Company Registered Number: R000733

ULSTER BANK LIMITED

ANNUAL REPORT AND ACCOUNTS

31 December 2020

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Strategic report

Presentation of information

Ulster Bank Limited ('UBL' or 'the Bank') is a wholly owned subsidiary of National Westminster Bank Plc ('NatWest Bank'). NatWest Bank is in turn a wholly-owned subsidiary of NatWest Holdings Limited ('NatWest Holdings'). The ultimate holding company is NatWest Group plc ('NWG' or the 'ultimate holding company'). 'NatWest Group' or 'the Group' refers to the ultimate holding company and its subsidiary and associated undertakings.

The Bank presents its financial statements in pounds sterling ('£' or 'sterling'). The abbreviation '£m' represents millions of pounds sterling and the abbreviation '£k' represents thousands of pounds sterling. The abbreviation '€' represents 'euros'.

The directors of the Bank present their strategic and directors' reports, together with audited financial statements of the Bank for the financial year ended 31 December 2020. The financial statements are prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

Principal activities

The Bank, operating under the Ulster Bank brand, provides a comprehensive range of financial services through its Retail Banking and Commercial Banking divisions. Retail Banking serves individuals and mass affluent customers through the Bank's network of branches and direct channels, including mobile, internet and telephony. Commercial Banking provides services to small businesses, corporate and commercial customers.

Business review

In November 2020, the Bank wrote to its customers to advise them of its intention, subject to legal approval, to transfer the Ulster Bank Limited business into its immediate parent, NatWest Bank. This reorganisation will see the Ulster Bank brand in Northern Ireland become a trading name of NatWest Bank and simplify the NatWest Group by aligning the legal entity structure with the existing management structure. The proposed simplification will ensure continuity of service under the Ulster Bank brand, with customers continuing to receive the same products and services through the same channels. Colleagues will become employees of NatWest Bank, with their existing benefits and conditions of employment remaining unchanged.

To transfer the business the Bank is using a Court approved Banking Business Transfer Scheme under the Financial Services and Markets Act 2000. The Directions Hearing took place on 12 November 2020 and it is anticipated that the Final Hearing to consider approval of this scheme will be held on 25 March 2021. If the Court grants approval, the Bank expects the transfer will take effect from 3 May 2021.

As part of the wider reorganisation, the Bank, under the Northern Ireland Banknote (Designation of Authorised Bank) Regulations 2020, transferred its authorisation to issue banknotes in Northern Ireland to NatWest Bank. This took effect on 30 November 2020 and the issuance of Ulster Bank banknotes transferred to NatWest Bank on that date. The resulting impact can be seen on the cash and balances at central banks and notes in circulation lines on the Bank's balance sheet.

During the year the Bank was, in common with the wider Northern Ireland economy, significantly impacted by the circumstances arising as a result of COVID-19. The outbreak of the virus and implementation of associated containment measures resulted in a sudden and severe economic impact. The Bank, as part of the NatWest Group, reacted quickly to support its customers and colleagues and has continued to adapt to the unprecedented challenges, ensuring it remains a safe and sustainable bank. The impact of COVID-19 on the Bank's performance in 2020 is illustrated in the *Financial performance* section, below.

The Bank has established a set of key performance indicators (KPIs) to track its performance towards its objectives.

	2020	2019
Net interest margin[1]	1.17%	1.40%
Cost: income ratio	99%	84%
CET1 ratio	19.0%	17.0%
Digitally active customers[2]	68%	63%

Notes:
(1) Net interest margin is calculated on loans to customers and banks including amounts due from holding companies and fellow subsidiaries.
(2) A customer is considered digitally active if they have used online or mobile banking in the preceding 90 days.

The drivers of the changes in the financial ratios are discussed further in the financial performance section of this report.

Financial performance in a challenging environment

The Bank's financial performance is presented in the income statement on page 22. The Bank reported a total loss before tax for the financial year of £42 million (2019 - £20 million profit).

Net interest income

Net interest income decreased by £17 million to £126 million, primarily driven by the Bank of England interest rate reduction from 0.75% to 0.1% in March 2020.

Non-interest income

A £20 million reduction to £79 million was primarily due to a decrease in fee income reflecting reduced transaction-based fees and lower financial planning income as a result of the market impact of COVID-19.

Operating expenses

Operating expenses remained relatively stable at £203 million (2019 - £204 million).

Impairment

The impairment loss of £44 million represents a £26 million increase from £18 million in 2019. The 2020 charge is primarily driven by an increase in credit risk due to the economic uncertainty created by the impacts of the COVID-19 pandemic.

Tax

The Bank recognised a tax credit of £3 million in 2020 (2019 - £4 million tax charge). The current tax credit was recognised on the 2020 losses offset by a £7 million impairment on the deferred tax asset on losses.

Return on assets

At the year end the total assets of the Bank were £11,808 million (2019 - £11,236 million). Return on total assets for 2020 was (0.3)% (2019 - 0.2%).

Capital ratios

The Bank's capital position remained strong during 2020. Its CET1 ratio of 19.0% (2019 - 17.0%) remained significantly above the regulatory minimum.

Outlook

The Bank announced its intention, subject to legal approval, to transfer the Ulster Bank Limited business into its immediate parent, NatWest Bank, in 2021. Following this UBL would surrender its banking license but would retain and manage certain legal titles. The purpose of this reorganisation is to further simplify NatWest Group's legal entity structure and governance processes. The UBL business will continue to provide services for its customers who live, invest and do business in Northern Ireland. This outlook section is written from the perspective of the UBL banking business, notwithstanding the proposed legal entity transfer.

The adverse impact of the COVID-19 pandemic on the UK, global economies and financial markets, the Bank's customers and the implementation of support schemes in response to the impact of the virus, may continue to have a material adverse effect on the Bank's financial results and operations.

In March 2020, the World Health Organization declared the spread of the COVID-19 virus a pandemic. Since then, many countries have periodically imposed strict social distancing measures, restrictions on non-essential activities and travel quarantines, in an attempt to slow the spread of the virus and reduce its impact.

The spread of COVID-19 and implementation of associated containment measures resulted in unprecedented, sharp and sudden impacts in economic activity across a wide range of countries and regions. The UK economy, in common with most countries, went into recession in 2020 as measures were introduced to reduce the spread of the virus. UK economic output fell again in November 2020, according to estimates from the Office for National Statistics, as many restrictions were re-introduced towards the end of 2020 and into 2021. The COVID-19 pandemic has caused significant reductions in levels of personal and commercial activity, increased unemployment and significant market volatility in asset prices, interest rates and foreign exchange rates. It has also caused physical disruption and slow-down to global supply chains and working practices, all of which have affected the Bank's customers. The Bank has significant exposures to many of the commercial sectors economically impacted by the COVID-19 pandemic, including property and retail.

Impacts on some sectors and parts of the economy have been particularly extreme, notably, for example, hospitality, travel and leisure. Government support measures have largely protected the Northern Ireland economy against a severe labour market shock, however it is anticipated that the labour market will deteriorate once these measures are withdrawn, before a sustainable market recovery takes hold. Meanwhile, trends in house prices have shown relative resilience, partly reflecting the fact that COVID-19 labour market impacts have been skewed towards younger age groups, and lower-paid sectors, with such groups less likely to be active in the home-buying market.

Whilst vaccination programmes are currently being deployed globally and underpin expectations around medium-term recovery prospects, the pace of deployment and ultimate effectiveness is uncertain, and these vaccines may fail to achieve sufficient levels of general population immunity. Therefore, significant uncertainties remain as to how long the COVID-19 pandemic will last. Subsequent waves of infection may result in the reintroduction of restrictions in affected countries or regions. Even when restrictions are relaxed, they may be re-imposed, potentially at short notice, if either levels of immunisation are insufficient or new strains of the COVID-19 virus or other diseases develop into new epidemics or pandemics.

Significant uncertainties remain as to the extent of the economic impact of the COVID-19 pandemic, and consequently the path and length of time required to achieve economic recovery. In the short-term the COVID-19 pandemic has adversely affected the credit quality of many of the Bank's borrowers. As a result, the Bank has experienced elevated exposure to credit risk. Significant government and central bank mechanisms to support businesses and individuals, including various forms of financial assistance, as well as legal and regulatory initiatives, including further reductions in interest rates, were introduced in response to the impact of the virus and associated containment measures. It is uncertain how long these initiatives will remain in place, how they may evolve in the future and to what extent the Bank's customers may be negatively impacted when they are scaled back and ultimately ended. If borrowers default or suffer deterioration in credit worthiness, this would increase impairment charges and write-downs. An increase in drawings upon committed credit facilities may also increase the Bank's RWAs.

Furthermore, the ability of households to service their debts could be worsened by a period of high unemployment caused by the COVID-19 pandemic, particularly if prolonged. The Bank's mortgage and wholesale property loans portfolio may also be subject to higher impairment charges as a result of the COVID-19 pandemic if volatility in the property market results in weakened property prices, particularly if default rates increase.

The medium and long-term implications of the COVID-19 pandemic for the Group's customers, the UK housing market, the UK and global economies and financial markets remain uncertain and may continue to have a material adverse effect on the Group's business, operations and outlook.

In line with certain mandated COVID-19 pandemic support schemes, the Bank has sought to assist affected customers with a number of initiatives including NatWest Group's participation in the Bounce Back Loan Scheme ('BBLS'), the Coronavirus Business Interruption Loan Scheme ('CBILS') and the Coronavirus Large Business Interruption Loan Scheme ('CLBILS') products. The Group has sought to manage the risks of fraud and money laundering against the need for the fast and efficient release of funds to customers and businesses. The Group may be exposed to fraud, conduct and litigation risks arising from inappropriate approval (or denial) of BBLS or the enforcing or pursuing repayment of CBILS and BBLS (or a failure to exercise forbearance), which may have a material adverse effect on the Group's reputation and results of operations. The implementation of the initiatives and efforts mentioned above may result in litigation, regulatory and government actions and proceedings. These actions may result in judgements, settlements, penalties or fines. Any of the above could have a material adverse effect on the Group's financial results and operations.

Continuing uncertainty regarding the effects of the UK's withdrawal from the European Union may continue to adversely affect the Bank and its operating environment.

The UK ceased to be a member of the EU and the European Economic Area ('EEA') on 31 January 2020 ('Brexit') and were subject to a transition period that ended on 31 December 2020, with the EU-UK Trade and Cooperation Agreement ('TCA') implemented on 1 January 2021. The TCA establishes a trading agreement between the EU and UK, with zero tariffs and quotas on goods that satisfy rules of origin requirements. Simultaneously the Ireland/Northern Ireland Protocol ("NI Protocol"), an annex to the TCA, was implemented, with Northern Ireland remaining in the EU single market for goods.

The long-term impact of Brexit on the Bank's customers and the wider Northern Ireland economy remains highly uncertain. The TCA does, in several instances, provide for the opportunity of "future development", which may mitigate any downside impacts of the agreement. However, it has resulted in the introduction of non-tariff barriers, re-exporting tariffs and customs duties, all of which may adversely impact the cost and timeliness of Northern Irish supply chains.

The NI Protocol enables the continued free circulation of goods between NI and the EU and may allow for future sector-specific trade opportunities. However, more broadly, significant uncertainty remains as to the full impact of the TCA on the Northern Ireland economy once the various "grace periods" currently in operation, allowing NI businesses and their UK suppliers time to adapt to the new arrangements, expire in the coming months.

Furthermore, the TCA principally covers goods, whilst the coverage of some sectors, including financial services and data is minimal and still subject to future regulatory decisions, thereby leading to continued uncertainty. UK-incorporated financial services providers no longer have EU passporting rights and there is no mutual recognition regime.

The EU's equivalence regime does not cover most lending and deposit taking, and determinations in respect of third countries have not, to date, covered the provision of investment services. In addition, equivalence determinations do not guarantee permanent access rights and can be withdrawn with 30 days' notice. A number of temporary equivalence decisions have been made which cover certain clearing and access to central securities deposits, whilst the temporary arrangement for data transfers recognising adequacy across data protection and privacy rights between EU and UK.

The TCA is accompanied by a Joint Declaration on financial services which sets out an intention for the EU and UK to cooperate on matters of financial regulation and that future equivalence decisions in financial services will be considered under a Memorandum of Understanding framework, expected to be agreed by March 2021. It is anticipated that financial services may largely be subject to individual equivalence decisions by relevant regulators, rather than a blanket decision for all activity. There is, however, no certainty as to the form, scope and timing of any such Memorandum of Understanding or equivalence decisions.

The long-term effects of Brexit on the Group's operating environment remain difficult to predict. Those effects may be impacted by wider global macro-economic trends and events, particularly COVID-19 pandemic related uncertainties, which may significantly impact the Group and its customers who are themselves dependent on trading with the EU or personnel from the EU. Equally, the long-term effects of Brexit may exacerbate the economic impacts of the COVID-19 pandemic on the UK, the Republic of Ireland and the rest of the EU/EEA.

Additionally, the Bank remains vulnerable to risks and uncertainty in the external economic environment, including persistent weakness in the global economy; escalation in global trade disputes; shifts in the international tax policy environment; persistently low or lower interest rates; global financial market volatility linked to the effects of highly accommodative monetary policy settings in advanced economies; political and geopolitical instability and climate change.

Accounting policies

The reported results of the Bank are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its accounts. Details of the Bank's critical accounting policies and key sources of estimation uncertainty are included in the respective notes as further described on page 30.

Risk management

The Bank has established a framework for managing risk, which is continually evolving as the Bank's business activities change in response to market, credit, product, regulatory and other developments. The major risks associated with the Bank's businesses and the Bank's policies for managing each of these risks and its exposure thereto are detailed in Note 15 to the accounts. The principal risk associated with the Bank's business is credit risk.

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 key 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 the Bank.

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 the Bank. 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 Chief Financial Officer (CFO) met with customers throughout the year to enhance relationships and understand their views.

Colleagues

References to "colleagues" in this Report mean all members of the workforce (for example, contractors and 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 COVID-19 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 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 2020 Annual Report and Accounts of NatWest Group plc.

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. Management have consulted and are continuing to engage with trade union and colleague representatives about the proposed transfer of staff as part of the business transfer to NatWest Bank.

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 2020 Annual Report and Accounts of NatWest Group plc and on natwestgroup.com.

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 2020 Annual Report and Accounts of NatWest Group plc 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 2020 Annual Report and Accounts of NatWest Group plc 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, which is applied by the Bank as a member of NatWest Group, is that people with disabilities are given full and fair consideration for employment and subsequent training, career development and promotion based on merit. If colleagues become disabled, it is the policy of NatWest Group, wherever possible, to retain them in their existing jobs or re-deploy them in suitable alternative duties.

Regulators

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

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

Community and environment

Community engagement

Due to the COVID-19 restrictions much of the Bank's traditional community activity such as 'One week in June' was postponed. However, despite this colleagues across the Bank continue to widely support, both financially and through volunteering, many community and other worthy causes. Where possible colleagues continued to volunteer through activities that could be done remotely including virtual MoneySense classes and Princes Trust employability workshops. "Give A Day" offers colleagues an extra three days of annual leave to give their time as volunteers and fundraisers to a charity or cause that matters to them. In November an initiative with the Trussell Trust food banks in Northern Ireland was announced that will span 18 months. This will see Northern Ireland foodbanks linked with local Ulster Bank branches to drive volunteering and fundraising activity. As part of this arrangement the Bank will also work with Trussell Trust on education activity on food poverty in the region for both colleagues and customers.

The Board was 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.

Environment

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

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

How stakeholder interests have influenced decision-making

The Bank 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. The Bank defines principal decisions as those that are material, or of strategic importance to the Bank, 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").

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 2020 Annual Report and Accounts of NatWest Group plc and on natwestgroup.com.

Approval of Strategic report

The Strategic report for the year ended 31 December 2020 set out on pages 1 to 7 was approved by the Board of directors on 18 February 2021.

By order of the Board:

Jan Cargill
Company Secretary
18 February 2021

Chairman
Howard Davies

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

Non-executive directors

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

Board and committees

Chairman
Howard Davies
Nominations (Chair)

Executive directors
Alison Rose

Katie Murray

Independent non-executive directors
Francesca Barnes

Graham Beale
Senior Independent Director
Audit, Nominations, Risk

Ian Cormack
Audit, Remuneration, Risk (Deputy Chair)

Patrick Flynn
Audit (Chair), Nominations, Risk

Morten Friis
Risk (Chair), Audit, Nominations

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

Yasmin Jetha

Mike Rogers
Remuneration

Mark Seligman
Audit, Nominations, Remuneration

Lena Wilson
Remuneration, Risk

Chief Governance Officer and Company Secretary
Jan Cargill

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

Auditors
Ernst & Young
Chartered Accountants and Statutory Auditor
Ernst & Young Building
Harcourt Centre
Harcourt Street
Dublin D02 YA40

Registered office and Head office
11-16 Donegall Square East
Belfast BT1 5UB
Northern Ireland

Ulster Bank Limited
Registered in Northern Ireland No. R0000733

Key:

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

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

The strategic report contains information on risk management, future developments in the business of the Bank, staff involvement and employment of people with disabilities.

Corporate Governance statement

Following the introduction of new reporting requirements in 2019, the directors are required to provide a statement in the Report of the directors stating which corporate governance code, if any, the Bank 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, the Bank 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 the Bank has applied the Wates Principles in the context of its corporate governance arrangements.

1. Purpose and leadership

NatWest Group's purpose is established by the NatWest Group plc Board, promoted across NatWest Group and cascaded to subsidiaries including the Bank. 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 business to thrive". It has galvanised 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 monitors and maintains the consistency of the Bank's activities within the strategic direction of NatWest Group and, as appropriate, the strategies approved by NatWest Holdings for each of the businesses within the NatWest Holdings Group (which comprises NatWest Holdings and its subsidiaries, including the Bank).

Further information on NatWest Group's progress against its purpose and strategy can be found in the 2020 NatWest Group plc 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; continue to support colleagues; drive greater collaboration; and support 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 7.

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 the Bank are considered at least annually.

The Board operates a Boardroom Inclusion Policy which reflects the most recent industry targets and is aligned to the Inclusion Guidelines applying to the wider NatWest Group. The Boardroom Inclusion policy provides a framework to ensure that the Board attracts, motivates and retains the best talent and avoids limiting potential caused by bias, prejudice or discrimination. It currently applies to the Boards of NatWest Group plc, NatWest Holdings, The Royal Bank of Scotland plc (RBS), NatWest Bank and 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 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 the Bank's expense.

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

NatWest Holdings is the holding company for NatWest Group's ring-fenced operations, which include the Bank's retail and commercial businesses. A common board structure is operated such that directors of NatWest Holdings are also directors of RBS, NatWest Bank and 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 the Bank 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 the Bank with the appropriate balance of skills, experience and knowledge as well as independence. Given the nature of the Bank'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 & acquisitions; corporate recovery, resolution and insolvency; stakeholder management; environmental, social and governance (ESG) matters; 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 the Bank's business activities.

The Board monitors the commitment of the Chairman and directors and is satisfied that they are able to allocate sufficient time to enable them to discharge their duties and responsibilities effectively. Any additional external appointments require prior Board approval.

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

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

The Handbook forms part of a wider library of reference materials available via a resources portal. The Board is supported in its succession planning activities, including the recruitment of non-executive directors, by the Nominations Committee, which is responsible for considering and making recommendations to the Board in respect of Board appointments. The Nominations Committee reviews the structure, size and composition of the Board, and makes recommendations to the Board in relation to any necessary changes, having regard to the overall balance of skills, knowledge, experience and diversity on the Board, the length of service of the Board as a whole; and the requirement to keep membership regularly refreshed. The Nominations Committee considers Board composition and succession planning at least annually. The NatWest Group plc Group Nominations and Governance Committee also approves all appointments to the Board, reflecting the Bank's position as a subsidiary within NatWest Group. A review of the effectiveness of the Board, including the Chairman, individual directors and Board Committees, is conducted at least annually.

2020 Performance evaluation

The 2020 evaluation of the NWH Sub Group Boards was facilitated by the Chief Governance Officer and Company Secretary, Jan Cargill, during Q4 2020, alongside the evaluation of the NatWest Group plc Board. The conclusion of the 2020 Board evaluation was that the Board operated effectively throughout the year and fulfilled its remit as set out in its terms of reference. Directors noted the progress made against the 2019 evaluation actions, which were consistent across the NatWest Group plc and NWH Sub Group Boards and are described in more detail in the 2020 NatWest Group plc 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

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 the Bank conflict with the interests of other members of NatWest Group. The Bank 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 the Bank. The Board is collectively responsible for the long-term success of the Bank and the delivery of sustainable value to its shareholders. The Board's role is to provide leadership of the Bank. It monitors and maintains the consistency of the Bank'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 the Bank. It approves the Bank's key financial objectives and keeps the capital and liquidity positions of the Bank under review. The Board's terms of reference include a formal schedule of matters specifically reserved for the Board's decision and are reviewed at least annually.

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

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

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

The Board's key areas of focus for 2020 included coronavirus updates; 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 NatWest Holdings operate as committees of each of NatWest Holdings, NatWest Bank, RBS, 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 and the Bank's system of internal controls along with monitoring the processes for internal audit, risk management 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 the Bank'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 the Bank.

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.

Executive Committee

The Executive Committee comprises the Bank'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 the Bank.

The Board held two 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 the Bank; and considers any material risks and approves, as appropriate, recommended actions escalated by the Board Risk Committee.

The Bank'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.

The Bank 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.

The Bank 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 Bank risk management framework including risk culture, risk governance, risk appetite, risk controls and limits, and risk identification and measurement can be found in the capital and risk management section of this report (pages 47 to 54).

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 the Bank. 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 the Bank 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 the Bank.

Executive remuneration structures incentivise individuals to deliver sustainable performance based on strategic objectives for NatWest Group and the relevant business area. Performance is assessed against a balanced scorecard of financial and non-financial measures and variable pay is subject to deferral as well as malus and clawback provisions to ensure rewards are justified in the long-term.

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

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

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

Further information on the remuneration policy, pay ratios and employee share plans can be found in the Directors' Remuneration Report of the 2020 NatWest Group plc Annual Report and Accounts. Gender and Ethnicity Pay Gap information can be found in the Strategic Report section of the 2020 NatWest Group plc 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 the Strategic Report which includes a section 172(1) statement on pages 4 to 6.

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 the Strategic Report which includes a section 172(1) statement on pages 4 to 6.

Internal control over financial reporting
The internal controls over financial reporting for the Bank are consistent with those at NatWest Group level. The 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 the 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 the Bank are also directors of NatWest Group, their interests in the shares of the ultimate holding company at 31 December 2020 are shown in the Corporate governance, Annual report on remuneration section of the 2020 Annual Report and Accounts of NatWest Group. None of the directors held an interest in the loan capital of the ultimate holding company or in the shares or loan capital of the Bank or its subsidiary, 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 the Bank's Executive Committee, individuals authorised by the PRA/FCA and certain directors and/or officers of NatWest Group's subsidiaries and all trustees of the Ulster Bank pension scheme.

Share capital
Details of the ordinary share capital at 31 December 2020 are shown in Note 13 to the accounts.

Dividends
The directors do not recommend the payment of a final dividend on ordinary shares (2019 - nil). There were no interim dividends approved or paid during 2020 (2019 - nil).

Post balance sheet events
There have been no significant events between the financial year end and the date of approval of the accounts which would require a change to or additional disclosure in the accounts.

Country-by-Country Reporting
The Bank is availing of the exemption under section 5(3) of The Capital Requirements (Country-by-Country Reporting) Regulations 2013 as the information required under the regulations is produced on a consolidated basis by the Bank's ultimate parent company, NatWest Group, and published on its website.

Going concern
The directors, having regard to their intention to transfer the business of the Bank within the next 12 months, have prepared the accounts on a basis other than as a going concern. Assets are reflected at expected recoverable value and liabilities at expected settlement (extinguishment) value. The cost of the business transfer will be borne by NatWest Bank.

Political donations
During 2020, no political donations were made nor any political expenditure incurred (2019: nil).

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 the Bank'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 the Bank's auditors are aware of that information.

Auditors
Ernst & Young are the Bank's auditors and have indicated their willingness to continue in office.

By order of the Board:

Jan Cargill
Company Secretary

18 February 2021

Ulster Bank Limited is registered in Northern Ireland No. R0000733

Statement of directors' responsibilities

This statement should be read in conjunction with the responsibilities of the auditor set out in their report on page 20.

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 the Bank. 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 the Bank 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 the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that to the best of their knowledge:

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

By order of the Board:

Howard Davies Chairman	Alison Rose-Slade Chief Executive Officer	Katie Murray Chief Financial Officer

18 February 2021

Board of directors

Chairman	**Executive directors**	**Non-executive directors**
Howard Davies	Alison Rose-Slade Katie Murray	Francesca Barnes Graham Beale Ian Cormack Patrick Flynn Morten Friis Robert Gillespie Yasmin Jetha Mike Rogers Mark Seligman Lena Wilson

Independent auditor's report to the members of Ulster Bank Limited

Opinion

We have audited the financial statements of Ulster Bank Limited ('the Company') for the year ended 31 December 2020, which comprise the Income Statement, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement, significant accounting policies and the related notes 1 to 23 (excluding those marked as 'unaudited'). 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.

In our opinion, the financial statements:
- give a true and fair view of the Company's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements 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 Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council'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.

Emphasis of matter – financial statements prepared on a basis other than going concern

We draw attention to accounting policy 1 of the financial statements which explains that the directors intend to transfer the entire business to NatWest Bank Plc and therefore do not consider it to be appropriate to adopt the going concern basis of accounting in preparing the financial statements. Accordingly, the financial statements have been prepared on a basis other than going concern as described in accounting policy 1. Our opinion is not modified in respect of this matter.

Overview of our audit approach

Key audit matters	• Impairment provision on loans and advances to customers • IT systems and controls
Materiality	• Overall materiality of £9.8m which represents 2% of Equity

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

There have been no significant changes in scoping that applied in our prior year audit and all audit work was performed directly by, or under the instruction of, the audit engagement team.

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.

<table>
<tr><th>Risk</th><th>Our response to the risk</th></tr>
<tr><th colspan="2">Impairment provision on loans to customers</th></tr>
<tr><td>
At 31 December 2020 the Company reported total gross loans to customers of £3,665m (2019: £3,644m) and £131m (2019: £95m) subject to expected credit losses ('ECL').
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; and
Disclosure - The completeness and preparation of disclosures considering the key judgments, sources of data and the design of the disclosures.

Refer to the Accounting policies and Notes 9 and 15 of the financial statements.
</td><td>
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
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 Company'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 Company 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.
</td></tr>
</table>

	Model estimations - We performed a risk assessment on all models involved in the ECL calculation to select a sample of models to test. We involved modelling specialists to assist us to test this sample of ECL models by testing the assumptions, inputs and formulae used. This included a combination of assessing the appropriateness of model design and formulae used, alternative modelling techniques, recalculating the Probability of Default, Loss Given Default and Exposure at Default, and model implementation. We also considered the results of internal model validation results. To evaluate data quality, we agreed a sample of ECL calculation data points to source systems, including balance sheet data used to run the models and historic loss data to monitor models. We also tested the ECL data points from the calculation engine through to the general ledger and disclosures. We included COVID-19 specific data points in this testing. **Economic scenarios** - We involved economic specialists to assist us to evaluate the base case and alternative economic scenarios, including evaluating probability weights and comparing these to other scenarios from a variety of external sources. This assessment included the latest developments related to COVID-19 and Brexit at 31 December 2020, including the announcement of planned vaccines. We assessed whether forecasted macroeconomic variables were complete and appropriate, such as GDP, unemployment rate, interest rates and the House Price Index. With the support of our modelling specialists we evaluated the correlation and translation of the macroeconomic factors to the ECL. **Adjustments** - We tested material in-model and post-model adjustments including those which were applied as a result of COVID-19. With our modelling specialists, we assessed the completeness of these adjustments and their appropriateness by considering the data, judgments, methodology, sensitivities, and governance of these adjustments as well as considering model shortcomings. **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. Our planned audit procedures were completed without material exception. We are satisfied impairment provisions on loans and advances to customers were reasonable and recognised in accordance with IFRS.

<table>
<tr><th>Risk</th><th>Our response to the risk</th></tr>
<tr><td colspan="2">IT systems and controls</td></tr>
<tr><td>The IT environment is complex and pervasive to the operations of the Company 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
Our audit approach relies upon IT applications and the related control environment including:

• User access management across application, database and operating systems;
• Changes to the IT environment, including transformation that changes the IT landscape including the general ledger and human resource system migrations;
• IT operational controls;
• IT application or IT dependent controls; and
• Evaluation of IT control environment at third party service providers.

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.</td><td>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 noted that several transformation programmes originally due to take place in 2020 have been postponed due to IT spending reprioritisation. For the IT transformations which did happen during the current financial year, we tested system migrations and related technology changes (including where relevant new systems) resulting from them, where material to financial statement reporting. This included verifying the completeness of information transferred to new systems as well as testing the controls in place for both the migration and the new system.

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 Company consolidated their access management tools and moved further in-scope application onto a strategic platform (SLX) which will facilitate most of the Bank'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 in addressing Manage Access IT Risks.

We assessed automated controls within business processes and the reliability of relevant reports used as part of a manual control. This included assessing the integrity of system interfaces, the completeness and accuracy of data feeds, automated calculations and specific input and validation controls.

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.</td></tr>
</table>

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 Company to be £9.8m (2019: £9.7m), which is 2% (2019: 2%) of Equity. We believe that Equity provides us with the most appropriate basis for materiality having considered the expectation of the users of the financial statements and the overall business environment.

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 Company's overall control environment, our judgement was that performance materiality was 75% (2019: 75%) of our planning materiality, namely £7.4m (2019: £7.3m). We have set performance materiality at this percentage due to our prior year experience of the risk of misstatements, both corrected and uncorrected.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.5m (2019: £0.5m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. Our reporting threshold amount is designated at an amount below which misstatements would not be accumulated because we expect that the accumulation of such amounts clearly would not have a material effect on the financial statements.

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, 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 or a material misstatement of the other information. 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 directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report 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 Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

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, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the statement of directors' responsibilities set out on page 14, 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 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 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 Company 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)
  - Companies Act 2006
  - Financial Reporting Council (FRC)
- We understood how the Company is complying with those frameworks by reviewing policy framework, holding discussions with the Company's general counsel and internal audit, amongst others.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by holding discussions with senior management, including the Chief Executive Officer, Chief Financial Officer, Group General Counsel, Head of Internal Audit and Audit Committee Chairman. We also reviewed the fraud-related policies and mandates of different governance forums assessing fraud.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiring of key management, reviewing the key policies and reports on the aforementioned regulatory frameworks as well as reviewing the correspondence exchanged with the Regulators.

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 audit committee we were appointed by the Company on 21 April 2016 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is 5 years, covering the years ending 31 December 2016 to 31 December 2020.

- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting the audit.
- The audit opinion is consistent with the additional report to the 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.

Martina Keane
Senior Statutory Auditor
for and on behalf of Ernst & Young Chartered Accountants, Statutory Auditor
Office: Dublin

Date: 18 February 2021

Income statement for the year ended 31 December 2020

Discontinued operations	Note	2020 £m	2019 £m
Interest receivable		150	193
Interest payable		(24)	(50)
Net interest income	1	126	143
Fees and commissions receivable		40	56
Fees and commissions payable		(5)	(9)
Other operating income		44	52
Non-interest income	2	79	99
Total income		205	242
Staff costs		(87)	(89)
Premises and equipment		(15)	(14)
Other administrative expenses		(95)	(92)
Depreciation, impairment and amortisation		(6)	(9)
Operating expenses	3	(203)	(204)
Profit before impairment losses		2	38
Impairment losses	9	(44)	(18)
Operating (loss)/profit before tax		(42)	20
Tax credit/(charge)	6	3	(4)
(Loss)/profit and total comprehensive (loss)/income for the year		(39)	16
Attributable to:			
Ordinary shareholders		(43)	12
Paid-in equity holders		4	4
		(39)	16

The Bank had no recognised income or expense other than those dealt with in the income statement. Consequently, a statement of comprehensive income is not presented.

The accompanying accounting policies and notes form an integral part of these financial statements.

Balance sheet as at 31 December 2020

Discontinued operations	Note	2020 £m	2019 £m
Assets			
Cash and balances at central banks	8	356	1,076
Derivatives	7	-	3
Loans to banks - amortised cost	8	13	14
Loans to customers - amortised cost	8	3,538	3,556
Amounts due from holding companies and fellow subsidiaries	8	7,824	6,513
Other assets	10	77	74
Total assets		11,808	11,236
Liabilities			
Bank deposits - amortised cost	8	-	6
Customer deposits - amortised cost	8	8,174	7,030
Amounts due to holding companies and fellow subsidiaries	8	3,120	2,795
Derivatives	7	3	6
Notes in circulation		-	842
Other liabilities	12	57	60
Total liabilities		11,354	10,739
Owners' equity		454	497
Total liabilities and equity		11,808	11,236

The accompanying accounting policies and notes form an integral part of these financial statements.

The accounts were approved by the Board of Directors on 18 February 2021 and signed on its behalf by:

Howard Davies Chairman	Alison Rose-Slade Chief Executive Officer	Katie Murray Chief Financial Officer

Ulster Bank Limited is registered in Northern Ireland No. R0000733

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	254	254
Paid-in equity - at 1 January and 31 December	60	60
Retained earnings - at 1 January	183	172
Implementation of IFRS 16 on 1 January 2019	-	(1)
(Loss)/profit attributable to ordinary shareholders	(43)	12
Profit attributable to paid-in equity holders	4	4
Paid-in equity coupon payments	(4)	(4)
At 31 December	140	183
Owners' equity at 31 December	454	497
Owners' equity is attributable to:		
Ordinary shareholders	394	437
Paid-in equity holders	60	60
	454	497

The accompanying accounting policies and notes form an integral part of these financial statements.

Cash flow statement for the year ended 31 December 2020

Discontinued operations	Note	2020 £m	2019 £m
Cash flows from operating activities			
Operating (loss)/profit before tax		(42)	20
Depreciation and impairment of property, plant and equipment		6	9
Provisions charges		10	21
Impairment losses		44	18
Elimination of foreign exchange differences		3	(1)
Other non-cash items		2	(2)
Net cash flows from trading activities		23	65
(Increase)/decrease in loans to banks and customers		(26)	135
(Increase)/decrease in amounts due from holding companies and fellow subsidiaries		(204)	57
Increase in other assets		-	(8)
Increase in derivative assets and liabilities		-	(1)
Increase in bank and customer deposits		1,138	58
Increase/(decrease) in amounts due to holding companies and fellow subsidiaries		319	(499)
(Decrease)/increase in notes in circulation		(842)	21
Decrease in other liabilities		(7)	(9)
Changes in operating assets and liabilities		378	(246)
Income taxes paid		(8)	(11)
Net cash flows from operating activities[1]		393	(192)
Cash flows from investing activities			
Purchase of property, plant and equipment		(9)	(3)
Sale of property, plant and equipment		1	-
Net cash flows from investing activities		(8)	(3)
Cash flows from financing activities			
Paid-in equity coupon payments		(4)	(4)
Net cash flows from financing activities		(4)	(4)
Effect of exchange rate changes on cash and cash equivalents		3	(5)
Net increase/(decrease) in cash and cash equivalents		384	(204)
Cash and cash equivalents 1 January[2]	18	5,290	5,494
Cash and cash equivalents 31 December	18	5,674	5,290

Note:
(1) Includes interest received of £147 million (2019 – £193 million) and interest paid of £26 million (2019 – £50 million).
(2) 2019 data has been restated to exclude loans to banks with a maturity of more than 3 months (1 January 2019 - £14 million, 31 December 2019 - £8 million) from cash and cash equivalents.

The accompanying notes form an integral part of these financial statements.

1. Presentation of accounts

The accounts, set out on pages 22 to 88 including these accounting policies on pages 26 to 30 and the audited sections of Risk management on pages 47 to 84, are prepared on a basis other than as a going concern (see the Report of the directors, page 13) 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.

The company is incorporated in the UK and registered in Northern Ireland. Its accounts are presented in accordance with the Companies Act 2006.

The accounts are presented in the functional currency, pounds sterling.

Preparation of the accounts on an other than going concern basis has not had any impact on the valuation of assets or liabilities on the Bank's balance sheet. As asset and liabilities will transfer to NatWest Bank Plc at book value as a business under common control they are measured consistently with previous periods and in accordance with existing accounting policies. As the entire business is being transferred it is considered a disposal group and therefore is presented in the accounts as discontinued operations.

Accounting changes effective 1 January 2020

Amendments to International Financial Reporting Standard (IFRS) 3 Business Combinations - Changes to the definition of a business

The International Accounting Standards Board (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 International Accounting Standard (IAS) 1 – Presentation of Financial Statements and IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors

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. The Bank'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. The Bank 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 addresses the wider accounting issues arising from the IBOR reform. This was published in August 2020. The amendments are effective for annual reporting periods beginning on or after 1 January 2021 with early application permitted. As the Bank 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, the Bank has applied international accounting standards which have been adopted for use within the UK. The Group's IBOR transition program remains on-track and key milestones have been met. Conversion from rates subject to reform to alternative risk-free rates (RFRs) is expected to increase as RFR-based products become more widely available and key market-driven conversion events occur.

2. Basis of consolidation

The accounts contain information about Ulster Bank Limited as an individual company and do not contain consolidated financial information as the parent of a group. The company is exempt under IFRS 10 'Consolidated Financial Statements' from the requirement to prepare consolidated accounts as the company and its subsidiary are included by full consolidation in the IFRS consolidated accounts of its ultimate parent, NatWest Group, a public company registered in Scotland.

3. Revenue recognition

Interest income or expense relates to financial instruments measured at amortised cost and debt instruments classified as fair value through Other comprehensive income (OCI) using the effective interest rate method. 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 is classified as held for sale if the Bank will recover its carrying amount principally through a sale transaction rather than through continuing use. A non-current asset classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell. If the asset is acquired as part of a business combination, it is initially measured at fair value less costs to sell. Non current assets classified as held for sale are shown under the heading of Other assets on the balance sheet.

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 NatWest Group or by NatWest Group plc shares. NatWest Group operates a number of share-based compensation schemes under which it awards NatWest Group plc shares and share options to its employees. Such awards are generally subject to vesting conditions.

Variable compensation that is settled in cash or debt instruments is charged to profit or loss on a straight-line basis over the vesting period, taking account of forfeiture and clawback criteria.

Contributions to defined contribution pension schemes are recognised in profit or loss when payable.

For defined benefit schemes, the defined benefit obligation is measured on an actuarial basis. Actuarial gains and losses (i.e. gains and/or losses on re-measuring the net defined benefit asset or liability) are recognised in other comprehensive income in full in the period in which they arise. The difference between scheme assets and scheme liabilities, the net defined benefit asset or liability, is recognised in the balance sheet subject to the asset ceiling test which requires the net defined benefit surplus to be limited to the present value of any economic benefits available to the Bank 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 recognised in operating expenses.

6. Property, plant and equipment
Items of property, plant and equipment 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 the Bank's property, plant and equipment are:

Freehold buildings	50 years
Long leasehold property (leases with more than 50 years to run)	50 years
Short leaseholds	unexpired period of lease
Property adaptation costs	10 to 15 years
Computer equipment	up to 5 years
Other equipment	4 to 15 years

The residual value and useful life of property, plant and equipment are reviewed at each balance sheet date and updated for any changes to previous estimates.

7. Impairment of right of use assets and property, plant and equipment
At each balance sheet date, the Bank assesses whether there is any indication that its right of use assets or property, plant and equipment are impaired. If any such indication exists, the Bank estimates the recoverable amount of the asset and the impairment loss, if any.

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.

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 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.

8. Leases
As lessee
On entering a new lease contract, the Bank 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.

9. Provisions and contingent liabilities
The Bank 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 the Bank has a constructive obligation to restructure. An obligation exists when the Bank 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.

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

10. 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 the Bank has a legally enforceable right to offset.

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. The Bank 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.

11. 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 the Bank 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 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 of 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.

12. 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 – 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 probability of default (PDs), exposure at default (EADs) and loss given default (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.

Impaired loans are written off when the Bank 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 Bank'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.

Provision is made for expected credit loss on loan commitments, other than those classified as Held-for-trading (HFT), if it is probable that the facility will be drawn and the resulting loan will be recognised at an amount less than the cash advanced.

13. Financial guarantee contracts

Under a financial guarantee contract, the Bank, 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 12. Amortisation is calculated to recognise fees receivable in profit or loss over the period of the guarantee.

14. 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 the Bank retains substantially all the risks and rewards of ownership. If substantially all the risks and rewards have been neither retained nor transferred, the Bank 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.

15. Netting

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

16. Derivatives

Derivative financial instruments are initially recognised, and subsequently measured, at fair value. The Bank'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 8 to 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 are included in Other operating income.

Gains and losses are recorded in income from trading activities except for gains and losses on those derivatives that are managed together with financial instruments designated at fair value; these gains and losses are included in Other operating income.

17. 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.

Critical accounting policies and key sources of estimation uncertainty

The reported results of the Bank are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. UK company law and IFRS require the directors, in preparing the Bank's financial statements, 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 the Bank'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 the Bank 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 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. 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 referenced in the table below (as applicable).

Critical accounting policy	Note
Deferred tax	6
Loan impairment provisions	9
Provisions for liabilities and charges	12

Future accounting developments

International Financial Reporting Standards

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 Bank would not be affected by this amendment.

Given the intention to transfer the Bank's business to NatWest Bank other new standards and amendments that are effective for annual periods beginning after 1 January 2022 are not considered to have a material impact.

Notes to the accounts

1. Net interest income

	2020 £m	2019 £m
Loans to banks - amortised cost	1	3
Loans to customers - amortised cost	112	129
Amounts due from holding company and fellow subsidiaries	37	61
Interest receivable	150	193
Customer deposits - amortised cost	(11)	(26)
Amounts due to holding company and fellow subsidiaries	(13)	(24)
Interest payable	(24)	(50)
Net interest income	126	143

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.

2. Non-interest income

	2020 £m	2019 £m
Net fees and commissions (Note 4)	35	47
Other operating income:		
Income on services provided to other NatWest Group companies	48	53
Cost of economic hedging		
- Foreign exchange	(1)	1
- Interest rates	(1)	(1)
Other income	(2)	(1)
	44	52
Non-interest income	79	99

3. Operating expenses

	2020 £m	2019 £m
Wages, salaries and other staff costs	60	59
Temporary and contractor costs	5	4
Social security costs	6	7
Pension costs		
- defined benefit schemes (Note 5)	10	10
- defined contribution schemes	2	2
Restructure costs	4	7
Staff costs	87	89
Premises and equipment	15	14
Depreciation, impairment and amortisation (Note 11)	6	9
Other administrative expenses	95	92
Administrative expenses	116	115
	203	204

3. Operating expenses continued

The average number of persons employed by the Bank during the year, excluding temporary staff, was 1,789 (2019 - 1,848). The average number of temporary employees during 2020 was 150 (2019 - 145). The number of persons employed by the Bank at 31 December, excluding temporary staff, was as follows:

	2020 Number	2019* Number
Retail Banking	709	836
Commercial Banking	182	170
Other	814	805
	1,705	1,811

*2019 data has been restated for a business re-segmentation completed during the year and to include staff on long term leave.

Other principally comprises staff members whose roles involve the provision of services exclusively to other companies in NatWest Group including attributable central costs at an arm's length transfer pricing mark up. The staff costs of these employees are recharged to the companies they provide services to.

Amounts paid to the auditors for the statutory audit and other services are set out below:

	2020 £k	2019 £k
Fees payable for the audit of the Bank's annual accounts	349	346
Total audit and audit related assurance service fees	349	346

Other than the amounts disclosed above, no remuneration was payable in respect of tax advisory services and other non-audit services. Auditors' remuneration is disclosed exclusive of VAT.

4. Segmental analysis

Reportable operating segments

The Bank operates entirely in the UK and is managed by the following classes of business on which basis the segmental analysis is presented.

Retail Banking serves individuals and mass affluent customers through a network of branches and direct channels, including the internet, mobile and telephony.

Commercial Banking including Business Banking, provides services to commercial and corporate customers.

Other represents central functions comprising Treasury, Customer Debt Solutions, Finance, Risk, Legal and Human Resources which support the Retail Banking and Commercial Banking divisions and other NatWest Group subsidiaries. The services provided to other NatWest Group companies are invoiced through the Bank's transfer pricing process on an arm's length basis including an appropriate mark up on costs incurred.

	2020				2019			
	Retail Banking £m	Commercial Banking £m	Other £m	Total £m	Retail Banking £m	Commercial Banking £m	Other £m	Total £m
Net interest income	72	54	-	126	84	59	-	143
Net fees and commissions	12	23	-	35	23	24	-	47
Other operating income	-	(4)	48	44	(1)	(4)	57	52
Total income	84	73	48	205	106	79	57	242
Operating profit/(loss) before tax	17	43	(102)	(42)	55	46	(81)	20
Total assets	2,253	1,646	7,909	11,808	3,137	1,514	6,585	11,236
Total liabilities	(4,936)	(3,270)	(3,148)	(11,354)	(5,309)	(2,600)	(2,830)	(10,739)
Net (liabilities)/assets	(2,683)	(1,624)	4,761	454	(2,172)	(1,086)	3,755	497

4. Segmental analysis continued

Analysis of net fees and commissions

	2020			2019		
	Retail Banking	Commercial Banking	Total	Retail Banking	Commercial Banking	Total
	£m	£m	£m	£m	£m	£m
Fees and commissions receivable						
- Payment services	4	17	21	11	19	30
- Credit and debit card fees	10	2	12	16	2	18
- Lending (credit facilities)	1	4	5	1	4	5
- Brokerage	-	-	-	1	-	1
- Other	1	1	2	1	1	2
Total	16	24	40	30	26	56
Fees and commissions payable	(4)	(1)	(5)	(7)	(2)	(9)
Net fees and commissions	12	23	35	23	24	47

5. Pensions

Defined contribution scheme
The Bank contributes to its own defined contribution scheme and a small number of NatWest Group pension schemes, the costs of which are accounted for as defined contributions, which new employees are offered the opportunity to join.

Defined benefit scheme
The Bank sponsors the Ulster Bank Pension Scheme (UBPS), which operates under Northern Ireland 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 Northern Ireland legislation.

A pension fund trustee is appointed to operate the fund and ensure benefits are paid in accordance with scheme rules and national law. The trustee is the legal owner of the scheme's assets and has a duty to act in the best interests of all scheme members.

The scheme generally provides 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 is contributory for current members.

It has 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 the Bank.

The UBPS corporate trustee is Ulster Bank Pension Trustees Limited (UBPTL), a wholly owned subsidiary of the Bank. UBPTL is the legal owner of the scheme assets which are held separately from the assets of the Bank. The board of UBPTL comprises three trustee directors nominated by members, selected from eligible active staff, deferred and pensioner members who apply, and six appointed by the Bank.

Following the expected transfer of the Bank's business to NatWest Bank, the intention is that NatWest Bank will take over the Bank's role as sponsor to the UBPS. No other changes to membership or pension benefits are expected as a result of the transfer.

Under Northern Ireland 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).

Investment strategy
The assets of the UBPS are invested in a diversified portfolio as shown in the table below.

The scheme employs derivative instruments to achieve a desired asset class exposure and to reduce the scheme's interest rate, inflation and currency risk. This means that the net funding position is considerably less sensitive to changes in market conditions than the value of the assets or liabilities in isolation.

	2020			2019		
Major classes of plan assets as a percentage of total plan assets of the scheme	Quoted %	Unquoted %	Total %	Quoted %	Unquoted %	Total %
Equities	2	-	2	2	3	5
Index linked bonds	33	-	33	32	-	32
Government bonds	6	-	6	4	-	4
Corporate and other bonds	25	4	29	19	4	23
Hedge funds	-	-	-	-	4	4
Real estate	-	3	3	-	3	3
Derivatives	-	12	12	-	12	12
Cash and other assets	-	15	15	-	17	17
	66	34	100	57	43	100

5. Pensions continued

Changes in value of net pension asset	Fair value of plan assets £m	Present value of defined benefit obligations £m	Asset ceiling/ minimum funding(1) £m	Net pension surplus £m
At 1 January 2019	1,141	(838)	(303)	-
Income statement	33	(34)	(9)	(10)
Statement of comprehensive income	77	(136)	59	-
Contributions by employer	10	-	-	10
Contributions by plan participants	1	(1)	-	-
Benefits paid	(43)	43	-	-
At 1 January 2020	1,219	(966)	(253)	-
Income statement	24	(29)	(5)	(10)
Net interest expense	24	(19)	-	5
Current service cost	-	(8)	-	(8)
Expenses	-	(2)	-	(2)
Interest on the asset ceiling	-	-	(5)	(5)
Statement of comprehensive income	151	(201)	50	-
Return on plan assets above recognised interest income	151	-	-	151
Experience gains and losses	-	4	-	4
Effect of changes in actuarial financial assumptions	-	(176)	-	(176)
Effect of changes in actuarial demographic assumptions	-	(29)	-	(29)
Asset ceiling/minimum funding adjustments	-	-	50	50
Contributions by employer(2)	10	-	-	10
Contributions by plan participants	1	(1)	-	-
Benefits paid	(44)	44	-	-
At 31 December 2020	1,361	(1,153)	(208)	-

Notes:
(1) In recognising the net surplus or deficit of a pension scheme, the funded status of the scheme is adjusted to reflect any minimum funding requirement imposed on the sponsor and any ceiling on the amount that the sponsor has a right to recover from the scheme.
(2) The Bank expects to contribute £9 million to its defined benefit pension scheme in 2021.

Amounts recognised on the balance sheet	2020 £m	2019 £m
Fund assets at fair value	1,361	1,219
Present value of fund liabilities	(1,153)	(966)
Funded status	208	253
Asset ceiling/minimum funding	(208)	(253)
Retirement benefit asset	-	-

Amounts recognised in the income statement	2020 £m	2019 £m
Operating expenses	10	10

Funding and contributions by the Bank

In Northern Ireland, the trustees of defined benefit pension schemes are required to perform funding valuations every three years. The trustee and the Bank, 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. The latest funding valuation of the scheme was at 31 December 2018 and the next funding valuation is due at 31 December 2021, to be agreed by 31 March 2023.

The triennial funding valuation of the scheme as at 31 December 2018 determined the funding level to be 108%, pension liabilities to be £1,056 million and the surplus to be £84 million. The average cost of the future service of current members is 46% of pensionable salary before contributions from those members. During early 2020 (and concluding in March 2020), the terms of the 31 December 2018 funding valuation of the UBPS were agreed with the Trustee. Agreed contributions cover the ongoing accrual of benefits by employees and the expenses of the pension scheme.

5. Pensions continued

Assumptions

Placing a value on the Bank's defined benefit pension scheme's liabilities requires the Bank's management to make a number of assumptions, with the support of independent actuaries. The ultimate cost of the defined benefit obligations will depend 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.

A year-end valuation of the Bank's scheme was prepared to 31 December 2020 by independent actuaries using the following assumptions:

	Principal IAS 19 actuarial assumptions		Principal assumptions of 2018 triennial valuation
	2020	2019	2018
	%	%	%
Discount rate	1.40	2.05	Fixed interest yield curve plus 0.4% per annum at all durations
Inflation assumption (CPI)	2.40	2.10	RPI swap yield curve less 0.7% per annum
Rate of increase in salaries	1.75	1.75	CPI curve adjusted to reflect a 0% per annum floor and 2% per annum cap
Rate of increase in deferred pensions	3.00	2.95	RPI curve
Rate of increase in pensions in payment	0.00-2.45	0.00-2.25	Inflation curves adjusted to reflect the floor and cap
Proportion of pension converted to a cash lump sum at retirement	25.00	25.00	25.00
Longevity:	years	years	years
Current pensioners, aged 70 years			
Males	19.4	19.2	19.8
Females	20.8	20.5	21.1
Future pensioners, currently aged 63 years			
Males	25.9	25.6	26.3
Females	27.5	27.1	27.9

These post-retirement mortality assumptions are derived from standard mortality tables used by the scheme actuary to value the liabilities for the scheme.

Discount rate

The IAS 19 valuation uses a single discount rate 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 average duration of the Bank's defined benefit obligation at 31 December 2020 is 23 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.

The table below sets out the sensitivities of the pension cost for the financial year and the present value of defined benefit obligations at the balance sheet dates if the key assumptions used were changed independently. In practice, the variables are somewhat correlated and do not move completely in isolation.

	(Decrease)/increase in pension cost for the year		(Decrease)/increase in obligation at 31 December	
	2020	2019	2020	2019
	£m	£m	£m	£m
0.25% increase in the discount rate	(0.7)	(0.6)	(64)	(49)
0.25% increase in inflation	0.3	0.2	40	25
Longevity increase of 1 year	0.3	0.3	37	28
0.25% additional rate of increase in pensions in payment	0.4	0.3	32	24
0.25% additional rate of increase in deferred pensions	-	-	16	11
0.25% additional rate of increase in salaries	0.4	0.3	8	6

5. Pensions continued

The defined benefit obligation is attributable to the different classes of scheme members in the following proportions:

Membership category	2020 %	2019 %
Active	22.9	21.6
Deferred	36.1	33.8
Pensioners and dependants	41.0	44.6
	100.0	100.0

The experience history of the scheme is shown below:

History of defined benefit scheme	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Fair value of plan assets	1,361	1,219	1,141	1,191	1,162
Present value of defined benefit obligations	(1,153)	(966)	(838)	(896)	(884)
Net surplus	208	253	303	295	278
Experience gains/(losses) on plan liabilities	4	(6)	(1)	(1)	42
Experience gains/(losses) on plan assets	151	77	(44)	9	200
Actual return on pension scheme assets	175	110	(14)	40	236
Actual return on pension scheme assets	14.4%	9.6%	(1.2%)	3.4%	25.9%

6. Tax

	2020 £m	2019 £m
Current tax		
Credit/(charge) for the year	11	(9)
(Under)/over provision in respect of prior periods	(1)	2
	10	(7)
Deferred tax		
Charge for the year	-	(1)
Reduction in the carrying value of deferred tax assets in respect of losses	(8)	(2)
Over provision in respect of prior periods	1	6
	(7)	3
Tax credit/(charge) for the year	3	(4)

The actual tax credit/(charge) differs from the expected tax credit/(charge) computed by applying the main UK corporation tax rate of 19% (2019 - 19%).

	2020 £m	2019 £m
Expected tax credit/(charge)	8	(4)
Non-deductible items	(2)	(4)
Tax credit on paid-in equity	1	1
Surcharge on banking companies	3	(3)
Reduction in the carrying value of deferred tax asset in respect of losses	(8)	(2)
UK tax rate change impact(1)	1	-
Adjustments to tax charge in respect of prior periods	-	8
Actual tax credit/(charge) for the financial year	3	(4)

Note:
(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.

6. Tax continued

Deferred tax

Net deferred tax asset comprised:

	Accelerated capital allowances £m	Deferred gains £m	Tax losses carried forward £m	Other £m	Total £m
At 1 January 2019	3	(7)	19	2	17
Charge to income statement	-	-	(2)	1	(1)
Adjustments in respect of prior years	-	7	(2)	(1)	4
At 1 January 2020	3	-	15	2	20
Charge to income statement	(1)	-	1	-	-
Adjustments in respect of prior years	-	-	(8)	1	(7)
At 31 December 2020	2	-	8	3	13

Critical accounting policy: Deferred tax

The deferred tax asset of £13 million as at 31 December 2020 (2019 - £20 million) principally comprises losses 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.

Judgement - The Bank has considered their carrying value as at 31 December 2020 and concluded that, based on management's estimates, sufficient taxable profits will be generated in future years to recover a recognised deferred tax asset of £8 million (2019 - £15 million). Therefore, £7 million of the deferred tax asset on losses carried at 1 January 2020 was derecognised during the year.

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 the effects of the COVID-19 pandemic, Brexit and climate change. The Bank expects the deferred tax asset to be consumed by future taxable profits by the end of 2026.

UK tax losses

Under UK tax rules, tax losses can be carried forward indefinitely. As the recognised tax losses in the Bank 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.

Unrecognised deferred tax

Deferred tax assets of £22 million (2019 - £12 million) have not been recognised in respect of tax losses carried forward of £116 million (2019 - £68 million) where doubt exists over the availability of future taxable profits.

7. Derivatives

The Bank transacts derivatives to manage balance sheet foreign exchange, interest rate and credit risk.

The following table shows the notional amount and fair value of the Bank's derivatives.

	2020			2019		
	Notional amount £m	Assets £m	Liabilities £m	Notional amount £m	Assets £m	Liabilities £m
Over-the-counter derivatives						
Foreign exchange contracts	-	-	-	75	1	1
Interest rate contracts	25	-	3	1,453	2	5
	25	-	3	1,528	3	6
Amounts above include						
Due from/to fellow subsidiaries	25	-	3	1,528	3	6

8. Financial instruments – classification

The following tables analyse the Bank's financial assets and financial liabilities in accordance with the categories of financial instruments on an IFRS 9 basis at 31 December 2020. Assets and liabilities outside the scope of IFRS 9 are shown within other assets and other liabilities.

2020	MFVTPL £m	HFT £m	Amortised cost £m	Other assets/ liabilities £m	Total £m
Assets					
Cash and balances at central banks	-	-	356	-	356
Loans to banks - amortised cost	-	-	13	-	13
Loans to customers - amortised cost	-	-	3,538	-	3,538
Amounts due from holding companies and fellow subsidiaries	-	-	7,824	-	7,824
Other assets	-	-	-	77	77
	-	-	11,731	77	11,808
Liabilities					
Customers deposits - amortised cost	-	-	8,174	-	8,174
Amounts due to holding companies and fellow subsidiaries	-	-	3,120	-	3,120
Derivatives	-	3	-	-	3
Other liabilities(1)	-	-	13	44	57
	-	3	11,307	44	11,354
Equity					454
					11,808

2019	MFVTPL £m	HFT £m	Amortised cost £m	Other assets/ liabilities £m	Total £m
Assets					
Cash and balances at central banks	-	-	1,076	-	1,076
Derivatives	3	-	-	-	3
Loans to banks - amortised cost	-	-	14	-	14
Loans to customers - amortised cost	-	-	3,556	-	3,556
Amounts due from holding companies and fellow subsidiaries	-	-	6,513	-	6,513
Other assets	-	-	-	74	74
	3	-	11,159	74	11,236
Liabilities					
Bank deposits - amortised cost	-	-	6	-	6
Customers deposits - amortised cost	-	-	7,030	-	7,030
Amounts due to holding companies and fellow subsidiaries	-	-	2,795	-	2,795
Derivatives	-	6	-	-	6
Notes in circulation	-	-	842	-	842
Other liabilities(1)	-	-	14	46	60
	-	6	10,687	46	10,739
Equity					497
					11,236

Notes:
(1) Includes lease liabilities held at amortised cost of £13 million (2019 - £14 million).
(2) There are no financial instruments that are subject to IAS 32 (on balance sheet) netting arrangements or subject to enforceable master netting instruments or similar agreements that are not set off in accordance with IAS 32.

Amounts due to/from holding companies and fellow subsidiaries comprise:

	2020 £m	2019 £m
Amounts due from holding companies and fellow subsidiaries		
Loans to banks - amortised cost	7,824	6,513
Amounts due to holding companies and fellow subsidiaries		
Bank deposits - amortised cost	3,011	2,681
Customers deposits - amortised cost	1	12
Subordinated liabilities	108	102
	3,120	2,795

8. Financial instruments - classification continued

Interest rate benchmark reform

In 2020, the Group continued to implement its entity-wide LIBOR program 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 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.

Our group-wide program 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.
- Changes to processes and systems covering front-end, risk and finance systems.

The 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 the funding, liquidity and risk management has also been conducted. This is expected to be fully implemented over the course of 2021. The Group also focused and 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.

The Group also remained engaged with regulators, standard setters and other market participants on key matters related with the IBOR reform and an open dialogue is expected throughout 2021. We expect that our program will meet all timelines set by the regulators.

The table below provides an overview of the Bank'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.

	Rate subject to IBOR reform				Balances not subject to IBOR reform	Expected credit losses	Total
	GBP LIBOR	USD IBOR[(1)]	EURO IBOR	Other IBOR			
2020	£m	£m	£m	£m	£m	£m	£m
Loans to customers - amortised cost	312	3	-	46	3,305	(128)	3,538
Amounts due to holding companies and fellow subsidiaries	-	-	108	-	3,012	-	3,120
Loan commitments	72	1	-	5	773	-	851

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

Financial instruments – valuation

In accordance with Accounting policies 11 and 16, 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, the Bank maximises the use of relevant observable inputs and minimises the use of unobservable inputs.

Where the Bank manages a group of financial assets and financial liabilities on the basis of its net exposure to either market risk 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.

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.

8. Financial instruments – valuation continued

Valuation of financial instruments carried at fair value

Fair Value Hierarchy

Financial Instruments carried at fair value have been classified under the IFRS fair value hierarchy as follows:

Level 1 – Instruments valued using unadjusted quoted prices in active and liquid markets, for identical financial instruments. Examples include government bonds, listed equity shares and certain exchange-traded derivatives.

Level 2 - Instruments valued using valuation techniques that have observable inputs. Examples include most government agency securities, investment-grade corporate bonds, certain mortgage products, including collateralised loan obligations (CLO), 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 and derivatives with unobservable model inputs.

The following table shows the financial instruments carried at fair value by valuation method:

	2020				2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Assets								
Derivatives	-	-	-	-	-	3	-	3
Total	-	-	-	-	-	3	-	3
Liabilities								
Derivatives	-	3	-	3	-	6	-	6
Total	-	3	-	3	-	6	-	6

The following table show the carrying values and the fair values of financial instruments on the balance sheet carried at amortised cost. The fair value of the cash and balances at central banks has been determined using procedures consistent with the requirements of level 2 valuation methodologies. All other balances have been fair valued using procedures that fall within level 3 of the fair value methodologies.

	2020		2019	
	Carrying value	Fair value	Carrying value	Fair value
	£m	£m	£m	£m
Financial assets				
Cash & balances at central banks	356	356	1,076	1,076
Loans to banks - amortised cost	13	13	14	14
Loans to customers - amortised cost	3,538	3,493	3,556	3,516
Amounts due from holding companies and fellow subsidiaries				
- Loans to banks - amortised cost	7,824	7,824	6,513	6,513
Financial liabilities				
Bank deposits - amortised cost	-	-	6	6
Customer deposits - amortised cost	8,174	8,174	7,030	7,030
Amounts due to holding companies and fellow subsidiaries				
- Bank deposits	3,011	3,011	2,681	2,681
- Customer deposits	1	1	12	12
- Subordinated liabilities	108	98	102	93
Other liabilities - Notes in circulation	-	-	842	842

8. Financial instruments – valuation continued

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 loans to banks and customers measured at amortised cost, the Bank's loans are segregated into appropriate portfolios reflecting the characteristics of the constituent loans.

The principal method used to estimate fair value in the Bank is to discount expected cash flows at the current offer rate for the same or similar products.

Bank and customer deposits

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

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.

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	356	-	356	1,076	-	1,076
Derivatives	-	-	-	1	2	3
Loans to banks - amortised cost	13	-	13	14	-	14
Loans to customers - amortised cost	700	2,838	3,538	817	2,739	3,556
Amounts due from holding companies and fellow subsidiaries	5,524	2,300	7,824	4,777	1,736	6,513
Liabilities						
Bank deposits - amortised cost	-	-	-	6	-	6
Customer deposits - amortised cost	8,174	-	8,174	7,030	-	7,030
Lease liabilities	1	12	13	1	13	14
Amounts due to holding companies and fellow subsidiaries	2,747	373	3,120	2,678	117	2,795
Derivatives	-	3	3	1	5	6

Liabilities by contractual cash flow maturity

The following table shows, by contractual maturity, the undiscounted cash flows payable from the balance sheet date, including future receipts/payments of interest. The balances in the tables below do not agree directly to the Bank balance sheet as the tables include all cash flows relating to principal and future coupon payments presented on an undiscounted basis.

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	>20 years £m
Liabilities by contractual maturity							
Customer deposits - amortised cost	8,114	60	-	-	-	-	-
Amounts due to holding companies and fellow subsidiaries	2,747	-	166	101	2	7	108
Lease liabilities	-	1	2	1	3	6	-
	10,861	61	168	102	5	13	108
Guarantees and commitments notional amount							
Guarantees[1]	20	-	-	-	-	-	-
Commitments[2]	872	-	-	-	-	-	-
	892	-	-	-	-	-	-

For notes relating to this table refer to page 42.

8. Financial instruments – maturity analysis continued

Liabilities by contractual cash flow maturity continued

2019	0–3 months £m	3–12 months £m	1–3 years £m	3–5 years £m	5–10 years £m	10–20 years £m	>20 years £m
Liabilities by contractual maturity							
Bank deposits - amortised cost	6	-	-	-	-	-	-
Customer deposits - amortised cost	6,923	108	-	-	-	-	-
Amounts due to holding companies and fellow subsidiaries	2,477	201	1	16	2	4	102
Notes in circulation	842	-	-	-	-	-	-
Lease liabilities	-	1	2	1	3	7	-
	10,248	310	3	17	5	11	102
Guarantees and commitments notional amount							
Guarantees(1)	21	-	-	-	-	-	-
Commitments(2)	870	-	-	-	-	-	-
	891	-	-	-	-	-	-

Notes:
(1) The Bank is only called upon to satisfy a guarantee when the guaranteed party fails to meet its obligations. The Bank expects most guarantees it provides to expire unused.
(2) The Bank 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 Bank does not expect all facilities to be drawn, and some may lapse before drawdown.

9. Loan impairment provisions

Loan exposure and impairment metrics

The table below summarises loans and related credit impairment measures on an IFRS 9 basis.

	2020 £m	2019 £m
Loans - amortised cost		
Stage 1	2,410	2,887
Stage 2	1,135	650
Stage 3	120	107
Inter-Group(1)	7,828	6,513
Total	11,493	10,157
ECL provisions		
Stage 1	9	5
Stage 2	68	32
Stage 3	54	58
Inter-Group	3	1
Total	134	96
ECL provision coverage(2,3)		
Stage 1 (%)	0.37	0.17
Stage 2 (%)	5.99	4.92
Stage 3 (%)	45.00	54.21
Inter-Group (%)	0.04	0.02
Total	1.17	0.95
Impairment losses		
ECL charge		
Stage 1	(8)	(5)
Stage 2	52	16
Stage 3	(2)	7
Third party	42	18
Inter-Group	2	-
Total	44	18
ECL loss rate - annualised (basis points)(3)	114.6	49.4
Amounts written-off	11	13

Notes:
(1) Amounts due from holding companies and fellow subsidiaries (Inter-Group) are all considered as Stage 1.
(2) ECL provisions coverage is ECL provisions divided by loans - amortised cost.
(3) ECL provisions coverage and loss rates are calculated based on third party loans and related ECL provisions and charge respectively.

9. Loan impairment provisions continued

Credit risk enhancement and mitigation

For information on credit risk enhancement and mitigation held as security refer to the credit risk section of Note 15.

Critical accounting policy: loan impairment provisions

The loan impairment provisions have been established in accordance with IFRS 9. Accounting policy 12 sets out how the expected loss approach is applied. At 31 December 2020, customer loan impairment provisions amounted to £131 million (2019 - £95 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 9 expected loss model depends on management's assessment of any potential deterioration in the credit worthiness of the borrower, its modelling of expected performance and the application of economic forecasts. All three elements require judgements that are potentially significant to the estimate of impairment losses.

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 probability of default (PD), loss given default (LGD) and exposure at default (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.

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 (unlike in the case of PD and some LGD models) be sufficiently explained by the CCI measure 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

The base case scenario has the most material impact of all forward looking scenarios on the calculation of ECL. See Note 15 for further details.

10. Other assets

	2020 £m	2019 £m
Prepayments	2	3
Accrued income	1	2
Other assets	-	1
Current tax asset	11	-
Deferred tax asset (Note 6)	13	20
Property, plant and equipment (Note 11)	45	43
Asset held for sale	5	5
	77	74

11. Property, plant and equipment

2020	Freehold land and buildings £m	Leases of 50 years or more unexpired £m	Leases of 50 years or less unexpired £m	Computer and other equipment £m	Right of use property £m	Total £m
Cost or valuation:						
At 1 January	38	-	14	48	20	120
Additions	7	-	-	2	-	9
Disposals and write-off of fully depreciated assets	-	-	(2)	(1)	-	(3)
At 31 December	45	-	12	49	20	126
Accumulated depreciation, impairment and amortisation:						
At 1 January	15	-	8	45	9	77
Disposals and write-off of fully depreciated assets	-	-	(1)	(1)	-	(2)
Charge for the financial year	1	-	1	-	1	3
Impairment of property, plant and equipment	-	-	-	-	3	3
At 31 December	16	-	8	44	13	81
Net book value at 31 December	29	-	4	5	7	45

2019						
Cost or valuation:						
At 1 January	37	18	9	48	-	112
Implementation of IFRS16	-	-	-	-	20	20
Transfer to assets held for sale	-	(14)	-	(1)	-	(15)
Reclassifications	-	(4)	4	-	-	-
Additions	1	-	1	1	-	3
At 31 December	38	-	14	48	20	120
Accumulated depreciation, impairment and amortisation:						
At 1 January	14	5	6	45	-	70
Implementation of IFRS16	-	-	-	-	8	8
Transfer to assets held for sale	-	(9)	-	(1)	-	(10)
Reclassifications	-	(2)	2	-	-	-
Charge for the financial year	1	-	-	1	1	3
Impairment of property, plant and equipment	-	6	-	-	-	6
At 31 December	15	-	8	45	9	77
Net book value at 31 December	23	-	6	3	11	43

12. Other liabilities

	2020 £m	2019 £m
Current tax	-	7
Accruals	6	8
Deferred income	2	1
Provisions for liabilities and charges	16	19
Other liabilities	20	11
Lease liabilities (Note 14)	13	14
	57	60

The following amounts are included within provisions for liabilities and charges:

	Property £m	Payment protection insurance £m	Global Restructuring Group (GRG) £m	Restructuring £m	Other £m	Total £m
Provision as at 1 January 2019	5	4	5	1	5	20
Implementation of IFRS 16 on 1 January 2019	(2)	-	-	-	-	(2)
Charge to income statement	2	1	2	7	9	21
Utilised in the financial year	(2)	(3)	(4)	(2)	(9)	(20)
Provision as at 31 December 2019	3	2	3	6	5	19
Charge/(release) to income statement	3	3	(1)	4	1	10
Utilised in the financial year	(1)	(4)	(1)	(5)	(2)	(13)
At 31 December 2020	5	1	1	5	4	16

There are uncertainties as to the eventual cost of redress in relation to certain of the provisions contained in the table above. Assumptions relating to these are inherently uncertain and the ultimate financial impact may be different from the amount provided.

Property
The property provisions principally comprise provisions relating to property closures. The timing for such payments is uncertain.

Payment protection insurance (PPI)
An additional provision of £3 million was taken in 2020, reflecting a greater than predicted volume of PPI complaints.

Global Restructuring Group (GRG)
The Bank holds a provision in respect of the FCA review of the treatment of SME customers, relating to the automatic refund of complex fees for SME customers that were in GRG between 2008 and 2013, additional redress costs arising from a new complaints process and the associated operational costs.

Background information in relation to the FCA review of SME customers is given in Note 16.

Restructuring
The restructuring provisions principally comprise redundancy costs. The Bank expects the majority of these provisions to be utilised within the next 12 months.

Critical accounting policy: Provision for liabilities
The key judgement is involved in determining whether a present obligation exists. There is often a high degree of uncertainty on the specific facts and circumstances relating to individual events in determining whether there is a present obligation. Judgement is also involved in estimating the probability, timing and amount of any outflows. Where the Bank 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.

13. Share capital and other equity

	Allotted, called up and fully paid		Authorised	
	2020 £m	2019 £m	2020 £m	2019 £m
Equity shares:				
Ordinary shares of £1	254	254	2,000	2,000
Equity preference shares:				
Non-cumulative redeemable preference shares of €1 each	-	-	449	425
Total share capital	254	254	2,449	2,425

	Allotted, called up and fully paid		Authorised	
Number of shares	2020 millions	2019 millions	2020 millions	2019 millions
Equity shares:				
Ordinary shares of £1	254	254	2,000	2,000
Equity preference shares:				
Non-cumulative redeemable preference shares of €1 each	-	-	500	500
Total share capital	254	254	2,500	2,500

Paid-in equity - comprises equity instruments issued by the company other than those legally constituted as shares.

	2020 £m	2019 £m
Additional Tier 1 loan £60 million 7.4% perpetual loan repayable from July 2022	60	60

The coupons on this instrument are non-cumulative and payable at the company's discretion. In the event of winding up any amounts outstanding on the loan will be subordinated. While taking the legal form of debt this loan is classified as equity under IAS 32 'Financial Instruments: Presentation'.

14. Leases

Lessees

The Bank is party to lease contracts as lessee to support its operations. The following table provides information in respect of those lease contracts as lessee.

	2020 £m	2019 £m
Amounts recognised in income statement		
Depreciation and impairment	4	1
Amounts recognised on balance sheet		
Right of use assets (Note 11)	7	11
Lease liabilities (Note 12)	(13)	(14)

15. Risk management

Presentation of information

Risk management is generally conducted on an overall basis within NatWest Group such that common policies, procedures, frameworks and models apply across the Group. The risk management function of the Bank is fully integrated with the risk management function of the NatWest Group. The disclosures in this section discuss the NatWest Group risk management policies, procedures, frameworks and models as they apply to the Bank. Where appropriate, further information on risk management practices and methodologies may be found in the NatWest Group Annual Report and Accounts.

Forward looking elements of the risk management disclosures have been prepared based on the Retail and Commercial banking business continuing uninterrupted subsequent to the expected transfer of the assets and liabilities into NatWest Bank Plc in May 2021.

Risk management framework

Introduction

The Bank 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 the Bank'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 the Bank'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 the Bank is one in which risk is part of the way employees work and think. The target risk culture behaviours are aligned to the Bank'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.

15. Risk management - Risk management framework continued

Risk governance

Committee structure

The diagram illustrates the Bank's risk committee structure in 2020 and the main purposes of each committee.

Ulster Bank Limited Board

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

Board Risk Committee

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

Audit Committee

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

Executive Risk Committee[4]

Supports the CEO in reviewing and challenging all material risk and control matters. Approves the risk management framework and oversees its implementation.

Executive Committee[5]

Supports the CEO in discharging her individual accountabilities, reflecting the authority delegated to her by the Ulster Bank Limited Board. Reviews, challenges and debates all aspects of Ulster Bank Limited, including strategic, financial, capital, risk and operational issues. Supports the CEO in forming recommendations to the Board and committees.

Asset & Liability Management Committee[6]

Supports the CFO in overseeing the effective management of Ulster Bank Limited's current and future balance sheets, ensuring they operate within risk appetite, policies and chosen business strategy as well as comply with regulatory and legal requirements.

Business and function risk committees

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

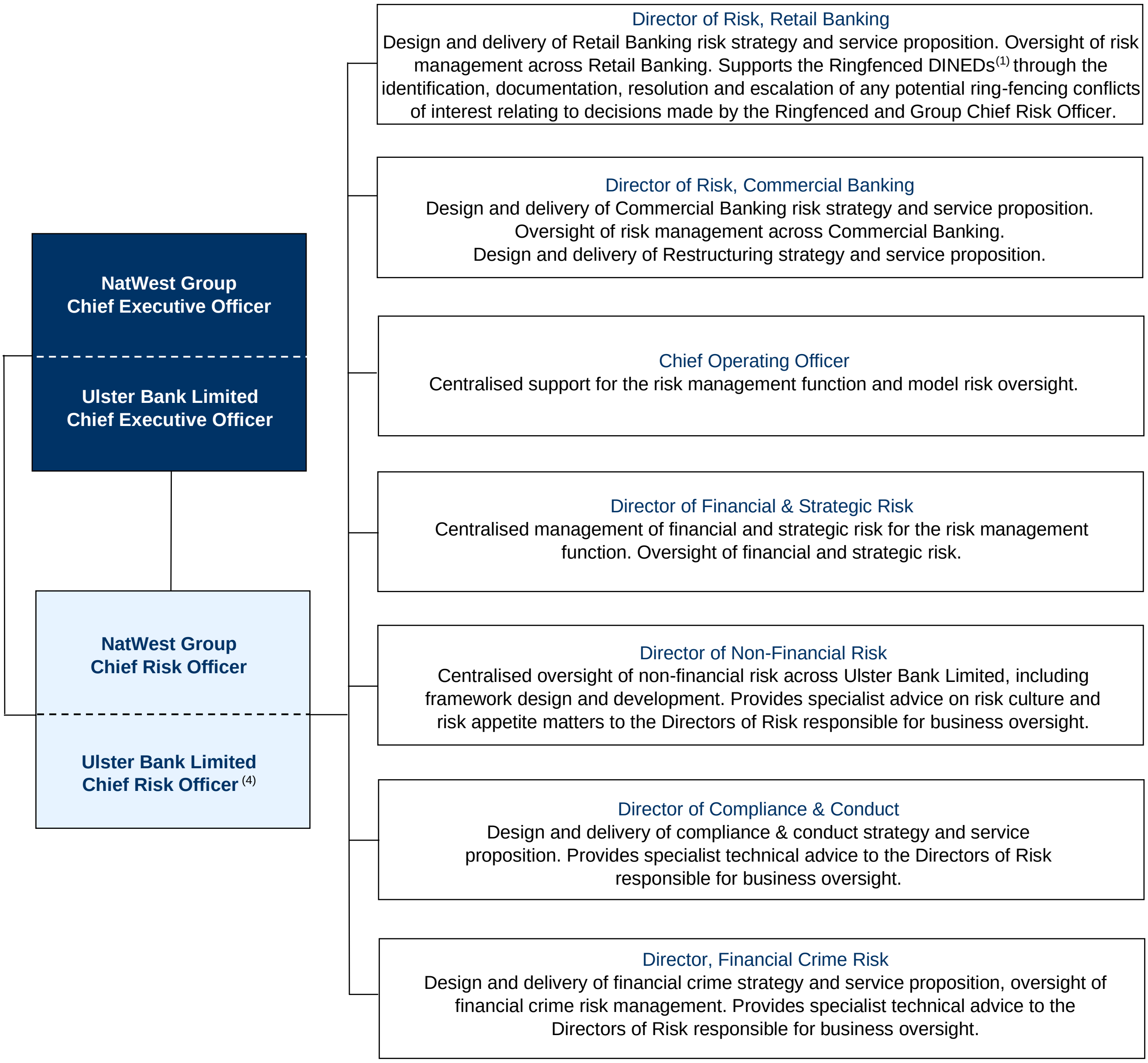
Notes:

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

15. Risk management - Risk management framework continued

Risk management structure

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

15. Risk management - Risk management framework continued

Three lines of defence

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

The Bank'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 non-trading portfolios.
- Review of potential risks in new business activities and processes.
- Analysis of potential risks in any complex and unusual business transactions.

15. Risk management - Risk management framework continued

Identification and measurement continued

The financial and non-financial risks that the Bank faces are detailed in the Risk Directory. This provides a common risk language to ensure consistent terminology is used across the Bank. 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 the Bank.

Mitigation

Mitigation is an important aspect of ensuring that risk profile remains within risk appetite. Risk mitigation strategies are discussed and agreed with the Bank's businesses. 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 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.

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.

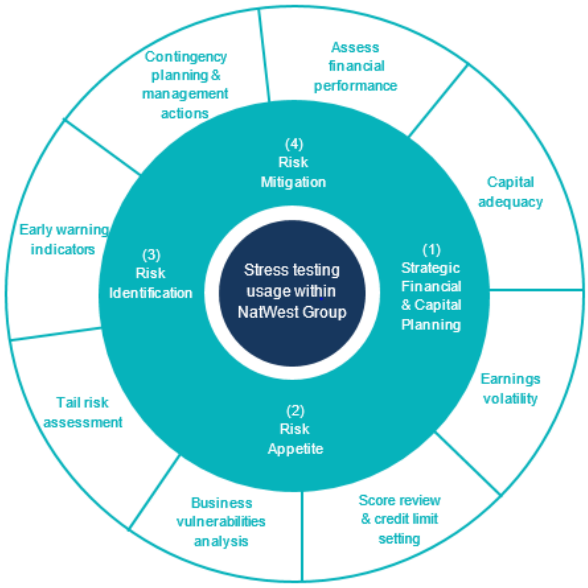
The process for stress testing consists of four broad stages:

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 from across NatWest Group.
Calculate results and assess implications	• Aggregate impacts into overall results. • Results form part of 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 and appropriate management actions are then developed. • Scenario results and management actions are reviewed and agreed by senior management through executive committees, including the Executive Risk Committee, the Board Risk Committee and the Board.

15. Risk management - Risk management framework continued

Stress testing continued

Stress testing is used widely across NatWest Group. The diagram below summarises 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 the Bank'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 the 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. 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 Group Asset & Liability Management Committee.

15. Risk management - Risk management framework continued

Stress testing continued

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

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

Internal assessment of liquidity
Under the liquidity risk management framework, NatWest Group maintains the Individual Liquidity Adequacy Assessment Process.

Internal assessment of liquidity continued
This includes assessment of net stressed liquidity outflows under a range of extreme but plausible stress scenarios detailed 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 combination 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 plc 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.

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.

15. Risk management - Risk management framework continued

Stress testing continued

Stress testing – 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.

Market risk stress results are combined with those for other risks into the capital plan presented to the Board. The cross-risk capital planning process is conducted once a year, with a planning horizon of five years. The scenario narratives cover both regulatory scenarios and macroeconomic scenarios identified by NatWest Group. Vulnerability-based stress testing begins with the analysis of a portfolio and expresses its key vulnerabilities in terms of plausible, vulnerability scenarios under which the portfolio would suffer material losses. These scenarios can be historical, macroeconomic or forward-looking/hypothetical. Vulnerability-based stress testing is used for internal management information and is not subject to limits. The results for relevant scenarios are reported to senior management.

Internal scenarios

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

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

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

Regulatory stress testing

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

15. Risk management continued

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 the Bank are lending and related undrawn commitments. The Bank is also exposed to settlement risk through 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 portfolio.

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.

Mitigation
Mitigation techniques, as set out in the appropriate credit policies and transactional acceptance standards, are used in the management of credit portfolios across the Bank. 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 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 – the Bank takes collateral in the form of residential property to mitigate the credit risk arising from mortgages. The Bank values residential property during the loan underwriting process by either appraising properties individually or valuing them collectively using statistically valid models. The Bank updates residential property values quarterly using the Office for National Statistics House Price Index. The current indexed value of the property is a component of the ECL provisioning calculation.

15. Risk management - Credit risk continued

Identification and measurement continued

Commercial real estate valuations – the Bank has a panel of chartered surveying firms that cover the spectrum of sectors in which the Bank 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. An independent third-party market indexation is applied to update external valuations once they are more than a year old and every three years a formal independent valuation is commissioned.

Assessment and monitoring

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

Personal

Personal customers are served through a lending approach that entails offering a large number of small-value loans. To ensure that these lending decisions are made consistently, the Bank 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 the Bank and other lenders). The Bank 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 the Bank'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.

15. Risk management - Credit risk continued

Problem debt management continued

Collections

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

Recoveries

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

Wholesale

Early problem identification

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

Risk of Credit Loss framework

The framework focuses on Wholesale customers whose credit profiles have deteriorated materially since origination. Expert judgement is applied by experienced credit risk officers to classify cases into categories that reflect progressively deteriorating credit risk. 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 the default criteria (AQ10 exposures). Defaulted exposures are categorised as Stage 3 impaired for provisioning purposes.

Heightened Monitoring customers are performing customers that have met certain characteristics, which have led to significant credit deterioration. Collectively, characteristics reflect circumstances that may affect the customer's ability to meet repayment obligations. Characteristics include trading issues, covenant breaches, material PD downgrades and past due facilities.

Heightened Monitoring customers require pre-emptive actions (outside the customer's normal trading patterns) to return or maintain their facilities within 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 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.

Appropriate corrective action is taken when circumstances emerge that may affect the customer's ability to service 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.

15. Risk management - Credit risk continued

Problem debt management continued

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 Bank's capital. Restructuring does this by working with corporate and commercial customers in financial difficulty on their restructuring and repayment strategies. Restructuring will always aim to recover capital fairly and efficiently.

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

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

Forbearance

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

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

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

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

Types of forbearance

Personal

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

Wholesale

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

Monitoring of forbearance

Personal

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

Wholesale

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

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.

Identification and measurement

Credit stewardship

Wholesale

The Bank'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.

15. Risk management - Credit risk continued

Impact of COVID-19 continued

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 the Bank 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. The Stage 3 loss assessment process is the same as for non-forborne loans.

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 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 COVID-19 related payment holidays 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

The Bank established guidance on credit grading in response to COVID-19 to ensure consist and fair outcomes for customers, whilst appropriately reflecting 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.
- The Bank 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 Bounce Back Loans (BBLs), in line with the requirements of those schemes, a credit assessment was not undertaken.

Within the Wholesale portfolio, additional monitoring was put in place 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, the Bank suspended new formal 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 institution 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.

15. Risk management - Credit risk continued

Impact of COVID-19 continued

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.

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.

NatWest 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 is 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 12 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 Economic loss drivers section.

15. Risk management - Credit risk continued

Impairment, provisioning and write-offs continued

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 life-time PDs using a conditional transition matrix approach and a set of econometric models.

LGD estimates

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

Personal

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

Wholesale

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

EAD estimates

Personal

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

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

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

Wholesale

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

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

Governance and post model adjustments

The IFRS 9 PD, EAD and LGD models are subject to the Bank’s model risk policy that stipulates periodic model monitoring, periodic re-validation and defines approval procedures and authorities according to model materiality. Various post model adjustments (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:

- 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 uplifts where it was judged that the modelled ECL required to be amended.

2020	Retail Banking £m	Commercial Banking £m	Total £m
Deferred model calibrations	2.8	-	2.8
Economic uncertainty adjustments	6.6	10.3	16.9
Other judgmental adjustments	3.0	0.5	3.5
	12.4	10.8	23.2
2019			
Deferred model calibrations	-	-	-
Economic uncertainty adjustments	4.9	2.8	7.7
Other judgmental adjustments	1.8	0.1	1.9
	6.7	2.9	9.6

15. Risk management - Credit risk continued

Significant increase in credit risk

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). The Bank has adopted a framework to identify deterioration based primarily on relative movements in PD supported by additional qualitative backstops. The principles applied are consistent across NatWest Group and align to credit risk management practices.

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 Commercial, 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	Risk 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 and 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.

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 the second payment holiday is considered forbearance.

15. Risk management - Credit risk continued

Provisioning for forbearance continued

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.

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.

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.

The capped approach reflects the Bank'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.

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 portfolios include unemployment rates, house price indices, and base rate. For the Wholesale portfolio, in addition to interest and unemployment rates, national Gross Domestic Product (GDP), stock indice prices, 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. These comprised upside, base case, downside and extreme downside scenarios. The scenarios primarily reflect 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 Co-operation agreement and are summarised as follows:

Upside – this scenario assumes a very strong recovery through 2021, facilitated by a very rapid roll-out of the COVID-19 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.

15. Risk management - Credit risk continued

Economic loss drivers continued

Economic scenarios continued

Base case – the current lockdown restrictions are gradually loosened enabling a recovery over the course of 2021. The roll-out of the COVID-19 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 roll-out of COVID-19 vaccines 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 roll-out, 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, the Bank 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 following tables and commentary below provide details of the key economic loss drivers under the four scenarios.

The scenarios are specified on a quarterly frequency. The extreme points refer to worst four-quarter rate of change for GDP and house price inflation and worst quarterly figures for unemployment.

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.

	2020				2019				
UK	Upside %	Base case %	Downside %	Extreme Downside %	Upside 2 %	Upside 1 %	Base case %	Downside 1 %	Downside 2 %
GDP - CAGR	3.6	3.1	2.8	1.3	2.4	2.2	1.6	1.3	0.9
Unemployment - average	4.4	5.7	7.1	9.7	3.6	3.9	4.4	4.7	5.2
House Price Inflation - total change	12.5	7.6	4.4	(19.0)	4.1	3.3	1.6	0.8	(1.0)
Bank of England base rate	0.2	-	(0.1)	(0.5)	1.0	0.7	0.3	-	-
Commercial real estate price - total change	4.3	0.7	(12.0)	(31.5)	13.0	8.1	1.3	(5.8)	(15.1)
World GDP - CAGR	3.5	3.4	2.9	2.8	3.8	3.3	2.8	2.5	2.1
Probability weight	20.0	40.0	30.0	10.0	12.7	14.8	30.0	29.7	12.7

UK GDP - annual growth

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

15. Risk management - Credit risk continued

Economic loss drivers continued

Economic scenarios continued

UK unemployment rate - annual average

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

UK House Price Inflation - annual growth

	Upside %	Base case %	Downside %	Extreme Downside %
2020	2.7	1.5	(1.8)	(5.2)
2021	2.2	(3.0)	(7.4)	(26.9)
2022	1.7	3.6	6.4	5.1
2023	2.2	2.2	4.6	5.0
2024	2.8	2.8	2.8	5.6
2025	3.1	3.1	3.1	3.1

Commercial real estate price - four-quarter growth

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

Worst points

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

	31 December 2020				31 December 2019	
	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)

Peak (Q3 2020) to trough	31 December 2020			
	Upside %	Base case %	Downside %	Extreme Downside %
GDP	-	(1.8)	(5.1)	(10.4)
House Price Inflation	-	(3.6)	(11.2)	(32.0)
Commercial real estate price	(3.4)	(10.1)	(28.9)	(40.4)

15. Risk management - Credit risk continued

Economic loss drivers continued

Probability weightings of scenarios

The Bank'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 the Bank'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, the Bank 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. The Bank 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 roll-out of the vaccines 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 the Bank 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 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, the Coronavirus Business Interruption Loan Scheme and the Bounce Back Loan Scheme) 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, the Bank continues to provide support, where appropriate, to existing customers. Those who are deemed either (a) to require a prolonged timescale to return to within 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, the Bank 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.

15. Risk management - Credit risk continued

Treatment of COVID-19 relief mechanisms continued

A key factor would be a more adverse deterioration in GDP and unemployment, but also, among others:

- The timing and nature of governmental exit plans from lockdown, 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 clients' ability to service their borrowing, especially in those sectors most exposed to the impacts of COVID-19.
- Higher unemployment if companies fail to restart jobs after periods of staff furlough.

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

Model monitoring and enhancement

The abrupt and prolonged interruption of a wide range of economic activities due to COVID-19 and the subsequent government interventions to support businesses and individuals, has resulted in patterns in the data of key economic loss drivers and loss outcomes, that are markedly different from those that the Bank'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 factor 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 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 allocation 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 in dealing with the impact of COVID-19. The BBLS, CBILS and CLBILS lending products are originated by the Bank 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. The Bank 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, the Bank's measurements of PD are unaffected and the Bank continues to move exposures to Stage 2 and Stage 3 where a significant deterioration in credit risk or a default is identified.

15. Risk management - Credit risk continued

ECL measurement uncertainty

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.

Credit risk- Banking activities

Introduction

This section details the credit risk profile of the Bank.

Refer to Accounting policy 12 and Note 9 for revisions to policies and critical judgements relating to impairment loss determination.

Financial instruments within the scope of the IFRS 9 ECL framework

Refer to Note 8 for balance sheet analysis of financial assets that are classified as amortised cost (AC), the starting point for IFRS 9 ECL framework assessment.

Financial assets

	2020 £m	2019 £m
Balance sheet total gross amortised cost	4,034	4,741
In scope of IFRS 9 ECL framework	3,665	4,636
% in scope	91%	100%
Loans - in scope	3,665	3,644
Stage 1	2,410	2,887
Stage 2	1,135	650
Stage 3	120	107
Other financial assets - in scope	-	992
Stage 1	-	992
Out of scope of IFRS 9 ECL framework	369	105

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. 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.
- Commercial cards which operate in a similar manner to charge cards, with balances repaid monthly via mandated direct debit with the underlying risk of loss captured within the customer's linked current account.

Contingent liabilities and commitments

In addition to contingent liabilities and commitments disclosed in Note 16 on the consolidated accounts – reputationally-committed limits are also included in the scope of the IFRS 9 ECL framework. These are offset by out of scope balances primarily related to facilities that, if drawn, would not be classified as AC or FVOCI, or undrawn limits relating to financial assets exclusions.

Asset quality (unaudited)

Internal asset quality ratings have ranges for the probability of default. Customers are assigned credit grades, based on various credit grading models that reflect the key drivers of default for the customer type. All credit grades map to both an asset quality scale, used for external financial reporting, and a master grading scale used for internal management reporting across portfolios.

The table that follows details the relationship between internal asset quality (AQ) bands and external ratings published by Standard & Poor's (S&P), for illustrative purposes only.

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

15. Risk management - Credit risk 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 and asset quality and geographical region based on the country of operation of the customer.

2020	Personal £m	Wholesale £m	Total £m
Loans by geography	1,948	1,717	3,665
- UK	1,948	1,650	3,598
- Republic of Ireland	-	12	12
- Other Europe	-	6	6
- Rest of World	-	49	49
Loans by asset quality	1,948	1,717	3,665
- AQ1	-	9	9
- AQ2	-	37	37
- AQ3	279	76	355
- AQ4	859	163	1,022
- AQ5	422	446	868
- AQ6	146	245	391
- AQ7	120	428	548
- AQ8	34	249	283
- AQ9	17	15	32
- AQ10	71	49	120
Loans by stage	1,948	1,717	3,665
- Stage 1	1,302	1,108	2,410
- Stage 2	575	560	1,135
- Stage 3	71	49	120
Loans - past due analysis	1,948	1,717	3,665
- Not past due	1,847	1,656	3,503
- Past due 1-30 days	22	12	34
- Past due 31-89 days	13	1	14
- Past due 90-180 days	6	27	33
- Past due > 180 days	60	21	81
Loans - Stage 2	575	560	1,135
- Not past due	542	554	1,096
- Past due 1-30 days	19	5	24
- Past due 31-89 days	14	1	15
Weighted average life			
- ECL measurement years	7	5	6
Weighted average 12 month PDs			
- IFRS 9 (%)	1.76	3.97	2.80
- Basel (%)	1.12	2.80	1.90
ECL provision by geography	64	67	131
- UK	64	65	129
- Republic of Ireland	-	2	2
ECL provision by stage	64	67	131
- Stage 1	2	7	9
- Stage 2	32	36	68
- Stage 3	30	24	54
ECL Provision coverage (%)	3.29	3.90	3.57
- Stage 1 (%)	0.15	0.63	0.37
- Stage 2 (%)	5.57	6.43	5.99
- Stage 3 (%)	42.25	48.98	45.00
ECL charge - third party	19	23	42
ECL loss rate (%)	0.98	1.34	1.15
Amounts written-off	6	5	11
Off-balance sheet	398	561	959
Loan commitments	398	493	891
Financial guarantees	-	68	68
Off-balance sheet by asset quality	398	561	959
- AQ1-AQ4	63	215	278
- AQ5-AQ8	331	339	670
- AQ9	-	3	3
- AQ10	4	4	8

15. Risk management - Credit risk continued

Portfolio summary - sector analysis continued

2019	Personal £m	Wholesale £m	Total £m
Loans by geography	2,114	1,530	3,644
- UK	2,114	1,472	3,586
- Republic of Ireland	-	13	13
- Other Europe	-	8	8
- Rest of World	-	37	37
Loans by asset quality	2,114	1,530	3,644
- AQ1	-	35	35
- AQ2	-	15	15
- AQ3	277	73	350
- AQ4	934	296	1,230
- AQ5	510	427	937
- AQ6	148	351	499
- AQ7	112	232	344
- AQ8	42	52	94
- AQ9	19	14	33
- AQ10	72	35	107
Loans by stage	2,114	1,530	3,644
- Stage 1	1,737	1,150	2,887
- Stage 2	305	345	650
- Stage 3	72	35	107
Loans - past due analysis	2,114	1,530	3,644
- Not past due	2,003	1,470	3,473
- Past due 1-30 days	30	22	52
- Past due 31-89 days	16	3	19
- Past due 90-180 days	8	-	8
- Past due > 180 days	57	35	92
Loans - Stage 2	305	345	650
- Not past due	266	335	601
- Past due 1-30 days	24	7	31
- Past due 31-89 days	15	3	18
Weighted average life			
- ECL measurement (years)	7	7	7
Weighted average 12 month PDs			
- IFRS 9 (%)	0.83	1.04	0.91
- Basel (%)	1.12	1.78	1.39
ECL provision by geography	48	47	95
- UK	48	46	94
- Republic of Ireland	-	1	1
ECL provision by stage	48	47	95
- Stage 1	2	3	5
- Stage 2	18	14	32
- Stage 3	28	30	58
ECL Provision coverage (%)	2.27	3.07	2.61
- Stage 1 (%)	0.12	0.26	0.17
- Stage 2 (%)	5.90	4.06	4.92
- Stage 3 (%)	38.89	85.71	54.21
ECL charge - third party	8	10	18
ECL loss rate (%)	0.38	0.65	0.49
Amounts written-off	7	6	13
Other financial assets by asset quality	-	992	992
- AQ1-AQ4	-	992	992
Off-balance sheet	389	487	876
Loan commitments	389	423	812
Financial guarantees	-	64	64
Off-balance sheet by asset quality	389	487	876
- AQ1-AQ4	139	202	341
- AQ5-AQ8	245	278	523
- AQ9	-	3	3
- AQ10	5	4	9

15. Risk management - Credit risk 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).

	Maximum credit risk				CREM by type			CREM coverage		Exposure post CREM	
2020	Gross exposure £m	ECL £m	Total £m	Stage 3 £m	Financial[1] £m	Property £m	Other[2] £m	Total £m	Stage 3 £m	Total £m	Stage 3 £m
Financial assets											
Loans - amortised cost[3]	3,665	128	3,537	67	307	2,314	137	2,758	61	779	6
Personal	1,948	63	1,885	41	-	1,695	-	1,695	39	190	2
Wholesale[4]	1,717	65	1,652	26	307	619	137	1,063	22	589	4
Total financial assets	3,665	128	3,537	67	307	2,314	137	2,758	61	779	6
Contingent liabilities and commitments											
Personal	398	1	397	4	-	-	-	-	-	397	4
Wholesale	561	2	559	4	16	90	34	140	-	419	4
Total off-balance sheet	959	3	956	8	16	90	34	140	-	816	8
Total exposure	4,624	131	4,493	75	323	2,404	171	2,898	61	1,595	14
2019											
Financial assets											
Cash and balances at central banks	992	-	992	-	-	-	-	-	-	992	-
Loans - amortised cost[3]	3,644	94	3,550	47	1	2,152	151	2,304	21	1,246	26
Personal	2,114	48	2,066	43	-	1,571	-	1,571	21	495	22
Wholesale[4]	1,530	46	1,484	4	1	581	151	733	-	751	4
Total financial assets	4,636	94	4,542	47	1	2,152	151	2,304	21	2,238	26
Contingent liabilities and commitments											
Personal	389	-	389	5	-	-	-	-	-	389	5
Wholesale	487	1	486	3	6	79	31	116	-	370	3
Total off-balance sheet	876	1	875	8	6	79	31	116	-	759	8
Total exposure	5,512	95	5,417	55	7	2,231	182	2,420	21	2,997	34

Notes:
(1) Includes cash and securities collateral.
(2) Includes guarantees, charges over trade debtors as well as the amount by which credit risk exposure is reduced through netting arrangements, mainly cash management pooling, which give the Bank a legal right to set off the financial asset against a financial liability due to the same counterparty.
(3) The Bank 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. Collateral values are capped at the value of the loan.
(4) 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.

15. Risk management - Credit risk continued

Personal portfolio

Disclosures in the Personal portfolio section include drawn exposure (gross of provisions). Loan-to-value (LTV) ratios are split by stage under IFRS 9.

Personal lending	2020 £m	2019 £m
Mortgages		
Of which:	1,722	1,848
Owner occupied	1,590	1,705
Buy-to-let	132	143
Interest-only - variable	252	275
Interest-only - fixed	37	35
Mixed[1]	43	47
Impairment provisions	40	30
Other personal lending	246	257
Impairment provisions	24	18
Total personal lending	1,968	2,105
Mortgage LTV ratios		
- Total portfolio	61%	64%
- Stage 1	54%	61%
- Stage 2	77%	85%
- Stage 3	81%	83%
- Buy to let	70%	74%
- Stage 1	60%	72%
- Stage 2	91%	91%
- Stage 3	69%	74%
Gross new mortgage lending		
Of which:	76	101
Owner occupied	75	100
Weighted average LTV	63%	68%
Buy-to-let	1	1
Weighted average LTV	56%	68%
Mortgage forbearance		
Forbearance flow	2	-
Forbearance stock	15	21
Current	3	6
1-3 months in arrears	1	1
>3 months in arrears	11	14

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.

15. Risk management - Credit risk continued

Personal portfolios

Mortgage LTV distribution by stage

The table below shows gross mortgage lending and related ECL by LTV band.

	Mortgages						ECL Provisions				ECL provisions coverage[1]			
	Stage 1	Stage 2	Stage 3	Not within IFRS 9 ECL scope	Total	Of which: Gross new lending	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
2020	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	%	%	%	%
≤50%	481	62	13	58	614	21	-	2	4	6	-	3.7%	30.1%	1.0%
>50% and ≤70%	387	127	12	19	545	18	1	4	4	9	0.1%	3.4%	34.7%	1.6%
>70% and ≤80%	116	120	7	4	247	18	-	5	2	7	0.2%	3.9%	25.1%	2.6%
>80% and ≤90%	58	59	5	5	127	17	-	3	1	4	0.1%	5.1%	24.9%	3.4%
>90% and ≤100%	22	28	4	2	56	2	-	2	1	3	0.1%	7.0%	26.9%	5.5%
>100% and ≤110%	13	21	4	1	39	-	-	2	1	3	0.1%	7.3%	18.4%	5.7%
>110% and ≤130%	18	38	5	1	62	-	-	3	1	4	0.4%	7.9%	29.1%	7.3%
>130% and ≤150%	2	17	4	-	23	-	-	1	1	2	0.1%	7.5%	21.3%	9.7%
>150%	1	4	3	-	8	-	-	1	1	2	0.1%	9.4%	44.4%	22.6%
Total with LTVs	1,098	476	57	90	1,721	76	1	23	16	40	0.1%	4.7%	29.2%	2.3%
Other	-	1	-	-	1	-	-	-	-	-	0.1%	2.1%	0.1%	1.6%
Total	1,098	477	57	90	1,722	76	1	23	16	40	0.1%	4.7%	29.1%	2.3%
2019														
≤50%	485	35	13	65	598	24	-	1	4	5	-	3.4%	28.6%	0.8%
>50% and ≤70%	464	45	11	22	542	23	-	2	4	6	-	4.7%	34.6%	1.1%
>70% and ≤80%	239	37	6	6	288	14	1	2	1	4	0.1%	5.0%	24.8%	1.2%
>80% and ≤90%	148	27	4	3	182	34	-	2	1	3	0.1%	5.7%	24.4%	1.5%
>90% and ≤100%	42	20	5	4	71	6	-	1	1	2	0.1%	7.0%	26.4%	3.8%
>100% and ≤110%	24	16	4	1	45	-	-	1	1	2	0.1%	6.2%	17.9%	3.7%
>110% and ≤130%	35	29	5	2	71	-	-	2	2	4	0.1%	6.7%	34.9%	5.3%
>130% and ≤150%	13	20	5	-	38	-	-	1	1	2	0.2%	6.7%	25.5%	7.1%
>150%	3	6	3	-	12	-	-	-	2	2	0.1%	6.5%	45.7%	15.2%
Total with LTVs	1,453	235	56	103	1,847	101	1	12	17	30	-	5.4%	29.6%	1.6%
Other	1	-	-	-	1	-	-	-	-	-	0.2%	-	0.1%	0.2%
Total	1,454	235	56	103	1,848	101	1	12	17	30	-	5.4%	29.6%	1.6%

Note:
(1) ECL provisions coverage is ECL provisions divided by mortgages.

15. Risk management - Credit risk continued

ECL Flow statement

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 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.
- Post model adjustments (PMAs) - refer to the section on Governance and post model adjustments for further details. The effect of any change in PMAs during the year is reported under changes in risk parameters, as are any impacts arising from changes to the underlying models.
- All movements are captured monthly and aggregated. Interest suspended post default is included within Stage 3 ECL with the movement in the value of suspended interest during the year reported under currency translation and other adjustments.

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets £m	ECL £m	Financial assets £m	ECL £m	Financial assets £m	ECL £m	Financial assets £m	ECL £m
At 1 January 2020	2,868	5	659	32	97	58	3,624	95
Currency translation and other adjustments	4	(1)	-	-	2	5	6	4
Transfers from Stage 1 to Stage 2	(1,296)	(8)	1,296	8	-	-	-	-
Transfers from Stage 2 to Stage 1	684	21	(684)	(21)	-	-	-	-
Transfers to Stage 3	(2)	-	(48)	(7)	50	7	-	-
Transfers from Stage 3	3	-	17	4	(20)	(4)	-	-
Net re-measurement of ECL on stage transfer	-	(17)	-	40	-	4	-	27
Changes in risk parameters (model inputs)	-	8	-	17	-	(1)	-	24
Other changes in net exposure	167	1	(100)	(5)	(11)	(2)	56	(6)
Other (P&L only items)	-	-	-	-	-	(3)	-	(3)
Income statement (releases)/charges		(8)		52		(2)		42
Amounts written-off	-	-	-	-	(11)	(11)	(11)	(11)
Unwinding of discount	-	-	-	-	-	(2)	-	(2)
At 31 December 2020	2,428	9	1,140	68	107	54	3,675	131
Net carrying amount	2,419		1,072		53		3,544	
At 1 January 2019	3,971	5	584	23	162	60	4,717	88
2019 movements	(1,103)	-	75	9	(65)	(2)	(1,093)	7
At 31 December 2019	2,868	5	659	32	97	58	3,624	95
Net carrying amount	2,863		627		39		3,529	

Key points

2019 movements included transfers from Stage 1 to Stage 2 of £521 million (ECL – £2 million), transfers from Stage 2 to Stage 1 of £346 million (ECL – £6 million), transfers into Stage 3 of £36 million (ECL – £10 million) and transfers from Stage 3 of £72 million (ECL – £6 million). Additional ECL of £18 million was recognised as a result of these cumulative transfers. Also included were amounts written-off of £13 million.

15. Risk management continued

Capital, liquidity and funding risk

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.
- 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's supplementary capital and provides loss absorption on a gone concern basis. Tier 2 capital absorbs losses after Tier 1 capital.

The Bank maintains a prudent approach to the definition of liquidity resources. The Bank 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.
- Secondary liquid assets are eligible as collateral for local central bank liquidity facilities. These assets include 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

The Bank's principal source of funding is customer deposits.

Managing capital requirements: regulated entities

In line with paragraph 135 of IAS 1 'Presentation of Financial Statements', the Bank manages capital having regard to regulatory requirements. Regulatory capital is monitored and reported on an individual regulated bank legal entity basis for significant subsidiaries of NatWest Holdings Limited Group ("NWH Group"). NWH Group itself is monitored and reported on a consolidated basis.

Capital management

Capital management is the process by which the Bank ensures that it has sufficient capital and other loss absorbing instruments to operate effectively including meeting minimum regulatory requirements, operating within Board approved risk appetite, maintaining credit ratings and supporting strategic goals.

Capital management is critical in supporting the Bank, is enacted through an end to end framework and is regulated in line with Basel III principles.

Capital planning is integrated into the Bank'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.

Produce capital plans	• Capital plans are produced for the Bank 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 the Bank 's business 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 the Bank's businesses.
Inform capital actions	• Capital planning informs potential capital actions including buy backs, redemptions, dividends and new issuance via internal transactions. • Decisions on capital actions will be influenced by strategic and regulatory requirements, risk appetite, costs and prevailing market conditions.

15. Risk management - Capital, liquidity and funding risk continued

Capital management continued

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

Liquidity risk management

Liquidity risk in the Bank is managed as part of the UK DoLSub. The UK DoLSub is PRA regulated and comprises NWH's four licensed deposit taking UK banks: the Bank, National Westminster Bank Plc, The Royal Bank of Scotland plc and Coutts & Company.

The Bank 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 Bank categorises its liquidity portfolio into primary and secondary liquid assets.

The size of the liquidity portfolios are determined by referencing the Bank's liquidity risk appetite. The Bank 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.

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

The Bank manages funding risk through a comprehensive framework which measures and monitors the funding risk on the balance sheet. Customer deposits provide more funding than customer loans utilise.

Relief measures

The economic impact of the COVID-19 pandemic was significant. While liquidity, capital and funding were closely monitored throughout, the Bank and wider NatWest Group benefited from 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. In June 2020 the European Parliament passed amendments to the Capital Requirements Regulation (CRR) in response to COVID-19 ("the CRR COVID-19 amendments"). NatWest Group has applied a number of the CRR amendments for 31 December 2020 reporting. Impacts on the Bank of the CRR amendments and other relief measures included:

- 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 amendments now require 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 the Bank's CET1 regulatory capital at 31 December 2020 is £42 million.
- Capital buffers - the Financial Policy Committee reduced the UK countercyclical capital buffer rate in response to COVID-19 from 1% to 0% effective from 11 March 2020.

Minimum requirements

Capital adequacy ratios

The Bank is subject to minimum capital requirements relative to risk weighted assets (RWAs). The table below summarises the minimum ratios of capital to RWAs that the Bank is expected to meet.

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

Notes:
(1) The countercyclical capital buffer applied to UK designated assets is set by the Financial Policy Committee (FPC). In response to COVID-19 the FPC reduced the UK rate from 1.0% to 0.0% effective from 11 March 2020.
(2) The minimum requirements do not include any capital that the Bank may be required to hold as a result of the Pillar 2 assessment.

Leverage ratio

Following the joint announcement of the 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 Groups during 2021.

15. Risk management - Capital, liquidity and funding risk continued

Minimum requirements continued

Liquidity and funding ratios

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

Type	From 1 January 2020	From 1 January 2021
Liquidity coverage ratio (LCR)	100%	100%

Measurement

Capital resources

The table below sets out the key Capital ratios on a PRA transitional basis.

Shareholders' equity (excluding non-controlling interests)	2020 £m	2019 £m
Shareholders' equity	454	497
Preference shares - equity	(60)	(60)
	394	437
Regulatory adjustments and deductions		
Deferred tax assets	(8)	(15)
Adjustments under IFRS9 transition arrangements	42	-
Other regulatory adjustments	-	(12)
	34	(27)
CET1 capital	428	410
Additional Tier 1 (AT1) capital		
Qualifying instruments and related share premium	60	60
Tier 1 capital	488	470
Qualifying Tier 2 capital		
Qualifying instruments and related share premium	109	102
Excess provisions over expected losses	4	9
Tier 2 capital	113	111
Total regulatory capital	601	581
RWAs		
Credit risk		
- non-counterparty	1,843	2,007
- counterparty	-	2
Market risk	3	-
Operational risk	409	396
Total RWAs	2,255	2,405
Risk asset ratios		%
CET1	19.0%	17.0%
Tier 1	21.6%	19.5%
Total	26.6%	24.2%

15. Risk management - Capital, liquidity and funding risk continued

Measurement continued

Contractual maturity

The table shows the residual maturity of third party financial instruments, based on contractual date of maturity of the Bank's 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	Sub total £m	1–3 years £m	3–5 years £m	More than 5 years £m	Total excluding MFVTPL and HFT £m	MFVTPL and HFT £m	Impairment provisions £m	Total £m
Cash and balances at central banks	356	-	-	-	356	-	-	-	356	-	-	356
Loans to banks - amortised cost	3	-	10	-	13	-	-	-	13	-	-	13
Loans to customers - amortised cost	345	180	107	196	828	688	570	1,580	3,666	-	(128)	3,538
Total financial assets	704	180	117	196	1,197	688	570	1,580	4,035	-	(128)	3,907
2019												
Total financial assets	1,473	185	124	219	2,001	730	560	1,450	4,741	3	(95)	4,649
Customer deposits - amortised cost	8,064	50	42	18	8,174	-	-	-	8,174	-	-	8,174
Derivatives	-	-	-	-	-	-	-	-	-	3	-	3
Total financial liabilities	8,064	50	42	18	8,174	-	-	-	8,174	3	-	8,177
2019												
Total financial liabilities	6,891	37	40	68	7,036	-	-	-	7,036	6	-	7,042

Non-traded market risk

Definition

Non-traded market risk is the risk to the value of assets or liabilities, 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.

Governance, appetite and controls

General information on risk governance, appetite and controls is contained in the Risk Management Framework section of this note. Further information specific to non-traded market risk can be found in the non-traded market risk section of the NatWest Group Annual Report and Accounts.

Sources of risk (unaudited)

The key source of non-traded market risk for the Bank is interest rate risk.

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, the Bank aggregates interest rate positions and hedges its residual exposure using back to back trades with NatWest Bank.

Non-traded interest rate risk can be measured from either an economic value-based or earnings-based perspective, or a combination of the two. The Bank 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.

Measurement

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

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. The following table presents one-day internal banking book Value-at-Risk (VaR) at a 99% 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	Period-end £m
Interest rate	0.2	0.5	0.0	0.0	0.2

15. Risk management continued

Pension risk

Definition

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

Sources of pension risk

The Bank has an exposure to pension risk through its defined benefit scheme, the UBPS with £1,361 million of assets and £1,153 million of liabilities at 31 December 2020 (2019 – £1,219 million of assets and £966 million of liabilities).

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. The Bank 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, the Bank could be obliged (or might choose) to make additional contributions to the scheme or be required to hold additional capital to mitigate this risk.

Key developments in 2020

- There have been no material changes to the Bank'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 position of the UBPS has remained resilient despite the market shocks caused by COVID-19. More details on the assets held by the scheme are included in Note 5.
- 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 taken to reduce the level of pension risk in recent years while ensuring that pension risk still receives appropriate executive attention.

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 the Group's approach to managing pension risk and it considers the pension impact of the capital plan for the Group and reviews performance of the Group's material pension funds (including the UBPS) and other issues material to the Group's pension strategy. It also considers investment strategy proposals.

Risk appetite

The Bank maintains an independent view of the risk inherent in its pension fund. The Bank has an annually reviewed pension risk appetite statement relating to the UBPS, 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 Group policy framework, is also in place and is subject to associated framework controls.

Monitoring and measurement

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

The 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 the Bank's balance sheet, income statement and capital position are incorporated into the Bank's and the overall Group's stress test results.

NatWest Bank Plc will become the principal employer of the UBPS subsequent to the transition of the Bank's employees to NatWest Bank Plc in May 2021 and could be required to fund any deficit that arises.

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.

15. Risk management - 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 Conduct & Compliance 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 are 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 are carried out as appropriate.

Monitoring and measurement

Compliance and conduct risks are measured and managed through continuous assessment and reporting to the 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.

Sources of risk

Financial crime risk may be presented if the Bank's customers, employees or third parties undertake or facilitate financial crime, or if the Bank's products or services are used to facilitate such crime. Financial crime risk is an inherent risk across all of the Bank's 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 Financial Crime Risk Executive Committee, which is chaired by the 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 Executive Risk Committee and the Board Risk Committee.

15. Risk management - Financial crime risk continued

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. The Bank'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.

The Bank operates a framework of preventative and detective controls designed to ensure the Bank mitigates 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 Bank's senior risk committees and the Board. Quantitative and qualitative data is reviewed and assessed to measure whether financial crime risk is within the Bank's 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 the Bank 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.

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 the Bank 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 the Bank's ambitions to serve its customers better. Improved management of operational risk against defined appetite is vital for stability and reputational integrity.

15. Risk management - Operational risk continued

Governance continued
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 the Bank. 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 the Bank is willing to accept to achieve its strategic objectives and business plans. The Bank's operational risk appetite statement encompasses the full range of operational risks faced by its 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 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 the Bank'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.

The Bank 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 the Bank's Pillar 2A capital requirement.

Scenario analysis is used to assess how severe but plausible operational risks will affect the Bank. 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
The Bank 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 the Bank 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 the Bank'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. The Bank purchases insurance against specific losses and to comply with statutory or contractual requirements.

15. Risk management continued

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. The Bank 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
The Bank 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 the Bank 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 of the Bank's models are now recorded within a single model inventory, providing increased transparency.
- As a result of COVID-19, there was an increased reliance on model performance monitoring to identify model limitations and qualitative overlays to ensure model outputs were used appropriately.

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

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

Risk appetite
Model risk appetite is set in order to limit the level of model risk that the Bank is willing to accept in the course of its business activities. It is approved by the 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 the Bank.

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.

15. Risk management continued

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 the Bank's values and the public agenda; and contagion (when the Bank's reputation is damaged by failures in the wider financial sector).

Key developments in 2020

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

Governance

A reputational risk policy supports reputational risk management in the Bank. 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 NatWest Group 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

The Bank manages and articulates its appetite for reputational risk through a qualitative reputational risk appetite statement and quantitative measures. The Bank 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 in the Bank 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 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 the "Memorandum items" note in the NatWest Group financial statements for details of material matters currently impacting NatWest Group.

16. 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 the Bank is exposed to credit risk in the event of non-performance of the obligations undertaken by customers, the amounts shown do not, and are not intended to, provide any indication of the Bank's expectation of future losses.

	2020 £m	2019 £m
Contingent liabilities:		
Guarantees and assets pledged as collateral security	20	21
Other contingent liabilities	43	41
	63	62
Commitments:		
Documentary credits and other short-term trade related transactions	4	1
Commitments to lend	851	862
Other commitments	17	7
	872	870

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. The Bank's maximum exposure to credit loss, in the event of non-performance by the other party and where all counterclaims, collateral or security proves valueless, is represented by the contractual nominal amount of these instruments included in the table. These commitments and contingent obligations are subject to the Bank's normal credit approval processes.

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

Commitments to lend - under a loan commitment the Bank 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 the Bank 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

The Bank, together with certain other subsidiaries of NatWest Holdings Limited, is party to a Capital Support Deed ("CSD"). Under the terms of the CSD, the Bank may be required, if compatible with its legal obligations, to make distributions on, or repurchase or redeem, its ordinary shares. The amount of this obligation is limited to the Bank's capital resources in excess of the capital and financial resources needed to meet its regulatory requirements. The CSD also provides that, in certain circumstances, funding received by the Bank from other parties to the CSD becomes immediately repayable, such repayment being limited to the Bank's available resources.

Contractual obligations for future expenditure not provided for in the accounts

The following table shows contractual obligations for future expenditure not provided for in the accounts at the year end:

	2020 £m	2019 £m
Capital expenditure on other property, plant and equipment	-	1
Contracts to purchase goods or services	2	2
	2	3

16. Memorandum items continued

Litigation, investigations and reviews

The Bank is involved in litigation arising in the ordinary course of business. No material adverse effect on the net assets of the Bank is expected to arise from the ultimate resolution of these claims. Material investigations and reviews involving the Bank are described below.

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.

The Bank's remaining provision in relation to these matters at 31 December 2020 was £1 million.

17. Analysis of changes in financing during the year

	Share capital, share premium and paid-in equity		Subordinated liabilities[1]	
	2020 £m	2019 £m	2020 £m	2019 £m
At 1 January	314	314	102	107
Currency translation and other adjustments	-	-	6	(5)
At 31 December	314	314	108	102

Notes:
(1) Included in amounts due to holding companies and fellow subsidiaries (Note 8).This denotes €120 million undated loan notes held by NatWest Holdings (3 months EURIBOR plus 0.80%); repayable at the option of the Bank, only with prior consent of the Prudential Regularity Authority (PRA). Claims in respect of the Bank's loan capital are subordinate to the claims of other creditors. None of the loan capital is secured.

18. Analysis of cash and cash equivalents

	2020 £m	2019[2] £m
At 1 January	5,290	5,494
Net cash inflow/(outflow)	381	(199)
Effect of exchange rate changes on cash and cash equivalents	3	(5)
At 31 December	5,674	5,290
Comprising:		
Cash and balances at central banks	356	1,076
Loans to banks[1]	5,318	4,214
Cash and cash equivalents	5,674	5,290

Notes:
(1) Included in amounts due from holding companies and fellow subsidiaries (Note 8).
(2) 2019 data has been restated to exclude loans to banks with a maturity of more than 3 months (1 January 2019 - £14 million, 31 December 2019 - £8 million) from cash and cash equivalents.

19. Directors' and key management remuneration

The composition of the Bank's board of directors was aligned to its intermediate holding company NatWest Holdings Ltd. The directors were remunerated for their services to the NatWest Group as a whole, and their remuneration cannot be apportioned in respect of their services to the Bank.

The directors' emoluments in the table below represent the NatWest Holdings Group emoluments of the directors.

	2020	2019
Directors' remuneration	£'000	£'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 options 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 £2,561k (2019 - £2,082k).

No directors accrued benefits under defined benefit schemes or defined contribution schemes during 2020 and 2019. The executive directors may participate in the NatWest Group's long-term incentive plans, executive share option and sharesave schemes. Where directors of the Bank 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	2019
	£'000	£'000
Short term benefits	15,099	17,295
Post employment benefits	363	249
Share-based benefits	2,707	1,686
	18,169	19,230

Note:

(1) Key management comprises directors of the Bank and members of the Executive Committee.

20. Transactions with directors and key management

(a) At 31 December 2020, amounts outstanding in relation to transactions, arrangements and agreements entered into by authorised institutions in the NatWest Group, as defined in UK legislation, were £1,329,122 in respect of loans to six persons who were directors of the Bank at any time during the financial period.

(b) For the purposes of IAS 24 'Related Party Disclosures', key management comprises directors of the Bank and members of the Executive committee. Applying the captions in the Bank's primary financial statements the following amounts are attributable, in aggregate, to key management:

	2020	2019
	£'000	£'000
Loans to customers - amortised cost	5,105	1,566
Customer deposits - amortised cost	39,164	29,887

The amounts in the above table are attributed to each person at their highest level of NatWest Group key management.

Key management have banking relationships with NatWest Group entities which are entered into in the normal course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with other persons of a similar standing or, where applicable, with other employees. These transactions did not involve more than the normal risk of repayment or present other unfavourable features. Key management had no reportable transactions or balances with the holding companies.

21. 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%.

The Bank enters into transactions with many of these bodies on an arm’s length basis. Transactions include the payment of taxes, principally UK corporation tax (Note 6) 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

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

The Bank, as a UK authorised institution, is required to maintain a non-interest bearing (cash ratio) deposit with the Bank of England amounting to 0.368% of average eligible liabilities in excess of £600 million. The Bank also has access to Bank of England reserve accounts. These are sterling current accounts that earn interest at the Bank of England Rate.

Related undertakings

The following is the active related undertaking incorporated in the United Kingdom which is 100% owned by the Bank and fully consolidated into NatWest Bank for accounting purposes.

Entity name	Activity
Ulster Bank Pension Trustees Limited	Trustee

The registered office for the above undertaking is 11-16 Donegall Square East, Belfast, BT1 5UB.

At the balance sheet date the carrying value of the Bank’s shares in subsidiary undertakings was £100 (2019: £100).

The table below discloses items included in income and operating expenses on transactions between the Bank and fellow subsidiaries of the NatWest Group.

	2020 £m	2019 £m
Interest receivable	37	61
Interest payable	(12)	(24)
Fees and commissions receivable	2	2
Fees and commissions payable	(1)	(1)
Other operating income	48	53
Other administrative expenses	(91)	(63)
	(17)	28

22. Ultimate holding company

The Bank’s ultimate holding company is NatWest Group plc which is incorporated in Great Britain and registered in Scotland and its immediate holding company is National Westminster Bank Plc which is incorporated in Great Britain and registered in England.

As at 31 December 2020, NatWest Group plc heads the largest group in which the Bank is consolidated. Copies of the consolidated accounts 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 ultimate holding company and is therefore the Bank's ultimate controlling party.

23. Post balance sheet events

There have been no significant events between the financial year end and the date of approval of the accounts which would require a change to or additional disclosure in the accounts.