continues to assess where NatWest Group companies can obtain bilateral regulatory permissions to permit business to continue from its UK entities, transferring what cannot be continued to be rendered from the UK to an EEA subsidiary. Where such regulatory permissions are temporary or are withdrawn, a different approach may need to be taken or may result in a change in operating model or some business being ceased. Not all NatWest Group entities have applied for bilateral regulatory permissions and instead intend to move EEA business to an EEA licenced subsidiary. There is a risk that such EEA licences may not be granted, and where these permissions are not obtained, further changes to NatWest Group's operating model may be required or some business may need to be ceased. In addition, failure to obtain regulatory permissions in one part of NatWest Group may impact other parts of NatWest Group adversely. Certain permissions are required in order to maintain the ability to clear euro payments and others will allow NatWest Group to continue to serve non-UK EEA customers. Furthermore, transferring business to an EEA based subsidiary is a complex exercise and involves legal, regulatory and executional risks, and could result in a loss of business, customers or greater than expected costs. The changes to NatWest Group's operating model have been costly and further changes to its business operations, product offering and customer engagement could result in further costs. Any of the above could, in turn, negatively impact NWB Group.

The effects of the UK's exit from the EU and the EEA are expected to continue to affect many aspects of NWB Group's business and operating environment, including as described elsewhere in these risk factors, and may be material and/or cause a near-term impact on impairments.

The long-term effects of Brexit on NWB Group's operating environment are difficult to predict. They may be impacted by wider global macro-economic trends and events, particularly COVID-19 pandemic related uncertainties, which may significantly impact NWB Group and its customers and counterparties who are themselves dependent on trading with the EU or personnel from the EU. They may exacerbate the economic impacts of the COVID-19 pandemic on the UK, the Republic of Ireland ('ROI') and the rest of the EU/EEA.

Significant uncertainty remains as to the extent to which EU/EEA laws will diverge from UK law (including bank regulation), whether and what equivalence determinations will be made by the various regulators and therefore what the respective legal and regulatory arrangements will be, under which NWB Group and its subsidiaries will operate. The legal and political uncertainty and any actions taken as a result of this uncertainty, as well as new or amended rules, could have a significant adverse impact on NWB Group's businesses and non-UK operations and/or legal entity structure, including attendant operating, compliance and restructuring costs, level of impairments, capital requirements, regulatory environment and tax implications and as a result may adversely impact NWB Group's profitability, competitive position, business model and product offering.

NWB Group faces increased political and economic risks and uncertainty in the UK and global markets

NWB Group faces political uncertainty in Scotland as a result of a possible second Scottish independence referendum. Independence may adversely impact NWB Group with NatWest Group plc and other NatWest Group entities being incorporated and/or headquartered in Scotland. Any changes to Scotland's relationship with the UK or the EU (as an indirect result of Brexit or other developments) would impact the environment in which NatWest Group and its subsidiaries operate, and may require further changes to NatWest Group's (including NWB Group's) structure, independently or in conjunction with other mandatory or strategic structural and organisational changes which could adversely impact NWB Group.

The outlook for the global economy over the medium-term remains uncertain due to a number of factors including: the COVID-19 pandemic, resulting societal inequalities and changes, trade barriers and the increased possibility of and/or continuation of trade wars, widespread political instability (including as a result of populism and nationalism, which may lead to protectionist policies), an extended period of low inflation and low (or negative) interest rates, climate, environmental, social and other sustainability-related risks and global regional variations in the impact and responses to these factors. These conditions could be worsened by a number of factors including macro-economic deterioration, increased instability in the global financial system and concerns relating to further financial shocks or contagion (for example, due to economic concerns in emerging markets), market volatility or fluctuations in the value of the pound sterling, new or extended economic sanctions, volatility in commodity prices or concerns regarding sovereign debt. This may be compounded by the ageing demographics of the populations in the markets that NWB Group serves, increasing inequalities, or rapid change to the economic environment due to the adoption of technology and artificial intelligence. Any of the above developments could adversely impact NWB Group directly (for example, as a result of credit losses) or indirectly (for example, by impacting global economic growth and financial markets and NWB Group's customers and their banking needs).

In addition, NWB Group is exposed to risks arising out of geopolitical events or political developments, such as, exchange controls and other measures taken by sovereign governments that may hinder economic or financial activity levels. Furthermore, unfavourable political, military or diplomatic events, including secession movements or the exit of other member states from the EU, armed conflict, pandemics and widespread public health crises (including the current COVID-19 pandemic and any future epidemics or pandemics), state and privately sponsored cyber and terrorist acts or threats, and the responses to them by governments and markets, could negatively affect the business and performance of NWB Group, including as a result of the indirect effect on regional or global trade and/or NWB Group's customers.

Changes in interest rates have significantly affected and will continue to affect NWB Group's business and results.

Interest rate risk is significant for NWB Group. Monetary policy has been accommodative in recent years, including initiatives implemented by the Bank of England and HM Treasury such as the Term Funding Scheme with additional incentives for SMEs ('TFSME'), which have helped to support demand at a time of pronounced fiscal tightening and balance sheet repair. However, there remains considerable uncertainty as to the future direction of interest rates and pace of change (as set by the Bank of England), including as a result of the COVID-19 pandemic and its effect on the UK economy as well as the general UK political or economic climate. Further decreases in interest rates and/or continued sustained low or negative interest rates would be expected to continue to put further pressure on NWB Group's interest income and profitability. Zero or negative interest rates will require investment spend to implement a strategic solution to allow a potential pass-through of those interest rates in certain systems to relevant customer segments. A lower or negative interest rate environment is likely to have an adverse impact on the profitability of NWB Group.

Conversely, while increases in interest rates may support NWB Group interest income, sharp increases in interest rates could have macroeconomic effects that lead to adverse outcomes for the business. For example, they could lead to generally weaker than expected growth, or even contracting GDP, reduced business confidence, higher default rates on customer loans, higher levels of unemployment or underemployment and falling property prices in the markets in which NWB Group operates, all of which could adversely affect the business and performance of NWB Group.

Risk factors

Changes in foreign currency exchange rates may affect NWB Group's results and financial position.
Decisions of major central banks (including the Bank of England, the European Central Bank and the US Federal Reserve) and political or market events which are outside NWB Group's control, may lead to sharp and sudden variations in foreign exchange rates.

NWB Group's foreign exchange exposure arises from structural foreign exchange risk, including capital deployed in NWB Group's foreign subsidiaries, branches and joint arrangements, and non-trading foreign exchange risk, including customer transactions, profits, and losses that are in a currency other than the functional currency of the transaction entity. NWB Group also issues instruments in foreign currencies that assist in meeting NWB Group's minimum requirements for own funds and eligible liabilities ('MREL'). NWB Group maintains policies and procedures designed to manage the impact of exposures to fluctuations in currency rates. Nevertheless, changes in currency rates, particularly in the sterling-US dollar and euro-sterling exchange rates, can adversely affect the value of assets, liabilities (including the total amount of MREL eligible instruments), income and expenses, RWAs and hence the reported earnings and financial condition of NWB Plc.

HM Treasury (or UKGI on its behalf) could exercise a significant degree of influence over NatWest Group and NWB Group is controlled by NatWest Group.
In its March 2020 Budget, the UK Government announced its intention to continue the process of privatisation of NatWest Group plc and to carry out a programme of sales of NatWest Group plc ordinary shares with the objective of selling all of its remaining shares in NatWest Group plc by 2025. On 6 February 2019, NatWest Group plc obtained shareholder authority to make off-market purchases of its ordinary shares from HM Treasury under the terms of a directed buyback contract. The authority provided by this contract was renewed at NatWest Group's Annual General Meeting on 29 April 2020. As at 31 December 2020, the UK Government held 61.9% of the issued ordinary share capital of NatWest Group plc. There can be no certainty as to the continuation of the sell-down process or the timing or extent of such sell-downs.

HM Treasury has indicated that it intends to respect the commercial decisions of NatWest Group and that NatWest Group entities (including NWB Group) will continue to have their own independent board of directors and management team determining their own strategy. However, HM Treasury, as majority shareholder, and UK Government Investments Limited ('UKGI'), as manager of HM Treasury's shareholding, could exercise a significant degree of influence over, among other things, the election of directors and appointment of senior management, NatWest Group's (including NWB Group's) capital strategy, dividend policy, remuneration policy or the conduct of NatWest Group's (including NWB Group's) operations, and other things, HM Treasury or UKGI's approach depends on government policy, which could change, including as a result of a general election. The exertion of such influence over NatWest Group could in turn have an adverse effect on the governance or business strategy of NWB Group.

In addition, NWB Plc is a wholly owned subsidiary of NatWest Group plc, and NatWest Group plc therefore controls NWB Group's board of directors, corporate policies and strategic direction. The interests of NatWest Group plc as an equity holder and as NWB Group's parent may differ from the interests of NWB Group or of potential investors in NWB Group's securities.

Strategic risk
NatWest Group (NWB Plc's parent company) is currently implementing its Purpose-led strategy which carries significant execution and operational risks and it may not achieve its stated aims and targeted outcomes.
In February 2020, NatWest Group (NWB Plc's parent company) announced a new strategy, focused on becoming a Purpose-led business, designed to champion potential and to help individuals, families and businesses to thrive. This strategy is intended to reflect the rapidly shifting environment and backdrop of unprecedented disruption in society driven by technology and changing customer expectations, as accelerated by the COVID-19 pandemic. NatWest Group aims to deliver this strategy, referred to as its 'Purpose-led Strategy', through: (i) four strategic priorities: 'supporting customers at every stage of their lives;' 'powered by innovation and partnerships;' 'simple to deal with'; and 'sharpened capital allocation;' and (ii) three areas of focus: climate change, enterprise and learning. This strategy requires an internal cultural shift across NWB Group as to how performance is perceived and how NWB Group conducts its business. These changes are substantial and will take many years to fully embed. These changes may not result in the expected outcome within the timeline and in the manner currently contemplated.

To deliver against this purpose and deliver sustainable returns, NatWest Group has been: focusing on the lifecycles of its customers using insights about customers to evolve product and service offerings; re-engineering and simplifying NatWest Group by updating operational and technological capabilities and strengthening governance and control frameworks to reduce costs and improve customer journeys; focusing on innovation and partnership to drive change and achieve growth in new product areas and customer segments; and having a sharper focus on capital allocation and deploying it more effectively for customers, in particular by refocusing the NWM franchise of NatWest Group ('NWM Franchise').

As part of its Purpose-led Strategy, NatWest Group has set a number of financial, capital and operational targets and expectations, both for the short term and throughout the implementation period, which could, in turn, affect NWB Group. These include targets, amongst others, for: return on tangible equity, CET1 ratio and dividend pay-out ratio. Achieving these targets requires further significant reductions to NatWest Group's cost base. Realising these cost reductions will result in material strategic costs, which may be more than currently expected. The continued focus on meeting cost reduction targets may also mean limited investment in other areas, which could affect NWB Group's long-term prospects, product offering or competitive position and its ability to meet its other targets and commitments, including those related to customer satisfaction. Any of the above could jeopardise NWB Group's ability to achieve its associated financial targets and generate sustainable returns.

Implementing the Purpose-led Strategy is highly complex as discussed above, will take many years to fully embed including within NWB Group. More generally, NatWest Group may seek to adapt its strategy, including in respect of acquisitions, divestments, restructurings, reorganisations or partnerships. There remains uncertainty as to consolidation within the financial industry and the scale and timing of any further NatWest Group strategic initiatives or participation in any such consolidation, which may in turn affect NWB Group. NWB Group may not be able to successfully (i) implement all aspects of its strategy; (ii) reach any or all of the related targets or expectations of its Purpose-led Strategy; (iii) realise the intended strategic objectives of any other future strategic initiative, in the time frames contemplated or at all, which may require additional management actions by NWB Group. In addition, NWB Group's ability to serve its target customers, scale certain ventures, deliver growth in new markets may be impacted and the anticipated revenue, profitability and cost reduction levels may not be achieved in the timescale envisaged or at all. Moreover, the Purpose-led Strategy involves a large number of concurrent and interdependent actions and initiatives, including refocusing of the NWM Franchise, any of which could fail to be implemented in the manner and to the extent currently contemplated, including as a result of operational, legal, execution or other issues. In addition, successful implementation of the Purpose-led Strategy in part depends on initiatives and growth in ventures that are new to NatWest Group and NWB Group, or to the market. There is a risk, therefore, that some or all these initiatives will not succeed, or may be limited in scope or scale, including due to its current ownership structure.

The scale and scope of the intended changes present material business, operational, IT system, internal culture, conduct and people risks to NWB Group, as the planning and implementation of the transformation programme are resource-intensive and disruptive, and will divert management resources. In addition, implementing many changes concurrently, in particular with respect to any strategic partnerships, acquisitions or divestments, will require the implementation and application of robust governance and controls frameworks and robust IT systems. There is a risk that NWB Group may not be successful in doing so. The implementation of the Purpose-led Strategy and any other strategic initiatives could result in materially higher costs than initially contemplated, (including due to material uncertainties and factors outside of NWB Group's control) and may not be completed when planned, or at all, or could be phased or could progress in a manner other than currently expected.

Changes in the economic, political and regulatory environment in which NWB Group operates or regulatory uncertainty and changes, strong market competition and industry disruption or economic volatility, including as a result of the economic impact of the COVID-19 pandemic, the continued uncertainty surrounding the terms of the UK's future trading arrangements with the EU, or changes in the scale and timing of policy responses on climate change, may require NatWest Group (including NWB Group) to adjust aspects of its strategy or the timeframe for its implementation, including in relation to its financial, capital and operational targets and expectations. Because certain initiatives depend on achieving growth in new ventures and opportunities for NWB Group, the Purpose-led Strategy is vulnerable to an economic downturn. The Purpose-led Strategy also requires ongoing confidence from customers and the wider market, without which customer activity and related income levels may fall or NWB Group's reputation may be adversely affected.

Each of these risks, and others identified in these Risk Factors, individually or collectively could jeopardise the implementation and delivery of the Purpose-led Strategy, result in higher than expected restructuring costs, impact NWB Group's products and services offering, its reputation with customers or business model and adversely impact NWB Group's ability to deliver the Purpose-led Strategy and meet its targets and guidance, each of which could in turn have a material adverse impact on NWB Group's business, results of operations and outlook.

Financial resilience risk

NWB Group may not meet targets or generate sustainable returns.

As part of NatWest Group's strategy, NWB Group has become a UK-focused domestic banking group and is included in a number of financial, capital and operational targets for NatWest Group as part of its Purpose-led Strategy including in respect of: leverage ratio targets, funding plans and requirements, reductions in RWAs and the timing thereof, employee engagement, diversity and inclusion as well as environmental, social and customer satisfaction targets. See also, 'NatWest Group (NWB Plc's parent company) is currently implementing its Purpose-led strategy which carries significant execution and operational risks and it may not achieve its stated aims and targeted outcomes'.

NWB Group's ability to meet NatWest Group and NWB Group's respective targets and to successfully meet its strategy are subject to various internal and external factors and risks. These include, but are not limited to, the impact of the COVID-19 pandemic, market, regulatory, economic and political factors, developments relating to litigation, governmental actions, investigations and regulatory matters, and operational risks and risks relating to NWB Group's business model and strategy (including risks associated with environmental, social and governance issues). A number of factors, including the economic and other effects of the COVID-19 pandemic, may impact the Bank's ability to maintain its current CET1 ratio, including: impairments, limited organic capital generation or unanticipated increases in RWAs. In addition, the run-down of RWAs may be accompanied by the recognition of disposal losses which may be higher than anticipated. See also 'NatWest Group (NWB Plc's parent company) is currently implementing its Purpose-led strategy which carries significant execution and operational risks and it may not achieve its stated aims and targeted outcomes'.

NWB Group's ability to meet its planned reductions in its annual underlying costs may vary considerably from year to year. Furthermore, the focus on meeting balance sheet and cost reduction targets may result in limited investment in other areas, which could affect NWB Group's long-term product offering, or competitive position and its ability to meet its other targets, including those related to customer satisfaction.

There is a risk that NatWest Group's Purpose-led Strategy may not be successfully executed, that NWB Group will not meet its targets and expectations, or that NWB Group will not be a viable, competitive or profitable banking business.

NWB Group has significant exposure to counterparty and borrower risk.

NWB Group has exposure to many different industries, customers and counterparties, and risks arising from actual or perceived changes in credit quality and the recoverability of monies due from borrowers and other counterparties are inherent in a wide range of NWB Group's businesses. NWB Group is exposed to credit risk if a customer, borrower or counterparty defaults, or under IFRS 9, suffers a sufficiently significant deterioration of credit quality such that, under SICR ('significant increases in credit risk') rules, it moves to Stage 2 for impairment calculation purposes. NWB Group's lending strategy and associated processes may fail to identify or anticipate weaknesses or risks in a particular sector, market or borrower, or fail to adequately value physical or financial collateral. This may result in increased default rates or a higher loss given default for loans, which may, in turn, impact NWB Group's profitability. See also 'Risk and capital management — Credit Risk'.

The credit quality of NWB Group's borrowers and other counterparties is impacted by prevailing economic and market conditions (including those caused by the COVID-19 pandemic) and by the legal and regulatory landscape in the UK and any deterioration in such conditions or changes to legal or regulatory landscapes could worsen borrower and counterparty credit quality and consequently impact NWB Group's ability to enforce contractual security rights.

NWB Group may be affected by volatility in property prices (including as a result of Brexit, the general UK political or economic climate or the COVID-19 pandemic) given that NWB Group's mortgage loan and wholesale property loan portfolio as at 31 December 2020, amounted to £179.0 billion, representing 64% of NWB Group's customer loan exposure. If property prices were to weaken this could lead to higher impairment charges, particularly if default rates also increase. In addition, NWB Group's credit risk may be exacerbated if the collateral that it holds cannot be realised as a result of market conditions or regulatory intervention or if it is liquidated at prices not sufficient to recover the net amount after accounting for any IFRS provisions already made. This is most likely to occur during periods of illiquidity or depressed asset valuations.

Concerns about, or a default by, a financial institution could lead to significant liquidity problems and losses or defaults by other financial institutions, since the commercial and financial soundness of many financial institutions is closely related and inter-dependent as a result of credit, trading, clearing and other relationships. Any perceived lack of creditworthiness of a counterparty may lead to market-wide liquidity problems and losses for NWB Group. This systemic risk may also adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with which NWB Group interacts on a daily basis. See also, 'NWB Group may not be able to adequately access sources of liquidity and funding'.

As a result, changes in borrower and counterparty credit quality may cause accelerated impairment charges under IFRS 9, increased repurchase demands, higher costs, additional write-downs and losses for NWB Group and an inability to engage in routine funding transactions.

NWB Group operates in markets that are highly competitive, with increasing competitive pressures and technology disruption.

The market for UK financial services is highly competitive. NWB Group expects such competition to continue and intensify in response to the economic effects of the COVID-19 pandemic and other changes. These include evolving customer behaviour, technological changes (including digital currencies and the growth of digital banking, including from fintech entrants), competitor behaviour, new entrants to the market (including non-traditional financial services providers such as large retail or technology conglomerates, who may have competitive advantages in scale, technology and customer engagement), competitive foreign-exchange offerings, industry trends resulting in increased disaggregation or unbundling of financial services or conversely the re-intermediation of traditional banking services, and the impact of regulatory actions and other factors. In particular, developments in the financial sector resulting from new banking, lending and payment solutions offered by rapidly evolving incumbents, challengers and new entrants, notably with respect to payment services and products, and the introduction of disruptive technology may impede NWB Group's ability to grow or retain its share and impact its revenues and profitability, particularly in its key UK retail banking segment. Moreover, innovations such as biometrics, artificial intelligence, the cloud, blockchain, and quantum computing may rapidly facilitate industry transformation. These trends have accelerated during the COVID-19 pandemic and may be catalysed by various regulatory and competition policy interventions, including the UK initiative on Open Banking (PSD2), Open Finance and other remedies imposed by the Competition and Markets Authority ('CMA') which are designed to further promote competition within retail banking, as well as the competition-enhancing measures under NatWest Group's Alternative Remedies Package. See also, 'The cost of implementing the Alternative Remedies Package ('ARP') could be more onerous than anticipated'.

Increasingly many of the products and services offered by NWB Group are, and will become, more technology intensive. For example, NWB Group recently invested in a number of fintech ventures, including Mettle, FreeAgent, Mentor Digital, Tyl and Rapid Cash. NWB Group's ability to develop such digital solutions (which also need to comply with applicable and evolving regulations) has become increasingly important to retaining and growing NWB Group's customer business in the UK. There can be no certainty that NWB Group's innovation strategy (which includes investment in its IT capability intended to address the material increase in customer use of online and mobile technology for banking as well as selective acquisitions, which carry associated risks) will be successful or that it will allow NWB Group to continue to grow such services in the future. Certain of NWB Group's current or future competitors may be more successful in implementing innovative technologies for delivering products or services to their customers. NWB Group may also fail to identify future opportunities or derive benefits from disruptive technologies in the context of rapid technological innovation, changing customer behaviour and growing regulatory demands resulting in increased competition from traditional banking businesses as well as new providers of financial services, including technology companies with strong brand recognition, that may be able to develop financial services at a lower cost base.

NWB Group's competitors may also be better able to attract and retain customers and key employees, may have better IT systems, and may have access to lower cost funding and/or be able to attract deposits on more favourable terms than NWB Group. Although NWB Group invests in new technologies and participates in industry and research led initiatives aimed at developing new technologies, such investments may be insufficient or ineffective, especially given NWB Group's focus on its cost savings targets. This may limit additional investment in areas such as financial innovation and could therefore affect NWB Group's offering of innovative products or technologies for delivering products or services to customers and its competitive position. Furthermore, the development of innovative products depends on NWB Group's ability to produce underlying high quality data, failing which its ability to offer innovative products may be compromised.

If NWB Group is unable to offer competitive, attractive and innovative products that are also profitable and timely, it will lose share, incur losses on some or all of its activities and lose opportunities for growth. In this context, NWB Group is investing in the automation of certain solutions and interactions within its customer-facing businesses, including through artificial intelligence. Such initiatives may result in operational, reputational and conduct risks if the technology used is defective, or is not fully integrated into NWB Group's current solutions. There can be no certainty that such initiatives will deliver the expected cost savings and investment in automated processes will likely also result in increased short-term costs for NWB Group.

In addition, the implementation of NatWest Group's Purpose-led Strategy, acquisitions, divestments, reorganisations, restructurings and partnerships, delivery on its climate ambition, cost-reduction measures, as well as employee remuneration constraints, may also have an impact on NWB Group's ability to compete effectively and intensified competition from incumbents, challengers and new entrants could affect NWB Group's ability to maintain satisfactory returns. Moreover, activist investors have increasingly become engaged and interventionist in recent years, which may pose a threat to NatWest Group's strategic initiatives. Furthermore, continued consolidation or technological or other developments in certain sectors of the financial services industry could result in NWB Group's remaining competitors gaining greater capital and other resources, including the ability to offer a broader range of products and services and geographic diversity, or the emergence of new competitors each of which may adversely affect NWB's business and result of operations.

NWB Group may not meet the prudential regulatory requirements for capital or manage its capital effectively, which could trigger the execution of certain management actions or recovery options.
NatWest Group and NWB Plc (on a standalone basis) are required by regulators in the UK, the EU and other jurisdictions in which they undertake regulated activities to maintain adequate financial resources. Adequate capital also gives NatWest Group (including NWB Group) financial flexibility in the face of turbulence and uncertainty in the global economy and specifically in their core UK and European operations.

As at 31 December 2020, NWB Plc's CET1 ratio was 17.8%. NatWest Group currently maintains a CET1 ratio target. NatWest Group's target capital ratio is based on a combination of its expected regulatory requirements and internal modelling, including stress scenarios and management's and/or the PRA's views on appropriate buffers above minimum operating levels.

NatWest Group's current capital strategy for NWB Plc is based on: the expected accumulation of additional capital through the accrual of profits over time; the receipt of assets and resultant RWAs from other NatWest Group entities; RWA growth in the form of regulatory uplifts and lending growth and other capital management initiatives which focus on improving capital efficiency through improved data and upstreaming of dividends from NWB Plc to NatWest Group plc.

A number of factors may impact NWB Group's ability to maintain its current CET1 ratio target and achieve its capital strategy. These include, amongst other things:

- a depletion of its capital resources through increased costs or liabilities or reduced profits;
- an increase in the quantum of RWAs in excess of that expected, including due to regulatory changes; and
- changes in prudential regulatory requirements including NWB Plc's Total Capital Requirement set by the PRA, including Pillar 2 requirements and regulatory buffers as well as any applicable scalars.

In addition to regulatory capital, NWB Plc is required to maintain a set quantum of internal MREL set as the higher of its scaled RWAs or leverage requirement. The internal MREL requirement is met with loss-absorbing senior funding and regulatory capital instruments internally issued (indirectly) up to NatWest Group plc. The Bank of England has identified single point-of-entry as the preferred resolution strategy for NatWest Group. As a result, only NatWest Group plc is able to issue Group MREL eligible liabilities to third-party investors, using the proceeds to fund the internal capital and MREL targets and/or requirements of its operating entities, including NWB Plc. NWB Plc is therefore dependent not only on NatWest Group plc to fund NWB Plc's internal MREL targets over time, but also on NatWest Group plc's ability to issue and maintain sufficient amounts of external MREL liabilities to support this. In turn, NWB Plc is required to fund the internal capital and MREL requirements of its subsidiaries. See also, 'NWB Group is reliant on NatWest Group for capital and funding support, and is substantially reliant on NatWest Group plc's ability to issue sufficient amounts of external MREL securities and downstream the proceeds to NWB Group. The inability to do so may adversely affect NWB Group'.

If, under a stress scenario, the level of capital or MREL falls outside of risk appetite, there are a range of recovery management actions (focused on risk reduction and mitigation) that NWB Group could take to manage its capital levels, but any such actions may not be sufficient to restore adequate capital levels. Under the EU Bank Recovery and Resolution Directives I and II ('BRRD'), as implemented in the UK, NatWest Group must maintain a recovery plan acceptable to its regulator, such that a breach of NWB Group's applicable capital or leverage requirements may trigger the application of NatWest Group's recovery plan to remediate a deficient capital position. NatWest Group's regulator may request that NWB Group carry out certain capital management actions or, if NatWest Group's CET1 ratio falls below 7%, certain regulatory capital instruments issued by NatWest Group will be written-down or converted into equity and there may be an issue of additional equity by NatWest Group, which could result in the dilution of NatWest Group's existing shareholders. The success of such issuances will also be dependent on favourable market conditions and NatWest Group may not be able to raise the amount of capital required or on acceptable terms or at all. Separately, NatWest Group may address a shortage of capital by taking action to reduce leverage exposure and/or RWAs via asset or business disposals. Such actions may, in turn, affect, among other things, NWB Group's product offering, credit ratings, ability to operate its businesses, pursue its current strategies and pursue strategic opportunities, any of which may affect the underlying profitability of NWB Group and future growth potential. See also, 'NatWest Group (including NWB Group) may become subject to the application of UK statutory stabilisation or resolution powers which may result in, among other actions, the write-down or conversion of NWB Group's Eligible Liabilities'.

NWB Group may not be able to adequately access sources of liquidity and funding. NWB Group is required to access sources of liquidity and funding through retail and wholesale deposits, as well as through the debt capital markets. As at 31 December 2020, NWB Plc held £308.5 billion in deposits and the level of deposits may fluctuate due to factors outside NWB Group's control, such as a loss of investor confidence (including in other NatWest Group entities), sustained low or negative interest rates, increasing competitive pressures for retail and corporate customer deposits or the reduction or cessation of deposits by wholesale depositors, which could result in a significant outflow of deposits within a short period of time. An inability to grow, or any material decrease in NWB Group's deposits could, particularly if accompanied by one of the other factors described above, materially affect NWB Group's ability to satisfy its liquidity or funding needs. In turn, this could require NWB Group to adapt its funding plans.

If NWB Group's liquidity position were to come under stress, and if NWB Group were unable to raise funds through deposits or in the debt capital markets on acceptable terms or at all, its liquidity position could be adversely affected and it might be unable to meet deposit withdrawals on demand or at their contractual maturity, to repay borrowings as they mature, to meet its obligations under committed financing facilities, to comply with regulatory funding requirements, to undertake certain capital and/or debt management activities, or to fund new loans, investments and businesses. NWB Group may need to liquidate unencumbered assets to meet its liabilities, including disposals of assets not previously identified for disposal to reduce its funding commitments or trigger the execution of certain management actions or recovery options. In a time of reduced liquidity, NWB Group may be unable to sell some of its assets, or may need to sell assets at depressed prices, which in either case could negatively affect NWB Group's results.

NWB Group is reliant on NatWest Group for capital and funding support, and is substantially reliant on NatWest Group plc's ability to issue sufficient amounts of external MREL securities and downstream the proceeds to NWB Group. The inability to do so may adversely affect NWB Group. NWB Plc receives capital and funding from NatWest Group. NWB Plc has set target levels for different tiers of capital and for the internal MREL, as percentages of its RWAs. The level of capital and funding required for NWB Plc to meet its internal targets is therefore a function of the level of RWAs and its leverage exposure in NWB Plc and this may vary over time.

NWB Plc's internal MREL comprises the capital value of regulatory capital instruments and loss-absorbing senior funding issued by NWB Plc to its ultimate parent, NatWest Group plc. The Bank of England has identified that the preferred resolution strategy for NatWest Group is as a single point of entry. As a result, only NatWest Group plc is able to issue Group MREL eligible liabilities to third-party investors, using the proceeds to fund the internal MREL targets and/or requirements of its operating entities, including NWB Plc. NWB Plc is therefore dependent on NatWest Group plc to fund its internal capital targets and its ability to source appropriate funding at an NatWest Group plc level to support this. NWB Plc is also dependent on NatWest Group plc to fund its internal MREL target over time and its ability to raise and maintain sufficient amounts of external MREL liabilities to support this.

If NatWest Group plc is unable to issue adequate levels of MREL securities such that it is unable to downstream sufficient amounts to NWB Plc, this could lead to a failure of NWB Group to meet its own individual internal MREL requirements as well as the internal MREL requirements of subsidiaries within NWB Group. See also, 'NWB Group may not meet the prudential regulatory requirements for capital or manage its capital effectively, which could trigger the execution of certain management actions or recovery options'.

Any reduction in the credit rating and/or outlooks assigned to NatWest Group plc, any of its subsidiaries (including NWB Plc or other NWB Group subsidiaries) or any of their respective debt securities could adversely affect the availability of funding for NWB Group, reduce its liquidity position and increase the cost of funding. Rating agencies regularly review NatWest Group plc, NWB Plc and other NatWest Group entity credit ratings and outlooks, which could be negatively affected by a number of factors that can change over time including: the credit rating agency's assessment of NWB Group's strategy and management's capability; its financial condition including in respect of profitability, asset quality, capital, funding and liquidity; the level of political support for the industries in which NWB Group operates; the implementation of structural reform; the legal and regulatory frameworks applicable to NWB Group's legal structure; business activities and the rights of its creditors; changes in rating methodologies; changes in the relative size of the loss-absorbing buffers protecting bondholders and depositors; the competitive environment, political and economic conditions in NWB Group's key markets (including the impact of Brexit, the COVID-19 pandemic and any further Scottish independence referendum); any reduction of the UK's sovereign credit rating and market uncertainty.

In addition, credit ratings agencies are increasingly taking into account sustainability-related factors, including climate, environmental, social and governance related risk, as part of the credit ratings analysis, as are investors in their investment decisions.

Any reductions in the credit ratings of NatWest Group plc, NWB Plc or of certain other NatWest Group entities, including, in particular, downgrades below investment grade, or a deterioration in the capital markets' perception of NWB Group's financial resilience could significantly affect NWB Group's access to money markets, reduce the size of its deposit base and trigger additional collateral or other requirements in derivatives contracts and other secured funding arrangements or the need to amend such arrangements, which could adversely affect NWB Group's (and, in particular, NWB Plc's) cost of funding and its access to capital markets and could limit the range of counterparties willing to enter into transactions with NWB Group (and, in particular, with NWB Plc). This could in turn adversely impact NWB Group's competitive position and threaten its prospects in the short to medium-term.

NWB Group may be adversely affected if NatWest Group fails to meet the requirements of regulatory stress tests.
NatWest Group is subject to annual stress tests by its regulator in the UK and is also subject to stress tests by European regulators with respect to NatWest Group plc, NWM N.V. and Ulster Bank Ireland DAC. Stress tests are designed to assess the resilience of banks to potential adverse economic or financial developments and ensure that they have robust, forward-looking capital planning processes that account for the risks associated with their business profile. If the stress tests reveal that a bank's existing regulatory capital buffers are not sufficient to absorb the impact of the stress, then it is possible that the bank will need to take action to strengthen its capital position.

Failure by NatWest Group to meet the quantitative and qualitative requirements of the stress tests as set forth by its UK regulator or those elsewhere may result in: NatWest Group's regulators requiring NatWest Group to generate additional capital, reputational damage, increased supervision and/or regulatory sanctions, restrictions on capital distributions and loss of investor confidence. This may, in turn, negatively affect NWB Group.

NWB Group could incur losses or be required to maintain higher levels of capital as a result of limitations or failure of various models.
Given the complexity of NWB Group's business, strategy and capital requirements, NWB Group relies on analytical models for a wide range of purposes, including to manage its business, assess the value of its assets and its risk exposure, as well as to anticipate capital and funding requirements (including to facilitate NatWest Group's mandated stress testing). In addition, NWB Group utilises models for valuation, credit approvals, calculation of loan impairment charges on an IFRS 9 basis, financial reporting and for financial crime and fraud risk management. NWB Group's models, and the parameters and assumptions on which they are based, are periodically reviewed and updated to maximise their accuracy.

As models analyse scenarios based on assumed inputs and a conceptual approach, model outputs therefore remain uncertain and should not be relied on. Failure of models (including due to errors in model design) or new data inputs, including to accurately reflect changes in the micro and macroeconomic environment in which NWB Group operates (for example to account for the impact of the COVID-19 pandemic) to capture risks and exposures at the subsidiary level and to update for changes to NatWest Group's or NWB Group's current business model or operations, or for findings of deficiencies by NatWest Group's (and in particular, NWB Group's) regulators (including as part of NatWest Group's mandated stress testing) may result in increased capital requirements or require management action. NWB Group may also face adverse consequences as a result of actions based on models that are poorly developed, implemented or used, models that are based on inaccurate or compromised data or as a result of the modelled outcome being misunderstood, or by such information being used for purposes for which it was not designed.

NWB Group's financial statements are sensitive to the underlying accounting policies, judgments, estimates and assumptions.
The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income, expenses, exposures and RWAs. While estimates, judgments and assumptions take into account historical experience and other factors, (including market practice and expectations of future events that are believed to be reasonable under the circumstances), actual results may differ due to the inherent uncertainty in making estimates, judgments and assumptions (particularly those involving the use of complex models).

The accounting policies deemed critical to NWB Group's results and financial position, based upon materiality and significant judgments and estimates, which include loan impairment provisions, are set out in 'Critical accounting policies and key sources of estimation uncertainty' on page 99. New accounting standards and interpretations that have been issued by the International Accounting Standards Board but which have not yet been adopted by NWB Group are discussed in 'Accounting developments' on page 99.

Changes in accounting standards may materially impact NWB Group's financial results.
Changes in accounting standards or guidance by accounting bodies or in the timing of their implementation, whether immediate or foreseeable, could result in NWB Group having to recognise additional liabilities on its balance sheet, or in further write-downs or impairments to its assets and could also significantly impact the financial results, condition and prospects of NWB Group.

The valuation of financial instruments, including derivatives, measured at fair value can be subjective, in particular where models are used which include unobservable inputs. Generally, to establish the fair value of these instruments, NWB Group relies on quoted market prices or, where the market for a financial instrument is not sufficiently credible, internal valuation models that utilise observable market data. In certain circumstances, the data for individual financial instruments or classes of financial instruments utilised by such valuation models may not be available or may become unavailable due to prevailing market conditions. In these circumstances, NWB Group's internal valuation models require NWB Group to make assumptions, judgments and estimates to establish fair value, which are complex and often relate to matters that are inherently uncertain.

NatWest Group (including NWB Group) may become subject to the application of UK statutory stabilisation or resolution powers which may result in, among other actions, the write-down or conversion of NWB Group's Eligible Liabilities.
HM Treasury, the Bank of England and the PRA and FCA (together, the 'Authorities') are granted substantial powers to resolve and stabilise UK-incorporated financial institutions. Five stabilisation options exist: (i) transfer of all of the business of a relevant entity or the shares of the relevant entity to a private sector purchaser; (ii) transfer of all or part of the business of the relevant entity to a 'bridge bank' wholly-owned by the Bank of England; (iii) transfer of part of the assets, rights or liabilities of the relevant entity to one or more asset management vehicles for management of the transferor's assets, rights or liabilities; (iv) the write-down, conversion, transfer, modification, or suspension of the relevant entity's equity, capital instruments and liabilities ('Eligible Liabilities'); and (v) temporary public ownership of the relevant entity. These tools may be applied to NatWest Group plc as the parent company or to NWB Group, as an affiliate, where certain conditions are met (such as, whether the firm is failing or likely to fail, or whether it is reasonably likely that action will be taken (outside of resolution) that will result in the firm no longer failing or being likely to fail). Moreover, there are modified insolvency and administration procedures for relevant entities, and the Authorities have the power to modify or override certain contractual arrangements in certain circumstances and amend the law for the purpose of enabling their powers to be used effectively and may promulgate provisions with retrospective applicability.

Under the UK Banking Act, the Authorities are generally required to have regard to specified objectives in exercising the powers provided for by the Banking Act. One of the objectives (which is required to be balanced as appropriate with the other specified objectives) refers to the protection and enhancement of the stability of the financial system of the UK. Moreover, the 'no creditor worse off' safeguard contained in the Banking Act may not apply in relation to an application of the separate write-down and conversion power relating to capital instruments under the Banking Act, in circumstances where a stabilisation power is not also used. Holders of debt instruments which are subject to the power may, however, have ordinary shares transferred to or issued to them by way of compensation.

Uncertainty exists as to how the Authorities may exercise their powers including the determination of actions undertaken in relation to the ordinary shares and other securities issued by NatWest Group (including NWB Group), which may depend on factors outside of NWB Group's control. Moreover, the Banking Act provisions remain untested in practice.

If NatWest Group is at or is approaching the point of non-viability such that regulatory intervention is required, there may be a corresponding adverse effect on the business, results of operations and outlook of NWB Group.

NatWest Group is subject to Bank of England oversight in respect of resolution, and NWB Group could be adversely affected should the Bank of England deem NatWest Group's preparations to be inadequate.
NatWest Group is subject to regulatory oversight by the Bank of England, and is required (under the PRA rulebook) to carry out an assessment of its preparations for resolution, submit a report of the assessment to the PRA, and disclose a summary of this report. The initial report is due to be submitted to the PRA on 1 October 2021 and the Bank of England's assessment of NatWest Group's preparations is scheduled to be released on 10 June 2022. The form and substance of the June publication is yet to be established.

NatWest Group has dedicated significant resources towards the preparation of NatWest Group for a potential resolution scenario. However, if the assessment reveals that NatWest Group is not adequately prepared to be resolved, or does not have adequate plans in place to meet resolvability requirements by 1 January 2022, NatWest Group may be required to take action to enhance its preparations to be resolvable, resulting in additional costs and the dedication of additional resources. These actions may adversely affect NatWest Group or NWB Group, resulting in restrictions on maximum individual and aggregate exposures, a requirement to dispose of specified assets, a requirement to cease carrying out certain activities and/or maintaining a specified amount of MREL. This may also result in reputational damage or a loss of investor confidence.

Climate and sustainability-related risks NWB Group and its customers may face significant climate-related risks, including in transitioning to a low-carbon economy, which may adversely impact NWB Group.
Climate-related risks and uncertainties are receiving increasing prudential and regulatory, political and societal scrutiny, both in the UK and internationally.

Financial risks from climate change arise through two primary channels, or 'risk factors': physical and transition.

There are significant uncertainties as to the extent and timing of the manifestation of the physical risks of climate change, such as more extreme and frequent weather events, rising sea levels, flooding and subsidence, heat waves and long-lasting wildfires, reductions in biodiversity and resource scarcity. Damage to the properties and operations of borrowers could impair asset values, business activities and the creditworthiness of customers leading to increased default rates, delinquencies, write-offs and impairment charges in NWB Group's portfolios. In addition, NWB Group's premises and resilience may also suffer physical damage due to weather events leading to increased costs and disruption of activity and business continuity for NWB Group.

There are also significant uncertainties regarding the timing and speed of the transition to a low-carbon economy occurs and whether it occurs in an earlier, gradual, orderly manner or a delayed, rapid, disorderly manner. Widespread levels of adjustment to a low-carbon economy across all sectors of the economy and markets in which NWB Group operates will be required by several multilateral agreements, in particular the 2015 Paris Agreement and the UK and Scottish Government commitments to achieving net zero carbon emissions by 2050 and 2045. Some sectors such as property, energy (including oil and gas), mining, infrastructure, transport (including automotive and aviation) and agriculture are expected to be particularly impacted. The nature and timing of the far-reaching commercial, technological, policy and regulatory changes that this transition will entail remain uncertain but their impact is expected to be highly significant and may be disruptive, especially if these changes do not occur in an orderly or timely manner or are not effective in reducing emissions sufficiently.

Furthermore, public and private sector institutions may also face a variety of climate-related legal risks, both physical and transition, from potential litigation and contract liability. See also, 'NWB Group may be subject to potential climate, environmental and other sustainability-related litigation, enforcement proceedings, investigations and conduct risk'.

If NWB Group fails, either to take the extent of action required or in the timeliness of the action taken, to adapt its business and operating model to the climate-related risks and opportunities and changing market expectations or to appropriately identify, measure, manage and mitigate climate change related physical and transition risks and opportunities that NWB Group and its customers face, NWB Group's reputation, business, results of operations and outlook may be impacted adversely.

NatWest Group's Purpose-led Strategy includes one area of focus on climate change that is likely to require material changes to the business model of NWB Group which entails significant execution risk.
In February 2020, NatWest Group announced its ambition to become the leading bank on climate in the UK and ROI, helping to address the climate challenge by setting itself the challenge to at least halve the climate impact of its financing activity by 2030 and by intending to do what is necessary to achieve alignment with the 2015 Paris Agreement.

NatWest Group's commitment to reduce the climate impact of its financing activities may materially affect NWB Group's business and operations and will require significant reductions to its financed emissions and to its exposure to customers that do not align with a transition to a low-carbon economy or do not have a credible transition plan. It is anticipated that these reductions, together with the active management of climate-related risks and other regulatory, policy and market changes, are likely to necessitate material and accelerated changes to NWB Group's business and existing exposures (potentially on timescales outside of risk appetite) which may have a material adverse effect on NWB Group's ability to achieve its associated financial targets and generate sustainable returns.

Furthermore, the ongoing implementation of NatWest Group's climate strategy is increasingly requiring significant resource and capacity to collect third party, customer and other data and to develop and apply methodologies to understand and measure the climate impact of the emissions related to its financing activities. There is currently no single standard approach or methodology to measure such emissions and to provide a scenario-based model for alignment with the objectives of the 2015 Paris Agreement and the data, methodologies and assumptions on which emissions estimates and targets are based are also subject to change.

Accordingly, NatWest Group, including NWB Group, must continue to identify, define and develop its approach to setting and publishing sector-specific targets and its goal of setting comprehensive climate impact scenario-based reduction targets and by 2022. It must also be able to adequately define and benchmark current climate impact from its financing activities to demonstrate its progress against its ambition to halve this impact by 2030.

NWB Group's ability to contribute to and/or meet NatWest Group's climate-related targets (including to at least halve the climate impact of its financing activity) and commitments, including targets and commitments set for NWB Group for itself will depend greatly on many factors beyond NWB Group's control. These include the macroeconomic environment, the extent and pace of climate change, including the timing and manifestation of physical and transition risks and the effectiveness of actions of governments, legislators, regulators, businesses, investors, customers and other stakeholders to adapt and/or to mitigate the impact of climate-related risks. See also, 'NatWest Group (NWB Plc's parent company) is currently implementing its Purpose-led strategy which carries significant execution and operational risks and it may not achieve its stated aims and targeted outcomes'.

Risk factors

Any delay or failure in setting, making progress against or meeting NatWest Group's climate-related targets and commitments, including targets set for NWB Group for itself and/or its contribution to meeting NatWest Group targets and other climate-related commitments may have a material adverse impact on NWB Group, its reputation, business, results of operations, outlook, market and competition position and may increase the climate-related risks NWB Group faces.

Any failure by NWB Group to implement effective and compliant climate change resilient systems, controls and procedures could adversely affect NWB Group's ability to manage climate-related risks.
The prudential regulation of climate-related risks is an important driver in how NatWest Group develops its risk appetite for financing activities or engaging with counterparties that do not align with a transition to a low-carbon economy or do not have a credible transition plan.

Legislative and regulatory authorities in the UK and in the European Union are publishing expectations as to how banks should prudently manage and transparently disclose climate-related and environmental risks under prudential rules. In November 2020, the European Central Bank published its 'Guide on climate-related and environmental risks' and in April 2019, the PRA published a supervisory statement 'Enhancing banks' and insurers' approaches to managing the financial risks from climate change' (the 'SS 3/19').

In the SS 3/19 the PRA states that regulated entities must:

- fully embed the consideration of the financial risks from climate change in their governance arrangements;
- incorporate the financial risks from climate change into existing financial risk management practice;
- use (long term) scenario analysis to inform strategy setting and risk assessment and identification; and
- develop an approach to disclosure on the financial risks from climate change.

Following the submission of initial plans by UK banks, in July 2020 the PRA issued a 'Dear CEO' letter requiring firms to embed fully their approaches to managing climate-related financial risks by the end of 2021. In response, NatWest Group provided the PRA on 8 October 2020 with an update to its original delivery plan submitted in October 2019. The updated plan stated that the COVID-19 pandemic had disrupted some elements of NatWest Group's original plan and, as a result, some near term activities have been delayed to 2021; this delay could potentially result in increased execution risk. Further, the updated plan advised that it will require additional operating cycles reaching into 2022 and beyond to prove embedding.

In December 2019 the Bank of England announced that it will use the 2021 biennial exploratory scenario to stress test the resilience of the current business models of the largest banks, insurers and the financial system to the physical and transition risks from climate change under a number of climate scenarios (the 'Climate Biennial Explanatory Scenario' or 'CBES'). Further, in December 2020 the Bank of England published an update on its approach to the CBES in selected areas and confirmed that the CBES, which will be exploratory in nature (i.e. not intended to be used to set capital requirements), will be launched in early June 2021. There is a risk, however, that in the future years once the climate analytics have been embedded via the CBES, it may be concluded by the regulator that financial institutions, including NatWest Group (including NWB Group), may be required to hold additional capital to enhance their resilience against systemic and/or institution specific vulnerabilities to climate-related risks, including potential asset devaluation shocks.

Any failure of NWB Group to fully and timely embed climate-related risks into its risk management practices and framework to appropriately identify, measure, manage and mitigate the various climate-related physical and transition risks in line with applicable legal and regulatory requirements and expectations, may have a material and adverse impact on NWB Group's regulatory compliance, prudential capital requirements, liquidity position, reputation, business, results of operations and outlook.

There are significant uncertainties inherent in accurately modelling the impact of climate-related risks.
Significant risks, uncertainties and variables are inherent in the assessment, measurement and mitigation of climate-related risks. These include data quality gaps and limitations, the pace at which climate science, greenhouse gas accounting standards and carbon capture and other emissions reduction solutions develop. In addition, multiple climate change scenarios dependent on a range of variable factors could unfold over the coming two or three decades, which timeframes are considerably longer than NWB Group's historical strategic, financial, resilience and investment planning horizons and which will affect how and when climate- related risks manifest.

As a result, it is very difficult to predict and model the impact of climate-related risks into precise financial and economic outcomes and impacts. Climate-related risks present significant methodological challenges due to their forward-looking nature, the lack of historical testing capabilities, the quality, lack of standardisation and incompleteness of emissions and other climate and sub-sector related data and the immature nature of risk measurement and modelling methodologies. The evaluation of climate-related risk exposure and the development of associated potential risk mitigation techniques largely depend on the choice of climate scenario modelling methodology and the assumptions made.

There are a number of risks and uncertainties involved in climate scenario modelling, including that:

- it requires a special skill set that banks traditionally do not have and therefore NWB Group needs to rely on third party advice, modelling, and data which is also subject to many limitations and uncertainties;
- modelling of and data on climate-related risks on financial assets is immature in nature and it is expected that techniques and understanding will evolve rapidly in the coming years;
- it is challenging to benchmark or back test the climate scenarios given their forward-looking nature and the multiple possible outcomes;
- there is significant uncertainty as to how the climate will evolve over the coming decades, how and when governments, regulators, businesses, investors and customers respond and how those responses impact the economy, asset valuations, land systems, energy systems, technology, policy and wider society.

Accordingly, these risks and uncertainties coupled with significantly longer timeframes make the outputs of climate-related risk modelling, including emissions reductions targets and pathways, inherently more unreliable than outputs modelled for traditional financial planning cycles based on historical financial information.

Capabilities within NWB Group to assess the suitability of the assumptions required to model and manage climate-related risks appropriately are developing. Even when those capabilities are developed, the high level of uncertainty regarding any assumptions modelled, the highly subjective nature of risk measurement and mitigation techniques, incorrect or inadequate assumptions and judgments and data quality gaps and limitations may lead to inadequate risk management information and frameworks, or ineffective business adaptation or mitigation strategies, which may have a material adverse impact on NWB Group's regulatory compliance, reputation, business, results of operations and outlook.

A failure to adapt NWB Group's business strategy, governance, procedures, systems and controls to manage emerging sustainability-related risks and opportunities may have a material adverse effect on NWB Group's reputation, business, results of operations and outlook.
Investors, customers, international organisations, regulators and other stakeholders are increasingly focusing on and encouraging businesses to (i) identify, measure, manage and mitigate environmental (biodiversity and loss of natural capital); social (such as tackling inequality, inclusion, human rights and working conditions); and governance (such as board diversity, ethics, executive compensation and management structure) related risks and opportunities – which together are commonly referred to as 'sustainability-related' risks and opportunities;

and (ii) to focus on long term sustainable value creation rather than short-term financial value.

In addition to climate-related risks, sustainability-related risks such as environmental degradation may adversely affect economic activity, asset pricing and valuations of issuers' securities and, in turn, the wider financial system. There is also evidence of an interconnection between climate-related and sustainability-related risks resulting in combined effects capable of potentially generating even greater adverse effects. Sustainability-related risks may impact economic activities directly (for example through lower corporate profitability or the devaluation of assets) or indirectly (for example through macro-financial changes). They may also affect the viability or resilience of business models over the medium to longer term, particularly those business models most vulnerable to sustainability-related risks. In addition, sustainability-related risks can trigger further losses stemming directly or indirectly from legal claims (liability risks) and reputational damage as a result of the public, customers, counterparties and/or investors associating NWB Group or its customers with adverse sustainability-related issues.

Furthermore, sustainability-related risks may be drivers of several different risk categories simultaneously and may exacerbate existing risks, including credit risk, operational risk (business continuity), market risk (both current market risk positions and future investments) and liquidity risk (for example, net cash outflows or depletion of liquidity buffers), as well as migration risk, credit spread risk in the banking book, real estate risks and strategic risk.

Accordingly, any failure to adapt NWB Group's business strategy and to establish and maintain effective governance, procedures, systems and controls to manage emerging sustainability-related risks and opportunities may have a material adverse effect on NWB Group's reputation, liquidity position, business, results of operations and outlook.

Any reduction in the ESG ratings of NatWest Group (including NWB Group) could have a negative impact on NatWest Group's (including NWB Group) reputation and on investors' risk appetite.
Ratings from ESG rating agencies and data providers that rate on an unsolicited basis as to how NatWest Group (including NWB Group) manages environmental, social and governance risks are increasingly influencing investment decisions. Any change in such ESG ratings depends on many factors some of which are beyond NatWest Group's (including NWB Group) control (e.g. any change in rating methodology). Any reduction in the ESG ratings of NatWest Group could have a negative impact on NWB Group's reputation and could influence investors' risk appetite for NWB Group's and/or its subsidiaries' securities, particularly ESG securities.

Increasing levels of climate, environmental and sustainability-related laws, regulation and oversight may adversely affect NWB Group's business and expose NWB Group to increased costs of compliance, regulatory sanction and reputational damage.
Governments, legislative and regulatory authorities in the UK, EU and elsewhere are increasingly prioritising a wide range of new climate, environmental and sustainability-related laws and regulations to address the risks and opportunities associated with climate change and sustainability and to promote the transition to a more sustainable low-carbon economy. As a result, an increasing number of laws, regulations, legislative actions are likely to affect the financial sector and the real economy, including proposals, guidance, policy and regulatory initiatives many of which have been introduced or amended recently and are subject to further changes.

Many of these initiatives are focused on disclosure, developing standardised definitions for green and sustainable criteria of assets and liabilities, integrating climate change and sustainability into decision-making and customers access to green and sustainable financial products and services, which may have a significant impact on the services provided by NWB Group and its subsidiaries, especially mortgage lending, and its associated credit, market and financial risk profile. They could also impact NWB Group's recognition of its climate financing activity and may adversely affect NatWest Group's (including NWB Group) achieving its climate strategy and sustainable financing ambitions.

In addition, NatWest Group's EU subsidiaries will continue to be subject to an increasing array of the EU/EEA climate and sustainability-related legal and regulatory requirements, such as the EU Taxonomy and EU Green Bond Standards. These requirements may be used as the basis for UK laws and regulations (such as the recently announced UK Green Taxonomy) or regarded by investors and regulators as best practice standards whether or not they apply to UK businesses. Any divergence between EU/EEA and UK requirements may result in NWB Group not meeting investors' expectations may increase the cost of doing business and may restrict access of NWB Group's UK business to the EU/EEA market.

In addition, NWB Group and its subsidiaries will be subject to increasing entity wide climate and other non-financial disclosures requirements. From February 2022, NatWest Group (including NWB Group) will be required to provide enhanced climate-related disclosures consistent with the Task Force on Climate-related Financial Disclosure ('TCFD') recommendations to comply with the FCA's proposed new stock exchange listing rules for premium listed companies. The FCA will consult on expanding this requirement to a wider scope of listed issuers in NatWest Group, including NWB Group, as it moves towards mandatory TCFD reporting across the UK economy by 2025. NatWest Group (including NWB Group) is also participating in various voluntary carbon reporting and other standard setting initiatives for disclosing climate and sustainability-related information, many of which have differing objectives and methodologies and are at different stages of development in terms of how they apply to financial institutions.

These developing and evolving climate and sustainability-related requirements are likely to require NWB Group to implement significant changes to its business models, product and other governance, internal controls over financial reporting, disclosure controls and procedures, modelling capability and risk management systems, which may increase the cost of doing business, entail additional change risk and compliance costs.

Failure to implement and comply with these requirements or adopt regulatory or other best practice expectations may have a material adverse effect on NWB Group's regulatory compliance and may result in regulatory sanction and investor disapproval.

NWB Group may be subject to potential climate, environmental and other sustainability-related litigation, enforcement proceedings, investigations and conduct risk.
Due the increasing number of new climate and sustainability-related laws and regulations, growing demand from investors and customers for environmentally sustainable products and services, and regulatory scrutiny, financial institutions, including NWB Group, may through their business activities face increasing litigation, conduct, enforcement and contract liability risks related to climate change, environmental degradation and other social, governance and sustainability-related issues.

Furthermore, there is a risk that shareholders, campaign groups, customers and special interest groups could seek to take legal action against NWB Group for financing or contributing to climate change and environmental degradation

These potential, litigation, conduct, enforcement and contract liability risks may have a material adverse effect on NWB Group's ability to achieve its strategy, including its climate ambition, as well as its reputation, business, results of operations and outlook.

Operational and IT resilience risk
Operational risks (including reliance on third party suppliers and outsourcing of certain activities) are inherent in NWB Group's businesses.
Operational risk is the risk of loss resulting from inadequate or failed internal processes, procedures, people or systems, or from external events, including legal risks. It has come under increasing regulatory focus in recent years. As at 31 December 2020, NWB Group offered a diverse range of products and services supported by 52,100 employees; it therefore has complex and diverse

operations. As a result, operational risks or losses can arise from a number of internal or external factors. These risks are also present when NWB Group relies on third-party suppliers or vendors to provide services to it or its customers, as is increasingly the case as NWB Group outsources certain activities, including with respect to the implementation of new technologies, innovation and responding to regulatory and market changes.

Operational risks continue to be heightened as a result of the implementation of NatWest Group's Purpose-led Strategy, NatWest Group's current cost-reduction measures and conditions affecting the financial services industry generally (including the COVID-19 pandemic, Brexit and other geo-political developments) as well as the legal and regulatory uncertainty resulting therefrom. It is unclear as to how the future ways of working may evolve, including in respect of how working practices may develop, or how NWB Group will evolve to best serve its customers. Any of the above may place significant pressure on NWB Group's ability to maintain effective internal controls and governance frameworks.

NWB Group increasingly provides certain shared critical services, including property and financial accounting, regulatory reporting and certain administrative, treasury and legal services to other entities within NatWest Group (in particular, NWM Plc). The increased reliance by other NatWest Group entities on the provision of such services by NWB Group may result in increased costs or liabilities to NWB Group should NWB Group have to increase its capacity to provide these services internally or if it is required to outsource to third parties in order to provide or maintain these services. The effective management of operational risks is critical to meeting customer service expectations and retaining and attracting customer business. Although NWB Group has implemented risk controls and mitigation actions, with resources and planning having been devoted to mitigate operational risk, such measures may not be effective in controlling each of the operational risks faced by NWB Group. Ineffective management of such risks could adversely affect NWB Group.

NWB Group is subject to increasingly sophisticated and frequent cyberattacks.
NWB Group experiences a constant threat from cyberattacks across the entire NatWest Group (including NWB Group) and against NatWest Group and NWB Group's supply chain, reinforcing the importance of due diligence of and close working relationship with the third parties on which NWB Group relies. NWB Group is reliant on technology, against which there is a constantly evolving series of attacks that are increasing in terms of frequency, sophistication, impact and severity. As cyberattacks evolve and become more sophisticated, NWB Group is required to continue to invest in additional capability designed to defend against the emerging threats. In 2020, NWB Group was subjected to a small number of Distributed Denial of Service ('DDOS') attacks, which are a pervasive and significant threat to the global financial services industry. The focus is to manage the impact of the attacks and sustain availability of services for NWB Group's customers. NWB Group continues to invest significant resources in the development and evolution of cyber security controls that are designed to minimise the potential effect of such attacks.

Hostile attempts are made by third parties to gain access to, introduce malware (including ransomware) into and exploit vulnerabilities of NWB Group's IT systems. NWB Group has information and cyber security controls in place to minimise the impact of any attack, which are subject to review on a continuing basis, but given the nature of the threat, there can be no assurance that such measures will prevent all attacks in the future. See also, 'NWB Group's operations are highly dependent on its complex IT systems (including those that enable remote working) and any IT failure could adversely affect NWB Group'.

Any failure in NWB Group's cybersecurity policies, procedures or controls, may result in significant financial losses, major business disruption, inability to deliver customer services, or loss of data or other sensitive information (including as a result of an outage) and may cause associated reputational damage. Any of these factors could increase costs (including costs relating COVID-19 to notification of, or compensation for customers, credit monitoring or card reissuance), result in regulatory investigations or sanctions being imposed, or may affect NWB Group's ability to retain and attract customers. Regulators in the UK, US and Europe continue to recognise cybersecurity as an increasing systemic risk to the financial sector and have highlighted the need for financial institutions to improve their monitoring and control of, and resilience (particularly of critical services) to cyberattacks, and to provide timely notification of them, as appropriate.

Additionally, third parties may also fraudulently attempt to induce employees, customers, third party providers or other users who have access to NWB Group's systems to disclose sensitive information in order to gain access to NWB Group's data or that of NWB Group's customers or employees. Cybersecurity and information security events can derive from groups or factors such as: internal or external threat actors, human error, fraud or malice on the part of NWB Group's employees or third parties, including third party providers, or may result from accidental technological failure.

NWB Group expects greater regulatory engagement, supervision and enforcement to continue at a high level in relation to its overall resilience to withstand IT systems and related disruption, either through a cyberattack or some other disruptive event. Such increased regulatory engagement, supervision and enforcement is uncertain in relation to scope, consequence and pace of change, which could negatively impact NWB Group. Due to NWB Group's reliance on technology and the increasing sophistication, frequency and impact of cyberattacks, it is likely that such attacks could have a material adverse impact on NWB Group.

In accordance with the EU General Data Protection Regulation ('GDPR') and European Banking Authority ('EBA') Guidelines on ICT and Security Risk Management, NWB Group is required to ensure it implements timely, appropriate and effective organisational and technological safeguards against unauthorised or unlawful access to the data of NWB Group, its customers and its employees. In order to meet this requirement, NWB Group relies on the effectiveness of its internal policies, controls and procedures to protect the confidentiality, integrity and availability of information held on its IT systems, networks and devices as well as with third parties with whom NWB Group interacts. A failure to monitor and manage data in accordance with the GDPR and EBA requirements of the applicable legislation may result in financial losses, regulatory fines and investigations and associated reputational damage.

NWB Group operations and strategy are highly dependent on the accuracy and effective use of data.
NWB Group relies on the effective use of accurate data to support, monitor, evaluate, manage and enhance its operations and deliver its strategy. The availability of current, detailed, accurate and, wherever possible, machine-readable customer segment and sub-sector data is fast becoming a critical strategic asset. Failure to have current high-quality data and/or the ineffective use of such data could result in a failure to manage and report important risks and opportunities or satisfy customers' expectations including the inability to deliver innovative products and services. This could also reduce in a failure to deliver NWB Group's strategy and could place the NWB Group at a competitive disadvantage by increasing its costs, inhibiting its efforts to reduce costs or its ability to improve its systems, controls and processes, which could result in a failure to deliver NWB Group's strategy. These data limitations or the unethical or inappropriate use of data and/or non-compliance with customer data and privacy protection laws could give rise to conduct and litigation risks and may increase the risk of operational events, losses or other adverse consequences due to inappropriate models, systems, processes, decisions or other actions.

NWB Group's operations are highly dependent on its complex IT systems (including those that enable remote working) and any IT failure could adversely affect NWB Group.
NWB Group's operations are highly dependent on the ability to process a very large number of transactions efficiently and accurately while complying with applicable laws and regulations. The proper functioning of NatWest Group's (including NWB Group's)

payment systems, financial crime and sanctions controls, risk management, credit analysis and reporting, accounting, customer service and other IT systems (some of which are owned and operated by other entities in NatWest Group or third parties), as well as the communication networks between their branches and main data processing centres, is critical to NWB Group's operations.

Individually or collectively, any critical system failure, material loss of service availability or material breach of data security could cause serious damage to NWB Group's ability to provide services to its customers, which could result in reputational damage, significant compensation costs or regulatory sanctions (including fines resulting from regulatory investigations), or a breach of applicable regulations. In particular, such issues could cause long-term damage to NWB Group's reputation and could affect its regulatory approvals, competitive position, business and brands, which could undermine its ability to attract and retain customers. This risk is heightened as most of NWB Group's employees are working remotely as a result of the COVID-19 pandemic, as it outsources certain functions and as it continues to innovate and offer new digital solutions to its customers as a result of the trend towards online and mobile banking.

NWB Group continues to make considerable investments to further simplify, upgrade and improve its IT and technology capabilities (including migration of certain services to cloud platforms). NWB Group also continues to develop and enhance digital services for its customers and seeks to improve its competitive position through enhancing controls and procedures and strengthening the resilience of services including cyber security. Any failure of these investment and rationalisation initiatives to achieve the expected results, due to cost challenges or otherwise, could negatively affect NWB Group's operations, its reputation and ability to retain or grow its customer business or adversely impact its competitive position, thereby negatively impacting NWB Group's business, results of operations and outlook.

NWB Group relies on attracting, retaining and developing senior management and skilled personnel, and is required to maintain good employee relations.
NWB Group's success depends on its ability to attract, retain and develop highly skilled and qualified personnel, including senior management, directors and key employees especially for technology-focused roles, in a highly competitive market and under internal cost reduction pressures. NWB Group's ability to do this may be more difficult due to the cost reduction pressures, heightened regulatory oversight of banks and the increasing scrutiny of, and (in some cases) restrictions placed upon, employee compensation arrangements, in particular those of banks in receipt of government support such as NatWest Group. This increases the cost of hiring, training and retaining skilled personnel. In addition, certain economic, market and regulatory conditions and political developments (including Brexit) may reduce the pool of candidates for key management and non-executive roles, including non-executive directors with the right skills, knowledge and experience, or increase the number of departures of existing employees.

Any reduction of compensation, as a result of the PRA's request that bank boards consider taking further appropriate action regarding variable compensation, or negative economic developments, could have an adverse effect on NWB Group's ability to hire, retain and engage well qualified employees, especially at a senior level, which may have a material adverse impact on the financial position and prospects of NWB Group.

Many of NWB Group's employees in the UK, the ROI and continental Europe are represented by employee representative bodies, including trade unions. Engagement with its employees and such bodies is important to NWB Group in maintaining good employee relations. Any failure to do so could impact NWB Group's ability to operate its business effectively.

A failure in NWB Group's risk management framework could adversely affect NWB Group, including its ability to achieve its strategic objectives.
Risk management is an integral part of all of NWB Group's activities and includes the definition and monitoring of NWB Group's risk appetite and reporting on its risk exposure and the potential impact thereof on its financial condition. Financial risk management is highly dependent on the use and effectiveness of internal stress tests and models and ineffective risk management may arise from a wide variety of factors, including lack of transparency or incomplete risk reporting, unidentified conflicts or misaligned incentives, lack of accountability control and governance, lack of consistency in risk monitoring and management or insufficient challenges or assurance processes. Failure to manage risks effectively could adversely impact NWB Group's reputation or its relationship with its regulators, customers, shareholders or other stakeholders.

NWB Group's operations are inherently exposed to conduct risks, which include business decisions, actions or reward mechanisms that are not responsive to or aligned with NWB Group's regulatory obligations, customers' needs or do not reflect NWB Group's customer-focused strategy, ineffective product management, unethical or inappropriate use of data, information asymmetry, implementation and utilisation of new technologies, outsourcing of customer service and product delivery, the possibility of mis-selling of financial products and mishandling of customer complaints. Some of these risks have materialised in the past and ineffective management and oversight of conduct risks may lead to further remediation and regulatory intervention or enforcement. NWB Group's businesses are also exposed to risks from employee-misconduct including non-compliance with policies and regulations, negligence or fraud (including financial crimes), any of which could result in regulatory fines or sanctions and serious reputational or financial harm to NWB Group. These risks may be exacerbated when most of NWB Group's employees work remotely as a result of the COVID-19 pandemic, which places additional pressure on NWB Group's ability to maintain effective internal controls and governance frameworks.

NWB Group has been seeking to embed a strong risk culture across the organisation and has implemented policies and allocated new resources across all levels of the organisation to manage and mitigate conduct risk and expects to continue to invest in its risk management framework. However, such efforts may not insulate NWB Group from future instances of misconduct and no assurance can be given that NWB Group's strategy and control framework will be effective. Any failure in NWB Group's risk management framework could negatively affect NWB Group and its financial condition through reputational and financial harm and may result in the inability to achieve its strategic objectives for their customers, employees and wider stakeholders.

NWB Group's operations are subject to inherent reputational risk.
Reputational risk relates to stakeholder and public perceptions of NWB Group arising from an actual or perceived failure to meet stakeholder expectations, including with respect to NatWest Group's Purpose-led Strategy and related targets, due to any events, behaviour, action or inaction by NWB Group, its employees or those with whom NWB Group is associated. This includes brand damage, which may be detrimental to NWB Group's business, including its ability to build or sustain business relationships with customers, and may cause low employee morale, regulatory censure or reduced access to, or an increase in the cost of, funding. Reputational risk may arise whenever there is a material lapse in standards of integrity, compliance, customer or operating efficiency and may adversely affect NWB Group's ability to attract and retain customers. In particular, NWB Group's ability to attract and retain customers (particularly, corporate and retail depositors) may be adversely affected by, amongst others: negative public opinion resulting from the actual or perceived manner in which NWB Group or any other member of NatWest Group conducts or modifies its business activities and operations, media coverage (whether accurate or otherwise), employee misconduct, NWB Group's financial performance, IT systems failures or cyberattacks, data breaches, the level of direct and indirect government support, or the actual or perceived practices in the banking and financial industry in general, or a wide variety of other factors.

Modern technologies, in particular online social networks and other broadcast tools that facilitate communication with large audiences

Risk factors

in short time frames and with minimal costs, may also significantly increase and accelerate the impact of damaging information and allegations.

Although NWB Group has implemented a Reputational Risk Policy to improve the identification, assessment and management of customers, transactions, products and issues which represent a reputational risk, NWB Group cannot be certain that it will be successful in avoiding damage to its business from reputational risk.

Legal, regulatory and conduct risk
NWB Group's businesses are subject to substantial regulation and oversight, which are constantly evolving and may adversely affect NWB Group.
NWB Group is subject to extensive laws, regulations, corporate governance practice and disclosure requirements, administrative actions and policies in each jurisdiction in which it operates. Many of these have been introduced or amended recently and are subject to further material changes, which may increase compliance and conduct risks, particularly if EU/EEA and UK laws diverge now that the Brexit transition period has ended. NWB Group expects government and regulatory intervention in the financial services industry to remain high for the foreseeable future.

In recent years, regulators and governments have focused on reforming the prudential regulation of the financial services industry and the manner in which the business of financial services is conducted. Amongst others, measures have included: enhanced capital, liquidity and funding requirements, implementation of the UK ring-fencing regime, implementation and strengthening of the recovery and resolution framework applicable to financial institutions in the UK, the EU and the US, financial industry reforms (including in respect of MiFID II), corporate governance requirements, restrictions on the compensation of senior management and other employees, enhanced data privacy and IT resilience requirements, e financial market infrastructure reforms (including enhanced regulations in respect of the provision of 'investment services and activities'), and increased regulatory focus in certain areas, including conduct, consumer protection and disputes regimes, anti-money laundering, anti-corruption, anti-bribery, anti-tax evasion, payment systems, sanctions and anti-terrorism laws and regulations.

Other areas in which, and examples of where, governmental policies, regulatory and accounting changes and increased public and regulatory scrutiny could have an adverse impact (some of which could be material) on NWB Group include, but are not limited to, the following:

- general changes in government, central bank, regulatory or competition policy, or changes in regulatory regimes that may influence investor decisions in the jurisdictions in which NWB Group operates;
- rules relating to foreign ownership, expropriation, nationalisation and confiscation of assets;
- increased attention to the protection and resilience of, and competition and innovation in, UK payment systems and retail banking developments relating to the UK initiative on Open Banking, Open Finance and the European directive on payment services;
- new or increased regulations relating to customer data and privacy protection as well as IT controls and resilience, including the GDPR and the impact of the recent Court of Justice of the EU (CJEU) decision (known as Schrems II), in which the CJEU ruled that Privacy Shield (an EU/US data transfer mechanism) is now invalid, leading to more onerous due diligence requirements for the Group prior to sending personal data of its EU customers and employees to non-EEA countries, including the UK and the US;
- the introduction of, and changes to, taxes, levies or fees applicable to NWB Group's operations, such as the imposition of a financial transaction tax, changes in tax rates, changes in the scope and administration of the Bank Levy, increases in the bank corporation tax surcharge in the UK, restrictions on the tax deductibility of interest payments or further restrictions imposed on the treatment of carry-forward tax losses that reduce the value of deferred tax assets and require increased payments of tax.

These and other recent regulatory changes, proposed or future developments and heightened levels of public and regulatory scrutiny in the UK, the EU and the US have resulted in increased capital, funding and liquidity requirements, changes in the competitive landscape, changes in other regulatory requirements and increased operating costs, and have impacted, and will continue to impact, product offerings and business models. Any of these developments (including any failure to comply with new rules and regulations) could also have a significant impact on NWB Group's authorisations and licences, the products and services that NWB Group may offer, its reputation and the value of its assets, NWB Group's operations or legal entity structure, and the manner in which NWB Group conducts its business. Material consequences could arise should NWB Group be found to be non-compliant with these regulatory requirements. Regulatory developments may also result in an increased number of regulatory investigations and proceedings and have increased the risks relating to NWB Group's ability to comply with the applicable body of rules and regulations in the manner and within the time frames required.

In 2019, the PRA published an industry-wide "Dear CEO" letter which confirmed the regulator's ongoing focus on the integrity of regulatory reporting and its intention to ask a selection of UK banks to commission reports from Skilled Persons under section 166 of the Financial Services and Markets Act 2000 to review the governance, controls and processes around the preparation of Common Reporting ('COREP') regulatory returns and to provide reasonable assurance opinions on whether the returns reviewed were properly prepared. NatWest Group was selected to participate in this review. The PRA delayed the start of this review in light of the COVID-19 pandemic and the Skilled Persons are now expected to complete their work in H1 2021.

Changes in laws, rules or regulations, or in their interpretation or enforcement, or the implementation of new laws, rules or regulations, including contradictory or conflicting laws, rules or regulations by key regulators or policymakers in different jurisdictions, or failure by NWB Group to comply with such laws, rules and regulations, may adversely affect NWB Group's business, results of operations and outlook. In addition, uncertainty and insufficient international regulatory coordination as enhanced supervisory standards are developed and implemented may adversely affect NWB Group's ability to engage in effective business, risk and capital management planning.

NWB Group is subject to various litigation matters, regulatory actions and investigations as well as remedial undertakings, including conduct-related reviews, anti-money laundering and redress projects, the outcomes of which are inherently difficult to predict, and which could have an adverse effect on NWB Group.
NWB Group's operations are diverse and complex and it operates in legal and regulatory environments that expose it to potentially significant legal proceedings, and civil and criminal regulatory and governmental actions. NWB Group has settled a number of legal and regulatory actions over the past several years but continues to be, and may in the future be, involved in such actions in the US, the UK, Europe and other jurisdictions.

NWB Group is currently involved in a number of significant legal and regulatory actions, including criminal and civil investigations, proceedings and ongoing reviews (both formal and informal) by governmental law enforcement and other agencies and litigation proceedings relating to, among other matters, the setting of benchmark rates such as LIBOR and related derivatives trading, product mis-selling, investment advice, customer mistreatment, anti-money laundering, antitrust and various other compliance issues. Legal and regulatory actions are subject to many uncertainties, and their outcomes, including the timing, amount of fines or settlements or the form of any settlements, which may be material and in excess of any related provisions, are often difficult to predict, particularly in the early stages of a case or investigation. NWB Group's expectations for resolution may change and substantial additional provisions and costs may be recognised in respect of any matter.

Risk factors

Significant legal and regulatory actions to which NWB Group is currently exposed include, but are not limited to, the following:

- An FCA investigation into the potential criminal and civil culpability of NWB Group under the UK Money Laundering Regulations 2007 in relation to certain money service businesses and related parties.
- *Two Skilled Person reviews under section* 166 of the Financial Services and Markets Act 2000 in relation to (i) the governance arrangements with respect to two financial crime change programmes and (ii) a past business review of investment advice provided during 2010 to 2015.

For additional information relating to these and other legal and regulatory proceedings and matters to which NWB Group is currently exposed, see 'Litigation and regulatory matters' of Note 27 to the consolidated accounts.

Adverse outcomes or resolution of current or future legal or regulatory actions, including conduct-related reviews or redress projects, could have material collateral consequences for NWB Group's business and result in restrictions or limitations on NWB Group's operations. These may include consequences resulting from the need to reapply for various important licenses or obtain waivers to conduct certain existing activities of NWB Group, which may take a significant period of time and the results of which are uncertain. Failure to obtain such licenses or waivers could adversely impact NWB Group's business, including if it results in NWB Group being precluded from carrying out certain activities. This in turn and/or the fines, settlement payments or penalties could adversely impact NWB Group's capital position or its ability to meet regulatory capital adequacy requirements.

Failure to comply with undertakings made by NWB Group to its regulators may result in additional measures or penalties being taken against NWB Group. In addition, any failure to administer conduct redress processes adequately, or to handle individual complaints fairly or appropriately, could result in further claims as well as the imposition of additional measures or limitations on NWB Group's operations, additional supervision by NWB Group's regulators, and loss of investor confidence.

NWB Group may not effectively manage the transition of LIBOR and other IBOR rates to alternative risk free rates.
UK and international regulators are driving the transition from the use of interbank offer rates (IBORs), including LIBOR, to alternative risk free rates (RFRs). Interest rate benchmark reform is a key priority of the Financial Stability Board, and working groups have been established in a number of jurisdictions to support the transition. Major central banks and regulators including the FCA, the Bank of England, and the Federal Reserve, have strongly urged market participants to transition to RFRs, given the FCA have indicated that the availability of LIBOR beyond the end of 2021 cannot be guaranteed. NWB Group has a significant exposure to IBORs, and continues to reference it in certain products, primarily derivatives and cash products. NWB Group has started to phase out its use of IBOR in line with the Bank of England transition roadmap, and has embedded appropriate fall-back mechanisms in most new IBOR activities, either through bilateral contract documentation, or under the ISDA fall-backs protocol. NWB along with many of its major counterparties, has already adhered to the ISDA IBOR fall-backs supplement and protocol which establishes a clear, industry accepted, contractual process to manage the transition from IBORs to RFRs for derivative products.

NWB Group is actively engaged with customers and industry working groups to manage the risks relating to this exposure, and explore ways to transition IBOR exposures to RFRs to the extent possible. Any economic impacts will be dependent on, inter alia, the establishment of deep and liquid RFR markets, the establishment of clear and consistent market conventions for all replacement products, as well as counterparties' willingness to accept, and transition to, these conventions. Furthermore, certain IBOR obligations may not be able to be changed thus resulting in fundamentally different economic outcomes than originally intended. The uncertainties around the timing and manner of transition to RFRs expose NWB Group, its clients and the financial services industry more widely to risk.

Examples of these risks may include (i) legal risks relating to documentation for new and the majority of existing transactions (including, but not limited to, changes, lack of changes, or unclear contractual provisions); (ii) financial risks from any changes in valuation of financial instruments linked to impacted IBORs that may impact NWB Group's performance, including its cost of funds and its risk management related financial models; (iii) pricing, interest rate or settlement risks such as changes to benchmark rates that could impact pricing, interest rate or settlement mechanisms in or on certain instruments; (iv) operational risks due to the requirement to adapt IT systems, trade reporting infrastructure and operational processes; and (v) conduct and litigation risks arising from communication regarding the potential impact on customers, and engagement with customers during the transition period, or non-acceptance by customers of replacement rates.

It is therefore difficult to determine to what extent the changes will affect NWB Group, or the costs of implementing any relevant remedial action. Uncertainty as to the nature and extent of such potential changes, the take up of alternative reference rates, or other reforms including the potential continuation of the publication of LIBOR, may adversely affect financial instruments using LIBOR as benchmarks. The implementation of any alternative RFRs may be impossible or impracticable under the existing terms of certain financial instruments and could have an adverse effect on the value of, return on and trading market for, certain financial instruments and on NWB Group's profitability. There is also the risk of an adverse effect to reported performance arising from the transition rules established by accounting bodies, as the outcome of certain rules (as approved by the IASB) are still dependent on how the actual transition process is implemented.

NWB Group operates in jurisdictions that are subject to intense scrutiny by the competition authorities.
There is significant oversight by competition authorities of the jurisdictions which NWB Group operates in. The competitive landscape for banks and other financial institutions in the UK and the EU/EEA is rapidly changing. Recent regulatory and legal changes have and may continue to result in new market participants and changed competitive dynamics in certain key areas, such as in retail and SME banking in the UK where the introduction of new entrants is being actively encouraged by the government. Competition authorities, including the CMA, are currently also looking at and focusing more on how they can support competition and innovation in digital markets.

The UK retail banking sector has been, and remains, subjected to intense scrutiny by the UK competition authorities, government and by other bodies, including the FCA and the Financial Ombudsman Service, in recent years, including with a number of reviews/inquiries being carried out, including market reviews conducted by the CMA and its predecessor the Office of Fair Trading regarding SME banking and personal banking products and services, the Independent Commission on Banking and the Parliamentary Commission on Banking Standards.

These reviews raised significant concerns about the effectiveness of competition in the retail-banking sector. The CMA's Retail Banking Market Order 2017 imposes remedies primarily intended to make it easier for consumers and businesses to compare *personal current account ('PCA') and SME* bank products, increase the transparency of price comparison between banks and amend PCA overdraft charging. These remedies *impose additional compliance requirements* on NatWest Group and NWB Group and could, in aggregate, adversely impact NWB Group's competitive position, product offering and revenues.

Adverse findings resulting from current or future competition investigations may result in the imposition of reforms or remedies which may impact the competitive landscape in which NWB Group operates or result in restrictions on mergers and consolidations within the financial sector.

Risk factors

The cost of implementing the Alternative Remedies Package ('ARP') could be more onerous than anticipated.
Implementing the ARP (initially in relation to the business previously described as Williams & Glyn, since supplemented by an additional perimeter of 200,000 customers since 25 August 2020) has involved costs for NWB Group, including but not limited to funding commitments of £425 million for the Capability and Innovation Fund and £350 million for the Incentivised Switching Scheme, both administered by the Independent Body.
Implementing the ARP may:

- involve additional costs for NWB Group;
- divert resources from NWB Group's operations;
- cause business disruption and jeopardise the delivery of other significant plans and initiatives;
- require NWB Group to modify certain aspects of its execution of the scheme, which could increase implementation costs; and
- subject NWB Group to penalties of up to £50 million if uptake within the scheme is insufficient.

As a direct consequence of the ARP, NWB Group will lose existing customers and deposits, which in turn will have adverse impacts on its business and associated revenues and margins. The ARP could also result in adverse customer engagement and adverse reputational implications for NWB Group.

The ARP is intended to benefit eligible competitors and negatively impact NWB Group's competitive position.

Upon request by an eligible bank, NatWest Group has agreed to grant customers which have switched to eligible banks under the scheme access to its branch network for cash and cheque handling services. This may impact customer service for NWB Group's own customers with consequent competitive, financial and reputational implications.

Implementation of the scheme is also dependent on the engagement of eligible banks and administration by the Independent Body.

The COVID-19 pandemic may adversely affect customer switching. The incentivised transfer of SME customers to third party banks places reliance on those third parties to achieve satisfactory customer outcomes which could give rise to reputational damage to NWB Group if these are not forthcoming.

Failure to comply with the terms of the ARP could result in the imposition of additional measures or limitations on NWB Group's operations, additional supervision by NWB Group's regulators, and loss of investor confidence.

Changes in tax legislation or failure to generate future taxable profits may impact the recoverability of certain deferred tax assets recognised by NWB Group.
In accordance with the accounting policies set out on page 97, NWB Group has recognised deferred tax assets on losses available to relieve future profits from tax only to the extent it is probable that they will be recovered. The deferred tax assets are quantified on the basis of current tax legislation and accounting standards and are subject to change in respect of the future rates of tax or the rules for computing taxable profits and offsetting allowable losses.

Failure to generate sufficient future taxable profits or further changes in tax legislation (including with respect to rates of tax) or accounting standards may reduce the recoverable amount of the recognised tax loss deferred tax assets, amounting to £600 million as at 31 December 2020. Changes to the treatment of certain deferred tax assets may impact NWB Group's capital position. In addition, NWB Group's interpretation or application of relevant tax laws may differ from those of the relevant tax authorities and provisions are made for potential tax liabilities that may arise on the basis of the amounts expected to be paid to tax authorities. The amounts ultimately paid may differ materially from the amounts provided depending on the ultimate resolution of such matters.

Forward-looking statements

Cautionary statement regarding forward-looking statements
This document contains 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 NWB Group's future economic results, business plans and current strategies. In particular, this document may include forward-looking statements relating to NWB Group in respect of, but not limited to: the impact of the COVID-19 pandemic, its regulatory capital position and related requirements, its financial position, profitability and financial performance (including financial, capital, cost savings and operational targets), the implementation of NatWest Group's Purpose-led strategy, NWB Group's ESG and climate-related targets, its access to adequate sources of liquidity and funding, increasing competition from new incumbents and disruptive technologies, its exposure to third party risks, its ongoing compliance with the UK ring-fencing regime and ensuring operational continuity in resolution, its impairment losses and credit exposures under certain specified scenarios, substantial regulation and oversight, ongoing legal, regulatory and governmental actions and investigations, the transition of LIBOR and IBOR rates to alternative risk free rates and NWB Group's exposure to economic and political risks (including with respect to terms surrounding Brexit and climate change), operational risk, conduct risk, cyber and IT risk, key person risk and credit rating risk. 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 impact of the COVID-19 pandemic, the outcome of legal, regulatory and governmental actions and investigations, legislative, political, fiscal and regulatory developments, accounting standards, competitive conditions, technological developments, interest and exchange rate fluctuations and general economic and political conditions and the impact of climate-related risks and the transitioning to a low carbon economy. These and other factors, risks and uncertainties that may impact any forward-looking statement or the NWB Group's actual results are discussed in the NWB Plc's UK 2020 Annual Report and Accounts (ARA). The forward-looking statements contained in this document speak only as of the date of this document and NWB Plc 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.*