NatWest Holdings Limited

Annual Report and Accounts 2020

Strategic report

Presentation of information
NatWest Holdings Limited ('NWH Ltd') is a wholly owned subsidiary of NatWest Group plc, or 'the holding company' (renamed The Royal Bank of Scotland Group plc on 22 July 2020). NatWest Holdings Group ('NWH Group') comprises NWH Ltd and its subsidiary and associated undertakings. National Westminster Bank Plc (NWB Plc), The Royal Bank of Scotland plc (RBS plc) and Ulster Bank Ireland DAC (UBI DAC) and Coutts & Company (Coutts) are wholly owned subsidiaries. The term 'NatWest Group' comprises NatWest Group plc and its subsidiary and associated undertakings.

NWH Group 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.

Principal activities and operating segments
NWH 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.

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.

Ulster Bank RoI serves individuals and businesses in the Republic of Ireland (RoI).

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, NWH Ltd's largest subsidiary, 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.

Description of business
Business profile
As at 31 December 2020 the business profile of the NWH Group was as follows:
- Total assets of £496.6 billion.
- A Common Equity Tier 1 (CET1) ratio at 31 December 2020 of 17.5% and total risk-weighted assets (RWA) of £135.3 billion.
- Customers are served through a UK and Irish network of branches and ATM services, and relationship management structures in commercial and private banking.
- The geographic location of customers is predominately the UK and Ireland.

Business Developments
In December 2020, we acquired a £3.0 billion portfolio of prime UK mortgages from Metro Bank plc. Growing the 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
Financial performance in a challenging environment:
Profit for the year was £327 million compared with £1,406 million in 2019, reflecting lower income and significantly higher impairment charges primarily due to the current COVID-19 crisis and resulting uncertain economic conditions.

Total income decreased by £905 million compared with 2019 reflecting continued margin pressure, despite lending volume growth on lower interest rates, and subdued business activity.

Operating expenses decreased by £1,519 million, or 19%, to £6,625 million, compared with £8,144 million in 2019, primarily reflecting £1,062 million lower litigation and conduct costs. The cost:income ratio decreased from 73.4% to 65.0%.

Impairment losses increased by £2,349 million to £3,094 million compared with £745 million in 2019, predominantly driven by Stage 1 and 2 charges reflecting the deterioration in the economic environment, with limited levels of default across lending portfolios and associated ECL stage.

Robust balance sheet with strong capital levels.
Total assets increased by £68.2 billion to £496.6 billion compared with £428.4 billion at 31 December 2019. This was primarily driven by a net increase of £37.5 billion in cash balances, impacted by significant deposit inflows. Customer deposits increased by £62.4 billion to £397.8 billion as consumer spending continued to be impacted by government restrictions in response to COVID-19 and customers retained liquidity.

Loans to customers - amortised cost increased by £34.4 billion to £338.8 billion primarily driven by a growth in retail mortgages and an increase in corporate lending due to drawdowns against UK Government lending initiatives in response to COVID-19 uncertainty.

The CET1 ratio was 17.5% and RWA's were £135.3 billion.

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 NWH Group.

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 NWH Ltd. 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 Competition and Markets Authority (CMA) 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.

The Sustainable Banking Committee held two sessions that included a focus on customers. The first of these addressed customer treatment in the context of COVID-19. The second session focused on enterprise, and the Committee heard customer testimonies alongside a spotlight from a customer on entrepreneurship and NatWest Group's role in supporting the sector.

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.

Investors

Communication with NatWest Group plc's largest institutional shareholders is undertaken as part of the Investor Relations programme. More information can be found in the NatWest Group plc 2020 Annual Report and Accounts.

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 the 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.

The Sustainable Banking Committee supported the Board by discussing NatWest Group's new Supplier Charter and approach to suppliers in relation to its Modern Slavery & Human Rights obligations.

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.

The Sustainable Banking Committee has spent time focussed on climate and NatWest Group's climate ambition. As part of these discussions, the Committee also received external insights from the Green Finance Institute which provided an overview of the relevant science, climate modelling and the case to de-carbonise.

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

NWH Ltd 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. NWH Ltd defines principal decisions as those that are material, or of strategic importance to NWH Ltd, 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 how 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 2 to 75 was approved by the Board of directors on 19 February 2021

By order of the Board
Jan Cargill
Company Secretary
19 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
Sustainable Banking

Graham Beale
Senior Independent Director
Audit, Nominations, Risk, Sustainable Banking

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
Sustainable Banking

Mike Rogers
Sustainable Banking (Chair), Remuneration

Mark Seligman
Audit, Nominations, Remuneration

Lena Wilson
Remuneration, Risk, Sustainable Banking

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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Ulster Bank Limited
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Coutts & Company
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Lombard North Central PLC
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NatWest Holdings Limited
Registered in England No. 10142224

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
Sustainable Banking	member of the Sustainable Banking Committee

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

Financial review

Summary consolidated income statement for the year ended 31 December 2020

	Retail Banking £m	Ulster Bank RoI £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	**3,931**	**395**	**2,843**	**480**	**(87)**	**7,562**	7,950	*(388)*	*(5)*
Non-interest income	**313**	**115**	**1,229**	**274**	**697**	**2,628**	3,145	*(517)*	*(16)*
Total income	**4,244**	**510**	**4,072**	**754**	**610**	**10,190**	11,095	*(905)*	*(8)*
Operating expenses	**(2,484)**	**(499)**	**(2,445)**	**(465)**	**(732)**	**(6,625)**	(8,144)	*1,519*	*(19)*
Profit/(loss) before impairment losses	**1,760**	**11**	**1,627**	**289**	**(122)**	**3,565**	2,951	*614*	*21*
Impairment losses	**(795)**	**(250)**	**(1,927)**	**(108)**	**(14)**	**(3,094)**	(745)	*(2,349)*	*315*
Operating profit/(loss)	**965**	**(239)**	**(300)**	**181**	**(136)**	**471**	2,206	*(1,735)*	*(79)*
Tax charge						**(144)**	(800)	*656*	*(82)*
Profit for the year						**327**	1,406	*(1,079)*	*(77)*

Notable items within operating expenses	2020	2019
Strategic costs	**771**	988
PPI (release)/costs	**(276)**	900

Key metrics and ratios	2020	2019
Cost:income ratio (%)	**65.0**	73.4
Loan impairment expected credit loss rate (bps)	**89**	24
CET1 ratio (%)	**17.5**	15.7
Leverage ratio (%)	**5.3**	5.6
Risk weighted assets (£bn)	**135.3**	134.7

NWH Group reported a profit of £327 million compared with £1,406 million in 2019, driven by an increase in impairment losses of £2,349 million, reflecting the deterioration of the economic outlook as a result of the COVID-19 pandemic, together with a decrease in total income of £905 million, partially offset by a reduction in operating expenses of £1,519 million.

Total income decreased by £905 million, or 8%, to £10,190 million compared with £11,095 million in 2019.

Net interest income decreased by £388 million, or 5%, to £7,562 million compared with £7,950 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 £517 million, or 16%, to £2,628 million compared with £3,145 million in 2019. Net fees and commissions decreased by £475 million to £1,834 million due to regulatory changes, subdued business activity and lower customer spending resulting from government measures in response to COVID-19 in 2020.

Other operating income decreased by £42 million to £794 million compared with £836 million, reflecting:

- £88 million lower income related to disposal of subsidiaries, branches and property;
- £41 million lower income from fair value adjustments;
- a decrease in hedging related income of £13 million; and
- an increase of £100 million in recharges to other NatWest Group entities.

Operating expenses decreased by £1,519 million, or 19%, to £6,625 million, compared with £8,144 million in 2019, due to PPI provision releases of £276 million in 2020, compared with a charge of £900 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 £771 million include charges related to reductions in the property portfolio and restructuring costs incurred to achieve operating and cost efficiencies.

Impairment losses increased by £2,349 million to £3,094 million compared with £745 million in 2019, predominantly driven by Stage 1 and 2 charges reflecting the deterioration in the economic environment, with limited levels of default across lending portfolios and associated ECL stage migration.

Financial review

Retail Banking

Operating profit was £965 million, compared with £963 million in 2019.

Net interest income decreased by £266 million to £3,931 million compared with £4,197 million in 2019, reflecting the low interest rate environment, contraction of the yield curve and mortgage margin pressure, partially offset by £15.6 billion balance growth in mortgages.

Non-interest income decreased by £459 million to £313 million, compared with £772 million in 2019, primarily driven by a reduction of £317 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 government measures taken in response to COVID-19. Other non-interest income decreased by £142 million primarily reflecting a £58 million loss on acquisition of a mortgage portfolio from Metro Bank plc in 2020, compared with a £50 million debt sale gain in 2019 and the non-repeat of £36 million income from costs recharged.

Operating expenses decreased by £1,130 million to £2,484 million compared with £3,614 million in 2019, primarily due to PPI provision releases of £276 million in 2020, compared with a charge of £900 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.

Impairment losses increased by £403 million to £795 million, compared with £392 million in 2019 reflecting significant Stage 2 charges 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 £13.5 billion to £172.3 billion, driven by gross new mortgage lending growth, partially offset by redemptions, and the purchase of a £3.0 billion mortgage portfolio from Metro Bank.

Customer deposits increased by £21.6 billion to £171.8 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.

Ulster Bank RoI

Operating loss was £239 million, compared with an operating profit of £56 million in 2019.

Net interest income decreased by £14 million to £395 million compared with £409 million in 2019, impacted by a decrease in lending volumes due to COVID-19, combined with the low yield curve environment.

Non-interest income decreased by £53 million to £115 million, compared with £168 million in 2019, driven by lower FX gains, a decrease in income due to ineffective hedges and lower fees and commissions receivable as a result of the impact of COVID-19 on transaction volumes.

Operating expenses decreased by £56 million to £499 million compared with £555 million in 2019, impacted mainly by headcount reductions, lower marketing, back office, strategic, conduct and litigation costs.

Impairment losses increased by £284 million, as a result of a £250 million charge in 2020, compared with a £34 million net release in 2019. Impairment losses mainly reflect the charges taken in the first half of 2020 due to the uncertain economic environment created by the COVID-19 pandemic, with limited Stage 3 defaults reflecting the level of institutional and government support.

Loans to customers - amortised cost decreased by £0.2 billion to £18.0 billion, as repayments exceeded gross new lending, combined with the derecognition of non-performing loans from a sale agreed in Q4 2019, and increased loan provisions, partially offset by the impact of FX.

Customer deposits increased by £1.1 billion to £19.6 billion, due to a large one-off placement at the end of the year and the impact of FX, partially offset by reductions in commercial balances due to pricing changes, including the implementation of negative rates on large and mid-sized corporate customers and non-bank financial institutions.

Commercial Banking

Operating loss was £300 million, compared with a profit of £1,312 million in 2019.

Net interest income decreased by £73 million to £2,843 million, compared with £2,916 million in 2019, reflecting the lower yield curve impacting deposit returns and increased liquidity portfolio costs from higher deposit volumes, partially offset by higher lending volumes from drawdowns against government lending schemes.

Non-interest income decreased by £201 million to £1,229 million, reflecting a £180 million decrease in net fees and commissions, due to subdued transactional business activity following the government measures taken in response to COVID-19. Fair value and disposal losses increased by £41 million, offset by an increase of £27 million in hedging income.

Operating expenses decreased by £198 million to £2,445 million, compared with £2,643 million reflecting a reduction of £72 million in conduct and litigation costs, £55 million lower staff costs, due to headcount reductions and other staff cost reductions, combined with decreased back office operations costs. This was partly offset by £19 million lower VAT recoveries.

Impairment losses increased by £1,536 million to £1,927 million, compared with £391 million in 2019, primarily reflecting the deterioration of the economic outlook as a result of the COVID-19 pandemic driving significant Stage 2 charges, with total Stage 3 charges of £314 million, including a small number of single name charges.

Loans to customers - amortised cost increased by £7.0 billion, mainly reflecting £8.3 billion higher lending volumes from drawdowns against government scheme lending, partially offset by increased impairments.

Customer deposits increased by £32.7 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 £181 million compared with £305 million in 2019.

Net interest income decreased by £48 million to £480 million, compared with £528 million in 2019, impacted by decreased rates and lower funding income, partially offset by increased lending volumes.

Non-interest income increased by £17 million to £274 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 £22 million to £465 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 £115 million to £108 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 £17.0 billion, driven by £0.9 billion growth in mortgage lending and £0.6 billion increase in corporate lending.

Customer deposits increased by £4.0 billion to £32.4 billion, mainly due to growth in demand interest bearing and non-interest bearing account balances.

Central items & other

Operating loss was £136 million in 2020 compared with £430 million in 2019.

Total income increased by £192 million to £610 million in 2020, compared with £418 million in 2019, reflecting a £135 million increase in income from the recharging of shared services and a £149 million increase in bond disposal gains and other treasury income, partially offset by non-repeat of £58 million property related income and £33 million FX recycling gains in 2019.

Operating expenses decreased by £113 million to £732 million, compared with £845 million in 2019, primarily reflecting lower strategic projects costs and non-repeat of property related and other one off costs. In 2020, £515 million of the total expenses were recovered through service charges which are presented within non-interest income.

Impairment losses increased by £11 million to £14 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	2019	Variance	
	£m	£m	£m	%
Assets				
Cash and balances at central banks*	**95,187**	57,646	37,541	65
Derivatives	**3,116**	2,899	217	7
Loans to banks - amortised cost*	**4,707**	5,073	(366)	(7)
Loans to customers - amortised cost	**338,827**	304,452	34,375	11
Amounts due from holding company and fellow subsidiaries	**1,085**	990	95	10
Other financial assets	**40,733**	43,893	(3,160)	(7)
Intangible assets	**6,341**	6,313	28	—
Other assets	**6,587**	7,105	(518)	(7)
Total assets	**496,583**	428,371	68,212	16
Liabilities				
Bank deposits	**18,800**	18,391	409	2
Customer deposits	**397,841**	335,407	62,434	19
Amounts due to holding company and fellow subsidiaries	**20,662**	18,824	1,838	10
Derivatives	**6,032**	4,653	1,379	30
Other financial liabilities	**10,626**	8,822	1,804	20
Subordinated liabilities	**1,316**	1,338	(22)	(2)
Notes in circulation	**2,655**	2,109	546	26
Other liabilities	**5,385**	6,070	(685)	(11)
Total liabilities	**463,317**	395,614	67,703	17
Total equity	**33,266**	32,757	509	2
Total liabilities and equity	**496,583**	428,371	68,212	16

*2019 data has been restated for the accounting policy change for balances held with central banks. Refer to Accounting policy changes effective 1 January 2020 for further details.

Total assets increased by £68.2 billion to £496.6 billion at 31 December 2020, compared with £428.4 billion at 31 December 2019.

Cash and balances at central banks increased by £37.5 billion to £95.2 billion, compared with £57.6 billion at 31 December 2019, driven by increased deposits, 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 a £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 were offset by £6.6 billion of covered bond maturities and debt redemptions.

Loans to banks – amortised cost decreased by £0.4 billion to £4.7 billion, compared with £5.1 billion at 31 December 2019, mainly representing a £1.0 billion decrease in USD balances as part of treasury activities, partially offset by a £0.2 billion increase in other central bank balances and £0.2 billion deposits placed with Metro Bank plc for the acquisition of its mortgage portfolio.

Loans to customers – amortised cost increased by £34.4 billion to £338.8 billion, compared with £304.5 billion at 31 December 2019, reflecting £16.6 billion strong gross new mortgage lending, partially offset by redemptions, and the acquisition of a £3.0 billion mortgage portfolio from Metro Bank plc, £8.4 billion growth in corporate lending due to drawdowns against UK Government schemes in response to COVID-19, and £12.5 billion higher volume of reverse repos.

Amounts due from holding companies and fellow subsidiaries increased by £0.1 billion to £1.1 billion, compared with £1.0 billion at 31 December 2019, reflecting an increase of inter-company balances with entities outside the ring-fenced bank.

Other financial assets decreased by £3.2 billion to £40.7 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 £0.5 billion to £6.6 billion, reflecting decreased tangible assets due to the ongoing optimisation of the property portfolio.

Bank deposits increased by £0.4 billion to £18.8 billion, driven by an increase in repos of £4.1 billion, and additional third party deposits of £1.3 billion, offset by a net £5.0 billion repayment of the TFS / TFSME facilities.

Customer deposits increased by £62.4 billion to £397.8 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 £1.8 billion to £20.7 billion, compared with £18.8 billion at 31 December 2019, reflecting net increases in long-term funding from NatWest Group.

Derivative liabilities increased by £1.4 billion to £6.0 billion, compared with £4.7 billion at 31 December 2019, due to the increase in volume and change in valuation of derivative products used to hedge the liquidity portfolio, driven by the fall in interest rates.

Other financial liabilities increased by £1.8 billion to £10.6 billion, compared with £8.8 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.

Other liabilities decreased by £0.7 billion to £5.4 billion, compared with £6.1 billion at the 31 December 2019, due to a £0.8 billion decrease in provisions, mainly reflecting a reduction in the PPI provision.

Owners' equity increased by £0.5 billion to £33.3 billion, compared with £32.8 billion at 31 December 2019. The increase reflects attributable profit for 2020 of £0.3 billion, increased FX reserves of £0.2 billion and increased cash flow hedge reserves of £0.2 billion, partially offset by 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 10 to 75) 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 NWH 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. NWH 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. NWH 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, NWH 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, NWH 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
NWH 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 NWH 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 NWH 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 NatWest 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
Risk culture is at the centre of both the risk management framework and risk management practice. The target culture across NWH Group is one in which risk is part of the way employees work and think. The target risk culture behaviours are aligned to NWH Group's core values. They are embedded in Our Standards and therefore form an effective basis for risk culture since these 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.

Risk management framework continued

Governance

Committee structure

The diagram shows NWH Ltd risk committee structure in 2020 and the main purposes of each committee.

NatWest Holdings Ltd 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, risk appetite and risk culture. Oversees the effectiveness of NWH Group's risk management framework and (with the Audit Committee) the system of internal controls required to manage risk.

Audit Committee

Assists the boards of the NWH Group subsidiaries in carrying out their 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 NWH 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 NWH legal entities' boards. Reviews, challenges and debates all aspects of NWH Group legal entities, including strategic, financial, capital, risk and operational issues. Supports the CEO in forming recommendations to the boards and committees.

Asset & Liability Management Committee[6]

Supports the CFO in overseeing the effective management of the NWH Group legal entities' current and future balance sheets, ensuring they operate within NatWest Group and NWH subsidiary risk appetites, policies and chosen business strategy, and comply with regulatory and legal requirements.

Executive Disclosure Committee[7]

Ensures that NatWest Holdings legal entities and UBI DAC disclosures are accurate, complete and fair. Supports the CRO in reviewing and evaluating all significant expected credit losses and the CFO in reviewing and evaluating related provisions and valuations.

Business and function risk committees

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

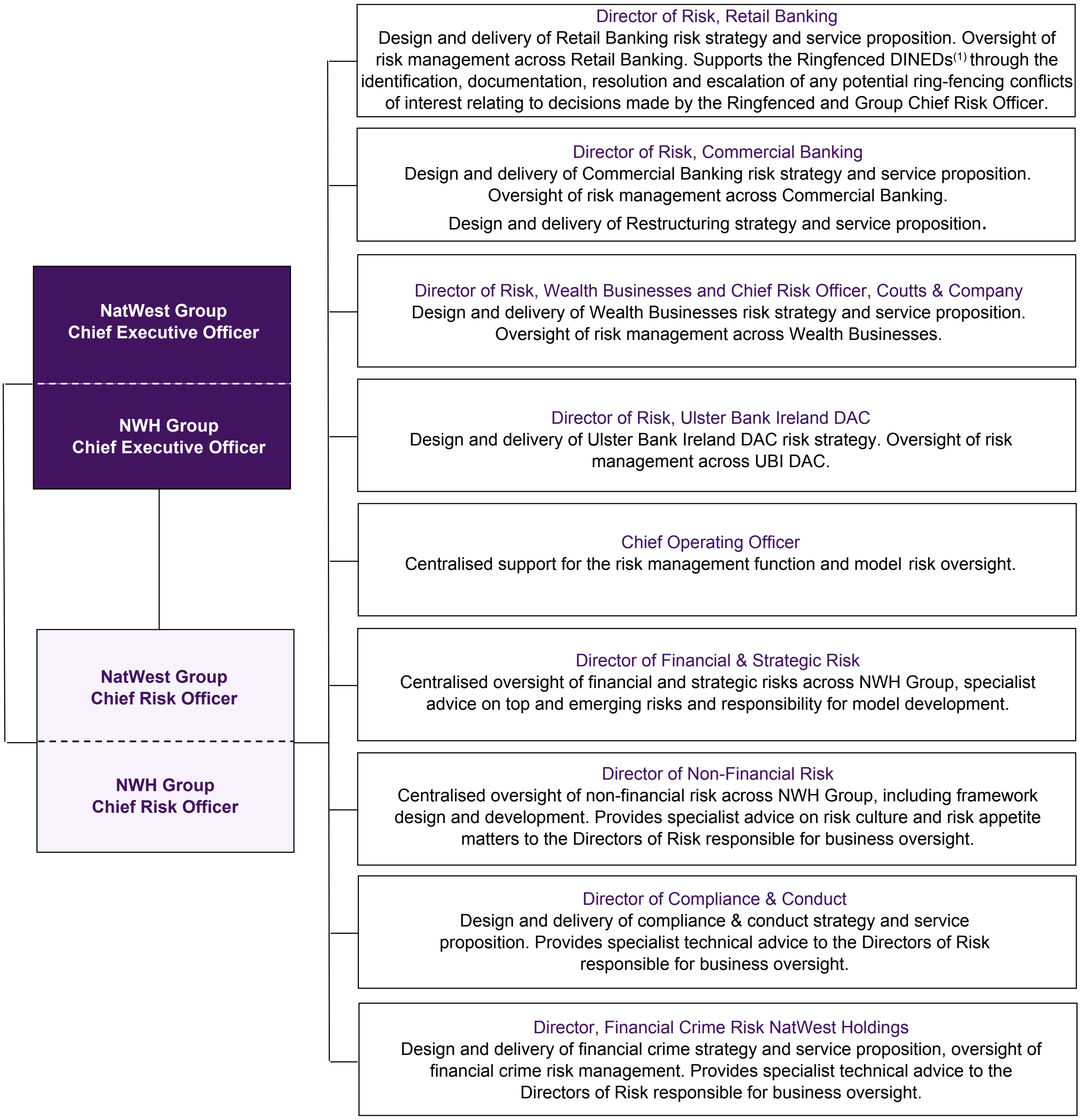
Notes:
(1) The NatWest Group Chief Executive Officer also performs the role of NWH Group Chief Executive Officer.
(2) The NatWest Group Chief Risk Officer also performs the role of NWH Group Chief Risk Officer.
(3) The NatWest Group Chief Financial Officer also performs the role of NWH Group Chief Financial Officer.
(4) The Executive Risk Committee is chaired by the NWH Group Chief Executive Officer and supports her in discharging risk management accountabilities.
(5) The Executive Committee is chaired by the NWH Group Chief Executive Officer and supports her in discharging her individual accountabilities in accordance with the authority delegated to her by the NWH Group Board.
(6) The Asset & Liability Management Committee is chaired by the NWH Group Chief Financial Officer and supports her in discharging her individual accountabilities relating to treasury and balance sheet management.
(7) The Executive Disclosure Committee is chaired by the NWH Group Chief Financial Officer and supports her in discharging her accountabilities relating to the production and integrity of the NatWest Holdings legal entities' financial information and disclosures.

Risk and capital management

Risk management framework continued

Risk management structure

The diagram shows NWH 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 NWH Group Chief Executive Officer, and the NatWest Group Chief Risk Officer also performs the role of NWH Group Chief Risk Officer.

(3) The NWH Group Chief Risk Officer reports directly to the NWH Group 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.

(4) 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 NWH Group. 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; Wealth; Financial & Strategic Risk; Non-Financial Risk and Compliance & Conduct) as well as the Director, Financial Crime Risk NatWest Holdings and the Chief Operating Officer report to the NWH Group Chief Risk Officer. The Director of Risk, Ulster Bank Ireland DAC reports to the Ulster Bank Ireland DAC Chief Executive. He also has a reporting line to the NWH Group Chief Risk Officer and to the Chair of the Ulster Bank Ireland DAC Board Risk Committee.

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 that are acceptable, 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.

The risk appetite framework, which is approved annually by the Board, 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 would be out of appetite are identified, assessed, escalated and addressed in a timely manner.

Risk appetite is maintained across the NWH Group through risk appetite statements. These provide clarity on the scale and type of activities that can be undertaken in a manner that is easily conveyed to staff.

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 NWH Group is well placed to meet its priorities and long-term targets even in challenging economic environments. It is the basis on which NWH Group remains safe and sound while implementing its strategic business objectives.

NWH 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 NWH Group faces are detailed in the Risk Directory. This provides a common risk language to ensure consistent terminology is used across NWH 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 NWH Group.

Mitigation

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

Risk and capital management

Risk management framework continued

NatWest Group's 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.

Reverse stress testing is also carried out in order to identify circumstances that may lead to specific, defined outcomes such as business failure. Reverse stress testing allows potential vulnerabilities in the business model to be examined more fully.

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.

Risk and capital management

Risk management framework continued

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 of these 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

NatWest Group's 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.

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 NatWest Group's 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.

Risk and capital management

Risk management framework continued

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 NWH 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 NWH Group. NWH 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.

NWH Group mitigates counterparty credit risk through collateralisation and netting agreements, which allow amounts owed by NWH Group to a counterparty to be netted against amounts the counterparty owes NWH 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 NWH 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 – NWH Group takes collateral in the form of residential property to mitigate the credit risk arising from mortgages. NWH Group values residential property during the loan underwriting process by either appraising properties individually or valuing them collectively using statistically valid models. NWH Group updates residential property values quarterly using the relevant residential property index namely:

Region	Index used
UK (including Northern Ireland)	Office for National Statistics House Price Index
Republic of Ireland	Central Statistics Office Residential Property Price Index

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

Commercial real estate valuations – NWH Group has a panel of chartered surveying firms that cover the spectrum of geography and property sectors in which NWH 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. In the Republic of Ireland, assets are revalued in line with the Central Bank of Ireland threshold requirements, which permits indexation for lower value residential assets, but demands regular Red Book valuations for higher value assets.

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.

Risk and capital management

Credit risk continued

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, NWH 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 NWH Group and other lenders). NWH Group then sets its lending rules accordingly, developing different rules for different products.

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 NWH 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 NWH 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.

In the Republic of Ireland, the relationship may pass to a specialist support team prior to any transfer to recoveries, depending on the outcome of customer financial assessment.

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 NWH 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 NWH 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.

Credit risk continued

Heightened Monitoring customers require pre-emptive actions (outside the customer's normal trading patterns) to return or maintain their facilities within NWH Group's current risk appetite prior to maturity.

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 NWH 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 NWH 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 NWH 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), capitalisation of arrears and, in the Republic of Ireland only, temporary interest-only or partial capital and interest arrangements. 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, NWH 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.

Risk and capital management

Credit risk continued

Identification and measurement

Credit stewardship

Wholesale

NWH 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 NWH 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

NWH 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.
- NWH 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, NWH 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 risk continued

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.

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.

NWH 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 15 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. For Ulster Bank RoI, a bespoke IFRS 9 mortgage LGD model is used, reflecting its specific regional market.

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.

Risk and capital management

Credit risk continued

Governance and post model adjustments

The IFRS 9 PD, EAD and LGD models are subject to NWH 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	Ulster Bank RoI £m	Commercial Banking £m	Other £m	Total £m
Deferred model calibrations	**34**	**2**	**13**	**—**	**49**
Economic uncertainty	**158**	**176**	**526**	**9**	**869**
Other adjustments	**20**	**26**	**19**	**—**	**65**
Total	**212**	**204**	**558**	**9**	**983**
2019					
Deferred model calibrations	—	1	—	—	1
Economic uncertainty	83	14	98	1	196
Other adjustments	45	25	5	—	75
Total	128	40	103	1	272

Note:
(1) For 2019, the PMA for model calibrations of approximately £22 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 £34 million (of which £25 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 £63 million (of which £39 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 £69 million, again due to the delayed default emergence reflective of the various customer support mechanisms (£15 million related to mortgages and £54 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 £15 million (2019 – £8 million) to mitigate the risk of a disproportionate credit deterioration in challenging economic circumstances.

Other judgmental overlays included £13 million (2019 – £15 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 £7 million overlay for an identified weakness in the mortgage PD model pending remediation.

Ulster Bank RoI – The PMA for economic uncertainty included an adjustment of £103 million in the mortgage portfolio reflecting concerns that expected losses arising from defaults in the year ahead would be significantly higher than modelled. Like Commercial Banking (further detail below), there was an overlay of £30 million in the Wholesale portfolio relative to concerns about debt recovery values and the risk of idiosyncratic credit outcomes. It also included adjustments of £10 million in respect of high risk payment break mortgage customers and £31 million in the SME portfolio reflective of the elevated risk for this sector. These two overlays were also associated with a collective migration of exposures to Stage 2. Refer to the Stage 2 decomposition analysis for further details.

Other judgemental overlays included a Stage 3 ECL uplift of £25 million in the mortgage portfolio to address concerns that the loss outcome under the forecast macro-economic scenarios would be higher than modelled. Similar to Retail Banking and Commercial Banking, there was also a PMA for deferred model calibrations of £2 million in the retail unsecured and business banking portfolios.

Commercial Banking – The PMA for economic uncertainty included an overlay of £409 million (£445 million across NWH Group's Wholesale portfolio) 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 £52 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. Similar to Retail Banking, the overlay as at 31 December 2019 was reflective of the uncertainty associated with Brexit, subsequently systematically incorporated within the multiple economic scenarios.

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 £19 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). NWH 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 NWH 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.

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:
  - Term lending – the contractual maturity date, reduced for behavioural trends where appropriate (such as, expected pre-payment and amortisation).
  - 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.

Credit risk continued

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 £110 million (2019 – £90 million). However, credit card balances originated under the 0% balance transfer product, and representing approximately 12% 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 NWH 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 unemployment rates, house price indices and the Bank of England and the European Central Bank base rates. 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, NWH 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.

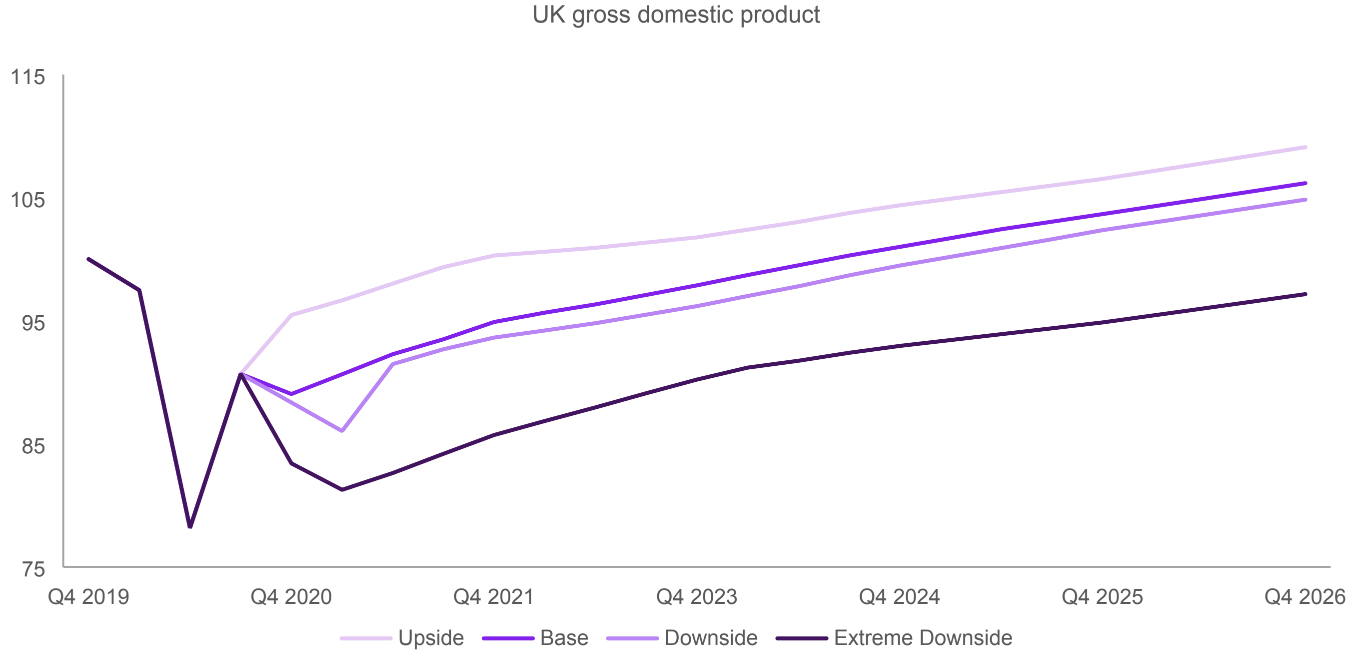
Main macroeconomic variables

	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)
Republic of Ireland									
GDP - CAGR	**4.2**	**3.5**	**3.0**	**1.6**	3.8	3.5	2.7	2.3	1.8
Unemployment - average	**5.6**	**7.5**	**9.3**	**11.2**	4.0	4.3	4.8	5.6	6.8
House Price Inflation - total change	**21.0**	**13.3**	**6.8**	**(7.0)**	29.3	25.7	15.5	10.8	4.2
European Central Bank base rate - average	**0.1**	**—**	**—**	**—**	1.5	0.8	—	—	—
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.

Credit risk continued

Economic loss drivers



Annual figures

GDP - annual growth

UK	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

Republic of Ireland	Upside %	Base case %	Downside %	Extreme downside %
2020	(1.6)	(2.2)	(2.7)	(4.9)
2021	9.9	5.2	0.8	(6.4)
2022	5.2	5.2	4.6	8.4
2023	3.1	3.5	3.9	5.9
2024	1.9	2.7	3.8	2.5
2025	2.1	2.6	3.8	2.4

Unemployment rate - annual average

UK	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

Republic of Ireland	Upside %	Base case %	Downside %	Extreme downside %
2020	11.6	11.9	12.1	13.0
2021	7.2	9.4	11.4	14.9
2022	5.1	7.4	9.6	11.7
2023	4.4	6.5	8.6	9.6
2024	4.5	6.2	7.8	8.6
2025	4.6	6.1	7.2	8.5

House Price Inflation - four quarter growth

UK	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

Republic of Ireland	Upside %	Base case %	Downside %	Extreme downside %
2020	2.3	(0.1)	(0.8)	(3.2)
2021	3.6	(4.1)	(12.9)	(24.9)
2022	3.3	3.8	3.4	7.4
2023	2.9	4.1	5.9	7.4
2024	3.3	4.9	7.6	5.7
2025	4.2	4.6	5.4	5.5

Commercial real estate price - four quarter growth

UK	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

Risk and capital management

Credit risk continued

Economic loss drivers

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	
	Upside	Base case	Downside	Extreme downside	Downside 1	Downside 2
UK	%	%	%	%	%	%
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)

	31 December 2020				31 December 2019	
	Upside	Base case	Downside	Extreme downside	Downside 1	Downside 2
Republic of Ireland	%	%	%	%	%	%
GDP (year-on-year)	**(4.4)**	**(6.7)**	**(8.4)**	**(17.0)**	0.5	(2.1)
Unemployment	**16.5**	**16.5**	**16.5**	**18.1**	5.8	7.3
House Price Inflation (year-on-year)	**(0.6)**	**(4.2)**	**(13.3)**	**(24.9)**	(2.6)	(8.4)

Peak (Q3 2020) to trough

	31 December 2020			
	Upside	Base case	Downside	Extreme downside
UK	%	%	%	%
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)**

	31 December 2020			
	Upside	Base case	Downside	Extreme downside
Republic of Ireland	%	%	%	%
GDP	**(0.6)**	**(3.0)**	**(5.5)**	**(13.8)**
House Price Inflation	**—**	**(4.2)**	**(13.3)**	**(27.0)**

Credit risk continued

Economic loss drivers

Probability weightings of scenarios

NWH 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 NWH 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, NWH 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. NWH 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 NWH 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, NWH 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, NWH 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 NWH Group operates, but also, among others:

- The timing and nature of governmental exit plans from lockdown, notably in the UK and the Republic of Ireland, 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 NWH 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.

Credit risk continued

UK economic uncertainty

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 NWH 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.

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.

Wholesale support schemes

The table below shows the uptake of Bounce Back Loan Scheme (BBLS), Coronavirus Business Interruption Loan Scheme (CBILS) and Coronavirus Large Business Interruption Loan Scheme (CLBILS) in Wholesale, by sector.

	BBLS			CBILS			CLBILS		
2020	Approved volume	Drawdown amount (£m)	% of BBLS to sector loans	Approved volume	Drawdown amount (£m)	% of CBILS to sector loans	Approved volume	Drawdown amount (£m)	% of CLBILS to sector loans
Wholesale lending by sector									
Airlines and aerospace	253	7	0.35%	21	9	0.46%	4	8	0.41%
Automotive	12,301	416	6.65%	553	139	2.22%	31	58	0.93%
Education	1,943	53	3.24%	111	73	4.46%	11	37	2.26%
Health	9,821	314	5.45%	601	101	1.75%	3	24	0.42%
Land transport and logistics	8,575	255	5.41%	365	97	2.06%	3	5	0.11%
Leisure	31,148	989	10.19%	1,983	512	5.27%	34	173	1.78%
Oil and gas	303	9	0.60%	15	8	0.53%			—
Retail	31,315	1,078	11.92%	1,548	416	4.60%	29	121	1.34%
Property	67,698	1,996	5.62%	2,350	664	1.87%	41	133	0.37%
Other (including Business Banking)	118,486	3,181	4.50%	8,504	1,752	2.48%	86	267	0.38%
Total	281,843	8,298	5.65%	16,051	3,771	2.57%	242	826	0.56%

Notes:
(1) The UK government has extended these support schemes to 31 March 2021 and NWH Group continues to lend under the schemes to customers who meet the applicable lending criteria.
(2) The table contains some cases which as at 31 December 2020 were approved but not yet drawn down. Approved limits as at 31 December 2020 were as follows: BBLS – £8.6 billion (96% drawn); CBILS – £4.2 billion (91% drawn); and CLBILS – £1.3 billion (62% drawn).

Credit risk continued

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, NWH 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.

NWH 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.

Credit risk continued

Measurement uncertainty and ECL sensitivity analysis

2020	Actual	Upside	Downside	Extreme downside
Stage 1 modelled exposure (£m)				
Retail Banking	135,017	136,977	133,600	99,170
Ulster Bank RoI Personal & Business Banking	11,124	11,318	11,030	9,590
Wholesale	98,841	106,524	97,527	81,297
	244,982	254,819	242,157	190,057
Stage 1 modelled ECL (£m)				
Retail Banking	124	94	128	130
Ulster Bank RoI Personal & Business Banking	27	25	29	29
Wholesale	299	294	307	282
	450	413	464	441
Stage 1 coverage (%)				
Retail Banking	0.09%	0.07%	0.10%	0.13%
Ulster Bank RoI Personal & Business Banking	0.24%	0.22%	0.26%	0.30%
Wholesale	0.30%	0.28%	0.31%	0.35%
	0.18%	0.16%	0.19%	0.23%
Stage 2 modelled exposure (£m)				
Retail Banking	32,942	30,982	34,359	68,789
Ulster Bank RoI Personal & Business Banking	1,738	1,544	1,832	3,272
Wholesale	41,571	33,888	42,885	59,115
	76,251	66,414	79,076	131,176
Stage 2 modelled ECL (£m)				
Retail Banking	897	665	968	1,727
Ulster Bank RoI Personal & Business Banking	95	83	107	152
Wholesale	1,945	1,419	2,086	3,210
	2,937	2,167	3,161	5,089
Stage 2 coverage (%)				
Retail Banking	2.72%	2.15%	2.82%	2.51%
Ulster Bank RoI Personal & Business Banking	5.47%	5.38%	5.84%	4.65%
Wholesale	4.68%	4.19%	4.86%	5.43%
	3.85%	3.26%	4.00%	3.88%
Stage 1 and Stage 2 modelled exposure (£m)				
Retail Banking	167,959	167,959	167,959	167,959
Ulster Bank RoI Personal & Business Banking	12,862	12,862	12,862	12,862
Wholesale	140,412	140,412	140,412	140,412
	321,233	321,233	321,233	321,233
Stage 1 and Stage 2 modelled ECL (£m)				
Retail Banking	1,021	759	1,096	1,857
Ulster Bank RoI Personal & Business Banking	122	108	136	181
Wholesale	2,244	1,713	2,393	3,492
	3,387	2,580	3,625	5,530
Stage 1 and Stage 2 coverage (%)				
Retail Banking	0.61%	0.45%	0.65%	1.11%
Ulster Bank RoI Personal & Business Banking	0.95%	0.84%	1.06%	1.41%
Wholesale	1.60%	1.22%	1.70%	2.49%
	1.05%	0.80%	1.13%	1.72%
Reconciliation to Stage 1 and Stage 2 ECL (£m)				
ECL on modelled exposures	3,387	2,580	3,625	5,530
ECL on non-modelled exposures	64	64	64	64
Total Stage 1 and Stage 2 ECL	3,451	2,644	3,689	5,594
Variance – (lower)/higher to actual total Stage 1 and Stage 2 ECL		(807)	238	2,143

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. Refer to the NatWest Holdings Limited 2019 Annual Report and Accounts for the sensitivity analysis carried out at that time.

Credit risk continued

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 over 60%. 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 (£238 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 (£807 million, 23% of actual) was lower than the uplift observed in the extreme downside (£2.1 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.

Credit risk – Banking activities

Introduction

This section details the credit risk profile of NWH Group's banking activities.

Refer to Accounting policy 15 and Note 12 to the consolidated 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 9 to the consolidated 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	2019*
	£bn	£bn
Balance sheet total gross amortised cost and FVOCI	**484.6**	414.1
In scope of IFRS 9 ECL framework	**481.5**	410.6
% in scope	**99%**	99%
Loans - in scope	**348.3**	311.7
Stage 1	**267.2**	278.3
Stage 2	**75.1**	27.1
Stage 3	**6.0**	6.3
Other financial assets - in scope	**133.2**	98.9
Stage 1	**132.2**	98.9
Stage 2	**1.0**	—
Out of scope of IFRS 9 ECL framework	**3.1**	3.5

*2019 data has been restated for the accounting policy change for balances held with central banks. Refer to Accounting policy changes effective 1 January 2020 for further details.

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 £1.6 billion (2019 – £1.8 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 – £1.1 billion (2019 – £1.0 billion).
- NWH 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 £0.5 billion (2019 – £0.5 billion) of inter-Group assets not shown in table above.

Contingent liabilities and commitments

In addition to contingent liabilities and commitments disclosed in Note 25 to the consolidated financial statements – reputationally-committed limits are also included in the scope of the IFRS 9 ECL framework. These are offset by nil (2019 – £2.1 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 £110.7 billion (2019 – £104.1 billion) comprised Stage 1 £88 billion (2019 – £98 billion); Stage 2 £21.8 billion (2019 – £5.5 billion); and Stage 3 £0.9 billion (2019 – £0.6 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	Ulster Bank RoI £m	Commercial Banking £m	Private Banking £m	Central items & other £m	Total £m
Loans - amortised cost and FVOCI						
Stage 1	139,956	14,380	70,685	15,321	26,843	267,185
Stage 2	32,414	3,302	37,344	1,939	110	75,109
Stage 3	1,891	1,236	2,551	298	—	5,976
Inter-Group					463	463
	174,261	18,918	110,580	17,558	27,416	348,733
ECL provisions						
Stage 1	134	45	270	31	13	493
Stage 2	897	265	1,713	68	15	2,958
Stage 3	806	492	1,069	39	—	2,406
Inter-Group					1	1
	1,837	802	3,052	138	29	5,858
ECL provisions coverage (2,3)						
Stage 1 (%)	0.10	0.31	0.38	0.20	0.05	0.18
Stage 2 (%)	2.77	8.03	4.59	3.51	13.64	3.94
Stage 3 (%)	42.62	39.81	41.91	13.09	—	40.26
Inter-Group (%)					0.22	0.22
	1.05	4.24	2.76	0.79	0.11	1.68
Impairment losses						
ECL charge - third party	792	250	1,926	101	24	3,093
ECL loss rate - annualised (basis points) (3)	45	132	174	57	9	89
Amounts written-off	378	219	321	5	—	923

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	Ulster Bank RoI £m	Commercial Banking £m	Private Banking £m	Central items & other £m	Total £m
Loans - amortised cost and FVOCI						
Stage 1	144,513	15,409	88,100	14,956	15,262	278,240
Stage 2	13,558	1,642	11,353	587	4	27,144
Stage 3	1,902	2,037	2,162	207	—	6,308
Inter-Group					523	523
	159,973	19,088	101,615	15,750	15,789	312,215
ECL provisions						
Stage 1	114	29	152	7	6	308
Stage 2	467	53	215	7	—	742
Stage 3	823	693	1,020	29	—	2,565
Total	1,404	775	1,387	43	6	3,615
ECL provisions coverage (2,3)						
Stage 1 (%)	0.08	0.19	0.17	0.05	0.04	0.11
Stage 2 (%)	3.44	3.23	1.89	1.19	—	2.73
Stage 3 (%)	43.27	34.02	47.18	14.01	—	40.66
	0.88	4.06	1.36	0.27	0.04	1.16
Impairment losses						
ECL charge - third party	392	(34)	391	(7)	3	745
ECL loss rate - annualised (basis points) (3)	25	(18)	38	(4)	2	24
Amounts written-off	235	85	450	1	—	771

*2019 data has been restated for the accounting policy change for balances held with central banks. Refer to Accounting policy changes effective 1 January 2020 for further details.

Notes:
(1) ECL provisions coverage is calculated as ECL provisions divided by loans - amortised cost and FVOCI.
(2) 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.
(3) 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 totalling £93.4 billion (2019 – £55.9 billion) and debt securities of £39.8 billion (2019 – £42.9 billion).

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 more limited impact on Stage 3 ECL requirements which reduced slightly year-on-year reflecting the lower Stage 3 stock of exposures, driven by the sale of legacy non-performing mortgages in Ulster Bank RoI.
- 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)					
2020	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
Retail Banking	**139,956**	**30,714**	**1,080**	**620**	**32,414**	**1,891**	**174,261**	**134**	**762**	**70**	**65**	**897**	**806**	**1,837**
Ulster Bank RoI	**14,380**	**2,964**	**144**	**194**	**3,302**	**1,236**	**18,918**	**45**	**227**	**15**	**23**	**265**	**492**	**802**
Personal	***11,117***	***1,500***	***115***	***130***	***1,745***	***1,064***	***13,926***	***27***	***74***	***9***	***13***	***96***	***392***	***515***
Wholesale	***3,263***	***1,464***	***29***	***64***	***1,557***	***172***	***4,992***	***18***	***153***	***6***	***10***	***169***	***100***	***287***
Commercial Banking	**70,685**	**36,451**	**589**	**304**	**37,344**	**2,551**	**110,580**	**270**	**1,648**	**44**	**21**	**1,713**	**1,069**	**3,052**
Private Banking	**15,321**	**1,908**	**17**	**14**	**1,939**	**298**	**17,558**	**31**	**67**	**—**	**1**	**68**	**39**	**138**
Personal	***12,799***	***116***	***17***	***11***	***144***	***263***	***13,206***	***7***	***2***	***—***	***—***	***2***	***19***	***28***
Wholesale	***2,522***	***1,792***	***—***	***3***	***1,795***	***35***	***4,352***	***24***	***65***	***—***	***1***	***66***	***20***	***110***
Central items & other	**26,843**	**110**	**—**	**—**	**110**	**—**	**26,953**	**13**	**15**	**—**	**—**	**15**	**—**	**28**
Total loans	**267,185**	**72,147**	**1,830**	**1,132**	**75,109**	**5,976**	**348,270**	**493**	**2,719**	**129**	**110**	**2,958**	**2,406**	**5,857**
Of which:														
Personal	***163,872***	***32,330***	***1,212***	***761***	***34,303***	***3,218***	***201,393***	***168***	***838***	***79***	***78***	***995***	***1,217***	***2,380***
Wholesale	***103,313***	***39,817***	***618***	***371***	***40,806***	***2,758***	***146,877***	***325***	***1,881***	***50***	***32***	***1,963***	***1,189***	***3,477***
2019*														
Retail Banking	144,513	11,921	1,034	603	13,558	1,902	159,973	114	375	45	47	467	823	1,404
Ulster Bank RoI	15,409	1,405	104	133	1,642	2,037	19,088	29	39	6	8	53	693	775
Personal	*10,858*	*944*	*96*	*105*	*1,145*	*1,877*	*13,880*	*12*	*20*	*6*	*6*	*32*	*591*	*635*
Wholesale	*4,551*	*461*	*8*	*28*	*497*	*160*	*5,208*	*17*	*19*	*—*	*2*	*21*	*102*	*140*
Commercial Banking	88,100	10,837	254	262	11,353	2,162	101,615	152	196	12	7	215	1,020	1,387
Private Banking	14,956	478	63	46	587	207	15,750	7	6	—	1	7	29	43
Personal	*11,630*	*180*	*60*	*41*	*281*	*192*	*12,103*	*3*	*2*	*—*	*1*	*3*	*23*	*29*
Wholesale	*3,326*	*298*	*3*	*5*	*306*	*15*	*3,647*	*4*	*4*	*—*	*—*	*4*	*6*	*14*
Central items & other	15,262	4	—	—	4	—	15,266	6	—	—	—	—	—	6
Total loans	278,240	24,645	1,455	1,044	27,144	6,308	311,692	308	616	63	63	742	2,565	3,615
Of which:														
Personal	*167,001*	*13,045*	*1,190*	*749*	*14,984*	*3,971*	*185,956*	*129*	*397*	*51*	*54*	*502*	*1,437*	*2,068*
Wholesale	*111,239*	*11,600*	*265*	*295*	*12,160*	*2,337*	*125,736*	*179*	*219*	*12*	*9*	*240*	*1,128*	*1,547*

*2019 data has been restated for the accounting policy change for balances held with central banks. Refer to Accounting policy changes effective 1 January 2020 for further details.

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	**0.10**	**2.48**	**6.48**	**10.48**	**2.77**	**42.62**	**1.05**	**792**	**45**	**378**
Ulster Bank RoI	**0.31**	**7.66**	**10.42**	**11.86**	**8.03**	**39.81**	**4.24**	**250**	**132**	**219**
Personal	***0.24***	***4.93***	***7.83***	***10.00***	***5.50***	***36.84***	***3.70***	***106***	***76***	***212***
Wholesale	***0.55***	***10.45***	***20.69***	***15.63***	***10.85***	***58.14***	***5.75***	***144***	***288***	***7***
Commercial Banking	**0.38**	**4.52**	**7.47**	**6.91**	**4.59**	**41.91**	**2.76**	**1,926**	**174**	**321**
Private Banking	**0.20**	**3.51**	**—**	**7.14**	**3.51**	**13.09**	**0.79**	**101**	**58**	**5**
Personal	***0.05***	***1.72***	***—***	***—***	***1.39***	***7.22***	***0.21***	***(5)***	***(4)***	***1***
Wholesale	***0.95***	***3.63***	***—***	***33.33***	***3.68***	***57.14***	***2.53***	***106***	***244***	***4***
Central items & other	**0.05**	**13.64**	**—**	**—**	**13.64**	**—**	**0.10**	**24**	**9**	**—**
Total loans	**0.18**	**3.77**	**7.05**	**9.72**	**3.94**	**40.26**	**1.68**	**3,093**	**89**	**923**
Of which:										
Personal	***0.10***	***2.59***	***6.52***	***10.25***	***2.90***	***37.82***	***1.18***	***893***	***44***	***591***
Wholesale	***0.31***	***4.72***	***8.09***	***8.63***	***4.81***	***43.11***	***2.37***	***2,200***	***150***	***332***
2019*										
Retail Banking	0.08	3.15	4.35	7.79	3.44	43.27	0.88	392	25	235
Ulster Bank RoI	0.19	2.78	5.77	6.02	3.23	34.02	4.06	(34)	(18)	85
Personal	*0.11*	*2.12*	*6.25*	*5.71*	*2.79*	*31.49*	*4.57*	*(16)*	*(12)*	*69*
Wholesale	*0.37*	*4.12*	*—*	*7.14*	*4.23*	*63.75*	*2.69*	*(18)*	*(35)*	*16*
Commercial Banking	0.17	1.81	4.72	2.67	1.89	47.18	1.36	391	38	450
Private Banking	0.05	1.26	—	2.17	1.19	14.01	0.27	(7)	(4)	1
Personal	*0.03*	*1.11*	*—*	*2.44*	*1.07*	*11.98*	*0.24*	*4*	*3*	*1*
Wholesale	*0.12*	*1.34*	*—*	*—*	*1.31*	*40.00*	*0.38*	*(11)*	*(30)*	*—*
Central items & other	0.04	—	—	—	—	—	0.04	3	2	—
Total loans	0.11	2.50	4.33	6.03	2.73	40.66	1.16	745	24	771
Of which:										
Personal	*0.08*	*3.04*	*4.29*	*7.21*	*3.35*	*36.19*	*1.11*	*376*	*20*	*305*
Wholesale	*0.16*	*1.89*	*4.53*	*3.05*	*1.97*	*48.27*	*1.23*	*369*	*29*	*466*

*2019 data has been restated for the accounting policy change for balances held with central banks. Refer to Accounting policy changes effective 1 January 2020 for further details.

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.

Credit risk – Banking activities continued

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 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.
- Ulster Bank RoI – Balances remained broadly flat year-on-year. Further drawdowns on existing facilities and new lending across both the Wholesale and Personal portfolios were offset by ongoing reduction of the non-performing mortgage portfolio through the execution of a portfolio sale agreed in 2019. The deteriorated economic outlook included forecast increases in unemployment, reductions in property prices and GDP, which resulted in increased IFRS 9 PDs across all portfolios. Consequently, compared to 2019, a larger proportion of the exposures exhibited a SICR with an associated migration of assets from Stage 1 to Stage 2. As a result, the ECL increased. The various COVID-19 related customer support mechanisms (for example, loan payment breaks, government job retention scheme) masked actual portfolio deterioration in the short-term, with the days past due, and flows to Stage 3, yet to be materially affected. 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. A small number of large cases resulted in the increase in the 1-30 DPD category. 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					
2020	Mortgages (1) £m	Credit cards £m	Other personal £m	Total £m	Property £m	Corporate £m	FI £m	Sovereign £m	Total £m	Total £m
Loans by geography	188,040	3,895	9,458	201,393	35,546	76,194	30,751	4,386	146,877	348,270
- UK	*174,390*	*3,816*	*9,261*	*187,467*	*33,400*	*65,442*	*25,653*	*3,377*	*127,872*	*315,339*
- RoI	*13,650*	*79*	*197*	*13,926*	*1,226*	*4,021*	*326*	*30*	*5,603*	*19,529*
- Other Europe	—	—	—	—	*497*	*3,590*	*1,014*	*434*	*5,535*	*5,535*
- RoW	—	—	—	—	*423*	*3,141*	*3,758*	*545*	*7,867*	*7,867*
Loans by stage and asset quality (2)	188,040	3,895	9,458	201,393	35,546	76,194	30,751	4,386	146,877	348,270
Stage 1	156,025	2,411	5,436	163,872	22,681	47,227	29,158	4,247	103,313	267,185
- AQ1	*3,039*	—	*642*	*3,681*	*1,799*	*1,145*	*426*	*1,868*	*5,238*	*8,919*
- AQ2	*6,207*	—	—	*6,207*	*3,134*	*369*	*23,007*	*864*	*27,374*	*33,581*
- AQ3	*267*	—	—	*267*	*3,038*	*5,132*	*271*	*1,286*	*9,727*	*9,994*
- AQ4	*107,603*	*24*	*592*	*108,219*	*3,999*	*10,586*	*4,159*	*210*	*18,954*	*127,173*
- AQ5	*31,562*	*866*	*1,118*	*33,546*	*4,562*	*11,466*	*695*	*2*	*16,725*	*50,271*
- AQ6	*1,743*	*785*	*2,173*	*4,701*	*2,951*	*7,069*	*275*	*2*	*10,297*	*14,998*
- AQ7	*5,206*	*681*	*667*	*6,554*	*1,374*	*5,561*	*273*	*3*	*7,211*	*13,765*
- AQ8	*150*	*51*	*191*	*392*	*1,570*	*4,971*	*47*	*10*	*6,598*	*6,990*
- AQ9	*248*	*4*	*53*	*305*	*254*	*928*	*5*	*2*	*1,189*	*1,494*
Stage 2	29,526	1,375	3,402	34,303	11,691	27,398	1,580	137	40,806	75,109
- AQ1	*15*	—	*7*	*22*	*54*	*46*	—	—	*100*	*122*
- AQ2	*56*	—	—	*56*	—	—	—	—	—	*56*
- AQ3	*13*	—	—	*13*	*104*	*240*	*1*	—	*345*	*358*
- AQ4	*7,329*	*4*	*49*	*7,382*	*1,448*	*2,429*	*414*	*39*	*4,330*	*11,712*
- AQ5	*16,868*	*130*	*355*	*17,353*	*3,838*	*7,721*	*551*	—	*12,110*	*29,463*
- AQ6	*1,899*	*307*	*1,540*	*3,746*	*3,548*	*7,340*	*317*	*96*	*11,301*	*15,047*
- AQ7	*717*	*694*	*584*	*1,995*	*2,190*	*7,085*	*243*	*1*	*9,519*	*11,514*
- AQ8	*1,284*	*198*	*538*	*2,020*	*346*	*2,020*	*51*	*1*	*2,418*	*4,438*
- AQ9	*1,345*	*42*	*329*	*1,716*	*163*	*517*	*3*	—	*683*	*2,399*
Stage 3	2,489	109	620	3,218	1,174	1,569	13	2	2,758	5,976
- AQ10	*2,489*	*109*	*620*	*3,218*	*1,174*	*1,569*	*13*	*2*	*2,758*	*5,976*
Loans - past due analysis (3,4)	188,040	3,895	9,458	201,393	35,546	76,194	30,751	4,386	146,877	348,270
- Not past due	*184,211*	*3,770*	*8,584*	*196,565*	*34,305*	*74,381*	*30,717*	*4,116*	*143,519*	*340,084*
- Past due 1-30 days	*1,465*	*29*	*173*	*1,667*	*342*	*988*	*23*	*270*	*1,623*	*3,290*
- Past due 31-89 days	*849*	*26*	*122*	*997*	*254*	*251*	*4*	—	*509*	*1,506*
- Past due 90-180 days	*425*	*20*	*65*	*510*	*160*	*47*	—	—	*207*	*717*
- Past due >180 days	*1,090*	*50*	*514*	*1,654*	*485*	*527*	*7*	—	*1,019*	*2,673*
Loans - Stage 2	29,526	1,375	3,402	34,303	11,691	27,398	1,580	137	40,806	75,109
- Not past due	*27,875*	*1,340*	*3,115*	*32,330*	*11,385*	*26,721*	*1,574*	*137*	*39,817*	*72,147*
- Past due 1-30 days	*1,024*	*18*	*170*	*1,212*	*159*	*455*	*4*	—	*618*	*1,830*
- Past due 31-89 days	*627*	*17*	*117*	*761*	*147*	*222*	*2*	—	*371*	*1,132*
Weighted average life**										
- ECL measurement (years)	9	2	5	6	4	6	4	—	5	5
Weighted average 12 months PDs**										
- IFRS 9 (%)	0.72	6.17	4.98	1.03	3.96	3.71	0.38	0.10	2.94	1.84
- Basel (%)	0.83	3.40	3.87	1.01	1.71	2.52	0.20	0.17	1.75	1.32
ECL provisions by geography	993	354	1,033	2,380	1,066	2,339	59	13	3,477	5,857
- UK	*494*	*351*	*1,021*	*1,866*	*979*	*1,887*	*49*	*10*	*2,925*	*4,791*
- RoI	*499*	*3*	*12*	*514*	*41*	*245*	*3*	*1*	*290*	*804*
- Other Europe	—	—	—	—	*34*	*95*	*2*	*1*	*132*	*132*
- RoW	—	—	—	—	*12*	*112*	*5*	*1*	*130*	*130*
ECL provisions by stage	993	354	1,033	2,380	1,066	2,339	59	13	3,477	5,857
- Stage 1	*49*	*53*	*66*	*168*	*115*	*185*	*12*	*13*	*325*	*493*
- Stage 2	*319*	*224*	*452*	*995*	*450*	*1,471*	*42*	—	*1,963*	*2,958*
- Stage 3	*625*	*77*	*515*	*1,217*	*501*	*683*	*5*	—	*1,189*	*2,406*
ECL provisions coverage (%)	0.53	9.09	10.92	1.18	3.00	3.07	0.19	0.30	2.37	1.68
- Stage 1 (%)	*0.03*	*2.20*	*1.21*	*0.10*	*0.51*	*0.39*	*0.04*	*0.31*	*0.31*	*0.18*
- Stage 2 (%)	*1.08*	*16.29*	*13.29*	*2.90*	*3.85*	*5.37*	*2.66*	—	*4.81*	*3.94*
- Stage 3 (%)	*25.11*	*70.64*	*83.06*	*37.82*	*42.67*	*43.53*	*38.46*	—	*43.11*	*40.26*
ECL charge - Third party	281	191	421	893	652	1,495	47	6	2,200	3,093
ECL loss rate (%)	0.15	4.90	4.45	0.44	1.83	1.96	0.15	0.14	1.50	0.89
Amounts written-off	218	95	278	591	52	279	1	—	332	923

*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				
2020	Mortgages (1) £m	Credit cards £m	Other personal £m	Total £m	Property £m	Corporate £m	FI £m	Sovereign £m	Total £m	Total £m
Other financial assets by asset quality (2)	—	—	—	—	—	10	7,857	125,345	133,212	133,212
- AQ1-AQ4	*—*	*—*	*—*	*—*	*—*	*10*	*7,756*	*125,340*	*133,106*	*133,106*
- AQ5-AQ8	*—*	*—*	*—*	*—*	*—*	*—*	*101*	*5*	*106*	*106*
Off-balance sheet	14,367	14,262	9,851	38,480	15,496	51,979	3,662	1,117	72,254	110,734
- Loan commitments	*14,364*	*14,262*	*9,809*	*38,435*	*14,967*	*48,990*	*3,498*	*1,115*	*68,570*	*107,005*
- Financial guarantees	*3*	*—*	*42*	*45*	*529*	*2,989*	*164*	*2*	*3,684*	*3,729*
Off-balance sheet by asset quality (2)	14,367	14,262	9,851	38,480	15,496	51,979	3,662	1,117	72,254	110,734
- AQ1-AQ4	*13,610*	*148*	*8,008*	*21,766*	*11,368*	*28,549*	*2,734*	*934*	*43,585*	*65,351*
- AQ5-AQ8	*747*	*13,809*	*1,816*	*16,372*	*4,030*	*22,835*	*927*	*183*	*27,975*	*44,347*
- AQ9	*1*	*8*	*10*	*19*	*12*	*75*	*1*	*—*	*88*	*107*
- AQ10	*9*	*297*	*17*	*323*	*86*	*520*	*—*	*—*	*606*	*929*

For the notes to this table refer to page 39.

Credit risk – Banking activities continued
Portfolio summary – sector analysis

	Personal				Wholesale					
2019*	Mortgages (1) £m	Credit cards £m	Other personal £m	Total £m	Property £m	Corporate £m	FI £m	Sovereign £m	Total £m	Total £m
Loans by geography	171,418	4,478	10,060	185,956	33,461	69,156	19,307	3,812	125,736	311,692
- UK	157,846	4,383	9,847	172,076	31,138	57,873	14,093	3,089	106,193	278,269
- RoI	13,572	95	213	13,880	1,300	4,150	379	32	5,861	19,741
- Other Europe	—	—	—	—	542	3,570	896	249	5,257	5,257
- RoW	—	—	—	—	481	3,563	3,939	442	8,425	8,425
Loans by stage and asset quality (2)	171,418	4,478	10,060	185,956	33,461	69,156	19,307	3,812	125,736	311,692
Stage 1	156,786	3,103	7,112	167,001	30,210	58,156	19,067	3,806	111,239	278,240
- AQ1	3,814	—	653	4,467	4,370	2,175	10,453	1,474	18,472	22,939
- AQ2	2,852	—	—	2,852	2,200	433	—	1,780	4,413	7,265
- AQ3	269	—	—	269	1,956	5,254	1,043	379	8,632	8,901
- AQ4	89,776	364	578	90,718	5,385	13,764	5,452	32	24,633	115,351
- AQ5	53,696	731	1,426	55,853	9,416	17,513	967	106	28,002	83,855
- AQ6	4,057	946	2,587	7,590	4,624	11,649	696	3	16,972	24,562
- AQ7	2,042	940	1,395	4,377	2,129	6,856	448	30	9,463	13,840
- AQ8	183	117	395	695	92	329	4	2	427	1,122
- AQ9	97	5	78	180	38	183	4	—	225	405
Stage 2	11,418	1,259	2,307	14,984	2,423	9,507	227	3	12,160	27,144
- AQ1	23	—	12	35	—	48	—	—	48	83
- AQ2	14	—	—	14	—	1	—	—	1	15
- AQ3	8	—	—	8	30	1	—	—	31	39
- AQ4	2,744	11	47	2,802	380	565	6	3	954	3,756
- AQ5	4,355	55	282	4,692	440	1,737	131	—	2,308	7,000
- AQ6	1,196	265	757	2,218	725	1,671	27	—	2,423	4,641
- AQ7	762	591	606	1,959	605	4,105	46	—	4,756	6,715
- AQ8	1,196	276	397	1,869	192	1,098	15	—	1,305	3,174
- AQ9	1,120	61	206	1,387	51	281	2	—	334	1,721
Stage 3	3,214	116	641	3,971	828	1,493	13	3	2,337	6,308
- AQ10	3,214	116	641	3,971	828	1,493	13	3	2,337	6,308
Loans - past due analysis (3,4)	171,418	4,478	10,060	185,956	33,461	69,156	19,307	3,812	125,736	311,692
- Not past due	167,035	4,313	9,148	180,496	32,551	66,898	19,269	3,759	122,477	302,973
- Past due 1-30 days	1,561	43	162	1,766	313	1,338	22	53	1,726	3,492
- Past due 31-89 days	947	36	123	1,106	81	270	7	—	358	1,464
- Past due 90-180 days	467	30	83	580	25	104	—	—	129	709
- Past due >180 days	1,408	56	544	2,008	491	546	9	—	1,046	3,054
Loans - Stage 2	11,418	1,259	2,307	14,984	2,423	9,507	227	3	12,160	27,144
- Not past due	9,773	1,204	2,068	13,045	2,309	9,070	219	3	11,601	24,646
- Past due 1-30 days	1,034	29	127	1,190	49	213	1	—	263	1,453
- Past due 31-89 days	611	26	112	749	65	224	7	—	296	1,045
Weighted average life**										
- ECL measurement (years)	9	2	6	5	6	6	3	1	6	6
Weighted average 12 months PDs**										
- IFRS 9 (%)	0.32	3.86	3.07	0.55	0.67	0.98	0.11	0.06	0.69	0.60
- Basel (%)	0.78	3.59	3.80	1.00	0.98	1.51	0.25	0.07	1.10	1.04
ECL provisions by geography	950	261	857	2,068	473	1,052	16	6	1,547	3,615
- UK	328	259	846	1,433	408	787	11	4	1,210	2,643
- RoI	622	2	11	635	39	87	2	1	129	764
- Other Europe	—	—	—	—	23	101	2	1	127	127
- RoW	—	—	—	—	3	77	1	—	81	81
ECL provisions by stage	950	261	857	2,068	473	1,052	16	6	1,547	3,615
- Stage 1	24	40	65	129	43	122	8	6	179	308
- Stage 2	117	132	253	502	44	194	2	—	240	742
- Stage 3	809	89	539	1,437	386	736	6	—	1,128	2,565
ECL provisions coverage (%)	0.55	5.83	8.52	1.11	1.41	1.52	0.08	0.09	1.20	1.15
- Stage 1 (%)	0.02	1.29	0.91	0.08	0.14	0.21	0.04	0.09	0.16	0.11
- Stage 2 (%)	1.02	10.48	10.97	3.35	1.82	2.04	0.88	—	1.97	2.73
- Stage 3 (%)	25.17	76.72	84.09	36.19	46.62	49.30	46.15	—	48.27	40.66
ECL charge - Third party	23	104	249	376	62	301	4	2	369	745
ECL loss rate (%)	0.01	2.32	2.48	0.20	0.19	0.44	0.02	0.05	0.29	0.24
Amounts written-off	78	76	151	305	248	208	10	—	466	771

*2019 data has been restated for the accounting policy change for balances held with central banks. Refer to Accounting policy changes effective 1 January 2020 for further details.

**Not within audit scope.

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

Risk and capital management

Credit risk – Banking activities continued
Portfolio summary – sector analysis

2019*	Personal Mortgages (1) £m	Credit cards £m	Other personal £m	Total £m	Wholesale Property £m	Corporate £m	FI £m	Sovereign £m	Total £m	Total £m
Other financial assets by asset quality (2)	—	—	—	—	—	10	7,536	91,368	98,914	98,914
- AQ1-AQ4	*—*	*—*	*—*	*—*	*—*	*10*	*7,486*	*91,123*	*98,619*	*98,619*
- AQ5-AQ8	*—*	*—*	*—*	*—*	*—*	*—*	*50*	*245*	*295*	*295*
Off-balance sheet	14,196	16,686	11,989	42,871	13,896	43,613	2,758	929	61,196	104,067
- Loan commitments	*14,193*	*16,686*	*11,942*	*42,821*	*13,292*	*40,280*	*2,564*	*929*	*57,065*	*99,886*
- Financial guarantees	*3*	*—*	*47*	*50*	*604*	*3,333*	*194*	*—*	*4,131*	*4,181*
Off-balance sheet by asset quality (2)	14,196	16,686	11,989	42,871	13,896	43,613	2,758	929	61,196	104,067
- AQ1-AQ4	*13,506*	*3,818*	*10,049*	*27,373*	*10,218*	*27,733*	*1,803*	*891*	*40,645*	*68,018*
- AQ5-AQ8	*680*	*12,588*	*1,928*	*15,196*	*3,615*	*15,588*	*951*	*38*	*20,192*	*35,388*
- AQ9	*1*	*4*	*12*	*17*	*10*	*48*	*4*	*—*	*62*	*79*
- AQ10	*9*	*276*	*—*	*285*	*53*	*244*	*—*	*—*	*297*	*582*

*2019 data has been restated for the accounting policy change for balances held with central banks. Refer to Accounting policy changes effective 1 January 2020 for further details.

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	Probability of default	Indicative S&P
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

£0.3 billion (2019 – £0.3 billion) AQ10 Personal balances primarily relate to loan commitments, the drawdown of which is effectively prohibited. AQ10 includes £0.4 billion (2019 – £0.6 billion) of RoI mortgages which are not currently considered defaulted for capital calculation purposes for RoI but are included in Stage 3.
(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

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			
					Loan	Contingent				
	Stage 1	Stage 2	Stage 3	Total	commitments (1)	liabilities	Stage 1	Stage 2	Stage 3	Total
2020	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Personal	**163,872**	**34,303**	**3,218**	**201,393**	**38,435**	**45**	**168**	**995**	**1,217**	**2,380**
Mortgages	**156,025**	**29,526**	**2,489**	**188,040**	**14,364**	**3**	**49**	**319**	**625**	**993**
Credit cards	**2,411**	**1,375**	**109**	**3,895**	**14,262**	**—**	**53**	**224**	**77**	**354**
Other personal	**5,436**	**3,402**	**620**	**9,458**	**9,809**	**42**	**66**	**452**	**515**	**1,033**
Wholesale	**103,313**	**40,806**	**2,758**	**146,877**	**68,570**	**3,684**	**325**	**1,963**	**1,189**	**3,477**
Property	**22,681**	**11,691**	**1,174**	**35,546**	**14,967**	**529**	**115**	**450**	**501**	**1,066**
Financial institutions	**29,158**	**1,580**	**13**	**30,751**	**3,498**	**164**	**12**	**42**	**5**	**59**
Sovereign	**4,247**	**137**	**2**	**4,386**	**1,115**	**2**	**13**	**—**	**—**	**13**
Corporate	**47,227**	**27,398**	**1,569**	**76,194**	**48,990**	**2,989**	**185**	**1,471**	**683**	**2,339**
Of which:										
Airlines and aerospace (2)	***753***	***1,191***	***31***	***1,975***	***1,576***	***171***	***2***	***41***	***17***	***60***
Automotive	***4,371***	***1,719***	***161***	***6,251***	***3,341***	***102***	***16***	***63***	***17***	***96***
Education	***818***	***754***	***63***	***1,635***	***1,014***	***16***	***2***	***41***	***17***	***60***
Health	***2,661***	***2,975***	***128***	***5,764***	***614***	***9***	***13***	***163***	***47***	***223***
Land transport and logistics	***2,783***	***1,820***	***110***	***4,713***	***3,311***	***189***	***8***	***98***	***32***	***138***
Leisure	***3,289***	***6,037***	***384***	***9,710***	***1,701***	***124***	***21***	***434***	***204***	***659***
Oil and gas	***1,167***	***297***	***33***	***1,497***	***1,850***	***341***	***4***	***19***	***24***	***47***
Retail	***6,600***	***2,264***	***177***	***9,041***	***5,508***	***505***	***17***	***112***	***90***	***219***
Total	**267,185**	**75,109**	**5,976**	**348,270**	**107,005**	**3,729**	**493**	**2,958**	**2,406**	**5,857**
2019*										
Personal	167,001	14,984	3,971	185,956	42,821	50	129	502	1,437	2,068
Mortgages	156,786	11,418	3,214	171,418	14,193	3	24	117	809	950
Credit cards	3,103	1,259	116	4,478	16,686	—	40	132	89	261
Other personal	7,112	2,307	641	10,060	11,942	47	65	253	539	857
Wholesale	111,239	12,160	2,337	125,736	57,065	4,131	179	240	1,128	1,547
Property	30,210	2,423	828	33,461	13,292	604	43	44	386	473
Financial institutions	19,067	227	13	19,307	2,564	194	8	2	6	16
Sovereign	3,806	3	3	3,812	929	—	6	—	—	6
Corporate	58,156	9,507	1,493	69,156	40,280	3,333	122	194	736	1,052
Of which:										
Airlines and aerospace (2)	*1,412*	*261*	*35*	*1,708*	*1,328*	*223*	*2*	*3*	*46*	*51*
Automotive	*5,009*	*1,099*	*20*	*6,128*	*2,896*	*96*	*12*	*10*	*15*	*37*
Education	*1,423*	*154*	*12*	*1,589*	*653*	*18*	*2*	*4*	*1*	*7*
Health	*4,655*	*842*	*167*	*5,664*	*507*	*12*	*9*	*16*	*52*	*77*
Land transport and logistics	*3,411*	*314*	*52*	*3,777*	*2,963*	*239*	*6*	*12*	*21*	*39*
Leisure	*6,293*	*1,185*	*376*	*7,854*	*2,391*	*132*	*24*	*26*	*175*	*225*
Oil and gas	*1,871*	*133*	*35*	*2,039*	*1,908*	*354*	*5*	*2*	*22*	*29*
Retail	*6,157*	*1,268*	*204*	*7,629*	*4,986*	*549*	*12*	*15*	*169*	*196*
Total	278,240	27,144	6,308	311,692	99,886	4,181	308	742	2,565	3,615

*2019 data has been restated for the accounting policy change for balances held with central banks. Refer to Accounting policy changes effective 1 January 2020 for further details.

Notes:
(1) Includes £3.7 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.

Credit risk – Banking activities continued

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)	**1,424**	**68**	**4,152**	**5,644**
Forbearance (stock)	**1,507**	**69**	**4,929**	**6,505**
Heightened Monitoring and Risk of Credit Loss	**1,417**	**132**	**5,459**	**7,008**
2019				
Forbearance (flow)	464	6	2,192	2,662
Forbearance (stock)	592	6	3,157	3,755
Heightened Monitoring and Risk of Credit Loss	1,042	106	4,169	5,317

Key points

- Loans by geography – In the Personal portfolio, exposures continued to be concentrated in the UK and heavily weighted to mortgages; the vast majority of exposures in the Republic of Ireland remained in 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 and the Republic of Ireland.
- 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. In mortgages, the Stage 3 ECL reduction was primarily a result of a debt sale in Ulster Bank RoI, where the exposure value also reduced.
- 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. There was also a legacy portfolio of flexible mortgages where a customer had the right and ability to draw down further funds. 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 reflecting the effect of COVID-19 and the utilisation of the various government support schemes. The vast majority of new corporate loan commitments were in the 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.

Risk and capital management

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	**93.4**	**—**	**93.4**	**—**	**—**	**—**	**—**	**—**	**—**	**93.4**	**—**
Loans - amortised cost (3)	**348.3**	**5.7**	**342.6**	**3.6**	**36.2**	**228.0**	**23.7**	**288.0**	**3.2**	**54.6**	**0.4**
Personal (4)	***201.4***	***2.4***	***199.0***	***2.0***	***0.3***	***187.0***	***—***	***187.4***	***1.9***	***11.6***	***0.1***
Wholesale (5)	***146.9***	***3.3***	***143.6***	***1.6***	***35.9***	***41.0***	***23.7***	***100.6***	***1.3***	***43.0***	***0.3***
Debt securities	**39.8**	**—**	**39.8**	**—**	**—**	**—**	**—**	**—**	**—**	**39.8**	**—**
Total financial assets	**481.5**	**5.7**	**475.8**	**3.6**	**36.2**	**228.0**	**23.7**	**288.0**	**3.2**	**187.8**	**0.4**
Contingent liabilities and commitments											
Personal (6,7)	**38.5**	**—**	**38.5**	**0.3**	**—**	**4.1**	**—**	**4.1**	**—**	**34.4**	**0.3**
Wholesale	**72.2**	**0.2**	**72.0**	**0.6**	**1.3**	**7.2**	**4.3**	**12.8**	**0.1**	**59.2**	**0.5**
Total off-balance sheet	**110.7**	**0.2**	**110.5**	**0.9**	**1.3**	**11.3**	**4.3**	**16.9**	**0.1**	**93.6**	**0.8**
Total exposure	**592.2**	**5.9**	**586.3**	**4.5**	**37.5**	**239.3**	**28.0**	**304.9**	**3.3**	**281.4**	**1.2**
2019*											
Financial assets											
Cash and balances at central banks	55.9	—	55.9	—	—	—	—	—	—	55.9	—
Loans - amortised cost (3)	311.8	3.5	308.3	3.7	11.0	207.2	28.0	246.2	3.3	62.1	0.4
Personal (4)	*186.0*	*2.0*	*184.0*	*2.5*	*0.1*	*170.1*	—	*170.2*	*2.4*	*13.8*	*0.1*
Wholesale (5)	*125.8*	*1.5*	*124.3*	*1.2*	*10.9*	*37.1*	*28.0*	*76.0*	*0.9*	*48.3*	*0.3*
Debt securities	42.9	—	42.9	—	—	—	—	—	—	42.9	—
Total financial assets	410.6	3.5	407.1	3.7	11.0	207.2	28.0	246.2	3.3	160.9	0.4
Contingent liabilities and commitments											
Personal (6,7)	42.9	—	42.9	0.3	—	4.4	—	4.4	—	38.5	0.3
Wholesale	61.2	—	61.2	0.3	0.2	6.0	4.4	10.6	—	50.6	0.3
Total off-balance sheet	104.1	—	104.1	0.6	0.2	10.4	4.4	15.0	—	89.1	0.6
Total exposure	514.7	3.5	511.2	4.3	11.2	217.6	32.4	261.2	3.3	250.0	1.0

*2019 data has been restated for the accounting policy change for balances held with central banks. Refer to Accounting policy changes effective 1 January 2020 for further details.

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 NWH Group a legal right to set off the financial asset against a financial liability due to the same counterparty.

(3) NWH 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. NWH 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) £0.3 billion (2019 – £0.3 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 £10.0 billion (2019 – £9.6 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.

Risk and capital management

Credit risk – Banking activities continued

Personal portfolio

Disclosures in the Personal portfolio section include drawn exposure (gross of provisions).

	2020				2019			
	Retail Banking	**Ulster Bank RoI**	**Private Banking**	**Total**	Retail Banking	Ulster Bank RoI	Private Banking	Total
Personal lending	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m
Mortgages	**163,107**	**13,678**	**10,910**	**187,695**	147,489	13,598	9,955	171,042
Of which:								
Owner occupied	**148,614**	**12,781**	**9,601**	**170,996**	132,698	12,593	8,714	154,005
Buy-to-let	**14,493**	**897**	**1,309**	**16,699**	14,791	1,005	1,241	17,037
Interest only - variable	**5,135**	**159**	**4,375**	**9,669**	6,279	165	3,646	10,090
Interest only - fixed	**13,776**	**10**	**4,758**	**18,544**	12,891	9	4,604	17,504
Mixed (1)	**7,321**	**56**	**1**	**7,378**	6,288	61	1	6,350
Impairment provisions (2)	**483**	**499**	**5**	**987**	309	622	13	944
Other personal lending (3)	**11,116**	**276**	**1,613**	**13,005**	12,778	308	1,767	14,853
Impairment provisions (2)	**1,348**	**15**	**20**	**1,383**	1,087	13	16	1,116
Total personal lending	**174,223**	**13,954**	**12,523**	**200,700**	160,267	13,906	11,722	185,895
Mortgage LTV ratios								
- Total portfolio	**56%**	**59%**	**58%**	**57%**	57%	60%	57%	57%
- Stage 1	***55%***	***57%***	***58%***	***55%***	*57%*	*57%*	*57%*	*57%*
- Stage 2	***66%***	***65%***	***61%***	***66%***	*58%*	*67%*	*60%*	*59%*
- Stage 3	***53%***	***67%***	***64%***	***60%***	*55%*	*73%*	*70%*	*66%*
- Buy-to-let	**52%**	**59%**	**56%**	**53%**	53%	61%	54%	54%
- Stage 1	***51%***	***55%***	***56%***	***52%***	*52%*	*57%*	*54%*	*52%*
- Stage 2	***60%***	***69%***	***59%***	***61%***	*57%*	*69%*	*57%*	*59%*
- Stage 3	***56%***	***74%***	***54%***	***62%***	*59%*	*75%*	*58%*	*67%*
Gross new mortgage lending (4)	**30,551**	**910**	**2,148**	**33,609**	31,857	1,184	2,112	35,153
Of which:								
Owner occupied	**29,608**	**908**	**1,922**	**32,438**	30,779	1,175	1,889	33,843
Weighted average LTV	**69%**	**74%**	**66%**	**69%**	70%	75%	65%	69%
Buy-to-let	**943**	**2**	**227**	**1,172**	1,078	10	222	1,310
Weighted average LTV	**62%**	**54%**	**62%**	**62%**	61%	58%	60%	60%
Interest only - variable rate	**81**	**—**	**1,082**	**1,163**	56	—	688	744
Interest only - fixed rate	**1,501**	**—**	**695**	**2,196**	1,275	—	993	2,268
Mixed (1)	**1,630**	**—**	**—**	**1,630**	1,074	1	—	1,075
Mortgage forbearance								
Forbearance flow	**550**	**127**	**50**	**727**	450	177	4	631
Forbearance stock	**1,293**	**1,627**	**18**	**2,938**	1,212	2,229	2	3,443
Current	***648***	***1,069***	***13***	***1,730***	*623*	*1,149*	*1*	*1,773*
1-3 months in arrears	***360***	***105***	***3***	***468***	*338*	*157*	*—*	*495*
>3 months in arrears	***285***	***452***	***2***	***739***	*251*	*923*	*1*	*1,175*

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.
- As at 31 December 2020, £2 billion (1%) of the UK Retail Banking mortgage portfolio had active COVID-19 payment holidays. This compared with £37 billion (22%) which had requested a payment holiday during 2020.
- 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.
- 37% 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 54% (2019 – 52%) compared to all regions 56%.
- In the Retail Banking mortgage portfolio, 83% of customer balances were on fixed rates (61% of these on five-year deals). In addition, 99% of all new mortgage completions were fixed rate deals (45% of these on five-year deals).
- Unsecured balances declined, with the decrease primarily a result of reductions in overdrafts and credit card utilisation in Retail Banking, following the COVID-19 lockdown. NWH Group also responded to COVID-19 with a more cautious approach to new lending, to protect NWH 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.

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. Mortgage lending not within the scope of IFRS 9 ECL reflected portfolios carried at fair value.

	Mortgages						ECL provisions				ECL provisions coverage (2)			
Retail Banking 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%	**50,170**	**5,009**	**554**	**124**	**55,857**	**4,207**	**4**	**43**	**107**	**154**	**—**	**0.8**	**19.4**	**0.3**
>50% and ≤70%	**55,263**	**7,416**	**488**	**35**	**63,202**	**9,083**	**7**	**66**	**81**	**154**	**—**	**0.9**	**16.5**	**0.2**
>70% and ≤80%	**19,994**	**9,555**	**141**	**8**	**29,698**	**11,060**	**7**	**56**	**26**	**89**	**—**	**0.6**	**18.5**	**0.3**
>80% and ≤90%	**8,029**	**5,552**	**52**	**6**	**13,639**	**5,175**	**3**	**52**	**11**	**66**	**—**	**0.9**	**20.3**	**0.5**
>90% and ≤100%	**368**	**137**	**13**	**2**	**520**	**865**	**—**	**5**	**3**	**8**	**0.1**	**3.4**	**26.8**	**1.6**
>100% and ≤110%	**19**	**31**	**6**	**1**	**57**	**—**	**—**	**2**	**1**	**3**	**0.1**	**6.2**	**22.1**	**5.6**
>110% and ≤130%	**23**	**45**	**6**	**1**	**75**	**—**	**—**	**3**	**2**	**5**	**0.3**	**7.6**	**31.1**	**7.3**
>130% and ≤150%	**5**	**20**	**5**	**—**	**30**	**—**	**—**	**1**	**1**	**2**	**—**	**7.2**	**23.0**	**8.5**
>150%	**1**	**3**	**3**	**—**	**7**	**—**	**—**	**—**	**1**	**1**	**0.1**	**9.4**	**44.4**	**22.6**
Total with LTVs	**133,872**	**27,768**	**1,268**	**177**	**163,085**	**30,390**	**21**	**228**	**233**	**482**	**—**	**0.8**	**18.5**	**0.3**
Other	**17**	**4**	**1**	**—**	**22**	**161**	**—**	**—**	**1**	**1**	**0.1**	**3.6**	**71.9**	**3.3**
Total	**133,889**	**27,772**	**1,269**	**177**	**163,107**	**30,551**	**21**	**228**	**234**	**483**	**—**	**0.8**	**18.5**	**0.3**
2019														
≤50%	47,746	3,375	511	159	51,791	4,661	2	19	90	111	—	0.6	17.6	0.2
>50% and ≤70%	47,224	3,804	463	91	51,582	8,723	3	29	68	100	—	0.8	14.7	0.2
>70% and ≤80%	23,235	1,568	150	39	24,992	8,366	2	14	26	42	—	0.9	17.1	0.2
>80% and ≤90%	14,030	1,111	85	25	15,251	8,675	2	12	18	32	—	1.1	20.5	0.2
>90% and ≤100%	3,401	174	20	15	3,610	1,208	1	4	5	10	—	2.5	25.4	0.3
>100% and ≤110%	42	34	8	1	85	—	—	2	2	4	0.1	5.1	25.3	4.4
>110% and ≤130%	47	38	7	1	93	—	—	2	2	4	0.1	6.1	33.5	5.0
>130% and ≤150%	19	22	6	1	48	—	—	1	2	3	0.1	6.3	27.7	6.5
>150%	3	6	3	—	12	—	—	—	2	2	0.1	6.5	45.7	15.2
Total with LTVs	135,747	10,132	1,253	332	147,464	31,633	10	83	215	308	—	0.8	17.0	0.2
Other	21	3	1	—	25	224	—	—	1	1	0.1	4.2	81.2	3.2
Total	135,768	10,135	1,254	332	147,489	31,857	10	83	216	309	—	0.8	17.1	0.2

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

Risk and capital management

Credit risk – Banking activities continued

Personal portfolio

Mortgage LTV distribution by stage

	Mortgages						ECL provisions				ECL provisions coverage (2)			
Ulster Bank RoI 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 £m	Stage 1 %	Stage 2 %	Stage 3 %	Total %
≤50%	**4,156**	**504**	**354**	**—**	**5,014**	**78**	**10**	**24**	**105**	**139**	**0.2**	**4.8**	**29.7**	**2.8**
>50% and ≤70%	**3,453**	**453**	**230**	**—**	**4,136**	**194**	**8**	**23**	**66**	**97**	**0.2**	**5.1**	**28.7**	**2.3**
>70% and ≤80%	**1,569**	**232**	**114**	**—**	**1,915**	**346**	**4**	**12**	**40**	**56**	**0.3**	**5.2**	**35.1**	**2.9**
>80% and ≤90%	**1,214**	**190**	**105**	**—**	**1,509**	**286**	**3**	**11**	**40**	**54**	**0.2**	**5.8**	**38.1**	**3.6**
>90% and ≤100%	**372**	**145**	**88**	**—**	**605**	**1**	**1**	**9**	**40**	**50**	**0.3**	**6.2**	**45.5**	**8.3**
>100% and ≤110%	**119**	**76**	**74**	**—**	**269**	**4**	**1**	**5**	**37**	**43**	**0.8**	**6.6**	**50.0**	**16.0**
>110% and ≤130%	**53**	**63**	**64**	**—**	**180**	**1**	**—**	**5**	**35**	**40**	**—**	**7.9**	**54.7**	**22.2**
>130% and ≤150%	**6**	**8**	**17**	**—**	**31**	**—**	**—**	**1**	**10**	**11**	**—**	**12.5**	**58.8**	**35.5**
>150%	**5**	**4**	**10**	**—**	**19**	**—**	**—**	**1**	**8**	**9**	**—**	**25.0**	**80.0**	**47.4**
Total with LTVs	**10,947**	**1,675**	**1,056**	**—**	**13,678**	**910**	**27**	**91**	**381**	**499**	**0.2**	**5.4**	**36.1**	**3.6**
2019														
≤50%	4,107	308	475	—	4,890	107	4	7	97	108	0.1	2.3	20.5	2.2
>50% and ≤70%	3,382	274	409	—	4,065	231	3	7	90	100	0.1	2.6	22.0	2.5
>70% and ≤80%	1,381	151	219	—	1,751	356	2	4	60	66	0.1	3.0	27.5	3.8
>80% and ≤90%	1,132	145	217	—	1,494	484	1	5	76	82	0.1	3.0	35.1	5.5
>90% and ≤100%	381	102	188	—	671	3	1	3	72	76	0.2	2.9	38.6	11.3
>100% and ≤110%	167	57	151	—	375	2	—	2	67	69	0.3	3.5	44.0	18.4
>110% and ≤130%	82	36	152	—	270	1	—	2	78	80	0.3	4.9	51.3	29.7
>130% and ≤150%	8	3	46	—	57	—	—	—	30	30	0.6	4.1	64.7	51.9
>150%	7	3	15	—	25	—	—	—	11	11	0.3	8.2	71.4	44.6
Total with LTVs	10,647	1,079	1,872	—	13,598	1,184	11	30	581	622	0.1	2.8	31.0	4.6

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 both Retail Banking and Ulster Bank RoI 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.

Retail Banking 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	Total %
South East	**10,980**	**17,217**	**2,365**	**4**	**—**	**30,566**	**56**	**5**	**30,571**	**19**
Greater London	**13,044**	**14,505**	**1,638**	**2**	**—**	**29,189**	**52**	**5**	**29,194**	**18**
Scotland	**3,594**	**6,636**	**1,148**	**1**	**—**	**11,379**	**58**	**1**	**11,380**	**7**
North West	**4,849**	**9,745**	**1,402**	**3**	**—**	**15,999**	**58**	**3**	**16,002**	**10**
South West	**5,086**	**8,551**	**882**	**3**	**—**	**14,522**	**55**	**2**	**14,524**	**9**
West Midlands	**3,366**	**7,080**	**1,265**	**4**	**—**	**11,715**	**59**	**1**	**11,716**	**7**
East of England	**6,487**	**10,294**	**1,588**	**2**	**—**	**18,371**	**56**	**2**	**18,373**	**11**
Rest of the UK	**8,451**	**18,869**	**3,873**	**143**	**8**	**31,344**	**60**	**3**	**31,347**	**19**
Total	**55,857**	**92,897**	**14,161**	**162**	**8**	**163,085**	**56**	**22**	**163,107**	**100**
2019										
South East	10,155	13,676	2,705	6	—	26,542	55	5	26,547	18
Greater London	13,199	10,496	1,504	4	—	25,203	49	4	25,207	17
Scotland	3,395	5,946	1,726	3	—	11,070	60	1	11,071	8
North West	4,618	8,788	1,733	6	—	15,145	59	3	15,148	10
South West	4,482	7,374	1,391	5	—	13,252	57	2	13,254	9
West Midlands	3,086	6,109	1,520	5	—	10,720	60	1	10,721	7
East of England	5,841	8,716	1,948	3	—	16,508	57	3	16,511	11
Rest of the UK	7,014	15,469	6,334	194	13	29,024	64	6	29,030	20
Total	51,790	76,574	18,861	226	13	147,464	57	25	147,489	100

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.

Credit risk – Banking activities continued

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)	**4,613**	4,666
Office (2)	**3,178**	2,804
Retail (3)	**4,273**	4,206
Industrial (4)	**2,451**	2,203
Mixed/other (5)	**2,445**	3,066
	16,960	16,945
Development		
Residential (1)	**2,818**	2,587
Office (2)	**149**	94
Retail (3)	**117**	127
Industrial (4)	**109**	72
Mixed/other (5)	**26**	18
	3,219	2,898
Total (6)	**20,179**	19,843

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 – 94%) of the total exposure relates to the UK.

Risk and capital management

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%	**4,339**	**3,792**	**138**	**—**	**8,269**	**42**	**119**	**24**	**185**	**1.0**	**3.1**	**17.4**	**2.2**
>50% and ≤70%	**2,690**	**2,973**	**211**	**—**	**5,874**	**31**	**101**	**61**	**193**	**1.2**	**3.4**	**28.9**	**3.3**
>70% and ≤80%	**39**	**115**	**23**	**—**	**177**	**1**	**7**	**7**	**15**	**2.6**	**6.1**	**30.4**	**8.5**
>80% and ≤90%	**84**	**34**	**35**	**—**	**153**	**1**	**4**	**11**	**16**	**1.2**	**11.8**	**31.4**	**10.5**
>90% and ≤100%	**9**	**25**	**58**	**—**	**92**	**—**	**2**	**32**	**34**	**—**	**8.0**	**55.2**	**37.0**
>100% and ≤110%	**6**	**6**	**17**	**—**	**29**	**—**	**1**	**6**	**7**	**—**	**16.7**	**35.3**	**24.1**
>110% and ≤130%	**9**	**20**	**117**	**—**	**146**	**—**	**2**	**45**	**47**	**—**	**10.0**	**38.5**	**32.2**
>130% and ≤150%	**13**	**12**	**10**	**—**	**35**	**—**	**1**	**5**	**6**	**—**	**8.3**	**50.0**	**17.1**
>150%	**23**	**24**	**38**	**—**	**85**	**—**	**2**	**30**	**32**	**—**	**8.3**	**78.9**	**37.6**
Total with LTVs	**7,212**	**7,001**	**647**	**—**	**14,860**	**75**	**239**	**221**	**535**	**1.0**	**3.4**	**34.2**	**3.6**
Total portfolio average LTV %	**46%**	**47%**	**86%**	**—**	**48%**								
Other (5)	**1,538**	**383**	**150**	**29**	**2,100**	**5**	**32**	**89**	**126**	**0.3**	**8.4**	**59.3**	**6.1**
Development (6)	**1,337**	**1,717**	**159**	**6**	**3,219**	**14**	**55**	**69**	**138**	**1.0**	**3.2**	**43.4**	**4.3**
Total	**10,087**	**9,101**	**956**	**35**	**20,179**	**94**	**326**	**379**	**799**	**0.9**	**3.6**	**39.6**	**4.0**
2019													
≤50%	7,130	410	40	837	8,417	8	7	11	26	0.1	1.7	27.5	0.3
>50% and ≤70%	4,622	233	145	846	5,846	6	6	33	45	0.1	2.6	22.8	0.9
>70% and ≤80%	246	38	51	10	345	1	1	19	21	0.4	2.6	37.3	6.3
>80% and ≤90%	58	19	15	2	94	—	1	3	4	—	5.3	20.0	4.3
>90% and ≤100%	48	17	22	—	87	—	—	15	15	—	—	68.2	17.2
>100% and ≤110%	18	6	6	—	30	—	—	2	2	—	—	33.3	6.7
>110% and ≤130%	20	26	46	1	93	—	1	16	17	—	3.8	34.8	18.5
>130% and ≤150%	3	6	18	—	27	—	—	7	7	—	—	38.9	25.9
>150%	35	6	32	—	73	—	1	22	23	—	16.7	68.8	31.5
Total with LTVs	12,180	761	375	1,696	15,012	15	17	128	160	0.1	2.2	34.1	1.2
Total portfolio average LTV %	46%	52%	100%	48%	48%								
Other (5)	238	149	75	1,471	1,933	5	4	49	58	2.1	2.7	65.3	12.6
Development (6)	2,323	270	141	164	2,898	7	4	71	82	0.3	1.5	50.4	3.0
Total	14,741	1,180	591	3,331	19,843	27	25	248	300	0.2	2.1	42.0	1.8

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, NWH 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 NWH 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	
NWH Group total	Financial assets £m	ECL £m	Financial assets £m	ECL £m	Financial assets £m	ECL £m	Financial assets £m	ECL £m
At 1 January 2020	362,086	308	27,794	742	6,817	2,565	396,697	3,615
Currency translation and other adjustments	2,307	2	(205)	5	139	2	2,241	9
Inter-Group transfers	996	—	—	—	(7)	(3)	989	(3)
Transfers from Stage 1 to Stage 2	(111,089)	(562)	111,089	562	—	—	—	—
Transfers from Stage 2 to Stage 1	45,633	840	(45,633)	(840)	—	—	—	—
Transfers to Stage 3	(450)	(2)	(3,207)	(298)	3,657	300	—	—
Transfers from Stage 3	300	35	1,624	163	(1,924)	(198)	—	—
Net re-measurement of ECL on stage transfer		(671)		2,128		482		1,939
Changes in risk parameters (model inputs)		343		757		309		1,409
Other changes in net exposure	84,119	200	(13,537)	(258)	(1,618)	(41)	68,964	(99)
Other (P&L only items)		—		(7)		(149)		(156)
Income statement (releases)/charges		(128)		2,620		601		3,093
Amounts written-off	—	—	(3)	(3)	(920)	(920)	(923)	(923)
Unwinding of discount		—		—		(90)		(90)
At 31 December 2020	383,902	493	77,922	2,958	6,144	2,406	467,968	5,857
Net carrying amount	383,409		74,964		3,738		462,111	
At 1 January 2019	361,871	283	26,368	755	7,342	2,593	395,581	3,631
2019 movements	215	25	1,426	(13)	(525)	(28)	1,116	(16)
At 31 December 2019	362,086	308	27,794	742	6,817	2,565	396,697	3,615
Net carrying amount	361,778		27,052		4,252		393,082	

Credit risk – Banking activities continued

Flow statements

Retail Banking - mortgages	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	**135,625**	**12**	**10,283**	**86**	**1,289**	**215**	**147,197**	**313**
Currency translation and other adjustments	**—**	**—**	**—**	**—**	**19**	**19**	**19**	**19**
Transfers from Stage 1 to Stage 2	**(28,812)**	**(8)**	**28,812**	**8**	**—**	**—**	**—**	**—**
Transfers from Stage 2 to Stage 1	**8,899**	**18**	**(8,899)**	**(18)**	**—**	**—**	**—**	**—**
Transfers to Stage 3	**(16)**	**—**	**(566)**	**(22)**	**582**	**22**	**—**	**—**
Transfers from Stage 3	**9**	**1**	**360**	**23**	**(369)**	**(24)**	**—**	**—**
Net re-measurement of ECL on stage transfer		**(16)**		**165**		**5**		**154**
Changes in risk parameters (model inputs)		**8**		**(2)**		**57**		**63**
Other changes in net exposure	**16,685**	**8**	**(1,911)**	**(13)**	**(219)**	**(13)**	**14,555**	**(18)**
Other (P&L only items)		**—**		**—**		**(25)**		**(25)**
Income statement charges		**—**		**150**		**24**		**174**
Amounts written-off	**—**	**—**	**—**	**—**	**(11)**	**(11)**	**(11)**	**(11)**
Unwinding of discount		**—**		**—**		**(34)**		**(34)**
At 31 December 2020	**132,390**	**23**	**28,079**	**227**	**1,291**	**236**	**161,760**	**486**
Net carrying amount	**132,367**		**27,852**		**1,055**		**161,274**	
At 1 January 2019	127,671	10	10,241	74	1,286	202	139,198	286
2019 movements	7,954	2	42	12	3	13	7,999	27
At 31 December 2019	135,625	12	10,283	86	1,289	215	147,197	313
Net carrying amount	135,613		10,197		1,074		146,884	

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 - credit cards	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2020	**2,804**	**38**	**1,246**	**131**	**127**	**88**	**4,177**	**257**
Transfers from Stage 1 to Stage 2	**(1,485)**	**(56)**	**1,485**	**56**	**—**	**—**	**—**	**—**
Transfers from Stage 2 to Stage 1	**1,059**	**105**	**(1,059)**	**(105)**	**—**	**—**	**—**	**—**
Transfers to Stage 3	**(18)**	**(1)**	**(110)**	**(40)**	**128**	**41**	**—**	**—**
Transfers from Stage 3	**—**	**—**	**12**	**7**	**(12)**	**(7)**	**—**	**—**
Net re-measurement of ECL on stage transfer		**(71)**		**261**		**44**		**234**
Changes in risk parameters (model inputs)		**10**		**(63)**		**10**		**(43)**
Other changes in net exposure	**(110)**	**27**	**(190)**	**(27)**	**(36)**	**(2)**	**(336)**	**(2)**
Other (P&L only items)		**—**		**—**		**(3)**		**(3)**
Income statement (releases)/charges		**(34)**		**171**		**49**		**186**
Amounts written-off	**—**	**—**	**—**	**—**	**(93)**	**(93)**	**(93)**	**(93)**
Unwinding of discount		**—**		**—**		**(6)**		**(6)**
At 31 December 2020	**2,250**	**52**	**1,384**	**220**	**114**	**75**	**3,748**	**347**
Net carrying amount	**2,198**		**1,164**		**39**		**3,401**	
At 1 January 2019	2,632	36	1,226	118	108	73	3,966	227
2019 movements	172	2	20	13	19	15	211	30
At 31 December 2019	2,804	38	1,246	131	127	88	4,177	257
Net carrying amount	2,766		1,115		39		3,920	

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.

Credit risk – Banking activities continued

Flow statements

Retail Banking - other personal unsecured	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	**5,417**	**63**	**2,250**	**252**	**608**	**518**	**8,275**	**833**
Currency translation and other adjustments	**—**	**—**	**—**	**—**	**3**	**3**	**3**	**3**
Transfers from Stage 1 to Stage 2	**(3,953)**	**(99)**	**3,953**	**99**	**—**	**—**	**—**	**—**
Transfers from Stage 2 to Stage 1	**1,350**	**96**	**(1,350)**	**(96)**	**—**	**—**	**—**	**—**
Transfers to Stage 3	**(16)**	**(1)**	**(363)**	**(124)**	**379**	**125**	**—**	**—**
Transfers from Stage 3	**3**	**2**	**61**	**20**	**(64)**	**(22)**	**—**	**—**
Net re-measurement of ECL on stage transfer		**(64)**		**343**		**108**		**387**
Changes in risk parameters (model inputs)		**47**		**26**		**67**		**140**
Other changes in net exposure	**584**	**15**	**(1,063)**	**(69)**	**(57)**	**(13)**	**(536)**	**(67)**
Other (P&L only items)		**—**		**(2)**		**(26)**		**(28)**
Income statement (releases)/charges		**(2)**		**298**		**136**		**432**
Amounts written-off	**—**	**—**	**(1)**	**(1)**	**(273)**	**(273)**	**(274)**	**(274)**
Unwinding of discount		**—**		**—**		**(18)**		**(18)**
At 31 December 2020	**3,385**	**59**	**3,487**	**450**	**596**	**495**	**7,468**	**1,004**
Net carrying amount	**3,326**		**3,037**		**101**		**6,464**	
At 1 January 2019	5,073	54	1,970	239	503	402	7,546	695
2019 movements	344	9	280	13	105	116	729	138
At 31 December 2019	5,417	63	2,250	252	608	518	8,275	833
Net carrying amount	5,354		1,998		90		7,442	

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.

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
Ulster Bank RoI - mortgages	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2020	**10,603**	**11**	**1,084**	**30**	**1,875**	**581**	**13,562**	**622**
Currency translation and other adjustments	**589**	**1**	**66**	**2**	**95**	**(32)**	**750**	**(29)**
Transfers from Stage 1 to Stage 2	**(2,010)**	**(7)**	**2,010**	**7**	**—**	**—**	**—**	**—**
Transfers from Stage 2 to Stage 1	**1,665**	**47**	**(1,665)**	**(47)**	**—**	**—**	**—**	**—**
Transfers to Stage 3	**(7)**	**—**	**(65)**	**(6)**	**72**	**6**	**—**	**—**
Transfers from Stage 3	**29**	**2**	**334**	**34**	**(363)**	**(36)**	**—**	**—**
Net re-measurement of ECL on stage transfer		**(44)**		**46**		**10**		**12**
Changes in risk parameters (model inputs)		**16**		**28**		**73**		**117**
Other changes in net exposure	**50**	**1**	**(81)**	**(2)**	**(413)**	**(1)**	**(444)**	**(2)**
Other (P&L only items)		**—**		**—**		**(24)**		**(24)**
Income statement (releases)/charges		**(27)**		**72**		**58**		**103**
Amounts written-off	**—**	**—**	**(1)**	**(1)**	**(205)**	**(205)**	**(206)**	**(206)**
Unwinding of discount		**—**		**—**		**(15)**		**(15)**
At 31 December 2020	**10,919**	**27**	**1,682**	**91**	**1,061**	**381**	**13,662**	**499**
Net carrying amount	**10,892**		**1,591**		**680**		**13,163**	
At 1 January 2019	10,782	11	1,394	75	2,278	657	14,454	743
2019 movements	(179)	—	(310)	(45)	(403)	(76)	(892)	(121)
At 31 December 2019	10,603	11	1,084	30	1,875	581	13,562	622
Net carrying amount	10,592		1,054		1,294		12,940	

Key points

- The increase in ECL in Stage 1 and Stage 2 was primarily due to the deterioration in the economic outlook.
- 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.
- The reduction in ECL in Stage 3 reflected ongoing deleveraging of the Ulster Bank RoI mortgage non-performing portfolio through the execution of a portfolio sale agreed in 2019.
- In Stage 3, the ECL cost within changes in risk parameters included the forward-looking effect of forecast reductions in house prices and the application of post-model adjustments.
- Write-off generally occurs once the repossessed property has been sold and there is a residual shortfall balance remaining outstanding or when the loan is sold to a third party.

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 - commercial real estate	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2020	**25,555**	**31**	**2,217**	**28**	**895**	**305**	**28,667**	**364**
Currency translation and other adjustments	**40**	**(2)**	**(441)**	**—**	**(3)**	**1**	**(404)**	**(1)**
Inter-group transfers	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Transfers from Stage 1 to Stage 2	**(14,605)**	**(99)**	**14,605**	**99**	**—**	**—**	**—**	**—**
Transfers from Stage 2 to Stage 1	**3,842**	**59**	**(3,842)**	**(59)**	**—**	**—**	**—**	**—**
Transfers to Stage 3	**(120)**	**—**	**(696)**	**(18)**	**816**	**18**	**—**	**—**
Transfers from Stage 3	**82**	**7**	**292**	**20**	**(374)**	**(27)**	**—**	**—**
Net re-measurement of ECL on stage transfer		**(45)**		**242**		**102**		**299**
Changes in risk parameters (model inputs)		**106**		**77**		**68**		**251**
Other changes in net exposure	**2,475**	**33**	**(1,755)**	**(25)**	**(175)**	**6**	**545**	**14**
Other (P&L only items)		**—**		**—**		**1**		**1**
Income statement charges		**94**		**294**		**177**		**565**
Amounts written-off	**—**	**—**	**—**	**—**	**(41)**	**(41)**	**(41)**	**(41)**
Unwinding of discount		**—**		**—**		**(5)**		**(5)**
At 31 December 2020	**17,269**	**90**	**10,380**	**364**	**1,118**	**427**	**28,767**	**881**
Net carrying amount	**17,179**		**10,016**		**691**		**27,886**	
At 1 January 2019	26,161	35	1,402	24	1,028	450	28,591	509
2019 movements	(606)	(4)	815	4	(133)	(145)	76	(145)
At 31 December 2019	25,555	31	2,217	28	895	305	28,667	364
Net carrying amount	25,524		2,189		590		28,303	

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	6,338	28	767	45	257	200	7,362	273
Currency translation and other adjustments	—	—	—	(1)	1	(2)	1	(3)
Transfers from Stage 1 to Stage 2	(2,545)	(18)	2,545	18	—	—	—	—
Transfers from Stage 2 to Stage 1	790	58	(790)	(58)	—	—	—	—
Transfers to Stage 3	(30)	—	(138)	(32)	168	32	—	—
Transfers from Stage 3	11	5	45	17	(56)	(22)	—	—
Net re-measurement of ECL on stage transfer		(56)		147		45		136
Changes in risk parameters (model inputs)		15		29		12		56
Other changes in net exposure	7,558	9	(245)	(20)	(42)	(11)	7,271	(23)
Other (P&L only items)		—		(2)		(48)		(50)
Income statement (releases)/charges		(32)		154		(2)		120
Amounts written-off	—	—	—	—	(78)	(78)	(78)	(78)
Unwinding of discount		—		—		(3)		(3)
At 31 December 2020	12,122	41	2,184	145	250	173	14,556	359
Net carrying amount	12,081		2,039		77		14,197	
At 1 January 2019	6,303	22	897	43	245	163	7,445	228
2019 movements	35	6	(130)	2	12	37	(83)	45
At 31 December 2019	6,338	28	767	45	257	200	7,362	273
Net carrying amount	6,310		722		57		7,089	

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.

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	53,723	93	8,789	143	1,387	518	63,899	754
Currency translation and other adjustments	311	1	146	—	15	4	472	5
Inter-group transfers	462	—	—	1	(17)	(3)	445	(2)
Transfers from Stage 1 to Stage 2	(49,619)	(227)	49,619	227	—	—	—	—
Transfers from Stage 2 to Stage 1	24,151	376	(24,151)	(376)	—	—	—	—
Transfers to Stage 3	(155)	(1)	(1,073)	(45)	1,228	46	—	—
Transfers from Stage 3	119	16	460	34	(579)	(50)	—	—
Net re-measurement of ECL on stage transfer		(304)		731		150		577
Changes in risk parameters (model inputs)		88		591		25		704
Other changes in net exposure	10,287	97	(7,808)	(102)	(583)	(13)	1,896	(18)
Other (P&L only items)		(1)		(1)		(19)		(21)
Income statement (releases)/charges		(120)		1,219		143		1,242
Amounts written-off	—	—	—	—	(202)	(202)	(202)	(202)
Unwinding of discount		—		—	—	(6)	—	(6)
At 31 December 2020	39,279	139	25,982	1,204	1,249	469	66,510	1,812
Net carrying amount	39,140		24,778		780		64,698	
At 1 January 2019	55,017	73	7,979	130	1,399	454	64,395	657
2019 movements	(1,294)	20	810	13	(12)	64	(496)	97
At 31 December 2019	53,723	93	8,789	143	1,387	518	63,899	754
Net carrying amount	53,630		8,646		869		63,145	

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.

Risk and capital management

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		RoI mortgages		Credit cards		Other		Total	
	Loans	ECL	Loans	ECL	Loans	ECL	Loans	ECL	Loans	ECL
2020	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Personal										
Currently >30 DPD	**399**	**18**	**109**	**11**	**10**	**5**	**73**	**27**	**591**	**61**
Currently <=30 DPD	**27,459**	**210**	**1,559**	**80**	**1,365**	**219**	**3,329**	**425**	**33,712**	**934**
- PD deterioration	***13,135***	***163***	***664***	***42***	***901***	***167***	***2,242***	***351***	***16,942***	***723***
- PD persistence	***9,977***	***23***	***46***	***2***	***350***	***32***	***966***	***57***	***11,339***	***114***
- Other driver (adverse credit, forbearance etc)	***4,347***	***24***	***849***	***36***	***114***	***20***	***121***	***17***	***5,431***	***97***
Total Stage 2	**27,858**	**228**	**1,668**	**91**	**1,375**	**224**	**3,402**	**452**	**34,303**	**995**
2019										
Personal										
Currently >30 DPD	507	12	21	3	16	6	90	19	634	40
Currently <=30 DPD	9,834	74	1,056	28	1,243	126	2,217	234	14,350	462
- PD deterioration	*4,183*	*63*	*208*	*15*	*727*	*92*	*1,482*	*188*	*6,600*	*358*
- PD persistence	*1,811*	*5*	*252*	*4*	*422*	*20*	*541*	*29*	*3,026*	*58*
- Other driver (adverse credit, forbearance etc)	*3,840*	*6*	*596*	*9*	*94*	*14*	*194*	*17*	*4,724*	*46*
Total Stage 2	10,341	86	1,077	31	1,259	132	2,307	253	14,984	502

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 £1 billion of exposures were collectively migrated from Stage 1 to Stage 2, and approximately £340 million in Ulster Bank RoI. 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	**131**	**5**	**214**	**27**	**1**	**—**	**—**	**—**	**346**	**32**
Currently <=30 DPD	**11,560**	**445**	**27,184**	**1,444**	**1,579**	**42**	**137**	**—**	**40,460**	**1,931**
- PD deterioration	***10,489***	***394***	***22,981***	***1,216***	***1,465***	***39***	***98***	***—***	***35,033***	***1,649***
- PD persistence	***162***	***5***	***623***	***20***	***7***	***—***	***—***	***—***	***792***	***25***
- Other driver (forbearance, RoCL etc)	***909***	***46***	***3,580***	***208***	***107***	***3***	***39***	***—***	***4,635***	***257***
Total Stage 2	**11,691**	**450**	**27,398**	**1,471**	**1,580**	**42**	**137**	**—**	**40,806**	**1,963**
2019										
Wholesale										
Currently >30 DPD	57	2	218	6	7	—	—	—	282	8
Currently <=30 DPD	2,366	42	9,289	188	220	2	3	—	11,878	232
- PD deterioration	*1,376*	*29*	*5,948*	*141*	*140*	*2*	*2*	*—*	*7,466*	*172*
- PD persistence	*45*	*1*	*181*	*5*	*3*	*—*	*—*	*—*	*229*	*6*
- Other driver (forbearance, RoCL etc)	*945*	*12*	*3,160*	*42*	*77*	*—*	*1*	*—*	*4,183*	*54*
Total Stage 2	2,423	44	9,507	194	227	2	3	—	12,160	240

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.
- In Ulster Bank RoI, approximately £400 million of exposures relating to small and medium size enterprises were collectively migrated from Stage 1 to Stage 2 reflective of the elevated risk for this sector.

Risk and capital management

Credit risk – Banking activities continued

Stage 2 decomposition by a significant increase in credit risk trigger

	UK mortgages		RoI mortgages		Credit cards		Other		Total	
2020	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**
Personal trigger (1)										
PD movement	**13,520**	**48.6**	**752**	**45.1**	**911**	**66.2**	**2,310**	**67.9**	**17,493**	**51.1**
PD persistence	**9,977**	**35.8**	**46**	**2.8**	**350**	**25.5**	**968**	**28.5**	**11,341**	**33.1**
Adverse credit bureau recorded with credit reference agency	**2,936**	**10.5**	**—**	**—**	**51**	**3.7**	**46**	**1.4**	**3,033**	**8.8**
Forbearance support provided	**135**	**0.5**	**7**	**0.4**	**1**	**0.1**	**8**	**0.2**	**151**	**0.4**
Customers in collections	**130**	**0.5**	**30**	**1.8**	**2**	**0.1**	**14**	**0.4**	**176**	**0.5**
Other reasons	**1,151**	**4.1**	**831**	**49.8**	**60**	**4.4**	**55**	**1.6**	**2,097**	**6.1**
Days past due >30	**9**	**—**	**2**	**0.1**	**—**	**—**	**1**	**—**	**12**	**—**
	27,858	**100**	**1,668**	**100**	**1,375**	**100**	**3,402**	**100**	**34,303**	**100**
2019										
Personal trigger (1)										
PD movement	4,584	44.4	223	20.7	743	59.1	1,537	66.6	7,087	47.3
PD persistence	1,815	17.5	252	23.4	422	33.5	542	23.5	3,031	20.2
Adverse credit bureau recorded with credit reference agency	3,236	31.3	—	—	59	4.7	102	4.4	3,397	22.7
Forbearance support provided	157	1.5	3	0.3	—	—	10	0.4	170	1.1
Customers in collections	137	1.3	73	6.8	3	0.2	37	1.6	250	1.7
Other reasons	319	3.1	525	48.8	32	2.5	55	2.4	931	6.2
Days past due >30	94	0.9	—	—	—	—	24	1.0	118	0.8
	10,342	100	1,076	100	1,259	100	2,307	100	14,984	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.

	Property		Corporate		Financial institutions		Other		Total	
2020	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**
Wholesale trigger (1)										
PD movement	**10,567**	**90.3**	**23,115**	**84.2**	**1,466**	**92.8**	**97**	**70.8**	**35,245**	**86.4**
PD persistence	**162**	**1.4**	**624**	**2.3**	**7**	**0.4**	**—**	**—**	**793**	**1.9**
Risk of Credit Loss	**357**	**3.1**	**2,098**	**7.7**	**54**	**3.4**	**40**	**29.2**	**2,549**	**6.2**
Forbearance support provided	**72**	**0.6**	**126**	**0.5**	**3**	**0.2**	**—**	**—**	**201**	**0.5**
Customers in collections	**30**	**0.3**	**115**	**0.4**	**1**	**0.1**	**—**	**—**	**146**	**0.4**
Other reasons (2)	**453**	**3.9**	**1,247**	**4.6**	**49**	**3.1**	**—**	**—**	**1,749**	**4.3**
Days past due >30	**50**	**0.4**	**73**	**0.3**	**—**	**—**	**—**	**—**	**123**	**0.3**
	11,691	**100**	**27,398**	**100**	**1,580**	**100**	**137**	**100**	**40,806**	**100**
2019										
Wholesale trigger (1)										
PD movement	1,407	58.1	5,991	63.0	141	62.2	2	66.7	7,541	62.0
PD persistence	45	1.9	183	1.9	3	1.3	—	—	231	1.9
Risk of Credit Loss	769	31.7	2,348	24.7	69	30.4	—	—	3,186	26.2
Forbearance support provided	31	1.3	140	1.5	—	—	—	—	171	1.4
Customers in collections	10	0.4	47	0.5	—	—	—	—	57	0.5
Other reasons (2)	144	5.9	647	6.8	8	3.5	1	33.3	800	6.6
Days past due >30	17	0.7	151	1.6	6	2.6	—	—	174	1.4
	2,423	100	9,507	100	227	100	3	100	12,160	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 NWH 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 NWH Ltd to NatWest Group 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 NWH Group has failed, or is likely to fail.

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

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

For further details on capital constituents and the regulatory framework covering capital, liquidity and funding requirements, refer to the NWH 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', NWH 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 NWH Group. NWH Group itself is monitored and reported on a consolidated basis.

Risk and capital management

Capital, liquidity and funding risk continued

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 NWH Group, and is enacted through an end to end framework across the consolidated NWH Group. The individual banking subsidiaries of NWH Group are subject to the same principles, processes and management as NWH Group. Note that although the aforementioned entities are regulated in line with Basel III principles, local implementation of the framework differs across geographies.

Capital planning is integrated into NWH Group's wider annual budgeting process and is assessed and updated at least monthly. These regular returns are submitted to the PRA which include a two year rolling forecast view. Other elements of capital management, including risk appetite and stress testing, are set out on pages 13 and 14.

Produce capital plans	• Capital plans are produced for NWH 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 NWH 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 NWH 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 NWH 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 principal levels at which liquidity risk is managed are:

- NatWest Holdings Group
- UK DoLSub
- UBI DAC

The UK DoLSub is PRA regulated and comprises NWH'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 categorises its liquidity portfolio, including its locally managed liquidity portfolios, into primary and secondary liquid assets.

The size of the liquidity portfolios are determined by referencing NWH's liquidity risk appetite. NWH retains a prudent approach to setting the composition of the liquidity portfolios, which is subject to internal policies applicable to all entities and limits over quality of counterparty, maturity mix and currency mix.

UBI DAC holds locally managed portfolios that comply with local regulations that may differ from PRA rules.

The liquidity value of the portfolio is determined by taking current market prices and applying a discount or haircut, to give a liquidity value that represents the amount of cash that can be generated by the asset.

Funding risk management

NWH 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.

Capital, liquidity and funding risk continued

Relief Measures

The economic impact of the COVID-19 pandemic 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 the COVID-19 pandemic, 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 year 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 NWH Group CET1 regulatory capital at 31 December 2020 is £1.7 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. NWH Group has applied this, and it has reduced the CRR leverage exposure by £0.1 billion.
- 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. NWH Group has implemented these beneficial changes to supporting factors, which have reduced RWAs by c.£1 billion for SMEs and c.£0.8 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 NWH Group is an increase of 29 bps.

Risk and capital management

Capital, liquidity and funding risk continued

Key points

CET1 Ratio

2020	17.5%
2019	15.7%

Increase of 180 basis reflects an increase in RWAs of £0.6 billion and an increase in CET1 of £2.6 billion. CET1 increase is primarily driven by a decrease in the regulatory capital deduction for software development costs of £0.5 billion, following the implementation of CRR2 amended Article 36, other reserve movements of £0.3 billion and an increase of £1.7 billion due to the IFRS 9 transitional arrangements on expected credit losses, which offsets the impact of the increased impairment losses charged to the attributable profit of £46 million.

RWA

2020	£135.3bn
2019	£134.7bn

Total RWAs increased by £0.6 billion, reflecting an increase in Credit Risk RWAs (£1.4 billion) partly offset by a reduction in Operational Risk RWAs (£0.7 billion). The overall increase in Credit Risk RWAs was largely due to revisions to Wholesale LGD models and increased exposures in Commercial Banking, including the new lending under the Government lending schemes. 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 RWAs due to the CRR COVID-19 amendment for the SME & Infrastructure supporting factors (c. £1.8 billion) and NPL de-recognitions in Ulster Bank ROI.

Leverage

2020	5.3%
2019	5.6%

CRR leverage ratio decreased by 30 basis points driven by a £73.7 billion increase in the leverage exposure driven by balance sheet exposures which is partially offset by a £2.6 billion increase in Tier 1 capital.

Liquidity portfolio

2020	£218.3bn
2019	£163.6bn

The Liquidity portfolio increased by £55 billion in 2020 to £218 billion, with primary liquidity increasing by £37 billion to £127 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	153%
2020	136%

The Liquidity Coverage Ratio (LCR) increased by 17% during the year to 153% 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	145%
2019	136%

The net stable funding ratio (NSFR) for FY 2020 was 145% compared to 136% 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

NWH Group is subject to minimum capital requirements relative to RWAs. The table below summarises the minimum ratios of capital to RWAs that the consolidated Group is expected to meet. Different minimum capital requirements may apply to individual legal entities or sub-groups.

Type	CET1	Total Tier 1	Total capital
Pillar 1 requirement	**4.5%**	**6.0%**	**8.0%**
Pillar 2A requirement (3)	**1.5%**	**2.0%**	**2.7%**
Minimum Capital Requirement	**6.0%**	**8.0%**	**10.7%**
Capital conservation buffer	**2.5%**	**2.5%**	**2.5%**
Countercyclical buffer (1)	**—**	**—**	**—**
O-SII buffer (2)	**1.5%**	**1.5%**	**1.5%**
Total (excluding PRA buffer) (4)	**10.0%**	**12.0%**	**14.7%**

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) Other Systemically Important Institutions Buffer (O-SII) replaced the Systemic Risk Buffer (SRB) used to prevent and mitigate long-term non-cyclical macro-prudential or systemic risks set by the PRA to large building societies and ring fenced bodies (RFBs), effective December 2020.
(3) Additional capital requirements under Pillar 2A are specified by the PRA as an absolute value. The table sets out an implied ratio to cover the full value of Pillar 2A requirements.
(4) NWH Group may be subject to a non-disclosable PRA buffer requirement as set by the PRA. The PRA buffer consists of two components:
    (a) A risk management and governance buffer that is set as a scalar of the Pillar 1 and Pillar 2A requirements. The scalar could extend up to 40%.
    (b) A buffer to cover stress risks informed by the results of the BoE concurrent stress testing results.

Leverage ratios

The table below summarises the minimum ratios of capital to leverage exposure under the binding PRA UK leverage framework applicable for NatWest Holdings.

Type	CET1	Total Tier 1
Minimum capital requirements	**2.4375%**	**3.2500%**
Countercyclical leverage ratio buffer (1)	**—**	**—**
O-SII Additional leverage ratio buffer (2)	**0.5250%**	**0.5250%**
Total	**2.9625%**	**3.7750%**

Notes:
(1) The countercyclical leverage ratio buffer is set at 35% of NWH Group's CCyB. Footnote 1 of the Capital adequacy ratio table above provides more information on the CcyB.
(2) The PRA minimum leverage ratio requirement is supplemented with a O-SII additional leverage ratio buffer of 0.525%.
(3) 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.

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.

Risk and capital management

Capital, liquidity and funding risk continued

Measurement

Capital, RWAs and leverage

The table below sets out the key capital and leverage ratios on a PRA transitional basis. Refer to Note 24 to the consolidated financial statements for a more detailed breakdown of regulatory capital.

	2020	2019
Capital (1)	£m	£m
CET1	**23,743**	21,097
Tier 1	**27,477**	24,861
Total	**32,750**	29,515
RWAs		
Credit risk	**115,398**	113,980
Counterparty credit risk	**961**	980
Market risk	**106**	125
Operational risk	**18,866**	19,590
Total RWAs	**135,331**	134,675
Capital adequacy ratios	%	%
CET1	**17.5**	15.7
Tier 1	**20.3**	18.5
Total	**24.2**	21.9
Leverage		
Tier 1 capital (£m)	**27,477**	24,861
Leverage exposure (£m)	**521,600**	447,851
Leverage ratio (%)	**5.3**	5.6

Note:
(1) Includes the IFRS 9 transitional adjustment of £1.7 billion. Excluding this adjustment, the CET1 ratio would be 16.3% and the leverage ratio would be 5.0%.

Liquidity key metrics

The table below sets out the key liquidity and related metrics monitored by NWH Group.

	NWH Group	
	2020	2019
Liquidity coverage ratio (1)	**153%**	136%
Stressed outflow coverage (2)	**180%**	141%
Net stable funding ratio (3)	**145%**	136%

Notes:
(1) 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) 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.

Risk and capital management

Capital, liquidity and funding risk continued

Leverage exposure

The leverage exposure is based on the CRR delegated act.

Leverage	2020 £m	2019 £m
Cash and balances at central banks*	**95,187**	57,646
Derivatives	**3,116**	2,899
Other financial assets*	**385,352**	354,408
Other assets	**12,928**	13,418
Total assets	**496,583**	428,371
Derivatives		
- netting and variation margin	**(4,109)**	(3,761)
- potential future exposures	**1,112**	1,071
Securities financing transactions gross up	**191**	516
Undrawn commitments	**33,670**	29,655
Regulatory deductions and other adjustments	**(5,847)**	(8,001)
Exclusion of core UK-group exposure	**—**	—
Leverage exposure	**521,600**	447,851

*2019 data has been restated for the accounting policy change for balances held with central banks. Refer to Accounting policy changes effective 1 January 2020 for further details.

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

	2020		2019	
	UK DoLSub (1) £m	NWH Group (2) £m	UK DoLSub (1) £m	NWH Group (2) £m
Cash and balances at central banks	**86,575**	**86,575**	51,080	51,080
AAA to AA- rated governments	**35,875**	**37,086**	34,585	35,960
A+ and lower rated governments	**—**	**—**	—	—
Government guaranteed issuers, PSEs and GSEs	**141**	**272**	90	251
International organisations and MDBs	**2,154**	**2,579**	1,717	2,149
Level 1 bonds	**38,170**	**39,937**	36,392	38,360
LCR level 1 eligible assets	**124,745**	**126,512**	87,472	89,440
LCR level 2 eligible assets	**—**	**—**	—	—
Non-LCR eligible assets	**—**	**—**	—	—
Primary liquidity	**124,745**	**126,512**	87,472	89,440
Secondary liquidity (3)	**88,774**	**91,761**	73,332	74,187
Total liquidity value	**213,519**	**218,273**	160,804	163,627

Notes:
(1) UK Domestic Liquidity Sub-Group (UK DoLSub) comprises NatWest Holding Group's four licensed deposit-taking UK banks: NWB Plc, RBS plc, Coutts and Company and Ulster Bank Limited.
(2) NWH Group comprises UK DoLSub and Ulster Bank Ireland DAC who hold managed portfolios that comply with local regulations that may differ from PRA rules.
(3) Comprises assets eligible to discounting at the Bank of England and other central banks.

Capital, liquidity and funding risk continued

Funding sources

The table below shows NWH Group's carrying values of the principal funding sources based on contractual maturity. Balance sheet captions include balances held at all classifications under IFRS 9.

	2020			2019		
	Short-term less than 1 year £m	Long-term more than 1 year £m	Total £m	Short-term less than 1 year £m	Long-term more than 1 year £m	Total £m
Bank deposits						
Repos	6,270	—	6,270	2,218	—	2,218
Other bank deposits (1)	4,753	7,777	12,530	5,753	10,420	16,173
	11,023	7,777	18,800	7,971	10,420	18,391
Customer deposits						
Repos	5,167	—	5,167	1,765	—	1,765
Personal	200,879	1,182	202,061	176,060	1,207	177,267
Corporate	156,158	62	156,220	124,872	89	124,961
Non-bank financial institutions	34,277	116	34,393	31,094	320	31,414
	396,481	1,360	397,841	333,791	1,616	335,407
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	—	1,015	1,015	—	1,140	1,140
	3,344	3,982	7,326	4,736	4,037	8,773
Subordinated liabilities	322	994	1,316	14	1,324	1,338
Amounts due to holding company and fellow subsidiaries (3)						
Bank and customer deposits	6,742	—	6,742	6,797	—	6,797
CRR-compliant internal MREL	84	8,886	8,970	80	7,502	7,582
Subordinated liabilities	24	4,925	4,949	18	4,421	4,439
	6,850	13,811	20,661	6,895	11,923	18,818
Total funding	418,020	27,924	445,944	353,407	29,320	382,727
Of which: available in resolution (4)	*—*	*14,886*	*14,886*	*112*	*13,440*	*13,552*

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 – £47 million) and derivative cash collateral of £3 million (2019 – £2 million).
(3) Amounts due to holding companies and fellow subsidiaries relate to non-financial instruments of £1 million (2019 – £6 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.

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 NWH 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	95,187	—	—	—	95,187	—	—	—	95,187	—	95,187
Derivatives	46	—	—	169	215	376	100	44	735	2,381	3,116
Loans to banks - amortised cost	3,011	447	1,240	—	4,698	9	—	—	4,707	—	4,707
Loans to customers - amortised cost (1)	31,331	16,971	16,328	19,154	83,784	54,944	40,366	165,411	344,505	—	344,505
Personal	5,208	2,698	3,765	6,990	18,661	24,000	20,977	137,427	201,065	—	201,065
Corporate	22,222	4,653	4,741	8,290	39,906	29,533	18,618	27,181	115,238	—	115,238
NBFI	3,901	9,620	7,822	3,874	25,217	1,411	771	803	28,202	—	28,202
Other financial assets	1,202	516	550	2,031	4,299	7,416	8,808	19,648	40,171	562	40,733
Total financial assets	130,777	17,934	18,118	21,354	188,183	62,745	49,274	185,103	485,305	2,943	488,248
2019											
Total financial assets	96,582	13,063	11,737	17,522	138,904	63,144	46,857	165,596	414,501	2,980	417,481
2020											
Bank deposits excluding repos (2)	4,434	319	—	—	4,753	2,777	5,000	—	12,530	—	12,530
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	381,365	2,894	4,850	2,205	391,314	1,318	21	21	392,674	—	392,674
Personal	195,418	1,528	2,258	1,675	200,879	1,182	—	—	202,061	—	202,061
Corporate	152,913	1,180	1,705	360	156,158	38	4	20	156,220	—	156,220
NBFI	33,034	186	887	170	34,277	98	17	1	34,393	—	34,393
Derivatives	—	19	(8)	—	11	7	(1)	37	54	5,978	6,032
Other financial liabilities	940	4,420	656	625	6,641	750	2,513	719	10,623	3	10,626
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	719	1,015	—	1,015
Bank deposits	—	—	—	—	—	—	—	—	—	1	1
Customer deposits	—	—	—	—	—	—	—	—	—	2	2
Settlement balances	166	3,131	—	—	3,297	—	—	—	3,297	—	3,297
Subordinated liabilities	1	—	3	318	322	90	—	904	1,316	—	1,316
Notes in circulation	2,655	—	—	—	2,655	—	—	—	2,655	—	2,655
Lease liabilities	15	28	41	78	162	268	229	930	1,589	—	1,589
Total financial liabilities	399,423	8,844	5,802	3,226	417,295	5,210	7,762	2,611	432,878	5,981	438,859
2019											
Total financial liabilities	331,012	5,926	5,844	5,946	348,728	12,692	3,150	3,110	367,680	4,724	372,404

Notes:
(1) Loans to customers excludes £5,678 million (2019 – £3,518 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

NWH 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.

NWH 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 requirement, where NWH Group has in place an operational continuity in resolution (OCIR) investment mandate wherein 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, NWH 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			Pre-positioned & encumbered assets held at central banks (4)	Collateral ring - fenced to meet reg requirement (5)	Unencumbered assets not pre-positioned with central banks				Total third party
2020	Covered bonds and securitisations (1) £bn	SFT, derivatives & similar (2) £bn	Total (3) £bn	£bn	£bn	Readily available (6) £bn	Other available (7) £bn	Cannot be used (8) £bn	Total £bn	£bn
Cash and balances at central banks	—	4.9	4.9	—	—	90.3	—	—	90.3	95.2
Derivatives	—	—	—	—	—	—	—	3.1	3.1	3.1
Loans to banks - amortised cost	0.1	0.1	0.2	—	—	4.0	0.3	0.2	4.5	4.7
Loans to customers - amortised cost	11.9	—	11.9	134.0	—	41.6	104.3	47.0	192.9	338.8
- residential mortgages										
- UK	10.0	—	10.0	125.7	—	26.8	10.6	—	37.4	173.1
- RoI	1.9	—	1.9	6.3	—	5.0	—	—	5.0	13.2
- credit cards	—	—	—	—	—	3.4	0.4	—	3.8	3.8
- personal loans	—	—	—	—	—	4.7	2.4	1.6	8.7	8.7
- other	—	—	—	2.0	—	1.7	90.9	45.4	138.0	140.0
Other financial assets	—	14.1	14.1	—	2.1	24.0	0.1	0.4	24.5	40.7
Intangible assets	—	—	—	—	—	—	—	6.3	6.3	6.3
Other assets	—	—	—	—	—	—	1.8	4.8	6.6	6.6
Total assets	12.0	19.1	31.1	134.0	2.1	159.9	106.5	61.8	328.2	495.4
Amounts due from holding company and fellow subsidiaries										1.1
										496.5
2019										
Total assets	11.2	10.4	21.6	115.6	2.2	140.5	95.8	51.7	288.0	427.4
Amounts due from holding company and fellow subsidiaries										1.0
										428.4

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 NWH 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, NWH Group employs securities recognised on the balance sheet, and securities received under reverse repo transactions as collateral for repos.

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 non-traded market risk are: interest rate risk; credit spread risk; foreign exchange risk; and accounting volatility risk. Equity risk at NWH Group level is not material. Each of these risk types are largely managed separately.

Governance, appetite and controls

For general information on risk governance, appetite and controls in NWH Group, refer to pages 11 to 13. Further information specific to non-traded market risk management, including key developments in 2020, can be found in the Non-traded market risk section of the NatWest Group Annual Report and Accounts.

Measurement

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

The following table presents one-day internal banking book Value-at-Risk (VaR) at a 99% confidence level, split by risk type. 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. For further information on non-traded VaR metrics, refer to the non-traded market risk section of the NatWest Group Annual Report and Accounts.

	2020				2019			
	Average £m	Maximum £m	Minimum £m	Period-end £m	Average £m	Maximum £m	Minimum £m	Period-end £m
Interest rate	**9.6**	**14.4**	**5.8**	**6.7**	8.5	10.0	6.1	8.8
Euro	**1.3**	**2.0**	**0.8**	**2.0**	1.5	1.9	1.0	1.3
Sterling	**7.1**	**10.4**	**3.8**	**6.2**	7.6	10.0	5.0	7.2
US dollar	**6.5**	**10.3**	**2.6**	**5.5**	1.7	2.4	0.8	1.9
Other	**0.5**	**0.7**	**0.3**	**0.3**	0.3	0.5	0.2	0.3
Credit spread	**96.0**	**113.7**	**60.7**	**94.4**	55.4	58.6	50.6	58.6
Structural foreign exchange rate	**14.1**	**16.5**	**8.4**	**15.0**	9.5	12.2	6.7	9.5
Pipeline risk (1)	**0.5**	**0.7**	**0.3**	**0.3**	0.4	0.9	0.2	0.2
Diversification (2)	**(0.2)**			**3.7**	(18.3)			(21.7)
Total	**120.0**	**139.6**	**64.9**	**120.1**	55.5	60.0	51.1	55.4

Notes:
(1) Pipeline risk is the risk of loss arising from personal customers owning an option to draw down a loan – typically a mortgage – at a committed rate, where interest rate changes may result in greater or fewer customers than anticipated taking up the committed offer.
(2) NWH 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 points

- 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.

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 three primary risk types: gap risk, basis risk and option risk. For further information on the types and sources of non-traded interest rate risk as well as on the purpose and methodology of the structural hedging carried out, refer to the non-traded market risk section of the NatWest Group Annual Report and Accounts.

To manage exposures within its risk appetite, NWH Group aggregates 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.

Non-traded interest rate risk can be measured from either an economic value-based or earnings-based perspective, or a combination of the two. NWH Group uses VaR as its value-based approach and sensitivity of net interest earnings as its earnings-based approach. Further detail on these measurement approaches can also be found in the non-traded market risk section of the NatWest Group Annual Report and Accounts.

Structural hedging

NWH 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, NWH Group's structural hedge had a notional of £161 billion with an average life of approximately three years. Approximately £122 billion of the hedge was booked in NWB Plc, £33 billion in RBS plc and £6 billion in UBI DAC.

Over 90% of the £1.7 billion income allocated to structural hedges at NatWest Group level was allocated to NWH Group.

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.

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			
	+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
Shifts in yield curve	**333**	**(50)**	**1,119**	**(52)**	170	(157)	730	(721)

Sensitivity of fair value through other comprehensive income (FVOCI) and cash flow hedging reserves to interest rate movements

NWH 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 also hedging of some personal and commercial lending portfolios, primarily fixed rate mortgages. Generally, these swaps are booked in hedge accounting relationships. Changes in the valuation of swaps that are in effective cash flow hedge accounting relationships are recognised in cash flow hedge reserves. The main driver of NWH Group's cash flow hedge reserve sensitivity is the interest rate swaps that form part of the structural hedge.

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. For further information on the assumptions and methodology relating to this table, refer to the corresponding table in the NatWest Group Annual Report and Accounts.

	2020				2019			
	+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	**(42)**	**40**	**(175)**	**149**	(48)	47	(197)	180
Cash flow hedge reserves	**(63)**	**65**	**(244)**	**270**	(94)	96	(366)	394
Total	**(105)**	**105**	**(419)**	**419**	(142)	143	(563)	574

Risk and capital management

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 fair value through equity.

Credit spread VaR is presented in the non-traded VaR table above. For further information on the nature of this risk and how it is managed, refer to the NatWest Group Annual Report and Accounts.

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 – NWH Group assesses its potential exposure to forecast foreign currency income and expenses. NWH Group hedges forward some forecast expenses.

For further information on the nature of these risks and how they are managed, refer to the NatWest Group Annual Report and Accounts.

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	**4,069**	**(593)**	**3,476**	3,973	(427)	3,546
Other non-sterling	**437**	**(129)**	**308**	409	(123)	286
Total	**4,506**	**(722)**	**3,784**	4,382	(550)	3,832

Note:

(1) Economic hedges of US dollar net investments in foreign operations represent US dollar equity securities that do not qualify as net investment hedges for accounting purposes. They provide an offset to structural foreign exchange exposures to the extent that there are net assets in overseas operations available. Economic hedges of other currency net investments in foreign operations represent monetary liabilities that are not booked as net investment hedges.

Key points

- Sterling weakened against the euro, to 1.11 at 31 December 2020 from 1.18 at 31 December 2019.
- 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 £0.2 billion in equity respectively.

Accounting volatility risk

Accounting volatility risk arises when an exposure is accounted at amortised cost but economically hedged by a derivative that is accounted for at fair value. Although this is not an economic risk, the difference in accounting between the exposure and the hedge creates volatility in the income statement. For further information on how this risk is managed, refer to the NatWest Group Annual Report and Accounts.

Risk and capital management

Pension risk

Definition

Pension risk is the risk to NWH 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 NWH 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

NWH 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 (a subsidiary within NWH Group) 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 consolidated financial statements, for further details on NWH 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. NWH 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, NWH 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 NWH 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 NWH 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 consolidated 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 NWH 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 11.

Risk appetite

NWH Group maintains an independent view of the risk inherent in its pension funds. NWH 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 NWH Group's balance sheet, income statement and capital position are incorporated into NWH Group's and overall NatWest Group stress test results.

NatWest Bank Plc (a subsidiary of NWH Group) 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. As set out in Note 25 to the consolidated financial statements, NatWest Group and certain members of staff are party to legal proceedings and are subject to investigation and other regulatory action in the UK, the US and other jurisdictions.

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 NWH Group's customers, employees or third parties undertake or facilitate financial crime, or if NWH 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. NWH 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.

NWH 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 the 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 NWH 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
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.

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. 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.

The NatWest Group Board is responsible for monitoring and overseeing climate-related risk within NatWest Group's overall business strategy and risk appetite. In 2020, the 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.

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 NWH 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 NWH 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 NWH 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 NWH Group is willing to accept to achieve its strategic objectives and business plans. NWH 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 NWH 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.

NWH 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 NWH Group's Pillar 2A capital requirement.

Risk and capital management

Operational risk continued

Scenario analysis is used to assess how severe but plausible operational risks will affect NWH 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

NWH 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.

Event and loss data management

The operational risk event and loss data management process ensures NWH 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 NWH 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. NWH 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. NWH 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

NWH 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 NWH 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 NWH 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.

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 NWH Group is willing to accept in the course of its business activities. It is approved by the NWH 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 NWH 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 NWH Group's values and the public agenda; and contagion (when NWH Group's reputation is damaged by failures in the wider financial sector).

Risk and capital management

Reputational risk continued

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.

Governance

A reputational risk policy supports reputational risk management across NWH 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

NWH Group manages and articulates its appetite for reputational risk through a qualitative reputational risk appetite statement and quantitative measures. NWH 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 NWH 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:

	Page/Note
Stakeholder engagement and s.172(1) statement	3
Board of directors and secretary	6
Financial review	7
Segmental analysis	Note 4
Share capital and reserves	Note 20
Post balance sheet events	Note 33

NWH Group structure
NatWest Holdings Limited ('NWH Ltd') is a wholly owned subsidiary of NatWest Group plc ('the parent company'). The term NWH Group refers to NWH Ltd and its subsidiary and associated undertakings. National Westminster Bank Plc (NWB Plc), The Royal Bank of Scotland plc (RBS plc) and Ulster Bank Ireland DAC (UBI DAC) are wholly owned subsidiaries. The term 'NatWest Group' refers to NatWest Group plc and its subsidiary and associated undertakings. NatWest Group plc is incorporated in the UK and has its registered office at 36 St Andrew Square, Edinburgh, EH2 2YB.

Details of NWH Ltd's principal subsidiary undertakings and their activities are shown in Note 8 of the parent company accounts. A full list of related undertakings of NWH Ltd is shown in Note 11 of the parent company accounts.

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

Activities
NWH 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 NWH Group for the year ended 31 December 2020 was £46 million compared with a profit of £1,102 million for the year ended 31 December 2019, as set out in the consolidated income statement on page 93.

No ordinary dividends were paid during 2020. NWH Ltd paid an ordinary dividend to its parent company, NatWest Group plc, of £1,500 million in 2019.

Employees
As at 31 December 2020, NWH Group employed 56,300 people (excluding temporary staff). Details of related costs are included in Note 3 to the consolidated accounts.

NWB Plc employs the majority of NWH Group's 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 NWH Ltd are required to provide a statement in the Report of the directors stating which corporate governance code, if any, NWH Ltd 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 NWH Ltd 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 NWH Ltd has applied the Wates Principles in the context of its corporate governance arrangements.

Purpose and leadership
Following an extensive review and despite the progress that has been made, it has become clear Ulster Bank will not be able to generate sustainable long terms returns for our shareholders. As a result, we are to begin a phased withdrawal from the Republic of Ireland over the coming years which will be undertaken with careful consideration of the impact on customers and our colleagues.

NatWest Group's purpose is established by the NatWest Group plc Board, promoted across NatWest Group and cascaded to subsidiaries including NWH Ltd. 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 NWH Ltd (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 2020, 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 NWH Ltd are considered at least annually.

Report of the directors

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 NWH Ltd's expense.

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

NWH Limited 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 NWH Ltd 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 NWH Ltd 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 commitments of the Chairman and directors and is satisfied that they are able to allocate sufficient time to enable them to discharge their duties and responsibilities effectively. 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 NWH Ltd'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.

Report of the directors

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 Management Information 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 NWH Ltd conflict with the interests of other members of NatWest Group. NWH Ltd 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 NWH Ltd. The Board is collectively responsible for the long-term success of NWH Ltd and the delivery of sustainable value to its shareholders. The Board's role is to provide leadership of NWH Ltd. It monitors and maintains the consistency of NWH Ltd'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 NWH Ltd. It approves NWH Ltd's key financial objectives and keeps the capital and liquidity positions of NWH Ltd 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 receive 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 provides 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

Report of the directors

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

Board Committees

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.

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 NWH Ltd, NWH Ltd's system of standards of internal controls, and monitors NWH Ltd'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 NWH Ltd'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 NWH Ltd.

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 Sustainable Banking Committee comprises at least three independent non-executive directors, one of whom is a DINED. It provides support to the Board in overseeing, supporting and challenging actions being taken by management to run as a sustainable business, capable of generating long term value for its stakeholders.

Executive Committee

The Executive Committee comprises NWH Ltd'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 and culture and values.

4. Opportunity and risk

The role of the Board is to promote the long-term sustainable success of NWH Ltd.

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 NWH Ltd; and considers any material risks and approves, as appropriate, recommended actions escalated by the Board Risk Committee.

NWH Ltd'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.

NWH Ltd 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.

NWH Ltd 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 NWH Ltd 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 10 to 75).

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 NWH Ltd. 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 NWH Ltd 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 NWH Ltd.

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.

Report of the directors

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.

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 3 to 5 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 3 to 5 of the Strategic report which includes a section 172(1) statement.

Internal control over financial reporting

The internal controls over financial reporting for NWH Group are consistent with those at NatWest Group level. NWH 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 NWH Ltd Group 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 NWH Group 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 NatWest Group plc 2020 Annual Report and Accounts. None of the directors held an interest in the loan capital of the ultimate holding company or in the shares or loan capital of NWH Ltd 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 NWH Ltd'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

NWH 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. NWH 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 58 to 67. This section also describes NWH Group's funding and liquidity profile, including changes in key metrics and the build up of liquidity reserves.

Having reviewed NWH Group's forecasts, projections and other relevant evidence, the directors have a reasonable expectation that NWH Group will continue in operational existence for a period of not less than twelve months. Accordingly, the financial statements of NWH Group 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 NWH Ltd'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 NWH Ltd'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 NWH Ltd's auditors and have indicated their willingness to continue in office.

By order of the Board

Jan Cargill
Company Secretary
19 February 2021

NatWest Holdings Limited
is registered in England No.10142224

Statement of directors' responsibilities

This statement should be read in conjunction with the responsibilities of the auditor set out in their report on pages 83 to 92.

The directors are responsible for the preparation of the Annual Report and Accounts. The directors are required by the Companies Act 2006 to prepare company accounts, for each financial year in accordance with international accounting standards in conformity with the requirements of the Companies Act. They are responsible for preparing accounts that present fairly the financial position, financial performance and cash flows of NWH Group and NWH Ltd. 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 NWH 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 NWH Ltd and NWH 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 NWH Ltd 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 NWH Ltd 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

19 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

Financial statements

Independent auditors' report to the members of NatWest Holdings Limited

Opinion
In our opinion:
- the financial statements of NatWest Holdings Limited (the 'Parent Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and the Parent Company'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;
- the Parent Company 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 Group and the Parent Company for the year ended 31 December 2020 which comprise:

Group	Parent Company
• 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 33 to the financial statements; • Risk and capital management section of the Strategic report identified 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 11 to the financial statements.

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 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 Parent Company 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 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 Parent Company'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 viability under different scenarios including the impact of the Group's strategic plans and 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 also considered other commitments of the Group including those in respect of its subsidiaries;
- 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 Parent Company's ability to continue as a going concern for a period up to 19 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 auditors’ report to the members of NatWest Holdings Limited

An overview of the scope of the Parent Company 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, 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 four reporting components of the Group, we selected three components based on size and risk, which represent the principal business units within the Group.

Component	Scope	Key locations
National Westminster Bank (NWB)	Full	United Kingdom
RBS plc	Full	United Kingdom
UBIDAC	Specific	Republic of Ireland

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	94%	6%	-	100%
Total equity	88%	12%	-	100%
Total income	97%	3%	-	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.

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	Our response to the risk
Expected Credit Loss Provisions	
At 31 December 2020 the Group reported total gross loans of £349 billion (2019: £312 billion) and £5.9 billion of expected credit losses (2019: £3.6 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.	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, and 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.

Risk	Our response to the risk
Expected Credit Loss Provisions continued	
	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.

Key observations communicated to the NatWest Holdings Limited (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 12 to the financial statements

Note:
(1) NWH Audit Committee covers the ring-fenced bank legal entities of NatWest Group, including the Group.

Independent auditors’ report to the members of NatWest Holdings Limited

Risk	Our response to the risk
Impairment of goodwill and deferred tax assets and, in the Parent Company’s accounts, investments in group undertakings	
At 31 December 2020, NatWest Holdings Ltd had reported goodwill of £5.3 billion (2019: £5.3 billion), with no goodwill held by NWB plc and deferred tax assets of £1.1 billion (2019: £1.2 billion). The Parent Company has reported investments in group undertakings of £35.3 billion (2019: £36.5 billion). The recognition and carrying value of deferred tax assets, goodwill and, in the Parent Company’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.	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 on both the detailed forecasts and on a stand back basis. 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.

Key observations communicated to the NWH Group Audit Committee

We are satisfied that management methodologies, judgements and assumptions supporting the carrying value of goodwill, deferred tax assets and, in the Parent Company’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.
- Our stress testing on Commercial goodwill indicated that it is the most at risk of impairment based on the level of headroom and the various scenario analyses performed. We are, however, satisfied that management’s conclusion that the goodwill is recoverable as at 31 December 2020 is appropriate and that they have adequately disclosed reasonably possible alternative scenarios relating to the key assumptions that could result in an impairment.
- The directors impaired NWH`s investment in NWB. Our independent procedures including our sensitivity analysis supported this assessment indicating that the value in use of NWB is at the optimistic end of our range of possible outcomes;
- We are satisfied that the disclosures appropriately reflect the sensitivity of the carrying value of investments in group undertakings and goodwill to certain reasonable alternative outcomes. As there are a number of other possible outcomes and it would be impracticable to estimate the effect of all of them, the directors have disclosed the uncertainty that other possible outcomes within the next financial year could require an adjustment to the carrying amount of investments in group undertakings and goodwill.

Relevant references in the Annual Report and Accounts

Accounting policies
Note 7 and 14 to the Group financial statements and Note 8 to the Parent Company’s financial statements

Risk	Our response to the risk
Provision for conduct and litigation claims	
At 31 December 2020, the Group has reported £1.4 billion (2019: £2.1 billion) of provisions for liabilities and charges, including £0.7 billion (2019: £1.5 billion) for conduct and litigation claims, including Payment Protection Insurance (PPI) as detailed in Note 19 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 19 and 25 to the financial statements

<table>
<tr><th>Risk</th><th>Our response to the risk</th></tr>
<tr><td colspan="2">Pension valuation and net pension asset</td></tr>
<tr><td>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 asset of £222 million (2019: £143 million) comprising £279 million of schemes in surplus and £57 million of schemes in deficit (2019: £196 million and £53 million respectively). The net pension asset 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).</td><td>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.</td></tr>
</table>

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 to the financial statements

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 and Parent Company to be £160 million (2019: £160 million), which is 5% (2019: 5%) of profit before tax of the Group of £471 million (2019: £2,206 million) adjusted for certain loan impairment charges arising from COVID-19, conduct expenses and strategic costs. The largest impact was a result of adjusting the loan impairment charge to pre-COVID-19 levels by £2.3 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 Parent Company to be £160 million (2019: £160 million) which is 0.5% (2019: 0.5%) of equity of the Parent Company and is consistent with the prior year. We believe this reflects the most useful measure for users of the financial statements as the Parent Company'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.

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 £80 million (2019: £80 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 £30 million to £72 million (2019: £25 million to £80 million).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.
We agreed with the NWH Audit Committee that we would report to them all uncorrected audit differences in excess of £8 million (2019: £8 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 the 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 Parent Company 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 Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company 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

Independent auditors' report to the members of NatWest Holdings Limited

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 Parent Company'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 Parent Company 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.

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 25 April 2019 to audit the financial statements of the Group for the year ending 31 December 2019 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is 2 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 Parent Company and we remain independent of the Group and the Parent Company 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.

Jonathan Bourne (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London, United Kingdom
19 February 2021

Consolidated income statement for the year ended 31 December 2020

	Note	2020 £m	2019 £m
Interest receivable		**9,221**	10,095
Interest payable		**(1,659)**	(2,145)
Net interest income	1	**7,562**	7,950
Fees and commissions receivable		**2,213**	2,916
Fees and commissions payable		**(379)**	(607)
Other operating income		**794**	836
Non-interest income	2	**2,628**	3,145
Total income		**10,190**	11,095
Staff costs		**(3,116)**	(3,166)
Premises and equipment		**(1,080)**	(1,131)
Other administrative expenses		**(1,554)**	(2,909)
Depreciation and amortisation		**(866)**	(894)
Impairment of other intangible assets		**(9)**	(44)
Operating expenses	3	**(6,625)**	(8,144)
Profit before impairment losses		**3,565**	2,951
Impairment losses	12	**(3,094)**	(745)
Operating profit before tax		**471**	2,206
Tax charge	7	**(144)**	(800)
Profit for the year		**327**	1,406
Attributable to:			
Ordinary shareholders		**46**	1,102
Paid-in equity holders		**277**	300
Non-controlling interests		**4**	4
		327	1,406

The accompanying notes on pages 103 to 145, the accounting policies on pages 98 to 102 and the audited sections of the Financial review and Risk and capital management on pages 7 to 75 form an integral part of these financial statements.

Consolidated statement of comprehensive income for the year ended 31 December 2020

	2020 £m	2019 £m
Profit for the year	**327**	1,406
Items that do not qualify for reclassification		
Remeasurement of retirement benefit schemes	**(3)**	(92)
FVOCI financial assets	**2**	(1)
Tax	**27**	24
	26	(69)
Items that do qualify for reclassification		
FVOCI financial assets	**56**	(7)
Cash flow hedges	**249**	325
Currency translation	**205**	(268)
Tax	**(77)**	(81)
	433	(31)
Other comprehensive income/(loss) after tax	**459**	(100)
Total comprehensive income for the year	**786**	1,306
Attributable to:		
Ordinary shareholders	**505**	1,002
Paid-in equity holders	**277**	300
Non-controlling interests	**4**	4
	786	1,306

The accompanying notes on pages 103 to 145, the accounting policies on pages 98 to 102 and the audited sections of the Financial review and Risk and capital management on pages 7 to 75 form an integral part of these financial statements.

Consolidated balance sheet as at 31 December 2020

	Note	2020 £m	2019 £m
Assets			
Cash and balances at central banks*	9	**95,187**	57,646
Derivatives	8	**3,116**	2,899
Loans to banks - amortised cost*	9	**4,707**	5,073
Loans to customers - amortised cost	9	**338,827**	304,452
Amounts due from holding company and fellow subsidiaries	9	**1,085**	990
Securities subject to repurchase agreements		**11,438**	4,175
Other financial assets excluding securities subject to repurchase agreements		**29,295**	39,718
Other financial assets	13	**40,733**	43,893
Intangible assets	14	**6,341**	6,313
Other assets	15	**6,587**	7,105
Total assets		**496,583**	428,371
Liabilities			
Bank deposits	9	**18,800**	18,391
Customer deposits	9	**397,841**	335,407
Amounts due to holding company and fellow subsidiaries	9	**20,662**	18,824
Derivatives	8	**6,032**	4,653
Other financial liabilities	17	**10,626**	8,822
Subordinated liabilities	18	**1,316**	1,338
Notes in circulation		**2,655**	2,109
Other liabilities	19	**5,385**	6,070
Total liabilities		**463,317**	395,614
Owners' equity	20	**33,256**	32,751
Non-controlling interests		**10**	6
Total equity		**33,266**	32,757
Total liabilities and equity		**496,583**	428,371

*2019 data has been restated for an accounting policy change for balances held with central banks. Refer to Accounting policies Note 1.

The accompanying notes on pages 103 to 145, the accounting policies on pages 98 to 102 and the audited sections of the Financial review and Risk and capital management on pages 7 to 75 form an integral part of these financial statements.

The accounts were approved by the Board of directors on 19 February 2021 and signed on its behalf by:

Howard Davies	Alison Rose-Slade	Katie Murray	NatWest Holdings Limited
Chairman	Chief Executive Officer	Chief Financial Officer	Registration No. 10142224

Consolidated statement of changes in equity for the year ended 31 December 2020

	2020 £m	2019 £m
Called-up share capital - at 1 January and 31 December	**3,263**	3,263
Paid-in equity - at 1 January and 31 December	**3,676**	3,676
Merger reserve - at 1 January	**(10,799)**	(10,564)
Addition (1)	**(34)**	—
Amortisation	**(195)**	(235)
At 31 December	**(11,028)**	(10,799)
FVOCI reserve - at 1 January	**253**	254
Unrealised gains/(losses)	**168**	(24)
Realised (gains)/losses	**(113)**	16
Tax	**(16)**	7
At 31 December	**292**	253
Cash flow hedging reserve - at 1 January	**(130)**	(376)
Amount recognised in equity	**310**	463
Amount transferred from equity to earnings	**(61)**	(138)
Tax	**(64)**	(79)
At 31 December	**55**	(130)
Foreign exchange reserve - at 1 January	**(185)**	92
Retranslation of net assets	**227**	(287)
Foreign currency (losses)/gains on hedges of net assets	**(21)**	41
Tax	**4**	(9)
Recycled to profit or loss on disposal businesses	**(1)**	(22)
At 31 December	**24**	(185)
Retained earnings - at 1 January	**36,673**	36,772
Implementation of IFRS 16 on 1 January 2019	**—**	(176)
Profit attributable to ordinary shareholders	**323**	1,402
Realised gains in period on FVOCI equity shares		
- gross	**3**	—
- tax	**—**	—
Ordinary dividends paid	**—**	(1,500)
Paid-in equity dividends paid	**(277)**	(300)
Capital contribution	**—**	215
Remeasurement of retirement benefit schemes		
- gross	**(3)**	(92)
- tax	**26**	24
Shares issued under employee share schemes	**(11)**	(6)
Share based payments	**45**	99
Amortisation of merger reserve	**195**	235
At 31 December	**36,974**	36,673
Owners' equity at 31 December	**33,256**	32,751
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	**33,266**	32,757
Attributable to:		
Ordinary shareholders	**29,580**	29,075
Paid-in-equity holders	**3,676**	3,676
Non-controlling interests	**10**	6
	33,266	32,757

Note:
(1) A new merger reserve of £34 million was created at NWB Group and eliminated out at NatWest Group relating to the sale of NWM SIPL from NWM Group to NWB Group.

The accompanying notes on pages 103 to 145, the accounting policies on pages 98 to 102 and the audited sections of the Financial review and Risk and capital management on pages 7 to 75 form an integral part of these financial statements.

Consolidated cash flow statement for the year ended 31 December 2020

	Note	2020 £m	2019 £m
Cash flows from operating activities			
Operating profit before tax		**471**	2,206
Adjustments for:			
Impairment losses		**3,094**	745
Amortisation of discounts and premiums of other financial assets		**236**	240
Depreciation, amortisation and impairment of other assets		**875**	978
Change in fair value taken to profit or loss of other financial assets		**(1,434)**	(806)
Change in fair value taken to profit or loss on other financial liabilities and subordinated liabilities		**462**	465
Elimination of foreign exchange differences		**(1,069)**	361
Other non-cash items		**35**	368
Interest receivable on other financial assets		**(276)**	(262)
Profit on sale of other financial assets		**(113)**	(32)
(Profit)/loss on sale of subsidiaries and associates		**(4)**	—
(Profit)/loss on sale of other assets and net assets/liabilities		**(21)**	44
Interest payable on MRELs and subordinated liabilities		**667**	600
Charges and releases on provisions		**174**	1,302
Defined benefit pension schemes		**199**	178
Net cash flows from trading activities		**3,296**	6,387
Decrease/(increase) in derivative assets		**93**	(2,499)
(Increase)/decrease in loans to banks		**(417)**	3,535
Increase in loans to customers		**(34,389)**	(21,581)
Decrease in amounts due from holding company and fellow subsidiaries		**126**	270
Decrease in other financial assets		**108**	307
Increase in other assets		**(31)**	(291)
Increase/(decrease) in bank deposits		**409**	(2,164)
Increase in customer deposits		**62,434**	4,630
Increase/(decrease) in amounts due to holding company and fellow subsidiaries		**(62)**	(6,097)
Increase in derivative liabilities		**1,379**	4,014
(Decrease)/increase in other financial liabilities		**(1,323)**	1,367
Increase in notes in circulation		**546**	3
Decrease in other liabilities		**(1,191)**	(1,447)
Changes in operating assets and liabilities		**27,682**	(19,953)
Income taxes paid		**(88)**	(487)
Net cash flows from operating activities (1)		**30,890**	(14,053)
Cash flows from investing activities			
Sale and maturity of other financial assets		**13,154**	14,702
Purchase of securities of other financial assets		**(8,704)**	(13,618)
Income received on other financial assets		**276**	262
Net movement in business interests and intangible assets	26	**(380)**	(387)
Sale of property, plant and equipment		**343**	299
Purchase of property, plant and equipment		**(356)**	(540)
Net cash flows from investing activities		**4,333**	718
Cash flows from financing activities			
Movement in MRELs		**953**	2,249
Movement in subordinated liabilities		**180**	274
Dividends paid		**(277)**	(1,805)
Net cash flows from financing activities		**856**	718
Effects of exchange rate changes on cash and cash equivalents		**833**	(830)
Net increase/(decrease) in cash and cash equivalents		**36,912**	(13,447)
Cash and cash equivalents at 1 January		**62,642**	76,089
Cash and cash equivalents at 31 December	28	**99,554**	62,642

Note:
(1) Includes interest received of £9,136 million (2019 - £10,084 million) and interest paid of £1,743 million (2019 - £2,148 million).

The accompanying notes on pages 103 to 145, the accounting policies on pages 98 to 102 and the audited sections of the Financial review and Risk and capital management on pages 7 to 75 form an integral part of these financial statements.

Accounting policies

1. Presentation of accounts

The accounts, set out on pages 93 to 156, including these accounting policies on pages 98 to 102 and the audited sections of the Financial review: Risk and capital management on pages 10 to 75, are prepared on a going concern basis (see the Report of the directors, page 80) and in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006. The significant accounting policies and related judgments are set out below.

NatWest Holdings Limited (NWH Ltd) 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, 14 and 22, 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. NWH 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. NWH 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 NWH 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, NWH Group has applied International Accounting Standards, which have been adopted for use within the UK. NWH 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.

Accounting policy change - balances held with central banks

The definitions of central banks and the classification of amounts that are held in cash and balances at central banks and loans to banks - amortised cost have been refined. Amounts not subject to mandatory or term deposit restrictions that are held with central banks are now classified as Cash and balances with central banks, irrespective of jurisdiction. Amounts that are subject to mandatory restrictions or time deposit restrictions of more than 24 hours are classified as Loans to banks - amortised cost. Previously, this also included amounts subject to restrictions of less than 24 hours. This change in accounting policy resulted in a £5.0 billion increase in Cash and balances at central banks and a corresponding reduction in Loans to banks - amortised cost at 31 December 2020, and a balance sheet reclassification from Loans to banks - amortised cost to Cash and balances at central banks of £3.1 billion at 31 December 2019 (1 January 2019 - £2.5 billion). These did not impact the consolidated cash flow statement.

2. Basis of consolidation

The consolidated accounts incorporate the accounts of NWH Ltd and entities (including certain structured entities) that give access to variable returns and that are controlled by NWH 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. Assets held for sale

A non-current asset (or disposal group) is classified as held for sale if NatWest Group will recover its carrying amount principally through a sale transaction rather than through continuing use and is measured at the lower of its carrying amount or fair value less cost to sell.

5. 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 NWH Group or by NatWest Group plc shares. NWH 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 celling test which requires the net defined benefit surplus to be limited to the present value of any economic benefits available to NWH 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.

6. Intangible assets and goodwill

Intangible assets acquired by NWH 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

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.

Goodwill on the acquisition of a subsidiary is the excess of the fair value of the consideration transferred, the fair value of any existing interest in the subsidiary and the amount of any non-controlling interest measured either at fair value or at its share of the subsidiary's net assets over the net fair value of the subsidiary's identifiable assets, liabilities and contingent liabilities.

Goodwill is measured at initial cost less any subsequent impairment losses. The gain or loss on the disposal of a subsidiary includes the carrying value of any related goodwill.

7. Property, plant and equipment

Items of property, plant and equipment (except investment property - see Accounting policy 9) 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 NWH 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.

8. Impairment of non-financial assets

At each balance sheet date, NWH Group assesses whether there is any indication that its investments, intangible assets, rights of use or property, plant and equipment are impaired. If any such indication exists, NWH 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 NWH 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 and 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.

9. 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.

10. 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.

11. 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, NWH Group recognises a right of use asset and a lease 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.

12. Provisions and contingent liabilities

NWH 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 NWH Group has a constructive obligation to restructure. An obligation exists when NWH 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.

NWH Group recognises any onerous cost of the present obligation under a contract as a provision. An onerous cost is the unavoidable cost of meeting NWH Group's contractual obligations that exceed the expected economic benefits. When NWH 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.

13. 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 NWH 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 NatWest Group company or on NatWest 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. NatWest 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...

14. 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 NWH 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.

Accounting policies

15. 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 also change; 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.

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 NWH Group's interest in equity shares following the exchange is such that NWH Group controls an entity, that entity is consolidated.
Impaired loans are written off when NWH 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 the 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.

16. Financial guarantee contracts

Under a financial guarantee contract, NWH 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 14. Amortisation is calculated to recognise fees receivable in profit or loss over the period of the guarantee.

17. 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 NWH Group are classified as held-for-trading and measured at fair value through profit or loss.

18. 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 NWH Group retains substantially all the risks and rewards of ownership. If substantially all the risks and rewards have been neither retained nor transferred, NWH 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.

19. 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 NWH 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 NWH 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.

20. Netting

Financial assets and financial liabilities are offset and the net amount presented in the balance sheet when, and only when, NWH 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. NWH 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.

21. Capital instruments

NWH 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 NWH Group after the deduction of liabilities. The components of a compound financial instrument issued by NWH 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.

22. Derivatives and hedging

Derivative financial instruments are initially recognised, and subsequently measured, at fair value. NWH 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 10 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 and derivatives that are managed together with financial instruments designated at fair value; these gains and losses are included in Other operating income.

NWH Group enters into three types of hedge relationship: hedges of changes in the fair value of a recognised asset or liability or unrecognised firm commitment (fair value hedges); hedges of the variability in cash flows from a recognised asset or liability or a highly probable forecast transaction (cash flow hedges); and hedges of the net investment in a foreign operation (net investment hedges).

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 NWH 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.

23. 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.

24. Shares in NWH Group entities

NWH Ltd'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 NWH 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 NWH 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 NWH 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 NWH 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	10
Loan impairment provisions	12
Goodwill	14
Provisions for liabilities and charges	19

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 NWH 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).

NWH 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 consolidated financial statements

1 Net interest income

	2020 £m	2019 £m
Balances at central banks	**90**	321
Loans to banks - amortised cost	**180**	277
Loans to customers - amortised cost	**8,675**	8,966
Amounts due from holding company and fellow subsidiaries	**—**	3
Other financial assets	**276**	528
Interest receivable	**9,221**	10,095
Bank deposits	**88**	224
Customer deposits	**867**	1,102
Amounts due to holding company and fellow subsidiaries	**435**	581
Other financial liabilities	**231**	191
Subordinated liabilities	**38**	47
Interest payable	**1,659**	2,145
Net interest income	**7,562**	7,950

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)	**1,834**	2,309
Other operating income		
Operating lease and other rental income	**240**	260
Changes in fair value of other financial assets fair value through profit or loss (2)	**7**	33
Hedge ineffectiveness	**12**	27
(Loss)/profit on disposal of amortised cost assets	**(16)**	34
Profit/(loss) on disposal of fair value through other comprehensive income assets	**113**	(16)
Profit on sale of property, plant and equipment	**13**	58
Cost of economic hedging	**15**	(20)
(Loss)/profit on disposal of subsidiaries and associates	**(4)**	34
Other income (3, 4)	**414**	426
	794	836
	2,628	3,145

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 consolidated financial statements

3. Operating expenses

	2020 £m	2019 £m
Wages, salaries and other staff costs	**2,335**	2,321
Temporary and contract costs	**220**	341
Social security costs	**259**	241
Pension costs	**302**	263
- defined benefit schemes (see Note 5)	**199**	172
- defined contribution schemes	**103**	91
Staff costs	**3,116**	3,166
Premises and equipment (1)	**1,080**	1,131
Depreciation and amortisation (2)	**866**	894
Other administrative expenses (3)	**1,554**	2,909
Administrative expenses (3)	**3,500**	4,934
Impairment of intangible assets (see Note 14)	**9**	44
	6,625	8,144

Notes:
(1) 2020 includes 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 £101 million charge relating to the reduction in property portfolio, leasehold £81 million and freehold £20 million (2019 - £292 million charge, leasehold £37 million and freehold £255 million).
(3) Includes litigation and conduct costs. Further details are provided in Note 19.

The average number of persons employed, rounded to the nearest hundred, during the year, excluding temporary staff, was 56,300 (2019 – 58,500). The number of people employed at 31 December 2020, excluding temporary staff was as follows:

	2020	2019
Retail Banking	**17,200**	19,600
Ulster Bank RoI	**2,600**	2,700
Commercial banking	**9,700**	9,700
Private Banking	**2,200**	1,900
Central and items & other	**24,600**	22,400
Total	**56,300**	56,300
UK	**39,900**	40,800
Europe	**3,300**	3,500
Rest of the World	**13,100**	12,000
Total	**56,300**	56,300

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.

Bonus awards

The following tables analyse NWH Group's bonus awards.

	2020 £m	2019 £m	Change %
Non-deferred cash awards (1)	**28**	31	(10%)
Total non-deferred bonus awards	**28**	31	(10%)
Deferred bond awards	**70**	128	(45%)
Deferred share awards	**15**	37	(59%)
Total deferred bonus awards	**85**	165	(48%)
Total bonus awards (2)	**113**	196	(42%)

Reconciliation of bonus awards to income statement charge

	2020 £m	2019 £m
Bonus awarded	**113**	196
Less: deferral of charge for amounts awarded for current year	**(38)**	(68)
Income statement charge for amounts awarded in current year	**75**	128
Add: current year charge for amounts deferred from prior years	**66**	72
Less: forfeiture of amounts deferred from prior years	**(7)**	(10)
Income statement charge for amounts deferred from prior years	**59**	62
Income statement charge for bonus award (2)	**134**	190

Notes:
(1) Cash awards are limited to £2,000 for all employees.
(2) Excludes other performance related compensation.

Notes to the consolidated financial statements

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.

Ulster Bank RoI serves individuals and businesses in the Republic of Ireland (RoI).

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, NWH Ltd's largest subsidiary is the main service provider of shared services and treasury activities for the NatWest Group. The services are mainly provided to the NWH Group, however, in certain instances where permitted, services are also provided to the wider NatWest Group including the non-fenced business. Balances in relation to legacy litigation issues and the business are included in Central items in the relevant period.

2020	Retail Banking £m	Ulster Bank RoI £m	Commercial Banking £m	Private Banking £m	Central items & other £m	Total £m
Net interest income	**3,931**	**395**	**2,843**	**480**	**(87)**	**7,562**
Net fees and commissions	**379**	**89**	**1,110**	**257**	**(1)**	**1,834**
Other operating income	**(66)**	**26**	**119**	**17**	**698**	**794**
Total income	**4,244**	**510**	**4,072**	**754**	**610**	**10,190**
Operating expenses	**(2,484)**	**(499)**	**(2,296)**	**(457)**	**(23)**	**(5,759)**
Depreciation and amortisation	**—**	**—**	**(149)**	**(8)**	**(709)**	**(866)**
Impairment losses	**(795)**	**(250)**	**(1,927)**	**(108)**	**(14)**	**(3,094)**
Operating profit/(loss)	**965**	**(239)**	**(300)**	**181**	**(136)**	**471**

2019	Retail Banking £m	Ulster Bank RoI £m	Commercial Banking £m	Private Banking £m	Central items & other £m	Total £m
Net interest income	4,197	409	2,916	528	(100)	7,950
Net fees and commissions	696	109	1,290	225	(11)	2,309
Other operating income	76	59	140	32	529	836
Total income	4,969	577	4,346	785	418	11,095
Operating expenses	(3,614)	(555)	(2,501)	(483)	(97)	(7,250)
Depreciation and amortisation	—	—	(142)	(4)	(748)	(894)
Impairment (losses)/releases	(392)	34	(391)	7	(3)	(745)
Operating profit/(loss)	963	56	1,312	305	(430)	2,206

	2020			2019		
Total revenue (1)	External £m	Inter segment £m	Total £m	External £m	Inter segment £m	Total £m
Retail Banking	**5,387**	**90**	**5,477**	6,201	156	6,357
Ulster Bank RoI	**570**	**—**	**570**	622	10	632
Commercial Banking	**3,760**	**68**	**3,828**	4,355	112	4,467
Private Banking	**702**	**203**	**905**	703	292	995
Central items & other	**1,809**	**(361)**	**1,448**	1,966	(570)	1,396
Total	**12,228**	**—**	**12,228**	13,847	—	13,847

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	**4,168**	**76**	**4,244**	4,840	129	4,969
Ulster Bank RoI	**515**	**(5)**	**510**	566	11	577
Commercial Banking	**4,175**	**(103)**	**4,072**	4,691	(345)	4,346
Private Banking	**652**	**102**	**754**	587	198	785
Central items & other	**680**	**(70)**	**610**	411	7	418
Total	**10,190**	**—**	**10,190**	11,095	—	11,095

Notes to the consolidated financial statements

4 Segmental analysis continued

Analysis of net fees and commissions

2020	Retail Banking £m	Ulster Bank RoI £m	Commercial Banking £m	Private Banking £m	Central items & other £m	Total £m
Fees and commissions receivable						
- Payment services	**264**	**57**	**508**	**27**	**—**	**856**
- Credit and debit card fees	**299**	**21**	**129**	**9**	**—**	**458**
- Lending and financing	**42**	**16**	**505**	**7**	**—**	**570**
- Brokerage	**54**	**1**	**—**	**7**	**—**	**62**
- Investment management, trustee and fiduciary services (1)	**3**	**2**	**1**	**225**	**—**	**231**
- Other	**1**	**—**	**81**	**26**	**(72)**	**36**
Total fees and commissions receivable	**663**	**97**	**1,224**	**301**	**(72)**	**2,213**
Fees and commissions payable	**(284)**	**(8)**	**(114)**	**(44)**	**71**	**(379)**
Net fees and commissions	**379**	**89**	**1,110**	**257**	**(1)**	**1,834**

2019	Retail Banking £m	Ulster Bank RoI £m	Commercial Banking £m	Private Banking £m	Central items & other £m	Total £m
Fees and commissions receivable						
- Payment services	293	61	659	33	—	1,046
- Credit and debit card fees	427	28	154	12	—	621
- Lending and financing	356	16	505	3	—	880
- Brokerage	55	8	—	5	—	68
- Investment management, trustee and fiduciary services	44	3	3	186	—	236
- Other	2	5	90	26	(58)	65
Total fees and commissions receivable	1,177	121	1,411	265	(58)	2,916
Fees and commissions payable	(481)	(12)	(121)	(40)	47	(607)
Net fees and commissions	696	109	1,290	225	(11)	2,309

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	**181,958**	**178,663**	167,691	154,150
Ulster Bank RoI	**26,624**	**23,006**	25,392	21,021
Commercial Banking	**114,743**	**174,974**	107,996	141,483
Private Banking	**17,768**	**32,470**	16,112	28,617
Central items & other	**155,490**	**54,204**	111,180	50,343
Total	**496,583**	**463,317**	428,371	395,614

Segmental analysis of goodwill

There was no movement in the goodwill held by segments for the period 1 January 2019 to 31 December 2020. The total carrying value was £5,307 million, comprised of Retail Banking £2,692 million; Commercial Banking £2,606 million; and Private Banking £9 million.

Notes to the consolidated financial statements

4 Segmental analysis continued

Geographical segments

The geographical analysis in the tables below has been compiled on the basis of location of office where the transactions are recorded.

2020	UK £m	RoW £m	Total £m
Total revenue	**11,604**	**624**	**12,228**
Interest receivable	**8,765**	**456**	**9,221**
Interest payable	**(1,592)**	**(67)**	**(1,659)**
Net fees and commissions	**1,745**	**89**	**1,834**
Other operating income	**723**	**71**	**794**
Total income	**9,641**	**549**	**10,190**
Operating profit/(loss) before tax	**892**	**(421)**	**471**
Total assets	**455,773**	**40,810**	**496,583**
Total liabilities	**440,061**	**23,256**	**463,317**
Contingent liabilities and commitments	**101,521**	**3,666**	**105,187**
Cost to acquire property, plant and equipment and intangible assets	**765**	**38**	**803**
2019			
Total revenue	13,190	657	13,847
Interest receivable	9,690	405	10,095
Interest payable	(2,097)	(48)	(2,145)
Net fees and commissions	2,200	109	2,309
Other operating income*	705	131	836
Total income	10,498	597	11,095
Operating profit/(loss) before tax	2,339	(133)	2,206
Total assets*	389,715	38,656	428,371
Total liabilities	374,352	21,262	395,614
Contingent liabilities and commitments	102,184	3,477	105,661
Cost to acquire property, plant and equipment and intangible assets	968	56	1,024

*2019 re-presented.

Notes to the consolidated financial statements

5 Pensions

Defined contribution schemes

NWH Group sponsors a number of defined contribution pension schemes in different territories, which new employees are offered the opportunity to join.

Defined benefit schemes

NWH 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 the 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 NWH 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 NWH Group’s other pension schemes.

Investment strategy

The assets of the Main section, which is typical of other group schemes, represent 94% of plan assets at 31 December 2020 (2019 - 94%) 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.

Major classes of plan assets as a percentage of total plan assets of the Main section	2020 Quoted %	2020 Unquoted %	2020 Total %	2019 Quoted %	2019 Unquoted %	2019 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	Fair value		Notional	Fair value	
	amounts £bn	Assets £m	Liabilities £m	amounts £bn	Assets £m	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

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 NWH Group but can have exposure to NWH Group. The trustees of the respective UK schemes are responsible for ensuring that indirect investments in NWH Group do not exceed the 5% regulatory limit.

5 Pensions continued

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
At 1 January 2019	46,576	37,819	8,644	(113)
Currency translation and other adjustments	(79)	(70)	—	9
Income statement	1,313	1,234	251	172
Statement of comprehensive income	3,366	5,174	(1,716)	92
Contributions by employer	301	—	—	(301)
Contributions by plan participants and other scheme members	14	14	—	—
Liabilities extinguished upon settlement	(75)	(75)	—	—
Benefits paid	(1,879)	(1,879)	—	—
Transfer to/from fellow subsidiaries	2	—	—	(2)
At 1 January 2020	**49,539**	**42,217**	**7,179**	**(143)**
Currency translation and other adjustments	**91**	**83**	**—**	**(8)**
Income statement				
Net interest expense	**989**	**845**	**146**	**2**
Current service cost	**—**	**192**	**—**	**192**
Past service cost	**—**	**5**	**—**	**5**
	989	**1,042**	**146**	**199**
Statement of comprehensive income				
Return on plan assets excluding recognised interest income	**5,767**	**—**	**—**	**(5,767)**
Experience gains and losses	**—**	**(441)**	**—**	**(441)**
Effect of changes in actuarial financial assumptions	**—**	**5,696**	**—**	**5,696**
Effect of changes in actuarial demographic assumptions	**—**	**180**	**—**	**180**
Asset ceiling/minimum funding adjustments	**—**	**—**	**335**	**335**
	5,767	**5,435**	**335**	**3**
Contributions by employer	**276**	**—**	**—**	**(276)**
Contributions by plan participants and other scheme members	**14**	**14**	**—**	**—**
Benefits paid	**(2,011)**	**(2,011)**	**—**	**—**
Liabilities extinguished upon settlement	**(2)**	**(3)**	**—**	**(1)**
Transfer to/from fellow subsidiaries	**—**	**4**	**—**	**4**
At 31 December 2020	**54,663**	**46,781**	**7,660**	**(222)**

Notes:
(1) Defined benefit obligations are subject to annual valuation by independent actuaries.
(2) NWH 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 NWH 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) NWH 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.

Notes to the consolidated financial statements

5 Pensions continued

Amounts recognised on the balance sheet	2020 £m	2019 £m
Fund assets at fair value	**54,663**	49,539
Present value of fund liabilities	**46,781**	42,217
Funded status	**7,882**	7,322
Asset ceiling/minimum funding	**7,660**	7,179
Retirement benefit asset	**222**	143

Net pension asset/(liability) comprises	2020 £m	2019 £m
Net assets of schemes in surplus (included in Other assets, Note 15)	**279**	196
Net liabilities of schemes in deficit (included in Other liabilities, Note 19)	**(57)**	(53)
	222	143

Funding and contributions by NWH 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 NWH 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, NWH 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 NWH Group's defined benefit pension schemes' liabilities requires NWH 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.

The most significant assumptions used for the Main section are shown below:

	Principal IAS 19 actuarial assumptions		
	2020 %	2019 %	Principal assumptions of Main section 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:			
Current pensioners	**years**	years	
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.

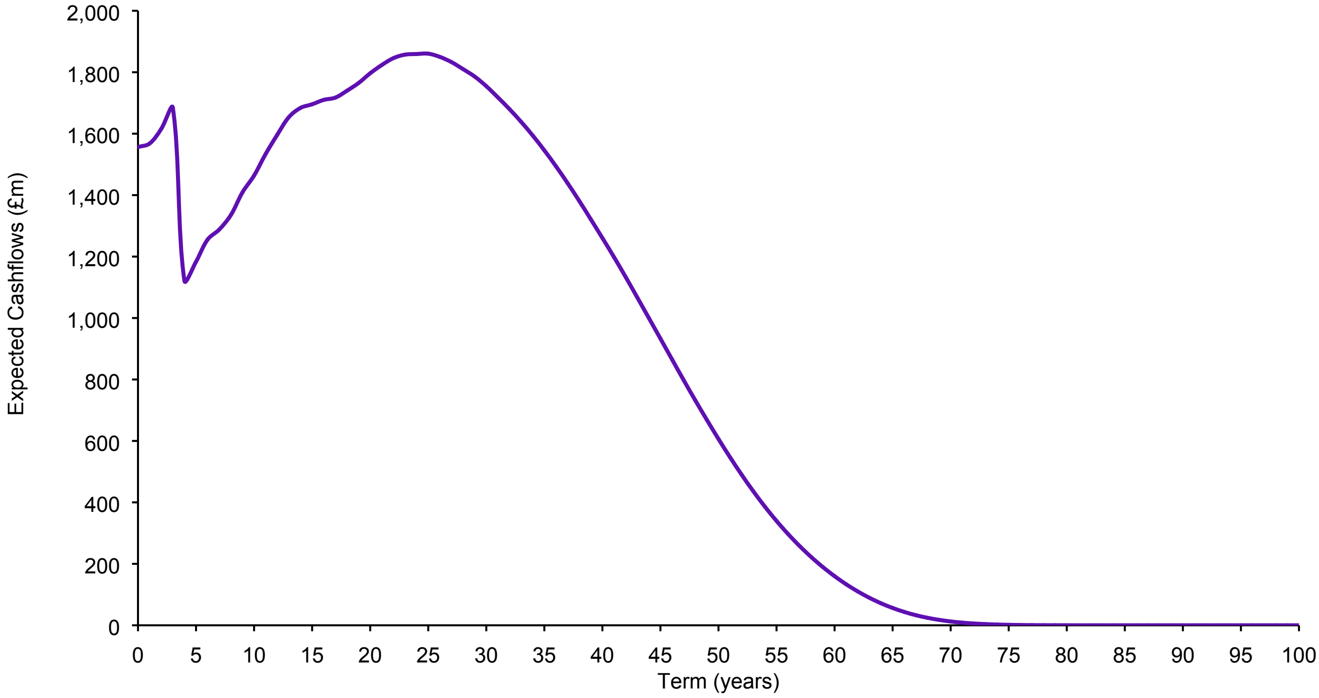
The weighted average duration of the Main section's defined benefit obligation at 31 December 2020 is 22 years (2019 - 21 years).

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.

Notes to the consolidated financial statements

5 Pensions continued

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.

The table below shows how the net pension asset of the Main section would change if the key assumptions used were changed independently. In practice, the variables are somewhat correlated 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.

Notes to the consolidated financial statements

5 Pensions continued

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				
		-2 years	-1 years	No change	+1 year	+2 years
2020		£bn	£bn	£bn	£bn	£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)**
2019						
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 NWH Group schemes is shown below:

History of defined benefit schemes	2020 £m	2019 £m	2018 £m	2017 £m
Fair value of plan assets	**54,663**	49,539	46,576	47,639
Present value of defined benefit obligations	**46,781**	42,217	37,819	40,516
Net surplus	**7,882**	7,322	8,757	7,123
Experience gains/(losses) on plan liabilities	**441**	278	(114)	(91)
Experience gains/(losses) on plan assets	**5,767**	3,366	(1,978)	1,644
Actual return on pension schemes assets	**6,756**	4,679	(792)	2,858
Actual return on pension schemes assets	**13.6%**	10.0%	(1.7%)	6.2%

6 Auditor's remuneration

Amounts payable to NWH Group's auditor for statutory audit and other services are set out below:

	2020 £m	2019 £m
Fees payable for:		
- the audit of NWH Group's annual accounts	**2.3**	2.2
- the audit of NWH Ltd's subsidiaries	**18.7**	13.9
- audit-related assurance services	**—**	0.3
Total audit and audit-related service fees	**21.0**	16.4

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	**(167)**	(684)
Over provision in respect of prior years	**—**	50
	(167)	(634)
Deferred tax		
Credit/(charge) for the year	**137**	(131)
Decrease in the carrying value of deferred tax assets in respect of UK and Ireland losses	**(117)**	(78)
Over provision in respect of prior years	**3**	43
Tax charge for the year	**(144)**	(800)

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	**(89)**	(419)
Losses and temporary differences in year where no deferred tax asset recognised	**(27)**	—
Foreign profits taxed at other rates	**(16)**	3
Items not allowed for tax:		
- losses on disposals and write-downs	**(7)**	(10)
- UK bank levy	**(23)**	(22)
- regulatory and legal actions	**36**	(194)
- other disallowable items	**(32)**	(56)
Non-taxable items	**10**	40
Losses brought forward and utilised	**4**	12
Increase/(decrease) in the carrying value of deferred tax assets in respect of:		
- UK losses	**29**	(11)
- Ireland losses	**(146)**	(67)
Banking surcharge	**(31)**	(227)
Tax on paid-in equity	**53**	58
UK tax rate change impact (1)	**92**	—
Adjustment in respect of prior years (2)	**3**	93
Actual tax charge	**(144)**	(800)

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

NWH 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. NWH 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.

	2020 £m	2019 £m
Deferred tax liability	**156**	167
Deferred tax asset	**(1,255)**	(1,374)
Net deferred tax asset	**(1,099)**	(1,207)

Net deferred tax asset comprised:

	Pension £m	Accelerated capital allowances £m	Expense provisions £m	Financial instruments £m	Tax losses carried forward £m	Other £m	Total £m
1 January 2019	(596)	(257)	(93)	184	(785)	43	(1,504)
Implementation of IFRS 16 on 1 January 2019	—	—	—	—	—	(58)	(58)
Acquisitions and disposals of subsidiaries	—	10	—	(6)	—	—	4
Charge/(credit) to income statement	15	26	21	2	111	(9)	166
Charge to other comprehensive income	357	—	—	42	—	—	399
Currency translation and other adjustments (1)	(1)	(4)	—	(1)	(202)	(6)	(214)
31 December 2019	(225)	(225)	(72)	221	(876)	(30)	(1,207)
Acquisitions and disposals of subsidiaries	**—**	**(3)**	**(1)**	**—**	**—**	**—**	**(4)**
Charge/(credit) to income statement	**13**	**(93)**	**11**	**8**	**42**	**(4)**	**(23)**
Charge/(credit) to other comprehensive income	**110**	**—**	**—**	**36**	**—**	**(1)**	**145**
Currency translation and other adjustments	**1**	**(1)**	**—**	**—**	**(9)**	**(1)**	**(10)**
31 December 2020	**(101)**	**(322)**	**(62)**	**265**	**(843)**	**(36)**	**(1,099)**

Note:
(1) Included in the 2019 £202 million movement in tax losses carried forward is a £215 million capital contribution in respect of tax losses transferred from NatWest Markets Plc as a consequence of the ring fencing regulations.

7 Tax continued

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
- RBS plc	**200**	150
Total	**800**	695
Overseas tax losses carried forward		
- UBI DAC	**43**	181
	843	876

Critical accounting policy: Deferred tax

The deferred tax assets of £1,255 million as at 31 December 2020 (2019 - £1,374 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 - NWH 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 partly based on forecast performance beyond the horizon 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.

NWB 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.

RBS plc – A deferred tax asset of £200 million has been recognised in respect of losses of £1,053 million of total losses of £4,242 million carried forward at 31 December 2020. The losses were transferred from NatWest Markets Plc as a consequence of the ring fencing regulations. RBS plc expects the deferred tax asset to be utilised against future taxable profits by the end of 2026.

Overseas tax losses

UBI DAC – The Bank carried forward losses of £9,071 million at 31 December 2020. The losses arose principally as a result of significant impairment charges between 2008 and 2013 during challenging economic conditions in the Republic of Ireland. A deferred tax asset of £43 million has been recognised at 31 December 2020 in respect of £342 million of those total losses. The movement in the current financial year reflects a £146 million reduction in the carrying value of the deferred tax asset based on a revised economic outlook, and £:€ exchange differences. UBIDAC expects the deferred tax asset to be utilised against future taxable profits by the end of 2029.

Unrecognised deferred tax – Deferred tax assets of £1,888 million (2019 - £1,601 million) have not been recognised in respect of tax losses and other temporary differences carried forward of £12,920 million (2019 - £11,236 million) in jurisdictions where doubt exists over the availability of future taxable profits. These 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.

Notes to the consolidated financial statements

8 Derivatives

Companies in NWH Group transact derivatives to manage balance sheet foreign exchange, interest rate and credit risk.

	2020			2019		
	Notional £bn	Assets £m	Liabilities £m	Notional £bn	Assets £m	Liabilities £m
Exchange rate contracts	**24**	**79**	**537**	15	71	261
Interest rate contracts	**355**	**3,025**	**5,495**	344	2,813	4,392
Credit derivatives	**—**	**12**	**—**	—	15	—
		3,116	**6,032**		2,899	4,653

Refer to Note 9 for amounts due from/to fellow NatWest Group subsidiaries.

NWH Group applies hedge accounting to manage the following risks; interest rate, foreign exchange and net investment in foreign operations.

NWH Group's interest rate hedging relate to the management of NWH Group's non-trading structural interest rate risk, caused by the mismatch between fixed interest rates and floating interest rates. NWH 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, the Bank of England Official Bank Rate or the European Central Bank Refinance 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 NWH 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 NWH Group. This risk component comprises the majority of the hedged items fair value risk.

NWH Group hedges the exchange rate risk of its net investment in foreign currency denominated operations with currency borrowings and forward foreign exchange contracts. NWH 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 NWH 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 NWH 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. NWH 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. NWH Group early adopted the amendments to IAS 39 and IFR S7 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.
NWH 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.

8 Derivatives continued

Included in the tables above are derivatives held for hedging purposes as follows:

	2020				2019			
	Notional £bn	Assets £m	Liabilities £m	Changes in fair value used for hedge ineffectiveness (1) £m	Notional £bn	Assets £m	Liabilities £m	Changes in fair value used for hedge ineffectiveness (1) £m
Fair value hedging								
Interest rate contracts	**46.3**	**1,192**	**3,461**	**(1,206)**	46.6	751	2,385	(1,044)
Cash flow hedging								
Interest rate contracts	**121.6**	**1,746**	**1,191**	**168**	139.9	1,203	824	341
Exchange rate contracts	**3.7**	**—**	**29**	**—**	3.9	—	29	29
Net investment hedging								
Exchange rate contracts	**0.1**	**—**	**3**	**7**	0.1	—	3	5
	171.7	**2,938**	**4,684**	**(1,031)**	190.5	1,954	3,241	(669)
IFRS netting		**(2,203)**	**(4,630)**			(1,525)	(3,197)	
		735	**54**			429	44	

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:

	2020 £bn	2019 £bn
Fair value hedging		
- EURIBOR	**7.3**	6.2
- GBP LIBOR	**9.2**	11.6
- USD LIBOR	**17.6**	16.9
Cash flow hedging		
- EURIBOR	**5.1**	3.4
- GBP LIBOR	**46.6**	43.1
- USD LIBOR	**1.6**	0.8

The following table shows the period in which the hedging contract ends:

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**	**1.7**	**4.0**	**6.9**	**8.5**	**4.6**	**3.7**	**30.5**
Hedging liabilities - interest rate risk	**—**	**0.3**	**3.8**	**7.7**	**4.0**	**—**	**—**	**15.8**
Cash Flow hedging - interest rate								
Hedging assets								
Interest rate risk	**0.3**	**10.3**	**17.8**	**10.1**	**9.5**	**0.1**	**—**	**48.1**
Average fixed rate interest (%)	**(0.12)**	**1.18**	**1.45**	**0.94**	**0.92**	**3.12**	**—**	**1.17**
Hedging liabilities								
Interest rate risk	**1.6**	**28.9**	**36.5**	**3.4**	**2.4**	**0.7**	**—**	**73.5**
Average fixed rate interest (%)	**1.14**	**0.78**	**0.36**	**1.25**	**0.65**	**4.55**	**—**	**0.63**
Exchange rate risk	**0.1**	**2.3**	**—**	**0.7**	**0.6**	**—**	**—**	**3.7**
Average USD - £ rate	**—**	**1.4**	**—**	**1.6**	**1.3**	**—**	**—**	**1.4**
Average INR - £ rate	**93.2**	**96.0**	**—**	**—**	**—**	**—**	**—**	**95.3**
Net investment hedging								
Exchange rate risk	**0.1**	**—**	**—**	**—**	**—**	**—**	**—**	**0.1**
2019								
Fair value hedging								
Hedging assets - interest rate risk	0.5	1.5	6.4	4.3	12.1	4.0	4.1	32.9
Hedging liabilities - interest rate risk	—	—	0.6	8.4	4.7	—	—	13.7
Cash Flow hedging - interest rate								
Hedging assets								
Interest rate risk	3.9	9.7	30.3	9.3	10.1	—	—	63.3
Average fixed rate interest (%)	1.18	1.01	1.14	1.72	1.27	3.12	—	1.23
Hedging liabilities								
Interest rate risk	1.9	22.1	45.2	5.0	1.6	0.8	—	76.6
Average fixed rate interest (%)	0.83	1.01	0.87	1.26	1.61	4.31	—	0.99
Exchange rate risk	0.1	0.1	1.8	0.8	1.1	—	—	3.9
Average USD - £ rate	—	—	1.3	1.3	1.3	—	—	1.3
Average INR - £ rate	88.6	94.0	—	—	—	—	—	93.1
Net investment hedging								
Exchange rate risk	0.1	—	—	—	—	—	—	0.1

Notes to the consolidated financial statements

8 Derivatives continued

The table below analyses assets and liabilities, including intercompany, subject to hedging derivatives:

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 banks and customers - amortised cost	**5,716**	**1,087**	**222**	**136**
Other financial assets - securities	**31,499**	**2,102**	**1,479**	**—**
Total assets	**37,215**	**3,189**	**1,701**	**136**
Other financial liabilities - debt securities in issue	**11,247**	**762**	**(334)**	**—**
Subordinated liabilities	**5,258**	**316**	**(166)**	**10**
Total liabilities	**16,505**	**1,078**	**(500)**	**10**
Cash flow hedging - interest rate				
Loans to banks and customers - amortised cost	**47,019**		**(552)**	
Other financial assets - securities	**976**		**(11)**	
Total assets	**47,995**		**(563)**	
Cash flow hedging - interest rate				
Bank and customer deposits	**72,880**		**409**	
Other financial liabilities - debt securities in issue	**721**		**3**	
Cash flow hedging - exchange rate				
Other financial liabilities - debt securities in issue	**3,740**		**—**	
Total liabilities	**77,341**		**412**	
2019				
Fair value hedging - interest rate				
Loans to banks and customers - amortised cost	5,003	897	129	163
Other financial assets - securities	32,959	1,205	1,409	—
Total assets	37,962	2,102	1,538	163
Other financial liabilities - debt securities in issue	9,787	444	(347)	39
Subordinated liabilities	4,766	189	(139)	24
Total liabilities	14,553	633	(486)	63
Cash flow hedging - interest rate				
Loans to banks and customers - amortised cost	62,022		(539)	
Other financial assets - securities	1,279		(11)	
Total assets	63,301		(550)	
Cash flow hedging - interest rate				
Bank and customer deposits	75,837		226	
Other financial liabilities - debt securities in issue	706		2	
Cash flow hedging - exchange rate				
Other financial liabilities - debt securities in issue	3,872		(29)	
Total liabilities	80,415		199	

Note:
(1) The change in fair value used for hedge ineffectiveness includes instruments that were derecognised in the year.

The following risk exposures will be affected by interest rate benchmark reform (notional, hedged adjustment):

	2020		2019	
	Notional £bn	Hedged adjustment £m	Notional £bn	Hedged adjustment £m
Fair value hedging				
- EURIBOR	**7.3**	**147**	6.2	179
- GBP LIBOR	**9.3**	**1,090**	11.6	1,127
- USD LIBOR	**17.6**	**(167)**	16.9	(151)
Cash flow hedging				
- EURIBOR	**3.9**	**(77)**	3.3	(46)
- GBP LIBOR	**8.0**	**(443)**	8.4	(124)
- USD LIBOR	**1.6**	**(27)**	0.9	1
- BOE Base rate	**38.1**	**(30)**	34.7	(172)
- ECB REFI rate	**1.2**	**—**	0.1	—
- SONIA	**0.6**	**4**	0.1	—

Notes to the consolidated financial statements

8 Derivatives continued

The following shows analysis of cash flow hedge reserve and foreign exchange hedge reserve:

	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	**482**	**—**	286	—
Foreign exchange risk	**(28)**	**(33)**	(29)	(12)
De-designated				
Interest rate risk	**(396)**	**—**	(448)	—
	58	**(33)**	(191)	(12)

	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	**312**	**—**	493	—
Amount transferred from equity to net interest income	**(110)**	**—**	(159)	—
Amount transferred from equity to non interest income	**46**	**—**	20	—
Foreign exchange risk				
Amount recognised in equity	**(2)**	**(21)**	(30)	41
Amount transferred from equity to net interest income	**(1)**	**—**	1	—
Amount transferred from equity to operating expenses	**4**	**—**	—	—
	249	**(21)**	325	41

Hedge ineffectiveness recognised in other operating income comprised:

	2020 £m	2019 £m
Fair value hedging		
Gains on the hedged items attributable to the hedged risk	**1,201**	1,052
Losses on the hedging instruments	**(1,206)**	(1,044)
Fair value hedging ineffectiveness	**(5)**	8
Cash flow hedging		
- interest rate risk	**17**	19
Cash flow hedging ineffectiveness	**17**	19
Total	**12**	27

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; (fair value hedge).
- Differences in the repricing basis between the hedging instrument and hedged cash flows (cash flow hedge); and
- Upfront present values on the hedging derivatives where hedge accounting relationships have been designated after the trade date (cash flow hedge and fair value hedge).

Additional information on cash flow hedging and hedging of net assets can be found in the Statement of changes in equity.

Notes to the consolidated financial statements

9 Financial instruments - classification

The following tables analyse the NWH Group's 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.

Assets	MFVTPL £m	FVOCI £m	Amortised cost £m	Other assets £m	Total £m
Cash and balances at central banks			**95,187**		**95,187**
Derivatives (1)	**3,116**				**3,116**
Loans to banks - amortised cost (2)			**4,707**		**4,707**
Loans to customers - amortised cost (3)			**338,827**		**338,827**
Amounts due from holding company and fellow subsidiaries	**556**	**—**	**463**	**66**	**1,085**
Other financial assets	**562**	**36,504**	**3,667**		**40,733**
Intangible assets				**6,341**	**6,341**
Other assets				**6,587**	**6,587**
31 December 2020	**4,234**	**36,504**	**442,851**	**12,994**	**496,583**
Cash and balances at central banks*			57,646		57,646
Derivatives (1)	2,899				2,899
Loans to banks - amortised cost* (2)			5,073		5,073
Loans to customers - amortised cost (3)			304,452		304,452
Amounts due from holding company and fellow subsidiaries	427	—	523	40	990
Other financial assets	511	39,173	4,209		43,893
Intangible assets				6,313	6,313
Other assets				7,105	7,105
31 December 2019	3,837	39,173	371,903	13,458	428,371

Liabilities	Held-for-trading £m	Amortised cost £m	Other liabilities £m	Total £m
Bank deposits (4)		**18,800**		**18,800**
Customer deposits		**397,841**		**397,841**
Amounts due to holding company and fellow subsidiaries	**222**	**20,439**	**1**	**20,662**
Derivatives (1)	**6,032**			**6,032**
Other financial liabilities	**3**	**10,623**	**—**	**10,626**
Subordinated liabilities		**1,316**	**—**	**1,316**
Notes in circulation		**2,655**		**2,655**
Other liabilities (5)		**1,757**	**3,628**	**5,385**
31 December 2020	**6,257**	**453,431**	**3,629**	**463,317**
Bank deposits (4)		18,391		18,391
Customer deposits		335,407		335,407
Amounts due to holding company and fellow subsidiaries	130	18,688	6	18,824
Derivatives (1)	4,653			4,653
Other financial liabilities	114	8,708	—	8,822
Subordinated liabilities		1,338	—	1,338
Notes in circulation		2,109		2,109
Other liabilities (5)		1,776	4,294	6,070
31 December 2019	4,897	386,417	4,300	395,614

*2019 data has been restated for the accounting policy change for balances held with central banks. Refer to Accounting policy changes effective 1 January 2020 for further details.

Notes:
(1) Includes net hedging derivatives assets of £735 million (2019 - £429 million) and net hedging derivative liabilities of £54 million (2019 - £44 million).
(2) Includes items in the course of collection from other from third party banks of £30 million (2019 - £39 million).
(3) Includes finance lease receivables of £8,947 million (2019 - £9,081 million).
(4) Includes items in the course of transmission to other third party banks of £2 million (2019 - £3 million).
(5) Includes lease liabilities of £1,589 million (2019 - £1,684 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.

9 Financial instruments – classification continued

NWH Group's financial assets and liabilities include:

	2020 £m	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 the holding company and fellow subsidiaries:

	2020			2019		
	Holding company £m	Fellow subsidiaries £m	Total £m	Holding company £m	Fellow subsidiaries £m	Total £m
Assets						
Loans to banks - amortised cost	**—**	**446**	**446**	—	484	484
Loans to customers - amortised cost	**8**	**9**	**17**	16	23	39
Other financial assets	**—**	**556**	**556**	—	427	427
Other assets	**63**	**3**	**66**	—	40	40
Amounts due from holding company and fellow subsidiaries	**71**	**1,014**	**1,085**	16	974	990
Derivatives (1)	**506**	**347**	**853**	291	269	560
Liabilities						
Bank deposits	**—**	**957**	**957**	—	1,290	1,290
Customer deposits	**5,364**	**199**	**5,563**	5,088	289	5,377
CRR-compliant internal MREL	**8,970**	**—**	**8,970**	7,582	—	7,582
Subordinated liabilities	**4,949**	**—**	**4,949**	4,439	—	4,439
Other financial liabilities	**—**	**222**	**222**	—	130	130
Other liabilities	**—**	**1**	**1**	—	6	6
Amounts due to holding company and fellow subsidiaries	**19,283**	**1,379**	**20,662**	17,109	1,715	18,824
Derivatives (1)	**460**	**672**	**1,132**	267	618	885

Note:
(1) Intercompany derivatives are included within within derivatives in the balance sheet.

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.

	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 arrangements and related collateral £m**	**Amounts not subject to offset £m**	**Balance sheet total £m**
Derivatives assets	**13,880**	**(10,807)**	**3,073**	**(2,757)**	**(222)**	**—**	**94**	**43**	**3,116**
Derivative liabilities	**17,536**	**(11,540)**	**5,996**	**(2,757)**	**(790)**	**(2,433)**	**16**	**36**	**6,032**
Net position (1)	**(3,656)**	**733**	**(2,923)**	**—**	**568**	**2,433**	**78**	**7**	**(2,916)**
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	9,423	(7,037)	2,386	(2,350)	(3)	—	33	513	2,899
Derivative liabilities	11,644	(7,713)	3,931	(2,350)	(109)	—	1,472	722	4,653
Net position (1)	(2,221)	676	(1,545)	—	106	—	(1,439)	(209)	(1,754)
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) 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 consolidated financial statements

9 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.

	Rates subject to IBOR reform				Balances not subject to IBOR reform	Expected credit losses	Total
	GBP LIBOR	USD IBOR (1)	EUR IBOR	Other IBOR			
	£m	£m	£m	£m	£m	£m	£m
Loans to banks - amortised cost	13	82	101	—	4,511	—	4,707
Loans to customers - amortised cost	35,951	4,275	2,634	97	301,551	(5,681)	338,827
Other financial assets	1,415	37	65	—	39,222	(6)	40,733
Amounts due from holding company and fellow subsidiaries	—	—	—	—	1,022	(1)	1,021
Bank deposits	—	—	—	—	18,800		18,800
Customer deposits	—	—	—	—	397,841		397,841
Amounts due to holding company and fellow subsidiaries	33	8,286	1,791	—	10,551		20,661
Other financial liabilities	1,114	—	1,402	—	4,813		7,329
Subordinated liabilities	2	519	170	—	625		1,316
Loan commitments (2)	23,267	7,111	1,466	682	68,026		100,552
Derivatives notional (£bn)	116.4	36.9	27.2	0.8	198.1		379.4

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 table above 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 of £2.4 billion. Currency swaps of USD IBOR of £1.0 billion with GBP LIBOR of £0.5 billion and EUR IBOR of £0.5 billion. Currency swaps of EUR IBOR of £0.3 billion with USD IBOR £0.3 billion.

AT1 issuances

NWH Ltd 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 20.

Notes to the consolidated financial statements

10 Financial instruments - valuation

Critical accounting policy: Fair value - financial instruments

In accordance with Accounting policies 14 and 22, financial instruments 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 NWH 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 NWH 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 NWH 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			
Assets	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Derivatives	—	3,116	—	3,116	—	2,899	—	2,899
Amounts due from holding company and fellow subsidiaries	—	556	—	556	—	427	—	427
Other financial assets								
Securities	29,070	7,434	—	36,504	32,856	6,327	7	39,190
Loans - MFVTPL	—	465	97	562	—	494	—	494
Total financial assets held at fair value	29,070	11,571	97	40,738	32,856	10,147	7	43,010
Liabilities								
Amounts due to holding company and fellow subsidiaries	—	222	—	222	—	130	—	130
Derivatives	—	5,804	228	6,032	—	4,472	181	4,653
Other financial liabilities								
Deposits - HFT	—	3	—	3	—	114	—	114
Total financial liabilities held at fair value	—	6,029	228	6,257	—	4,716	181	4,897

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.

10 Financial instruments – valuation continued

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

NWH 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). NWH 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, NWH 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

NWH 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 Risk Oversight Committee sets the policy for model documentation, testing and review, and prioritises models with significant exposure being reviewed by NWH Group 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.

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.

NWH 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.

NWH 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 NWH 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.

Notes to the consolidated financial statements

10 Financial instruments – valuation continued

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 NWH Group's assessment of factors that market participants would consider in setting a price.

Where unobservable inputs are used, NWH 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, NWH 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	**25**	27
	46	76

The decrease in valuation reserves was primarily driven by FVA reserves on customer and pension derivatives on account of decrease in interest rate curves.

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 NWH 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 NWH 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 consolidated financial statements

10 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	**51**	**226**	—	—
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 NWH 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: NWH 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) NWH Group does not have any material liabilities measured at fair value that are issued with an inseparable third party credit enhancement.

10 Financial instruments – valuation: areas of judgment

Whilst the business has simplified, the diverse range of products historically traded by NWH Group results in a wide range of instruments that are classified into level 3 of the hierarchy. Whilst the majority of these instruments naturally fall into a particular level, for some products an element of judgement is required. The majority of NWH Group financial instruments carried at fair value are classified as level 2. IFRS requires extra disclosures in respect of level 3 instruments.

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 mark-to-market is derived from the use of independent market inputs calculated using NWH Group's model.

The decision to classify a modelled instrument as level 2 or 3 will be dependent upon the product/model combination, the currency, the maturity, 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. For example, where consensus prices are used for non-modelled products, a key assessment of the quality of a price is the depth of the number of prices used to provide the consensus price. 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. For example, a tradable quote would be considered a better source than a consensus price.

10 Financial instruments: valuation – continued

	2020			2019		
	Level 3	Favourable	Unfavourable	Level 3	Favourable	Unfavourable
	£m	£m	£m	£m	£m	£m
Assets						
Other financial assets						
Loans - MFVTPL	97	10	—	7	—	—
	97	10	—	7	—	—
Liabilities						
Derivatives	228	—	—	181	10	(60)
	228	—	—	181	10	(60)

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)	Other financial assets (3)	Total assets	Total liabilities	Trading assets (2)	Other financial assets (3)	Total assets	Total liabilities
	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January	—	7	7	181	23	61	84	34
Amounts recorded in the income statement (1)	—	(2)	(2)	70	(1)	1	—	9
Amounts recorded in the statement of comprehensive income	—	(1)	(1)	—	—	(1)	(1)	—
Level 3 transfers in	—	98	98	—	—	(1)	(1)	—
Level 3 transfers out	—	—	—	—	—	(51)	(51)	—
Purchases	—	1	1	—	—	—	—	157
Settlements	—	—	—	(23)	(22)	—	(22)	(19)
Sales	—	(7)	(7)	—	—	(1)	(1)	—
Foreign exchange and other adjustments	—	1	1	—	—	(1)	(1)	—
At 31 December	—	97	97	228	—	7	7	181
Amounts recorded in the income statement in respect of balances held at year end								
- unrealised	—	(2)	(2)	48	—	—	—	(9)
- realised	—	—	—	23	—	—	—	19

Notes:
(1) Net losses on trading assets and liabilities of £70 million (2019 - £10 million) were recorded in income from trading activities. Net losses on other instruments of £2 million (2019 - £1 million gain) were recorded in other operating income and interest income as appropriate.
(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 other fair value through profit or loss.

Notes to the consolidated financial statements

10 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.

2020	Items where fair value approximates carrying value £bn	Carrying value £bn	Fair value £bn	Fair value hierarchy level Level 1 £bn	Level 2 £bn	Level 3 £bn
Financial assets						
Cash and balances at central banks	**95.2**					
Loans to banks		**4.7**	**4.7**	**—**	**3.5**	**1.2**
Loans to customers		**338.8**	**337.6**	**—**	**23.3**	**314.3**
Amounts due from holding company and fellow subsidiaries		**0.5**	**0.5**	**—**	**—**	**0.5**
Other financial assets - securities		**3.7**	**3.8**	**2.2**	**1.2**	**0.4**
Financial liabilities						
Bank deposits	**4.4**	**14.4**	**14.4**	**—**	**11.3**	**3.1**
Customer deposits	**346.4**	**51.4**	**51.5**	**—**	**10.1**	**41.4**
Amounts due to holding company and fellow subsidiaries	**0.9**	**19.5**	**20.2**	**—**	**14.7**	**5.5**
Other financial liabilities - debt securities in issue		**7.3**	**7.4**	**—**	**3.1**	**4.3**
Other financial liabilities - settlement balances	**3.3**					
Subordinated liabilities		**1.3**	**1.4**	**—**	**1.3**	**0.1**
Notes in circulation	**2.7**					
2019						
Financial assets						
Cash and balances at central banks*	57.6					
Loans to banks*		5.1	5.1	—	4.1	1.0
Loans to customers		304.5	301.6	—	10.8	290.8
Amounts due from holding company and fellow subsidiaries		0.5	0.5	—	—	0.5
Other financial assets - securities		4.2	4.3	2.6	1.3	0.4
Financial liabilities						
Bank deposits	4.0	14.4	14.4	—	12.2	2.2
Customer deposits	287.6	47.8	47.8	—	7.5	40.3
Amounts due to holding company and fellow subsidiaries	1.2	17.5	18.3	—	14.8	3.5
Other financial liabilities - debt securities in issue		8.7	8.7	—	5.9	2.8
Other financial liabilities - settlement balances	—					
Subordinated liabilities		1.3	1.4	—	1.3	0.1
Notes in circulation	2.1					

*2019 data has been restated for the accounting policy change for balances held with central banks. Refer to Accounting policy changes effective 1 January 2020 for further details.

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, NWH 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.

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 determined 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 consolidated financial statements

11 Financial instruments - maturity analysis

Remaining maturity

The following table shows the residual maturity of financial instruments, based on contractual date of maturity.

	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*	**95,187**	**—**	**95,187**	57,646	—	57,646
Derivatives	**107**	**3,009**	**3,116**	187	2,712	2,899
Loans to banks - amortised cost*	**4,698**	**9**	**4,707**	5,065	8	5,073
Loans to customers - amortised cost	**78,106**	**260,721**	**338,827**	68,019	236,433	304,452
Amounts due from holding company and other fellow subsidiaries (1)	**1,019**	**—**	**1,019**	950	—	950
Other financial assets	**4,663**	**36,070**	**40,733**	4,858	39,035	43,893
Liabilities						
Bank deposits (2)	**11,023**	**7,777**	**18,800**	7,971	10,420	18,391
Customer deposits	**396,481**	**1,360**	**397,841**	333,791	1,616	335,407
Amounts due to holding company and fellow subsidiaries (3)	**6,850**	**13,811**	**20,661**	6,895	11,923	18,818
Derivatives	**302**	**5,730**	**6,032**	96	4,557	4,653
Other financial liabilities	**6,644**	**3,982**	**10,626**	4,785	4,037	8,822
Subordinated liabilities	**322**	**994**	**1,316**	14	1,324	1,338
Notes in circulation	**2,655**	**—**	**2,655**	2,109	—	2,109
Lease liabilities	**162**	**1,427**	**1,589**	166	1,518	1,684

*2019 data has been restated for the accounting policy change for balances held with central banks. Refer to Accounting policy changes effective 1 January 2020 for further details.

Notes:

(1) Amounts due from holding companies and fellow subsidiaries relating to non-financial instruments of £66 million (2019 - £40 million) have been excluded from the table.

(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 - £6 million) have been excluded from the table.

Notes to the consolidated financial statements

11 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 the conditions could be fulfilled without considering the probability of the conditions being met. For example, if a structured note automatically prepays when 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 the 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 the 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 NWH Group's liquidity position.

Held-for-trading liabilities amounting to £6.2 billion (2019 - £4.9 billion) have been excluded from the tables.

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)	10,763	258	2,743	5,001	—	—
Customer deposits	389,428	7,058	1,320	22	24	—
Amounts due to holding company and fellow subsidiaries (2)	3,151	3,964	4,459	6,104	4,412	—
Derivatives held for hedging	38	(17)	15	(2)	68	(1)
Other financial liabilities	5,366	1,286	870	2,476	397	79
Subordinated liabilities	14	349	142	46	113	315
Other liabilities- notes in circulation	2,655	—	—	—	—	—
Lease liabilities	43	119	268	229	398	478
	411,458	13,017	9,817	13,876	5,412	871
Guarantees and commitments notional amount						
Guarantees (3)	1,298	—	—	—	—	—
Commitments (4)	100,552	—	—	—	—	—
	101,850	—	—	—	—	—
2019						
Liabilities by contractual maturity						
Bank deposits	6,325	1,643	10,549	—	—	—
Customer deposits	327,405	6,398	1,579	22	23	—
Amounts due to holding company and fellow subsidiaries (2)	2,767	4,484	1,455	7,226	5,258	—
Derivatives held for hedging	12	24	55	40	55	45
Other financial liabilities	1,192	3,519	133	2,929	594	79
Subordinated liabilities	6	54	488	64	159	350
Other liabilities- notes in circulation	2,109	—	—	—	—	—
Lease liabilities	43	123	271	227	425	550
	339,859	16,245	14,530	10,508	6,514	1,024
Guarantees and commitments notional amount						
Guarantees (3)	1,592	—	—	—	—	—
Commitments (4)	100,687	—	—	—	—	—
	102,279	—	—	—	—	—

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 company and fellow subsidiaries relating to non-financial instruments have been excluded from the tables.
(3) The NWH Group is only called upon to satisfy a guarantee when the guaranteed party fails to meet its obligations. The NWH Group expects most guarantees it provides to expire unused.
(4) The NWH 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. The NWH Group does not expect all facilities to be drawn, and some may lapse before drawdown.

Notes to the consolidated financial statements

12 Loan impairment provisions

Loan exposure and impairment metrics

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

	2020 £m	2019 £m
Loans - amortised cost		
Stage 1	**267,185**	278,240
Stage 2	**75,109**	27,144
Stage 3	**5,976**	6,308
Inter-Group (1)	**463**	523
Total	**348,733**	312,215
ECL provisions (2)		
Stage 1	**493**	308
Stage 2	**2,958**	742
Stage 3	**2,406**	2,565
Inter-Group (1)	**1**	—
Total	**5,858**	3,615
ECL provision coverage (3,4)		
Stage 1 (%)	**0.18**	0.11
Stage 2 (%)	**3.94**	2.73
Stage 3 (%)	**40.26**	40.66
Inter-Group (%) (1)	**0.22**	—
Total	**1.68**	1.16
Impairment losses		
ECL charge (5)		
Third party	**3,093**	745
Inter-Group	**1**	—
Total	**3,094**	745
ECL loss rate - annualised (basis points) (4)	**89**	24
Amounts written off	**923**	771

Notes:

(1) NWH Group's intercompany assets were classified in Stage 1.The ECL attached to these loans was £1.2 million at 31 December 2020.
(2) Includes £5 million (2019 – £3 million) related to assets at FVOCI.
(3) ECL provisions coverage is calculated as ECL provisions divided by loans - amortised cost.
(4) ECL provisions coverage and ECL loss rates are calculated on third party loans and related ECL provisions and charge respectively.
(5) Includes a £10 million charge (2019 – £2 million charge) related to other financial assets, of which a £2 million charge (2019 – £1 million charge) related to assets at FVOCI, and a £19 million charge (2019 – £1 million charge) related to contingent liabilities.
(6) The table above 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 totalling £93.5 billion and debt securities of £39.8 billion (2019 – £55.9 billion and £42.9 billion respectively).

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 £5,858 million (2019 - £3,615 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.

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.

13 Other financial assets

2020	Debt securities: Central and local government UK £m	US £m	Other £m	Other debt £m	Total £m	Equity shares £m	Loans £m	Settlement balances £m	Total £m
Mandatory fair value through profit or loss	—	—	—	—	—	—	562	—	562
Fair value through other comprehensive income	16,089	7,870	5,111	7,434	36,504	—	—	—	36,504
Amortised cost	2,096	—	—	1,570	3,666	—	—	1	3,667
Total	18,185	7,870	5,111	9,004	40,170	—	562	1	40,733
2019									
Mandatory fair value through profit or loss	—	—	—	—	—	17	494	—	511
Fair value through other comprehensive income	18,203	8,739	5,898	6,326	39,166	7	—	—	39,173
Amortised cost	2,465	—	—	1,697	4,162	—	—	47	4,209
Total	20,668	8,739	5,898	8,023	43,328	24	494	47	43,893

Equity share disposals include S.W.I.F.T SCRL of £7 million, sold to NWM Group.

14 Intangible assets

	2020 Goodwill £m	2020 Other (1) £m	2020 Total £m	2019 Goodwill £m	2019 Other (1) £m	2019 Total £m
Cost						
At 1 January	9,726	2,277	12,003	9,733	1,959	11,692
Currency translation and other adjustments	—	—	—	(7)	2	(5)
Additions	—	341	341	—	380	380
Disposals and write-off of fully amortised assets	(41)	(46)	(87)	—	(64)	(64)
At 31 December	9,685	2,572	12,257	9,726	2,277	12,003
Accumulated amortisation and impairment						
At 1 January	4,419	1,271	5,690	4,426	959	5,385
Currency translation and other adjustments	—	1	1	(7)	2	(5)
Disposals and write-off of fully amortised assets	(41)	(24)	(65)	—	(24)	(24)
Charge for the year	—	281	281	—	290	290
Impairment of intangible assets	—	9	9	—	44	44
At 31 December	4,378	1,538	5,916	4,419	1,271	5,690
Net book value at 31 December	5,307	1,034	6,341	5,307	1,006	6,313

Note:
(1) Principally internally generated software.

Intangible assets other than goodwill 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 is no longer expected to yield future economic benefit.

NWH Group's goodwill acquired in business combinations analysed by reportable segments is in Note 4, Segmental analysis. It is reviewed annually at 31 December for impairment. No impairment was indicated at 31 December 2020 or 2019.

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 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 2020 were based on value in use, using management's latest five-year revenue and cost forecasts. These are discounted cash flow projections over five years. The forecast is then extrapolated in perpetuity using a long-term growth rate to compute a terminal value, which comprises the majority of the value in use. 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.

Critical accounting policy: Goodwill

Critical estimates

Impairment testing involves a number of judgments. The key judgments are the five-year cash flow forecast, the long-term growth rate used to derive the terminal value, and the discount rate. Future value in use is primarily affected by changes in profitability, and changes in discount rate. Adverse changes could lead to value in use falling below carrying value. The most likely cause for this would be a failure to meet budgets, including cost targets, or external downgrades in the UK economy.

Notes to the consolidated financial statements

14 Intangible assets continued

The recoverable amount exceeds the carrying value for each CGU at 31 December 2020. Alternative scenarios applied to consider the recoverability of the Commercial Banking goodwill indicated that there were possibilities of partial / full impairment for worse economic outlooks or failure to meet income or cost forecasts. The conclusion that Commercial Banking goodwill was recoverable reflected the current ECL outlook and management plans for costs and revenues. An impairment of Commercial Banking goodwill is possible if there is a further economic deterioration or other negative effects on costs and revenues.

The impact of reasonably possible changes to the more significant variables in the value in use calculations are presented below. This reflects the sensitivity of the VIU to each key assumption on its own. It is possible that more than one change may occur at the same time.

		Assumptions				Consequential impact of 1% adverse movement		Consequential impact of 5% adverse movement	
	Goodwill	Terminal growth rate	Pre-tax discount rate	Cost: income ratio (1)	Recoverable amount exceeded carrying value	Discount rate	Terminal growth rate	Forecast Income	Forecast cost
31 December 2020	£bn	%	%	%	£bn	£bn	£bn	£bn	£bn
Retail Banking	**2.7**	**1.6**	**13.7**	**48.3**	**5.9**	**(1.8)**	**(0.8)**	**(2.0)**	**(0.9)**
Commercial Banking	**2.6**	**1.6**	**13.7**	**53.7**	**1.5**	**(1.5)**	**(0.5)**	**(1.8)**	**(0.9)**
31 December 2019									
Retail Banking	2.7	1.6	13.3	47.9	8.7	(2.2)	(1.0)	(2.1)	(0.9)
Commercial Banking	2.6	1.6	13.4	53.8	4.1	(1.8)	(0.7)	(2.1)	(1.1)

Note:
(1) Average Cost:income ratio % over the 5-year forecast period.

The following table gives the percentage change in key assumptions that would reduce the headroom of CGUs to nil.

	2020				2019			
	Terminal growth rate	Pre-tax discount rate	Forecast income	Forecast cost	Terminal growth rate	Pre-tax discount rate	Forecast income	Forecast cost
Change in key assumptions to reduce headroom to nil (%)	%	%	%	%	%	%	%	%
Retail Banking	**(25.4)**	**6.2**	**(14.6)**	**33.9**	(83.0)	8.5	(20.4)	48.0
Commercial Banking	**(4.0)**	**1.3**	**(4.1)**	**8.2**	(16.4)	3.5	(9.8)	19.4

15 Other assets

	2020 £m	2019 £m
Property, plant and equipment (Note 16)	**3,938**	4,429
Pension schemes in net surplus (Note 5)	**279**	196
Prepayments	**318**	362
Accrued income	**179**	232
Tax recoverable	**24**	25
Deferred tax (Note 7)	**1,255**	1,374
Acceptances	**269**	263
Other assets	**325**	224
	6,587	7,105

Notes to the consolidated financial statements

16 Property, plant and equipment

2020	Investment properties £m	Property, plant and equipment £m	Operating leases £m	Total £m
Cost or valuation				
At 1 January	**868**	**8,136**	**1,120**	**10,124**
Transfers to disposal groups	**(71)**	**(4)**	**—**	**(75)**
Transfers from/(to) holding company and fellow subsidiaries	**—**	**13**	**—**	**13**
Currency translation and other adjustments	**46**	**12**	**—**	**58**
Additions	**11**	**319**	**132**	**462**
Change in fair value of investment properties	**(20)**	**—**	**—**	**(20)**
Disposals and write-off of fully depreciated assets	**(74)**	**(576)**	**(123)**	**(773)**
At 31 December	**760**	**7,900**	**1,129**	**9,789**
Accumulated impairment, depreciation and amortisation				
At 1 January	**—**	**5,228**	**467**	**5,695**
Transfers to disposal groups	**—**	**(3)**	**—**	**(3)**
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	**—**	**(355)**	**(83)**	**(438)**
Charge for the year	**—**	**335**	**145**	**480**
Impairment of property, plant and equipment	**—**	**105**	**—**	**105**
At 31 December	**—**	**5,322**	**529**	**5,851**
Net book value at 31 December	**760**	**2,578**	**600**	**3,938**
2019				
Cost or valuation				
At 1 January	1,008	5,435	1,059	7,502
Implementation of IFRS 16 on 1 January 2019	—	2,966	—	2,966
Transfers to disposal groups	—	(487)	—	(487)
Currency translation and other adjustments	(51)	(15)	—	(66)
Additions	16	395	233	644
Change in fair value of investment properties	(20)	—	—	(20)
Disposals and write-off of fully depreciated assets	(85)	(158)	(172)	(415)
At 31 December	868	8,136	1,120	10,124
Accumulated impairment, depreciation and amortisation				
At 1 January	—	3,360	450	3,810
Implementation of IFRS 16 on 1 January 2019	—	1,786	—	1,786
Transfers to disposal groups	—	(273)	—	(273)
Currency translation and other adjustments	—	(15)	—	(15)
Disposals and write-off of fully depreciated assets	—	(96)	(121)	(217)
Charge for the year	—	352	138	490
Impairment of property, plant and equipment	—	114	—	114
At 31 December	—	5,228	467	5,695
Net book value at 31 December	868	2,908	653	4,429

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 valuers for the purpose of year end valuations.

Notes to the consolidated financial statements

17 Other financial liabilities

	2020 £m	2019 £m
Bank deposits - held-for-trading	**1**	3
Customer deposits - held-for-trading	**2**	111
Settlement balances (1)	**3,297**	47
Debt securities in issue - amortised cost	**7,326**	8,661
Total	**10,626**	8,822

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.

18 Subordinated liabilities

	2020 £m	2019 £m
Dated loan capital	**318**	332
Undated loan capital	**855**	863
Preference shares	**143**	143
	1,316	1,338

Note:
(1) The table above excludes amounts due to holding company and fellow subsidiaries of £4,949 million (2019 - £4,439 million).

There were no issuances or redemptions (2019 – £8 million) during the year.

19 Other liabilities

	2020 £m	2019 £m
Lease liabilities (Note 21)	**1,589**	1,684
Provisions for liabilities and charges	**1,358**	2,109
Retirement benefit liabilities (Note 5)	**57**	53
Accruals	**867**	811
Deferred income	**287**	291
Current tax	**193**	204
Deferred tax (Note 7)	**156**	167
Acceptances	**269**	263
Other liabilities	**609**	488
	5,385	6,070

Provisions for liabilities and charges	Payment protection insurance (1) £m	Other customer redress £m	Litigation and other regulatory £m	Other (2) £m	Total £m
At 1 January	**1,156**	**268**	**66**	**619**	**2,109**
Expected credit losses impairment charge	**—**	**—**	**—**	**72**	**72**
Currency translation and other movements	**—**	**5**	**—**	**17**	**22**
Charge to income statement	**1**	**347**	**6**	**295**	**649**
Releases to income statement	**(277)**	**(48)**	**(39)**	**(111)**	**(475)**
Provisions utilised	**(557)**	**(172)**	**(9)**	**(281)**	**(1,019)**
At 31 December	**323**	**400**	**24**	**611**	**1,358**

Notes:
(1) 31 December 2020 includes provisions held in relation to offers made in 2019 and earlier years of £110 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 NWH 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. NWH 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: NWH 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 25.
- 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 25.

Notes to the consolidated financial statements

20 Share capital and reserves

			Number of shares	
Allotted, called up and fully paid	2020 £m	2019 £m	2020 000s	2019 000s
Ordinary shares of £1	**3,263**	3,263	**3,263,386**	3,263,386

Ordinary shares
No ordinary dividends were paid during the year. NWH Ltd paid an ordinary dividend to its parent company, NatWest Group plc, in 2019 of £1,500 million.

Paid-in equity
Comprises equity instruments issued by NWH Ltd other than those legally constituted as shares.

Additional Tier 1 Instruments issued by NWH Ltd having the legal form of debt are classified as equity under IFRS. The coupons on these Instruments are non-cumulative and payable at NWH Ltd's discretion.

	2020 £m	2019 £m
Additional Tier 1 instruments		
US$2.0 billion 5.4697% instruments callable February 2024	**1,581**	1,581
US$2.65 billion 7.9916% instruments callable February 2024	**2,095**	2,095
	3,676	3,676

Capital recognised for regulatory purposes cannot be redeemed without Prudential Regulation Authority consent. This includes ordinary shares, preference shares and additional Tier 1 Instruments.

Reserves
NWH Ltd received capital contributions of £215 million from NatWest Group plc in 2019, for which no additional share capital was issued. These were recorded as capital contributions in retained earnings.

NWH Ltd optimises capital efficiency by maintaining reserves in subsidiaries, including regulated entities. Certain preference shares and paid-in-equity instruments 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.

21 Leases
The NWH 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.

Lessees

	2020 £m	2019 £m
Amounts recognised in the consolidated income statement		
Interest payable	**(38)**	(40)
Depreciation (1)	**(187)**	(207)
Rental expense on short term leases	**(1)**	(3)
Income from subleasing right-of-use assets	**14**	24

	2020 £m	2019 £m
Amounts recognised on balance sheet		
Right of use assets included in property, plant and equipment (2)	**874**	1,052
Additions to right of use assets	**73**	52
Lease liabilities (3)	**(1,589)**	(1,684)

The total cash outflow for leases is £194 million (2019: £198 million), including payment of principal amount of £157 million (2019: £157 million) which are included in the operating activities in cash flow statement.

Notes:
(1) Depreciation includes impairment of right of use assets of £83 million (2019 - £86 million).
(2) Includes right of use asset for plant and equipment of £8 million (2019 - £23 million) and depreciation of £2 million (2019 - £5 million).
(3) Contractual cashflows of lease liabilities is shown in Note 11.

Lessor
Acting as a lessor, NWH 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.

Amounts included in consolidated income statement	2020 £m	2019 £m
Finance leases		
Finance income on the net investment in leases	**279**	296
Operating leases		
Gross Lease income	**168**	165
Depreciation	**(145)**	(138)
Net Lease income	**23**	27

Notes to the consolidated financial statements

21 Leases continued

Amounts receivable under finance leases	2020 £m	2019 £m
Within 1 year	**3,202**	3,366
1 to 2 years	**2,268**	2,200
2 to 3 years	**1,614**	1,712
3 to 4 years	**950**	734
4 to 5 years	**501**	673
After 5 years	**1,668**	1,680
Lease payments total	**10,203**	10,365
Unguaranteed residual values	**(232)**	(215)
Future drawdowns	**(22)**	(30)
Unearned income	**(1,043)**	(1,150)
Present value of lease payments	**8,906**	8,970
Impairments	**(191)**	(104)
Net investment in finance leases	**8,715**	8,866

The following tables show undiscounted lease receipts due from operating leases:

Amounts receivable under operating leases receivables	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

	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 lease for £741 million (2019 - £854 million) and had lease income for £58 million (2019 - £71 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

Notes to the consolidated financial statements

22 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. The NWH Group arranges securitisations to facilitate client transactions and undertakes own asset securitisations to sell or to fund portfolios of financial assets.

The NWH Group also acts as an underwriter and depositor in securitisation transactions in both client and proprietary transactions.

The NWH 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
The NWH Group also transfers credit risk on originated loans and mortgages without the transfer of the assets to an SE. As part of this, the NWH 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 banks and customers have been assigned to bankruptcy remote limited liability partnership to provide security for issues of debt securities by the NWH Group. The NWH Group retains all of the risks and rewards of these loans. The partnerships are consolidated by the NWH Group, the loans retained on the NWH Group's balance sheet and the related covered bonds included within debt securities in issue of the NWH Group. At 31 December 2020, £10,012 million (2019 - £8,481 million) of loans to customers have been assigned to bankruptcy remote limited liability partnership to provide security for issue of debt securities by the NWH Group of £3,020 million (2019 - £5,948 million).

Unconsolidated structured entities
NWH Group's interest in unconsolidated structured entities is analysed below.

	2020			2019		
Non trading assets	Asset backed securitisation vehicles £m	Investment funds and other £m	Total £m	Asset backed securitisation vehicles £m	Investment funds and other £m	Total £m
Loans to customers - amortised cost	15	353	368	26	522	548
Other financial assets	1,480	—	1,480	1,501	—	1,501
Total	1,495	353	1,848	1,527	522	2,049
Liquidity facilities/loan commitments	1	72	73	7	214	221
Maximum exposure	1,496	425	1,921	1,534	736	2,270

23 Asset transfers

Transfers that do not qualify for derecognition

The NWH 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 the NWH 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.

The following assets have failed derecognition (1)	2020 £m	2019 £m
Loans to banks - amortised cost	5	—
Loans to customers - amoritsed cost	39	—
Other financial assets	11,438	4,267
	11,482	4,267

Note:
(1) Associated liabilities were £11,391 million (2019 - £4,165 million).

Assets pledged as collateral

The NWH Group pledges collateral with its counterparties in respect of derivative liabilities and bank and stock borrowings.

Assets pledged against liabilities	2020 £m	2019 £m
Loans to bank - amortised cost	49	39
Loans to customers - amortised cost	15,939	17,421
Other financial assets (1)	2,710	1,920
	18,698	19,380

Note:
(1) Includes amounts pledged for pension derivatives.

The following table analyses assets that have been transferred but have failed the derecognition rules under IFRS9 and therefore continue to be recognised on the NWH Group's balance sheet.

Asset type	2020 £m	2019 £m
UK mortgages - covered bond programme (1)	10,012	8,481

Note:
(1) The associated liabilities are £9,916 million (2019 - £8,287 million)

Own asset securitisations

In own-asset securitisations, the pool of assets held by the SE is either originated by the NWH Group, or (in the case of whole loan programmes) purchased from third parties.

The table below analyses the asset categories for those own-asset securitisations where the transferred assets continue to be recorded on the NWH Group's balance sheet.

	2020				2019			
		Debt securities in issue				Debt securities in issue		
Asset type (1)	Assets £m	Held by third parties £m	Held by the NWH Group £m	Total £m	Assets £m	Held by third parties £m	Held by the NWH Group £m	Total £m
Mortgages - RoI	1,921	243	1,848	2,091	2,221	468	1,917	2,385
Cash deposits	146	—	—	—	156	—	—	—
	2,067				2,377			

Note:
(1) Debt securities retained by NWH Group may be pledged with banks.

Notes to the consolidated financial statements

24 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	**33,256**	32,751
Other equity instruments	**(3,676)**	(3,676)
	29,580	29,075
Regulatory adjustments and deductions		
Defined benefit pension fund adjustment	**(244)**	(171)
Cash flow hedging reserve	**(387)**	(202)
Deferred tax assets	**(760)**	(757)
Prudential valuation adjustments	**(12)**	(26)
Goodwill and other intangible assets	**(5,868)**	(6,313)
Expected losses less impairments	**—**	(141)
Foreseeable charges	**(266)**	(365)
Adjustment under IFRS 9 transition arrangements	**1,700**	—
Other regulatory adjustments	**—**	(3)
	(5,837)	(7,978)
CET1 capital	**23,743**	21,097
Additional Tier 1 (AT1) capital		
Qualifying instruments and related share premium	**3,676**	3,676
Qualifying Tier 1 capital included in consolidated AT1 capital issued by subsidiaries and held by third parties	**58**	88
AT1 Capital	**3,734**	3,764
Tier 1 capital	**27,477**	24,861
Qualifying Tier 2 capital		
Qualifying instruments and related share premium	**4,613**	4,254
Qualifying own funds instruments issued by subs and held by third parties	**267**	400
Other regulatory adjustments	**393**	—
Tier 2 Capital	**5,273**	4,654
Total regulatory capital	**32,750**	29,515

In the management of capital resources, NWH Ltd 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%. NWH Ltd has complied with the PRA's capital requirements throughout the year.

A number of subsidiaries and sub-groups within NWH 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.

Notes to the consolidated financial statements

25 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 NWH 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 NWH Group's expectation of future losses.

	2020 £m	2019 £m
Guarantees	**1,298**	1,591
Other contingent liabilities	**2,166**	2,299
Standby facilities, credit lines and other commitments	**101,723**	101,771
Contingent liabilities and commitments	**105,187**	105,661

Note:
(1) In the normal course of business, NWH Group 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. NWH 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 NWH Group's normal credit approval processes.

Guarantees - NWH Group gives guarantees on behalf of customers. A financial guarantee represents an irrevocable undertaking that the Group will meet a customer's specified obligations to a third party if the customer fails to do so. The maximum amount that NWH Group could be required to pay under a guarantee is its principal amount as disclosed in the table above. The 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 NWH 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 NWH 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.

Capital Support Deed

NWH Group, together with certain other subsidiaries of NatWest Holdings Limited, is party to a Capital Support Deed (CSD). Under the terms of the CSD, NWH Group 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 NWH Group's capital resources in excess of the capital and financial resources needed to meet its regulatory requirements. NWH Group 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 NWH Group from other parties to the CSD becomes immediately repayable, such repayment being limited to NWH Group's available resources.

25 Memorandum items continued

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.

	2020 £m	2019 £m
Capital expenditure on other property, plant and equipment	15	20
Contracts to purchase goods or services (1)	724	612
	739	632

Note:
(1) Of which due within 1 year: £264 million (2019 - £283 million).

Trustee and other fiduciary activities

In its capacity as trustee or other fiduciary role, the NWH 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 the NWH Group's financial statements. The NWH Group earned fee income of £206 million (2019 - £210 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

NatWest Holdings Limited and its subsidiary and associated undertakings ('NWH 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.

NWH 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 NWH 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. NWH 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 NWH 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 NWH 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 NWH Group has recognised. Where (and as far as) liability cannot be reasonably estimated, no provision has been recognised. NWH 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.

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.

25 Memorandum items continued

Litigation and regulatory matters

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)

NWH 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. NWH 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 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 NWH Group, remediation of systems and controls, public or private censure, restriction of NWH 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 NWH 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.

NWH 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.

NWH Group's remaining provisions in relation to these matters at 31 December 2020 were £23 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.

Review and investigation of treatment of tracker mortgage customers in Ulster Bank Ireland DAC

In December 2015, correspondence was received from the CBI setting out an industry examination framework in respect of the sale of tracker mortgages from approximately 2001 until the end of 2015. The redress and compensation phase has concluded, although an appeals process is currently anticipated to run until at least the end of 2021. NatWest Group has made provisions totalling €335 million (£301 million), of which €284 million (£255 million) had been utilised by 31 December 2020 in respect of redress and compensation.

In April 2016, the CBI commenced an investigation alleging that it suspected UBI DAC of breaching specified provisions of the Consumer Protection Code 2006 in its treatment of certain tracker mortgage customers. This investigation is ongoing.

UBI DAC identified further legacy business issues, as an extension to the tracker mortgage review. These remediation programmes are ongoing. NatWest Group has made provisions of €164 million (£147 million), of which €144 million (£129 million) had been utilised by 31 December 2020 for these programmes.

Notes to the consolidated financial statements

26 Analysis of the net investment in business interests and intangible assets

Acquisitions and disposals	2020 £m	2019 £m
Fair Value given for business acquired	**(47)**	(7)
Net assets purchased	**(19)**	—
Net outflow of cash in respect of purchases	**(66)**	(7)
Net assets sold	**19**	—
Profit on disposal of net assets/(liabilities) sold	**8**	—
Net inflow of cash in respect of disposals	**27**	—
Net cash expenditure on intangible assets	**(341)**	(380)
Net outflow of cash	**(380)**	(387)

27 Analysis of changes in financing during the year

	Group					
	Called up share capital and paid in Equity		Subordinated liabilities		MREL	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
At 1 January	**6,939**	6,939	**5,777**	5,237	**7,582**	4,917
Issue of subordinated liabilities			**500**	580		
Redemption of subordinated liabilities			**—**	(8)		
Interest on subordinated liabilities			**(320)**	(298)		
Issue of MRELs					**1,293**	2,462
Interest on MRELs					**(340)**	(213)
Net cash outflow from financing	**—**	—	**180**	274	**953**	2,249
Effects of Foreign Exchange	**—**	—	**(151)**	(157)	**(235)**	(226)
Changes in fair Value of subordinated liabilities/MRELs			**136**	116	**326**	349
Interest on subordinated liabilities/MRELs			**323**	307	**344**	293
At 31 December	**6,939**	6,939	**6,265**	5,777	**8,970**	7,582

28 Analysis of cash and cash equivalents

	2020 £m	2019 £m
At 1 January		
- cash	**57,646**	69,410
- cash equivalents	**4,996**	6,679
	62,642	76,089
Net cash inflow/(outflow)	**36,912**	(13,447)
At 31 December	**99,554**	62,642
Comprising:		
Cash and balances at central banks	**95,187**	57,646
Other financial assets	**165**	135
Loans to banks including intragroup balances - amortised cost (1)	**4,202**	4,861
Cash and cash equivalents	**99,554**	62,642

Note:
(1) Includes cash collateral posted with bank counterparties in respect of derivative liabilities of £165 million (2019 - £17 million)

Notes to the consolidated financial statements

29 Directors' and key management remuneration

The executive and non-executive directors of NWH Ltd are aligned with its sub-group's boards (NWB Plc, RBS plc and UBL). The directors were remunerated for their services to NWH Group as a whole and NWH Ltd did not remunerate them, nor could their remuneration be apportioned, in respect of their services to these subsidiaries.

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 NatWest Group's long-term incentive plans, executive share option and sharesave schemes. Where directors of NWH Ltd 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.

30 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 NWH Group, as defined in UK legislation, were £1,329,122 in respect of loans to six persons who were directors of NWH Ltd at any time during the financial period.

For the purposes of IAS 24 'Related Party Disclosures', key management comprise directors of NWH Ltd and members of the NWH Ltd Executive Committee. Applying the captions in NWH 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 ultimate holding company.

Notes to the consolidated financial statements

31 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%.

NWH 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

NWH Group may participate in a number of schemes operated by the Bank of England in the normal course of business.

Members of NWH 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 Rate.

NWH Group provides guarantees for certain subsidiary liabilities to the Bank of England.

Other related parties

(a) In their roles as providers of finance, NWH 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) NWH Group recharges NatWest Group Pension Fund with the cost of administration services incurred by it. The amounts involved are not material to NWH Group.
(c) In accordance with IAS 24, transactions or balances between NWH 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 NWH Group and subsidiaries of NatWest Group.

	2020 £m	2019 £m
Income		
Interest receivable	—	3
Interest payable	(439)	(580)
Fees and commissions receivable	—	4
Fees and commissions payable	(3)	(22)
Other administrative expenses	12	—
	(430)	(595)

32 Holding company

NWH Group's holding company is NatWest Group plc and is incorporated in Great Britain and registered in Scotland. As at 31 December 2020, NatWest Group plc heads the largest group in which NWH 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.

The UK Government, through HM Treasury, currently holds 61.9% of the issued ordinary share capital of the Holding company and is therefore NWH Group's ultimate controlling party.

33 Post balance sheet events

NatWest Group has announced a phased withdrawal from the Republic of Ireland and has entered into a non-binding Memorandum of Understanding ('MOU') with Allied Irish Banks, p.l.c. for the sale of a c.€4bn portfolio of performing commercial loans. The potential sale contemplated by the MoU remains subject to due diligence, further negotiation and agreement of final terms and definitive documentation, as well as obtaining regulatory and other approvals and satisfying other conditions. The proposed sale may not be concluded on the terms contemplated in the MoU, or at all. No estimate of any financial effect of the potential transaction can be made at the date of approval of these accounts.

On 18 February 2021, NWH Group reached final agreement with the Official Receiver in relation to a portfolio of historical PPI claims. NWH Group carried adequate provision for this outcome and there is no further charge/release as a result.

Other than as disclosed in the accounts, there have been no other significant events between 31 December 2020 and the date of approval of these accounts which would require a change or additional disclosure.

Parent company financial statements and notes

Balance sheet as at 31 December 2020

	Note	2020 £m	2019 £m
Assets			
Derivatives		**826**	471
Amounts due from holding company and fellow subsidiaries	4	**12,380**	9,898
Investment in Group undertakings	8	**35,315**	36,485
Other assets		**36**	36
Total assets		**48,557**	46,890
Liabilities			
Amounts due to holding company and fellow subsidiaries	4	**14,362**	12,483
Derivatives		**549**	304
Other liabilities		**1**	—
Total liabilities		**14,912**	12,787
Owners' equity		**33,645**	34,103
Total liabilities and equity		**48,557**	46,890

Owners' equity includes a total comprehensive loss for the year, dealt with in the accounts of the parent company, of £181 million (2019 - £1,488 million profit).

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 148 to 156 form an integral part of these financial statements.

The accounts were approved by the Board of directors on 19 February 2021 and signed on its behalf by:

Howard Davies	Alison Rose-Slade	Katie Murray	NatWest Holdings Limited
Chairman	Chief Executive Officer	Chief Financial Officer	Registered No. 10142224

Parent company financial statements and notes

Statement of changes in equity for the year ended 31 December 2020

	2020 £m	2019 £m
Called-up share capital - at 1 January and 31 December	**3,263**	3,263
Paid-in equity - at 1 January and 31 December	**3,676**	3,676
Cash flow hedging reserve - at 1 January	**(8)**	—
Amount recognised in equity	**2**	(8)
Amount transferred from equity to earnings	**(2)**	(1)
Tax	**1**	1
At 31 December	**(7)**	(8)
Retained earnings - at 1 January	**27,172**	27,476
Loss attributable to ordinary shareholders and other equity owners	**(182)**	1,496
Ordinary dividends paid	**—**	(1,500)
Paid-in equity dividends paid	**(277)**	(300)
At 31 December	**26,713**	27,172
Total equity at 31 December	**33,645**	34,103
Attributable to:		
Ordinary shareholders	**29,969**	30,427
Paid-in equity holders	**3,676**	3,676
	33,645	34,103

Cash flow statement for the year ended 31 December 2020

	2020 £m	2019 £m
Operating profit before tax	**(217)**	1,459
Adjustments for:		
Write-back of investment in subsidiaries	**1,192**	2,425
Change in fair value taken to profit or loss on other financial liabilities and subordinated liabilities	**312**	491
Elimination of foreign exchange differences	**(193)**	(233)
Other non-cash items	**(20)**	(9)
Dividends receivable from group undertakings	**(1,021)**	(1,634)
Interest payable on MRELs and subordinated liabilities	**424**	381
Net cash flows from trading activities	**477**	2,880
Increase in derivative assets	**(353)**	(380)
Increase in amounts due from holding company and fellow subsidiaries	**(420)**	(190)
Decrease in other assets	**—**	1
Decrease in amounts due to holding company and fellow subsidiaries	**(46)**	(2,137)
Increase in derivative liabilities	**245**	175
Increase in other liabilities	**4**	—
Change in operating assets and liabilities	**(570)**	(2,531)
Income taxes received/(paid)	**35**	(17)
Net cash flows from operating activities (1)	**(58)**	332
Cash flows from investing activities		
Net movement in business interests and intangible assets	**(5)**	—
Dividends received from subsidiaries	**1,021**	1,634
Net cash flows from investing activities	**1,016**	1,634
Cash flows from financing activities		
Movement in MRELs	**342**	39
Movement in subordinated liabilities	**242**	354
Dividends paid	**(277)**	(1,800)
Net cash flows from financing activities	**307**	(1,407)
Effects of exchange rate changes on cash and cash equivalents	**(44)**	(21)
Net increase in cash and cash equivalents	**1,221**	538
Cash and cash equivalents at 1 January	**619**	81
Cash and cash equivalents at 31 December (2)	**1,840**	619

Notes:
(1) Includes interest received of £151 million (2019 - £173 million) and interest paid of £300 million (2019 - £374 million).
(2) Cash and cash equivalents is comprised of intragroup loans and advances to banks with maturity of less than 3 months for 2020 and 2019.

Parent company financial statements and notes

1 Presentation of accounts
The accounts are prepared on a going concern basis (refer to the Report of the directors, page 80) and in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006.

NWH Ltd is incorporated in the UK and registered in England. The accounts are prepared on the historical cost basis except that derivatives and certain financial instruments which are stated at fair value. Recognised financial assets and financial liabilities in fair value hedges are adjusted for changes in fair value in respect of the risk that is hedged.

The accounting policies that are applicable to NWH Ltd are included in NatWest Holdings Group's accounting policies which are set out on pages 98 to 102 of the consolidated financial statements, except that it has no policy regarding 'Basis of consolidation'.

2 Critical accounting policies and sources of estimation uncertainty
The reported results of NWH Ltd are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. The judgements and assumptions involved in NWH Ltd's accounting policies that are considered by the Board to be the most important to the portrayal of its financial condition are those involved in assessing the impairment, if any, in its investments in subsidiaries. At each reporting date, NWH Ltd assesses whether there is any indication that its investment in a subsidiary is impaired. If any such indication exists, NWH Ltd undertakes an impairment test by comparing the carrying value of the investment in the subsidiary with its estimated recoverable amount. The recoverable amount of an investment in a subsidiary is the higher of its fair value less cost to sell and its value in use. Impairment testing inherently involves a number of judgments: the choice of appropriate discount and growth rates; and the estimation of fair value.

Future accounting developments
International Financial Reporting Standards

A number of IFRSs and amendments to IFRS were in issue at 31 December 2020. NWH Ltd is assessing the effect of adopting these standards on its financial statements.

3 Financial instruments: fair value of financial instruments mesured at amortised cost
The following table shows the carrying value and fair value of financial instruments measured at amortised cost on the balance sheet.

Assets	MFVTPL £m	Amortised cost £m	Other assets £m	Total £m
Derivatives (1)	**826**			**826**
Amounts due from holding company and fellow subsidiaries	**5,646**	**6,734**		**12,380**
Investment in group undertakings			**35,315**	**35,315**
Other assets			**36**	**36**
31 December 2020	**6,472**	**6,734**	**35,351**	**48,557**
Derivatives (1)	471			471
Amounts due from holding company and fellow subsidiaries	4,685	5,213		9,898
Investment in group undertakings			36,485	36,485
Other assets			36	36
31 December 2019	5,156	5,213	36,521	46,890

Liabilities	Held-for-trading £m	DFV £m	Amortised cost £m	Other liabilities £m	Total £m
Amounts due to holding company and fellow subsidiaries	**222**	**4,557**	**9,583**		**14,362**
Derivatives (1)	**549**				**549**
Other financial liabilities				**1**	**1**
31 December 2020	**771**	**4,557**	**9,583**	**1**	**14,912**
Amounts due to holding company and fellow subsidiaries	130	3,703	8,650		12,483
Derivatives (1)	304				304
Other financial liabilities				—	—
31 December 2019	434	3,703	8,650	—	12,787

Note:
(1) Includes net hedging derivatives assets of £608 million (2019 - £348 million) and net hedging derivative liabilities of £227 million (2019 - £127 million).

3 Financial instruments continued

The previous tables include amounts due from/to the holding company and fellow subsidiaries:

	2020				2019			
	Holding companies	Fellow subsidiaries	Subsidiaries	Total	Holding companies	Fellow subsidiaries	Subsidiaries	Total
Assets	£m	£m	£m	£m	£m	£m	£m	£m
Loans to banks - amortised cost	—	—	6,734	6,734	—	—	5,213	5,213
Other financial assets	—	—	5,646	5,646	—	—	4,685	4,685
Amounts due from holding company and fellow subsidiaries	—	—	12,380	12,380	—	—	9,898	9,898
Derivatives (1)	506	229	91	826	291	139	41	471
Liabilities								
Bank deposits	—	—	—	—	—	—	17	17
CRR-compliant internal MREL	9,221	—	—	9,221	7,775	—	—	7,775
Other financial liabilities - subordinated liabilities	4,919	—	—	4,919	4,439	—	—	4,439
Other financial liabilities/other liabilities	—	222	—	222	—	130	122	252
Amounts due to holding company and fellow subsidiaries	14,140	222	—	14,362	12,214	130	139	12,483
Derivatives (1)	457	9	83	549	—	—	304	304

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

4 Financial instruments

Interest rate benchmark reform

The table below provides an overview of NWH Ltd's 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.

	Rates subject to IBOR reform				Balances not subject to IBOR reform	Expected credit losses	Total
	GBP LIBOR	USD IBOR (1)	EURO IBOR	Other IBOR			
	£m	£m	£m	£m	£m	£m	£m
Amounts due from holding company and fellow subsidiaries	537	5,278	1,019	—	5,546	—	12,380
Amounts due to holding company and fellow subsidiaries	—	8,469	1,791	—	4,102		14,362
Derivatives notional (£bn)	—	11.8	2.2	—	4.0		18.0

Note:
(1) USD LIBOR is now expected to convert to alternative risk free rates in mid-2023 subject to consultation.

AT1 Issuances

As part of its capital management activities NWH Ltd has acquired certain equity instruments issued by its subsidiaries which contain reset clauses linked to IBOR rates. These are reported in investment in group undertakings.

These are outlined below:

	£m
USD$ 1.3 billion 6.49%	934
USD$ 1.35 billion 6.49%	969
USD$ 2 billion 6.4%	1,436

Parent company financial statements and notes

5 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.

				Fair value hierarchy level	
2020	Items where fair value approximates carrying value £bn	Carrying value £bn	Fair value £bn	Level 2 £bn	Level 3 £bn
Financial assets					
Amounts due from holding company and fellow subsidiaries	**—**	**6.7**	**6.9**	**4.7**	**2.2**
Financial liabilities					
Amounts due to holding company and fellow subsidiaries	**—**	**9.6**	**10.1**	**10.1**	**—**
2019					
Financial assets					
Amounts due from holding company and fellow subsidiaries	0.1	5.1	5.2	4.1	1.1
Financial liabilities					
Amounts due to holding company and fellow subsidiaries	0.2	8.5	9.0	9.0	—

6 Financial instruments - maturity analysis

Remaining maturity

The following table shows the residual maturity of financial instruments, based on contractual date of maturity.

	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						
Derivatives	**160**	**666**	**826**	60	411	471
Amounts due from holding company and fellow subsidiaries	**2276**	**10104**	**12,380**	1257	8641	9,898
Liabilities						
Amounts due to holding company and fellow subsidiaries	**330**	**14,032**	**14,362**	367	12,116	12,483
Derivatives	**76**	**473**	**549**	34	270	304

Assets and liabilities by contractual cash flow maturity

The following table shows undiscounted cash flows up to 20 years from the balance sheet date, including future interest payments.

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
Assets by contractual maturity						
Derivatives held for hedging	**33**	**165**	**304**	**107**	**36**	**—**
Amounts due from holding company and fellow subsidiaries (1)	**521**	**1,901**	**863**	**387**	**4,475**	**—**
	554	**2,066**	**1,167**	**494**	**4,511**	**—**
Liabilities by contractual maturity						
Amounts due to holding company and fellow subsidiaries (2)	**82**	**512**	**4,459**	**6,104**	**4,412**	**—**
Derivatives held for hedging	**10**	**87**	**135**	**14**	**—**	**—**
	92	**599**	**4,594**	**6,118**	**4,412**	**—**
2019						
Assets by contractual maturity						
Derivatives held for hedging	(27)	96	158	94	36	—
Amounts due from holding company and fellow subsidiaries (1)	753	647	813	363	4,200	—
	726	743	971	457	4,236	—
Liabilities by contractual maturity						
Amounts due to holding company and fellow subsidiaries (2)	210	486	1,455	7,227	5,258	—
Derivatives held for hedging	(31)	57	63	34	—	—
	179	543	1,518	7,261	5,258	—

For further information on the timing of cash flows to settle financial liabilities, refer to Note 11 on the consolidated accounts.

Notes:
(1) Amounts due from holding company and fellow subsidiaries relating to non-financial instruments have been excluded from the tables.
(2) Amounts due to holding company and fellow subsidiaries relating to non-financial instruments have been excluded from the tables.

Parent company financial statements and notes

7 Subordinated liabilities

Amounts due to the holding company and fellow subsidiaries include £4,919 million (2019 - £4,439 million) of subordinated liabilities. The following tables analyse these intercompany subordinated liabilities:

Dated loan capital	Capital treatment	**2020 £m**	2019 £m
US$2,000 million 6.071% dated notes 2028 (callable anytime from December 2023)	Tier 2	**1,580**	1,585
US$2,250 million 6.108% dated notes 2029 (callable anytime from May 2024)	Tier 2	**1,799**	1,797
US$615 million 6.073% dated notes 2028 (callable anytime from December 2023)	Tier 2	**481**	485
US$750 million 3.754% dated notes 2029	Tier 2	**552**	572
£500 million 3.622% dated notes 2030 (callable once in August 2025)	Tier 2	**507**	—
		4,919	4,439

Issuances in the year (value as at date of transaction)	Capital treatment	**2020 £m**	2019 £m
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

8 Investments in Group undertakings

Investments in Group undertakings are carried at cost less impairment losses. Movements during the year were as follows:

	2020 £m	2019 £m
At 1 January	**36,485**	38,942
Currency translation and other adjustments	**17**	(32)
Additional investments in Group undertaking	**5**	—
Impairment of investments	**(1,192)**	(2,425)
At 31 December	**35,315**	36,485

The additional investment in 2020 relates to the initial capitalisation of NatWest Germany GmbH. The impairment in 2020 mainly relates to NatWest Bank Plc. The impairment in 2019 relates to NWH Ltd's investments in both RBS plc and UBI DAC following the return of capital of £1.8 billion and £0.4 billion respectively.

The key judgement is in determining the recoverable amount. This is the higher of net realisable value and value in use, being an assessment of the discounted future cash flows of the entity. The 2020 charge is mostly related to the company's investment in NatWest Bank Plc which was impaired by £1,150 million at 31 December 2020, primarily due to the decline in value in use as a result of challenging market conditions, including the impact of the COVID-19 pandemic.

Value in use calculations are used in the impairment assessment of investments in subsidiaries. The key judgments are the five-year cash flow forecast, the long-term growth rate used to derive the terminal value, and the discount rate. 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 budgets, including income and cost targets. 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 impact of reasonably possible changes to the more significant variables in the value in use calculations for Natwest Bank Plc are presented below. This reflects the sensitivity of the VIU to each key assumption on its own. It is possible that more than one change may occur at the same time.

	Potential impairment	
	2020 £bn	2019 £bn
1% adverse movement in Discount Rate	**(3.3)**	(4.6)
1% adverse movement in Terminal Growth Rate	**(1.3)**	(2.1)
5% adverse movement in forecast income	**(3.6)**	(6.9)
5% adverse movement in forecast cost	**(2.1)**	(3.6)
£250 million adverse movement in forecast operating profit before tax	**(2.2)**	(2.2)

The principal subsidiary undertakings of the company are shown below. Their capital consists of ordinary shares, preference shares and additional Tier 1 notes which are unlisted with the exception of certain preference shares issued by NWB Plc.

NatWest Bank Plc, RBS plc and Ulster Bank Ireland DAC are directly owned by NWH Ltd; Ulster Bank Limited, Lombard North Central PLC and Coutts & Company are owned by NWH Ltd through NWB Plc. All of these subsidiaries are included in NatWest Group's consolidated financial statements and have an accounting reference date of 31 December.

Name of subsidiary	Nature of business	Country of incorporation and principal area of operation	Company's interest %
National Westminster Bank Plc	Banking	Great Britain	100%
The Royal Bank of Scotland plc	Banking	Great Britain	100%
Coutts & Company (1)	Private Banking	Great Britain	100%
Ulster Bank Ireland Designated Activity Company	Banking	Republic of Ireland	100%
Ulster Bank Limited	Banking	Northern Ireland	100%
Lombard North Central PLC	Leasing	Great Britain	100%

Note:
(1) Coutts & Company is incorporated with unlimited liability.

9 Analysis of changes in financing during the year

	Called up share capital and Paid in Equity		Subordinated liabilities		MRELs	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
At 1 January	**6,939**	6,939	**4,439**	3,848	**3,751**	3,364
Issue of ordinary shares	**—**	—	**—**	—	**—**	—
Issue of subordinated liabilities			**500**	580		
Redemption of subordinated liabilities						
Interest on subordinated liabilities			**(258)**	(226)		
Issue of MRELs					**503**	133
Interest on MRELs					**(161)**	(94)
Net cash (outflow)/inflow from financing	**—**	—	**242**	354	**342**	39
Effects of Foreign Exchange	**—**	—	**(142)**	(130)	**(78)**	(157)
Changes in Fair Value of subordinated liabilities/MRELs	**—**	—	**116**	131	**196**	360
Interest on subordinated liabilities/MRELs	**—**	—	**264**	236	**160**	145
	6,939	6,939	**4,919**	4,439	**4,371**	3,751

10 Directors' and key management remuneration

Directors' remuneration is disclosed in Note 29 on the consolidated accounts. The directors had no other reportable related party transactions or balances with the company.

Parent company financial statements and notes

11 Related undertakings

Legal entities and activities at 31 December 2020

In accordance with the Companies Act 2006, NWH Ltd's related undertakings and the accounting treatment for each are listed below. All undertakings are wholly-owned by NWH Ltd or subsidiaries of NWH Ltd and are consolidated by reason of contractual control (Section 1162(2) CA 2006), unless otherwise indicated. NWH 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 NWH Group and fully consolidated for accounting purposes

Entity name	Activity	Regulatory treatment	Notes
Adam & Company Investment Management Ltd	BF	FC	(8)
Caledonian Sleepers Rail Leasing Ltd	BF	FC	(2)
Coutts & Company	CI	FC	(30)
Coutts Finance Company	BF	FC	(30)
Esme Loans Ltd	BF	FC	(5)
FreeAgent Central Ltd	SC	FC	(6)
FreeAgend 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	(23)
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 Bank Plc	CI	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	(30)
RBS Asset Management Holdings	BF	FC	(30)
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 One Account Ltd	BF	FC	(5)
The Royal Bank of Scotland Group Independent Financial Services Ltd	BF	FC	(18)
The Royal Bank of Scotland plc	CI	FC	(24)
Ulster Bank Ltd	CI	FC	(23)
Ulster Bank Pension Trustees Ltd	TR	DE	(23)
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 NWH 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	(38)
Airside Properties Denmark AS	BF	FC	(38)
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)
First Active Ltd	BF	FC	(16)
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	(38)
Kastrup Hangar 5 K/S	BF	FC	(38)

11 Related undertakings continued

Entity name	Activity	Regulatory treatment	Notes
Kastrup V & L Building K/S	BF	FC	(38)
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)
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	(14)
National Westminster International Holdings B.V.	BF	FC	(39)
NatWest Germany GmbH	OTH	FC	(15)
NatWest Services (Switzerland) Ltd	SC	FC	(31)
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	(26)
Nybergflata 5 AS	BF	FC	(10)
RBS Asset Management (Dublin) Ltd	BF	FC	(37)
RBS Deutschland Holdings GmbH	BF	FC	(15)
RBS Polish Financial Advisory Services Sp. Z o.o.	BF	FC	(21)
RBS Services India Private Ltd	SC	FC	(12)
Ringdalveien 20 AS	BF	FC	(17)
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)
The RBS Group Ireland Retirement Savings Trustee Ltd	TR	DE	(16)
Tygverkstaden 1 KB	BF	FC	(9)
Ulster Bank Dublin Trust Company Unlimited Company	TR	FC	(16)
Ulster Bank Holdings (ROI) Ltd	BF	FC	(16)
Ulster Bank Ireland Designated Activity Company	CI	FC	(16)
Ulster Bank Pension Trustees (RI) Ltd	TR	DE	(16)

The following table details active related undertakings which are 100% owned by NWH Group but are not consolidated for accounting purposes

Entity name	Activity	Regulatory treatment	Notes
West Granite Homes Inc.	INV	DE	(32)

The following table details active related undertakings incorporated in the UK where NWH Group ownership is less than 100%

Entity name	Activity	Accounting treatment	Regulatory treatment	Group %	Notes
Falcon Wharf Limited	OTH	EAJV	PC	50	(36)
GWNW City Developments Ltd	BF	EAJV	DE	50	(36)
Jaguar Cars Finance Ltd	BF	FC	FC	50	(5)
JCB Finance (Leasing) Ltd	BF	FC	FC	75	(35)
JCB Finance Ltd	BF	FC	FC	75	(35)
Landpower Leasing Ltd	BF	FC	FC	75	(35)
London Rail Leasing Ltd	BF	EAJV	PC	50	(13)
Natwest Covered Bonds (LM) Ltd	BF	IA	PC	20	(28)
Natwest Covered Bonds LLP	BF	FC	FC	73	(2)
Pollinate Networks Ltd	OTH	EAA	DE	30	(41)
Silvermere Holdings Ltd	BF	FC	FC	95	(8)

11 Related undertakings continued

The following table details active related undertakings incorporated outside the UK where NWH Group ownership is less than 100%

Entity name	Activity	Accounting treatment	Regulatory treatment	Group %	Notes
Ardmore Securities No.1 DAC	BF	FC	DE	0	(40)
Ardmore Securities No.2 DAC	BF	FC	DE	0	(40)
Celtic Issuer Holdings Limited	BF	FC	DE	0	(42)
Celtic Residential Irish Mortgage Securitisation No 14 DAC	BF	FC	DE	0	(42)
Celtic Residential Irish Mortgage Securitisation No 15 DAC	BF	FC	DE	0	(42)
Dunmore Securities No.1 DAC	BF	FC	DE	0	(40)
Förvaltningsbolaget Klöverbacken Skola KB	BF	FC	FC	51	(9)
Nightingale CRE 2018-1 Ltd	BF	FC	DE	0	(20)
Nightingale Project Finance 2019 1 Ltd	BF	FC	DE	0	(20)
Nightingale Securities 2017-1 Ltd	BF	FC	DE	0	(20)
Nightingale UK Corp 2020 2 Ltd	BF	FC	DE	0	(20)
Optimus KB	BF	FC	FC	51	(9)
Pharos Estates Ltd	OTH	EAA	DE	49	(33)
The Drive4Growth Company Ltd	OTH	EAA	DE	20	(34)
Wiöniowy Management sp. Z.o.o.	SC	EAA	DE	25	(22)

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)
Celtic Residential Irish Mortgage Securitisation No 09 Plc	FC	DE	0	(43)
Celtic Residential Irish Mortgage Securitisation No 10 Plc	FC	DE	0	(43)
Celtic Residential Irish Mortgage Securitisation No 11 Plc	FC	DE	0	(43)
Euro Sales Finance Ltd	FC	FC	100	(5)
First Active Insurances Services Ltd	FC	FC	100	(44)
First Active Investments No. 4 Ltd	FC	FC	100	(44)
Lombard Ireland Group Holdings Unlimited Company	FC	FC	100	(44)
Lombard Ireland Ltd	FC	FC	100	(44)
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)
UB SIG (ROI) Ltd	FC	FC	100	(16)
Ulster Bank Group Treasury Ltd	FC	FC	100	(44)

The following table details related undertakings that are dormant

Entity name	Accounting treatment	Regulatory treatment	Group %	Notes
Adam & Company (Nominees) Ltd	FC	FC	100	(18)
Custom House Docks Basement Management No. 2 Ltd	EAA	DE	25	(27)
Dixon Vehicle Sales Ltd	FC	FC	100	(2)
Dunfly Trustee Ltd	FC	FC	100	(2)
ITB1 Ltd	FC	FC	100	(1)
JCB Finance Pension Ltd	FC	DE	88	(23)
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	(19)
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	(30)
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 the Group

Subsidiary	Geographic location
National Westminster Bank Plc	Germany

11 Related undertakings continued

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)	24/26 City Quay, Dublin 2, D02 NY19	RoI
(12)	6th Floor, Building 2, Tower A, GIL IT/ITES SEZ, Candor TechSpace, Sector 21, Dundahera, Gurugram, Haryana, 122016	India
(13)	99 Queen Victoria Street, London, EC4V 4EH, England	UK
(14)	c/o Advokatfirmaet Wirsholm AS, Dokkveien 1, NO-0250, Oslo	Norway
(15)	Roßmarkt 10, Frankfurt am Main, 60311	Germany
(16)	Ulster Bank Group Centre, George's Quay, Dublin 2, D02 VR98	RoI
(17)	c/o Nordisk Renting AS, 9 Etasje, Klingenberggata 7, NO-0161, Oslo	Norway
(18)	24/25 St Andrew Square, Edinburgh, Midlothian, EH2 1AF, Scotland	UK
(19)	c/o Adv Jan-Erik Svensson, HC Andersens Boulevard 12, Kopenhaum V, 1553	Denmark
(20)	44 Esplanade, St Helier, JE4 9WG	Jersey
(21)	Wiśniowy Business Park, ul. 1-go Sierpnia 8A, Warsaw, 02-134	Poland
(22)	Wisniowy Business Park Ul Ilzecka 26, Building E, Warsaw, 02-135	Poland
(23)	11-16 Donegall Square East, Belfast, Co Antrim, BT1 5UB, Northern Ireland	UK
(24)	36 St Andrew Square, Edinburgh, EH2 2YB, Scotland	UK
(25)	5 Harbourmaster Place, Dublin 1, D01 E7E8	RoI
(26)	c/o CE Serviced Offices Pvt Ltd, Level 1, Tower A, Building No 10, Phase III, DLF Cyber City, Gurgaon, Haryana, 122002	India
(27)	First Floor, 1 Exchange Place, Dublin 1, D01 R8W8	RoI
(28)	1 Bartholomew Lane London EC2N 2AX, England	UK
(29)	Riverside One, Sir John Rogersons Quay, Dublin 2, D02 X576	RoI
(30)	440 Strand, London, WC2R OQS, England	UK
(31)	Lerchenstrasse 18, Zurich, CH-8022	Switzerland
(32)	200, Bellevue Parkway, Suite 210, Wilmington, DE 19809	USA
(33)	24 Demostheni Severi, 1st Floor, Nicosia, 1080	Cyprus
(34)	c/o Denis Crowley & Co Chartered Accountants, Unit 6 Riverside Grove, Co. Cork, P43 W221	RoI
(35)	The Mill, High Street, Rocester, Staffordshire, ST14 5JW, England	UK
(36)	Gate House, Turnpike Road, High Wycombe, Buckinghamshire, HP12 3NR, England	UK
(37)	One Dockland Central, Guild Street, IFSC, Dublin 1, D01 E4X0	RoI
(38)	c/o Visma Services Danmark A/S, Lyskaer 3C-3D, 2730 Herlev, Hjortespring	Denmark
(39)	Kokermolen 16, 3994 Dh Houten	Netherlands
(40)	3rd Floor, Fleming Court, Fleming's Place, Dublin 4, D04 N4X9	RoI
(41)	The Chestnuts Brewers End, Takeley, Bishop's Stortford, CM22 6QJ, England	UK
(42)	Block A, George's Quay Plaza, George's Quay, Dublin 2, Dublin	RoI
(43)	Pinnacle 2, Eastpoint Business Park, Dublin 3, Dublin D03 P580	RoI
(44)	13-18 City Quay , Dublin 2, Dublin, D02 ED70	RoI