NatWest Markets

NatWest Markets N.V.

Annual Report and Accounts 2019

Financial Review

Presentation of information

NatWest Markets N.V. (NWM N.V.) is a wholly owned subsidiary of RBS Holdings N.V. ('RBSH N.V.' or 'the intermediate holding company'). NWM N.V. Group comprises NWM N.V. and its subsidiary and associated undertakings. The term 'RBSH Group' comprises RBSH N.V. and its only subsidiary, NWM N.V.. With effect from 29 November 2019, RBSH N.V. is a wholly-owned subsidiary of NatWest Markets Plc (NWM Plc). The term 'NWM Group' comprises NWM Plc and its subsidiary and associated undertakings. The Royal Bank of Scotland Group plc ('RBSG plc') is 'the ultimate holding company'. The term 'RBS Group' comprises RBSG plc and its subsidiary and associated undertakings. RBSG plc is registered at 36 St Andrew Square, Edinburgh, Scotland.

The terms 'Consortium' and 'Consortium Members' refer to RBSG plc, Stichting Administratiekantoor Beheer Financiële Instellingen (the Dutch State, successor to Fortis) and Banco Santander S.A. (Santander) who jointly acquired RBSH N.V. on 17 October 2007 through RFS Holdings B.V. (RFSH B.V.). From 31 December 2010 RBSG plc's shareholding in RFSH B.V. was 97.72%. On 23 October 2019, following distribution to the Consortium Members, RBSG plc acquired the remaining shares in RFSH B.V. from the Dutch State and Santander. Subsequently, the wind up of RFSH B.V. commenced and was finalised on 6 December 2019.

NWM N.V. publishes its financial statements in 'euro', the European single currency. The abbreviations '€m' and '€bn' represent millions and thousands of millions of euros, respectively. Reference to '£' is to pounds sterling. The abbreviations '£m' and '£bn' represent millions and thousands of millions of pounds, respectively. Reference to '$' is to United States of America (US) dollars. The abbreviations '$m' and '$bn' represent millions and thousands of millions of dollars respectively.

Description of business

NWM N.V. became a subsidiary of NWM Plc on 29 November 2019. The main businesses of NWM N.V., a licensed bank, are lending and financial instruments transactions with corporate and financial institutions.

On 1 January 2017, due to the balance sheet reduction, RBSH Group's regulation in the Netherlands, and supervision responsibilities, transferred from the European Central Bank (ECB), under the Single Supervisory Mechanism (a joint Supervisory Team comprising of ECB and De Nederlandsche Bank (DNB), which conducted the day to day prudential supervision oversight), back to DNB. The Netherlands Authority for the Financial Markets, Autoriteit Financiële Markten (AFM), is responsible for the conduct supervision.

UK ring-fencing legislation

The UK ring-fencing legislation required the separation of essential banking services from investment banking services from 1 January 2019. RBS Group has placed the majority of the UK banking business in ring-fenced banking entities under an intermediate holding company, NatWest Holdings Limited. NWM Plc and RBS International Limited (RBSI Ltd) are separate banks outside the ring-fence, and are subsidiaries of RBSG plc. RBSH N.V., which is the parent company of NWM N.V., is a direct subsidiary of NWM Plc and an indirect subsidiary of RBSG plc. NWM N.V. is outside the ring-fence.

International Financial Reporting Standards

Unless otherwise indicated, the financial information contained in this Annual Report has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and IFRS as issued by the International Accounting Standard Board (IASB).

Business highlights

NWM N.V. Group reported an attributable profit of €634 million for 2019 compared with €271 million in 2018, primarily reflecting the impact of the Alawwal bank merger and disposal completed in the first half of 2019, the re-purposing of the NWM N.V. banking licence and new business transferred to NWM N.V..

Income, balance sheet and RWAs

- Total income was €749 million compared with €435 million in 2018, primarily reflecting the gain on the merger of Alawwal bank of €516 million. A review of insurance liabilities pertaining to claims resulted in a €112 million release in 2019.
- Total assets and total liabilities increased to €14.5 billion compared with €5.3 billion and to €12.3 billion compared with €2.1 billion at 31 December 2018 respectively, reflecting the transfer of assets from NWM Plc, the transfer of new business from National Westminster Bank Plc (NWB Plc) in relation to the Western Europe Corporate portfolio and the raising of new funding for N.V..
- RWAs reduced to €7.1 billion primarily reflecting a large reduction in exposures from investments in associates following the Alawwal bank merger and disposal (Alawwal bank - €6.5 billion) partly offset by an increase due to the new and migrated business (€4.8 billion).

Business developments

- NWM N.V. began transacting new business on 25 March 2019 as part of preparations to ensure continuity of service to RBS Group's European Economic Area (EEA) customers when the United Kingdom (UK) leaves the European Union (EU). The activities transferred primarily relate to Markets and Corporate Lending portfolios for EEA customers previously served from NWM Plc and the ring-fenced bank.
- As part of the commencement of new business, €7.5 billion of assets and €8.4 billion of liabilities were transferred from NWM Plc to NWM N.V.. These transfers included trading assets of €4.3 billion, derivative assets of €3.0 billion, trading liabilities of €4.1 billion and derivative liabilities of €4.1 billion.
- A further €0.6 billion of lending and securitised products and €1.5 billion of contingent liabilities and commitments were transferred from NWM Plc to NWM N.V.. Lending of €0.5 billion and contingent liabilities and commitments of €4.7 billion were transferred from NWB Plc to NWM N.V. in relation to the Western European Corporate Portfolio.

Financial review

Alawwal bank

On 16 June 2019, the merger of Alawwal bank and SABB was completed, with NWM N.V. receiving an aggregate 10.8% shareholding in SABB on behalf of itself and its consortium partners.

RBS Group's economic interest in the merged entity, amounting to 4.1%, was then sold to NWM Plc, and the balance of shares was transferred separately to RFSH B.V. consortium partners, as part of the unwind of those arrangements. On 29 November 2019, the RBSH Group transferred to become a subsidiary of NWM Plc following regulatory approval. At the same time, the liquidation of RFSH B.V. commenced and was finalised on 6 December 2019. NWM N.V. has recognised an income gain on disposal of the Alawwal bank stake for shares received in SABB of €516 million.

Risk-sharing agreements

During the year, NWM Plc and NWM N.V. have established limited risk-sharing arrangements that facilitate the smooth provision of services to Markets' customers. The arrangements include:

- The provision of a funded guarantee of up to £3 billion by NWM Plc to NWM N.V. that limits NWM N.V.'s exposure to large individual customer credits to 10% of NWM N.V.'s capital. Funding is provided by NWM Plc deposits placed with NWM N.V. of not less than the guaranteed amount. At 31 December 2019 the deposits amounted to €0.8 billion and the guarantee fees in the period were €1.5 million.
- The provision of a funded and an unfunded guarantee by NWM Plc in respect of NWM N.V.'s legacy portfolio. At 31 December 2019 the exposure at default covered by the guarantees was approximately €0.3 billion (of which €0.2 billion was cash collateralised) and €0.1 billion respectively. A fair value loss movement of €6 million in relation to the credit protection and cash collateral, and fees payable of €1.2 million in relation to the unfunded guarantee were recognised in the year.

Outlook(1)

Further changes are expected regarding the scope of NWM N.V. Group's activities in 2020 resulting from structural changes as part of RBS Group's strategy. The volume and pace of changes will depend upon the terms and circumstances of the UK's exit from the EU, as well as the specific contractual terms of the affected products and agreement of certain customers, amongst other variables.

Note:
(1) The targets, expectations and trends discussed in this section represents NWM N.V.'s management's current expectations and are subject to change, including as a result of the factors described in the "Risk Factors" section on pages 98 to 110. These statements constitute forward-looking statements. Refer to Forward-looking statements in this document.

Performance key metrics and ratios	2019	2018
Liquidity coverage ratio (LCR) (%)	505	12,076
Liquidity portfolio (€bn)	4.0	1.5
Total wholesale funding (€bn)	1.7	0.8
Total funding including repo (€bn)	6.4	1.3
Common Equity Tier (CET 1) ratio (%)	23.1	31.4
CRR leverage ratio (%)	8.9	20.3
Risk-weighted assets (RWAs) (€bn)	7.1	8.8
Total Capital ratio (%)	29.9	32.6

Chairman's statement

Having successfully repurposed our banking licence by obtaining a Declaration of No Objection (the 'DNO') from De Nederlandsche Bank (DNB) in 2018, NatWest Markets N.V. was ready to serve RBS Group's EEA customers from its branch network across Western Europe in the first quarter of 2019, and on 29 November 2019 it became a subsidiary of NatWest Markets Plc.

In the first quarter of 2019, we also successfully opened branches in six European countries (France, Germany, Ireland, Italy, Spain and Sweden), whilst maintaining our London Branch, to ensure we are in close proximity to our customers in their markets. Our mission is to help corporates and financial institutions manage their financial risks and achieve their short and long-term financial goals while navigating changing markets and regulation, built around rates, currencies and financing products.

As part of preparing the entity to begin booking new business, changes were made to both the Managing Board and Supervisory Board. The Managing Board was expanded in the first quarter of 2019 from two to four members, with the addition of the Chief Risk Officer (Marije Elkenbracht who joined on 15 February 2019) and Chief Operating Officer (Angelique Slach who joined on 25 March 2019). During the first quarter of 2019, Robert Begbie and Chris Campbell stepped down from the Supervisory Board and were succeeded by Richard Place, Chief Financial Officer, NatWest Markets Plc and two new independent members, Annelies van der Pauw and Anne Snel. On 19 December 2019, Chris Marks and Richard Place stepped down as Chief Executive Officer and Chief Financial Officer of NatWest Markets Plc and, as a result, have also stepped down as NatWest Markets N.V. Supervisory Board members. Robert Begbie has been appointed Chief Executive Officer of NatWest Markets Plc and it is the intention he joins the Supervisory Board as Chairman subject to regulatory approval. Until Robert Begbie's appointment to the Supervisory Board has received regulatory approval, Maarten Klessens will act as Acting Chairman of the Supervisory Board.

I am pleased that NatWest Markets N.V. continues to foster a diverse and inclusive organisation with a gender balance on both the Managing Board and Supervisory Board. With the initial Brexit deadline of 31 March 2019, NatWest Markets N.V. began transacting new business on 25 March 2019 to ensure that the RBS Group's NatWest Markets business could continue to serve its customers when the UK left the EU. Withdrawal of the UK from the EU was ratified by UK and EU parliaments and we have now entered a transition period until December 2020.

As a result of this new business, €7.5 billion of assets and €8.4 billion of liabilities were transferred from NatWest Markets Plc. In addition, further customers were transferred from both NatWest Markets Plc and NatWest Bank Plc to NWM N.V. on their requests. We have committed to continuously supporting customers through Brexit and communicated to them in regards to Brexit developments regularly.

Management of financial resources for NatWest Markets N.V. has been complex due to the uncertain levels and shifting timelines of transfers caused by Brexit extensions and political uncertainty.

Management of financial resources will remain an area of focus throughout 2020 as the future relationship between the UK and the EU will be detailed. We plan to implement further client migrations over 2020 to ensure customers can continue to receive valuable financing and risk management services post-transition period.

The NWM N.V. Group continues to be classified as a 'Less Significant Institution'. Consequently, De Nederlandsche Bank (DNB) continues to be the primary regulator for the NWM N.V. Group.

The table below provides the current and expected medium-term profile of NWM N.V.: (1)

	Current profile	Medium-term expected profile
CET 1 ratio	23.1%	>15%
CRR Leverage ratio	8.9%	≥ 4%

Results of operations in 2019

Operating profit before tax was €662 million compared with €409 million in 2018. This increase was due to higher total income which increased by €314 million to €749 million, offset by higher operating expenses of €88 million compared with €22 million in 2018.

Total assets increased to €14.5 billion as at 31 December 2019 compared with €5.3 billion as at 31 December 2018 mainly driven by increases in cash and balances at central banks, trading assets and derivatives.

Capital and RWAs

NWM N.V. Group continues to be well capitalised. Total equity as at 31 December 2019 was €2.2 billion, a decrease of €1.0 billion compared with 31 December 2018. At December 2019, NWM N.V. Group's Total capital ratio was 29.9% with a CET 1 ratio of 23.1% and Tier 1 ratio of 26.7%. NWM N.V. Group's total risk-weighted assets were €7.1 billion at 31 December 2019.

Looking forward

On 14 February 2020, RBS Group announced its plan to rename the parent company and provide a new Purpose for RBS Group that will help us become a more sustainable business, delivering better outcomes for our customers and our shareholders.

RBS Group has also announced that NWM Group will be refocused to support a more integrated corporate and institutional customer offering. This will mean a significant transformation for NWM Group.

We have an important role in delivering RBS Group's future markets business, connecting its customers with international capital markets and helping them to manage their financing and risk management needs. We will become a purpose-led organisation committed to supporting a thriving economy.

On behalf of the Managing Board, I would like to thank our customers and other stakeholders for their loyalty and trust and all employees for their continued focus and efforts in standing up NatWest Markets N.V. and serving our customers well.

Harm Bots
Chairman of the Managing Board, NWM N.V.
12 March 2020

Note:
(1) The targets, expectations and trends discussed in this section represents NWM N.V.'s management's current expectations and are subject to change, including as a result of the factors described in the "Risk Factors" section on pages 98 to 110. These statements constitute forward-looking statements. Refer to Forward-looking statements in this document.

Financial review

Summary consolidated income statement

	2019	2018	Variance	
	€m	€m	€m	
Interest receivable	62	26	36	138%
Interest payable	(80)	(35)	(45)	129%
Net interest income	(18)	(9)	(9)	100%
Fees and commissions receivable	129	3	126	nm
Fees and commissions payable	(26)	(73)	47	(64%)
Income from trading activities	8	138	(130)	(94%)
Other operating income (1)	656	376	280	74%
Non-interest income	767	444	323	73%
Total income	749	435	314	72%
Operating expenses	(88)	(22)	(66)	nm
Profit before impairment releases/(losses)	661	413	248	60%
Impairment releases/(losses)	1	(4)	5	(125%)
Operating profit before tax	662	409	253	62%
Tax charge	(28)	(138)	110	(80%)
Profit for the year	634	271	363	134%
Attributable to:				
Controlling interests	634	271	363	134%

nm = not meaningful

Note:
(1) 2019 includes a gain of €516 million on completion of the Alawwal bank merger.

The income statement movements are materially impacted by the re-purposing of the NWM N.V. banking licence and the transfer of new business from NWM Plc and NWB Plc. The activities transferred primarily relate to Markets and Corporate Lending portfolios for EEA customers previously served from NWM Plc and the ring-fenced bank.

Operating profit before tax was €662 million compared with an operating profit of €409 million in 2018. This increase was due to higher total income which increased by €314 million to €749 million, compared with €435 million and higher operating expenses of €88 million compared with €22 million in 2018. Impairment releases were €1 million compared with losses of €4 million in 2018.

Profit attributable to controlling interests was €634 million compared with €271 million in 2018.

Net interest income was a net expense of €18 million compared with a net expense of €9 million in 2018. Interest receivable increased by €36 million to €62 million (2018 - €26 million). Interest payable increased by €45 million to €80 million (2018 - €35 million). The decrease in net interest income is mainly due to higher negative interest on the cash balance with the Dutch Central Bank, which was partially offset by higher interest receivable from amounts due from ultimate holding companies and fellow subsidiaries and higher interest receivable from other assets.

Non-interest income increased by €323 million to €767 million compared with €444 million in 2018. Net fees and commissions were an income of €103 million (2018 - €70 million loss). In 2019 this was mainly driven by transfer pricing income from NWM Plc of €87 million. 2018 included a termination fee of €70 million relating to termination costs on the closure of a deal.

Income from trading activities was €8 million, compared with €138 million in 2018, primarily in relation to lower interest rate trading income.

Other operating income increased by €280 million to €656 million, compared with €376 million in 2018. This was mainly driven by legacy items. This included a gain of €516 million on completion of the Alawwal bank merger, a release of €112 million in relation to Alcover claims reserves (2018 - €54 million) and Madoff related recoveries of €21 million (2018 - €248 million).

Operating expenses increased by €66 million to €88 million compared with €22 million in 2018. This was mainly due to staff costs which were up €28 million to €35 million and administrative expenses which increased by €36 million to €46 million, as a result of the re-purposing of the NWM N.V. banking licence.

Impairments were a release of €1 million compared with a loss of €4 million in 2018.

Tax charge for 2019 was €28 million compared with €138 million in 2018. The gain on the Alawwal bank merger is exempt from Dutch corporate income tax.

Financial review

Consolidated balance sheet as at 31 December 2019

	2019	2018	Variance	
	€m	€m	€m	
Assets				
Cash and balances at central banks	3,191	336	*2,855*	*nm*
Trading assets	3,155	13	*3,142*	*nm*
Derivatives	3,898	656	*3,242*	*nm*
Settlement balances	141	—	*141*	*nm*
Loans to banks - amortised cost	738	392	*346*	*88%*
Loans to customers - amortised cost	1,374	67	*1,307*	*nm*
Amounts due from holding companies and fellow subsidiaries	1,368	1,961	*(593)*	*(30%)*
Other financial assets	562	389	*173*	*44%*
Assets of disposal groups	—	1,317	*(1,317)*	*(100%)*
Other assets	67	160	*(93)*	*(58%)*
Total assets	14,494	5,291	*9,203*	*174%*
Liabilities				
Bank deposits	59	44	*15*	*34%*
Customer deposits	1,447	61	*1,386*	*nm*
Amounts due to holding companies and fellow subsidiaries	3,021	417	*2,604*	*nm*
Settlement balances	209	—	*209*	*nm*
Trading liabilties	1,832	6	*1,826*	*nm*
Derivatives	4,588	364	*4,224*	*nm*
Other financial liabilities	240	—	*240*	*nm*
Subordinated liabilities	642	746	*(104)*	*(14%)*
Other liabilities	248	420	*(172)*	*(41%)*
Total liabilities	12,286	2,058	*10,228*	*nm*
Total equity	2,208	3,233	*(1,025)*	*(32%)*
Total liabilities and equity	14,494	5,291	*9,203*	*174%*

nm = not meaningful

The balance sheet movements are materially impacted by the re-purposing of the NWM N.V. banking licence and the transfer of new business from NWM Plc and NWB Plc. The activities transferred primarily relate to Markets and Corporate Lending portfolios for EEA customers previously served from NWM Plc and the ring-fenced bank.

Total assets were €14,494 million at 31 December 2019, an increase of €9,203 million, or 174%, compared with €5,291 million at 31 December 2018, mainly driven by cash and balances at central banks of €3,191 million (31 December 2018 - €336 million), trading assets of €3,155 million (31 December 2018 - €13 million) and derivatives of €3,898 million (31 December 2018 - €656 million).

Cash and balances at central banks increased by €2,855 million to €3,191 million at 31 December 2019. The full balance is placed with the Dutch Central Bank and it is the key component of the NWM N.V. liquid asset buffer.

Trading assets increased by €3,142 million to €3,155 million, reflecting the transfer in of new business. The 2019 balance mainly pertains to loans subject to reverse repurchase agreements amounting to €1,176 million and cash collateral posted to derivative counterparties amounting to €1,637 million.

Loans to banks - amortised cost increased by €346 million, or 88%, to €738 million at 31 December 2019, mainly due to the increase in non-euro cash placements held for liquidity buffer purposes.

Loans to customers - amortised cost increased by €1,307 million to €1,374 million, reflecting the transfer in of new business. The loan portfolio includes loans to corporates and financial institutions. The majority has a residual maturity of more than twelve months.

Amounts due from holding companies and fellow subsidiaries decreased by €593 million to €1,368 million, mainly driven by a decrease in reverse repurchase agreements of €413 million to €730 million (2018 - €1,143 million).

Other financial assets increased by €173 million, or 44%, to €562 million and included debt securities up €250 million to €506 million and equity shares down €77 million to €56 million. The increase in debt securities relates to liquidity management and the decrease in equity shares relates to the legacy portfolio.

Assets of disposal groups decreased by €1,317 million, or 100%, to nil, reflecting the impact of the Alawwal bank merger and disposal.

Other assets decreased by €93 million, or 58%, to €67 million mainly driven by lower Alsecure reinsurance receivables of €124 million due to the liquidation of Alsecure.

Derivative assets increased by €3,242 million to €3,898 million, and derivative liabilities increased by €4,224 million, to €4,588 million, reflecting the transfer in of new business. The balances mainly pertain to interest rate derivatives and exchange rate derivatives.

Settlement balance assets and liabilities were €141 million (31 December 2018 - nil) and €209 million (31 December 2018 - nil) respectively, reflecting the transfer in of new business.

Bank deposits increased by €15 million, or 34%, to €59 million at 31 December 2019.

Customer deposits increased by €1,386 million to €1,447 million, reflecting the raising of new funding.

Amounts due to holding companies and fellow subsidiaries increased by €2,604 million to €3,021 million, mainly driven by an increase in bank deposits of €1,749 million to €2,167 million (2018 - €418 million). This increase in bank deposits mainly relates to funded guarantees from NWM Plc.

Trading liabilities increased by €1,826 million to €1,832 million, reflecting the transfer in of new business. The 2019 balance mainly pertains to deposits subject to repurchase agreements amounting to €330 million and cash collateral received from derivative counterparties amounting to €660 million.

Other financial liabilities were €240 million (31 December 2018 - nil), reflecting certificate of deposit issuance of €240 million.

Subordinated liabilities decreased by €104 million, or 14%, to €642 million mainly due to maturing of Tier 2 subordinated liabilities and the impact of US dollar to Euro exchange rate movements during the year.

Other liabilities decreased by €172 million, or 41%, to €248 million at 31 December 2019 mainly due to a reduction in insurance reserves.

Equity attributable to controlling interests decreased by 32%, to €2,208 million mainly driven by the distribution to consortium members following the Alawwal bank merger.

Top and emerging risks

The NWM N.V. Group employs a continuous process for identifying and managing its top and emerging risks. Top and emerging risks are those that could have a significant negative impact on the NWM N.V. Group's ability to operate or meet its strategic objectives.

External	
Economic & Political Risks	The NWM N.V. Group is exposed to economic and political risks arising from the markets in which it operates, including the risks arising from market volatility or a sustained period of low economic growth. NWM N.V. Group continues to use a range of complementary approaches to inform strategic planning and risk mitigation. This includes active management of portfolios and adjustment of risk appetite, scenario planning and stress testing. The NWM N.V. Group has a key role in RBS Group's preparations for the UK's loss of access to the European Single Market. It continues to monitor geopolitical risks and developments in relation to its target markets.
Climate Related Risks	Accelerating climate change may lead to heightened financial risks and faster-than-anticipated impacts on the NWM N.V. Group and the wider economy. These include financial loss as a result of deterioration in credit quality, market risk exposure and operational risk. The NWM N.V. Group continues to adapt its operation and business strategy to mitigate the risks of both climate change and the transition to a low carbon economy. In addition, the NWM N.V. Group is embedding climate risk into its risk management framework.
Cyber Threats	Cyber-attacks continue to increase in frequency, sophistication and severity. There is a risk that a catastrophic cyber-attack damages the NWM N.V. Group's ability to do business and/or compromises data security. Across RBS Group, a multi-layered approach to defence is in place and there is a continued focus on building resilience and cybersecurity capabilities.
Competitive Enviro-nment	NWM N.V. Group's target markets are highly competitive, with changes in technology, regulation, customer behaviour and business models continuing to accelerate competitive pressure. The NWM N.V. Group monitors the competitive environment and adapts strategy as appropriate to ensure its business model remains sustainable and viable. NWM N.V. Group remains focused on innovating to deliver compelling propositions for customers.
Regulatory, Legal & Conduct Risk	The NWM N.V. Group continues to face stringent regulatory and supervisory requirements, particularly regarding conduct, financial crime, the use of models, and capital and liquidity management. Material changes in regulation, including those that could increase the NWM N.V. Group's capital obligations, or a failure to meet regulatory expectations, could affect business strategy. There is also a risk that differences in the regulatory regimes in which the NWM N.V. Group and NWM Plc operate could introduce operational complexity. While the NWM N.V. Group is subject to litigation and regulatory enforcement in relation to historical activities, it continues to embed a strong and comprehensive risk and compliance culture. The NWM N.V. Group engages with regulators to implement new regulatory requirements and incorporates the implications of proposed or potential regulatory activities in its strategic and financial plans.
Internal	
Financial Viability	In common with other banks, there is a risk that NWM N.V. Group fails to adequately manage and optimise its short-term and long-term liquidity and funding. In addition, there is a risk that the level of NWM N.V. Group's risk-weighted assets increases requiring additional capital to be raised, changes to dividend plans or resulting in weaker financial metrics. NWM N.V. Group also has a dependency on NWM Plc's strategic decisions, which could affect its own strategy. To mitigate these risks, NWM N.V. Group has clear liquidity and funding targets that allow for variability and uses stress tests to assess its future needs. The NWM N.V. Group's Board maintains proactive engagement with NWM Plc to ensure strategic alignment.
Third Party Suppliers	The NWM N.V. Group has a dependency on services provided by RBS Group's ring-fenced entities. In addition, inadequate control over selection, governance and oversight of third-party suppliers could affect operational resilience. Governance is in place to ensure NWM N.V. Group is regularly engaged with the ring-fenced bank regarding service levels and continues to be diligent in its screening of suppliers with strict contractual obligations governing supplier relationships and activity.
IT System Resilience	RBS Group continues to invest in its IT infrastructure – including NWM N.V. Group's IT systems – to prevent customer service disruption, which could result in reputational and regulatory damage. A major investment programme has significantly improved the resilience of the systems and further progress is expected to mitigate legacy system vulnerabilities and modernise the infrastructure to deliver a future-state technology platform for NWM N.V. Group.
Culture & People Risk	There is a risk that NWM N.V. Group lacks sufficient capability or capacity at a senior level to deliver – or adapt to – change. NWM N.V. Group monitors people risk closely and has plans in place to support retention of key roles, with wider RBS Group programmes supporting engagement and training in place for all employees. Ensuring a healthy organisational culture remains a core priority, including the promotion of workforce diversity and a major focus on developing future skills and capabilities to tackle the evolving business environment. Across RBS Group, a multi-year programme focused on enhancing culture – including risk culture – is ongoing. This aims to deliver strong customer and business outcomes, reducing the risk of material staff misconduct and supporting business sustainability.
Legacy Portfolio	There is a risk that a legacy portfolio of non-core transactions remains on NWM N.V. Group's balance sheet, requiring significant resource and management time to administer. NWM N.V. Group retains a focus on divesting these assets appropriately and continues to reduce the size of this portfolio.
Data Manage-ment	Ineffective management of data, including a breach in data privacy, could have material negative impacts. The NWM N.V. Group operates a control and policy framework governing data usage and continued to evolve a long-term data strategy.
Control Environment	The internal system of controls is key to the NWM N.V. Group's management of its risks. Failure to maintain a sustainable control environment, due to changes in NWM N.V. Group's operating environment or business strategy, could result in an increase in risks across NWM N.V. Group. To mitigate these risks, a robust operational risk management framework is in place to support ongoing identification, management and monitoring of our risk and control profile. In addition, our overall control environment (including operational, conduct and financial crime risks) is formally assessed half-yearly to ensure that NWM N.V. Group's control environment position remains within appetite.

Capital and risk management

Presentation of information

Where indicated in the section headers, information in the Capital and risk management section (pages 7 to 34) is within the scope of the Independent auditor's report. Where a main section header, presented in bold, is marked as audited all subsequent sub sections are also audited, the end of the audited section is marked by ∆. Capital and risk management of NWM N.V. Group is in line with capital and risk management of RBS Group such that common policies, procedures, frameworks and models apply across RBS Group. Therefore, for the most part, discussion on these qualitative aspects reflects those in RBS Group as relevant for the businesses and operations in NWM N.V. Group.

Change in risk profile

Refer to page 1 for details of business developments and risk-share agreements completed during 2019 that affect the risk profile of NWM N.V. Group.

Risk management framework

Introduction

NWM N.V. Group operates under RBS Group's 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 risk management and decision-making across the organisation.

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 NWM N.V. 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.

During 2019, a number of enhancements to the RBS Group 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 2020.

Risk culture

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

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

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

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

Training

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

Code of Conduct

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

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

If conduct falls short of NWM N.V. Group's required standards, the accountability review process is used to assess how this should be reflected in pay outcomes for those individuals concerned. The RBS Group-wide remuneration policy ensures that the remuneration arrangements for all employees are compliant with CRD IV and all applicable regulatory requirements. Any employee falling short of the expected standards would also be subject to internal disciplinary policies and procedures. If appropriate, the relevant authority would be notified.

Capital and risk management

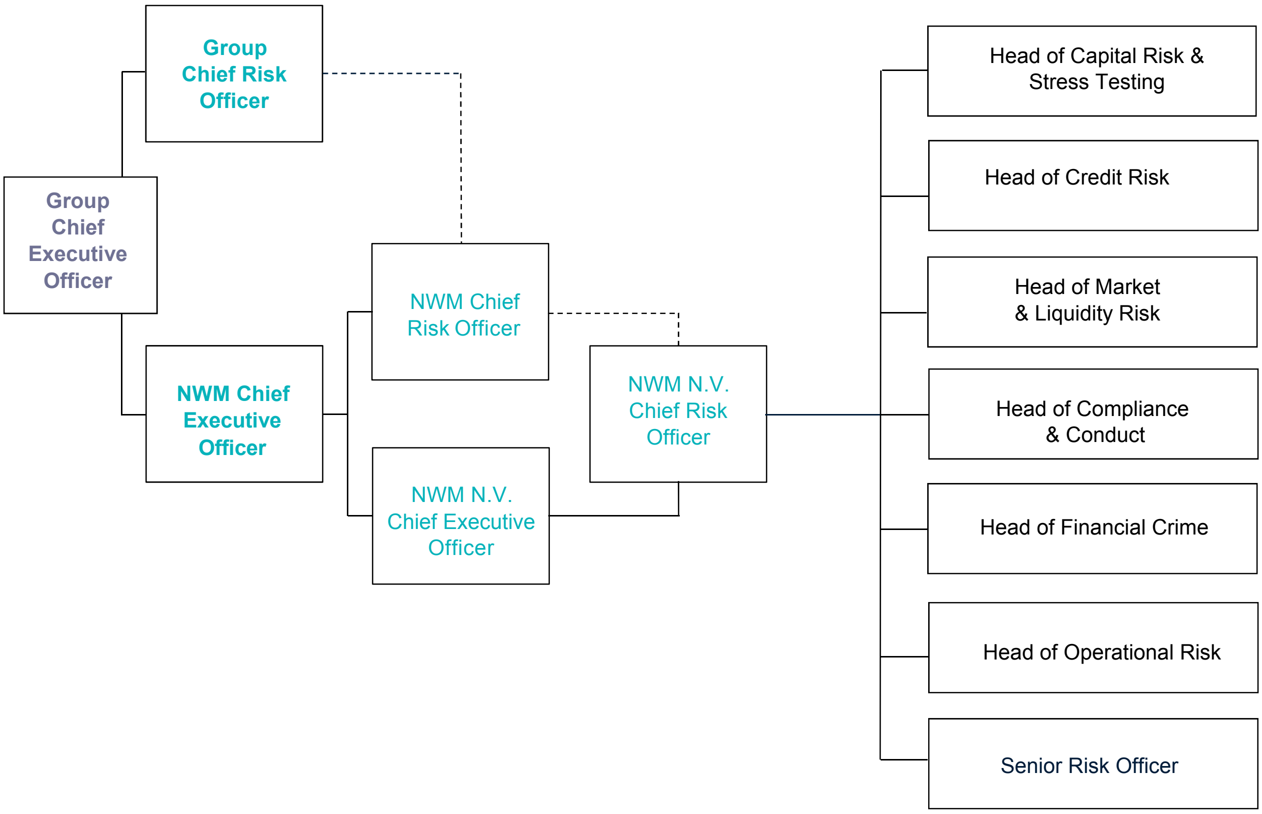
Risk management framework continued

Risk governance

Risk management structure

As noted above, capital and risk management is conducted on an overall basis within RBS Group. The risk functions and committees cover RBS Group and NWM N.V. Group, reflecting the integrated manner in which the business is managed within RBS Group. Service Level Agreements are in place between NWM N.V. Group and RBS Group and also with NWM Plc to accommodate this integrated risk management oversight.

The diagram illustrates NWM N.V.'s risk management structure in 2019 and key risk management responsibilities.



Notes:

(1) NWM N.V. is a wholly owned subsidiary of The Royal Bank of Scotland Group plc (RBSG plc).

(2) The NWM N.V. Chief Risk Officer has a functional reporting line to the NWM Chief Risk Officer.

(3) The NWM N.V. Risk function is independent and provides oversight of risk management activities to ensure risks are adequately monitored and controlled. The heads of risk work closely with the NWM N.V. Chief Risk Officer, the US Head of Risk and the Chief Risk Officer Asia Pacific to ensure consistency across the international business.

(4) The NWH Risk function provides risk management services across the RBS Group, including – where agreed – to the NWM N.V. Chief Risk Officer. These services are managed, as appropriate, through service level agreements.

Risk management in NWM N.V. Group focuses on all material risks including credit, market, liquidity, operational, regulatory and conduct risk and business activities. The day-to-day management of capital, liquidity, funding and non-traded market risk is the overall responsibility of the Managing Board and further delegated to the Asset & Liability Management Committee.

Risk management framework continued

The following table shows details of NWM N.V. Group's key boards and committees together with an overview of their responsibilities.

Board/Committee	Responsibilities
Supervisory Board Membership: Consists of three members. Currently, there will be one additional member appointed after regulatory approval, so that after this appointment, the Supervisory Board will consist of four members.	The Supervisory Board is responsible for supervising NWM N.V.'s management, its general affairs, and the business connected with it, as well as advising the Managing Board. The Supervisory Board is responsible for the review of all matters relative to accounting policies, internal control, financial reporting functions, internal audit, external audit, risk management, regulatory compliance and the product approval process. There is a separate Risk and a separate Audit Committee. Its membership is composed of members of the Supervisory Board.
Managing Board Membership: Consists of four members: the Chairman and Chief Executive Officer (CEO), the Chief Financial Officer (CFO), the Chief Risk Officer (CRO) and the Chief Operating Officer (COO).	The Managing Board reports to the Supervisory Board. It is the principal decision-making corporate body for NWM N.V. and is responsible for the day-to-day activities of NWM N.V.. The Managing Board is, among others, responsible for setting policy framework, operating structure and yearly plan (including objectives and budgets). In addition to their overall corporate responsibilities, the members of the Managing Board manage one or more units, for which they have primary responsibility.
Risk & Control Committee (RCC) Membership: Chaired by the CRO. Members include the CEO, the CFO, the COO, the Senior Legal Officer, the N.V. Treasurer, the Head of Trading, the Head of Financing & Risk Solutions, Head of Flow Sales and the Heads of the respective risk disciplines.	The responsibilities of the RCC include: • Advising the Managing Board on the risk appetite of NWM N.V. and receiving direction from the Managing Board on the risk appetite. • Providing input to NWM N.V.'s risk appetite setting process in the context of NWM N.V.'s overall risk appetite. • Overseeing the risk framework within NWM N.V. and reporting directly to the Managing Board on the performance of the framework and on issues arising from it. • Monitoring the actual risk profile of NWM N.V., ensuring that this remains within the boundaries of the agreed risk appetite and escalating excesses to the Managing Board. Prior to escalation, the RCC can ask the appropriate risk committee in RBS Group or the business that normally monitors and controls the risk item, to address any excess. The remit of the Committee also includes monitoring of capital, liquidity, credit, market, operational and regulatory risks within NWM N.V.. Changes to the Terms of Reference of the RCC must be approved by the Managing Board. To execute its authority, the RCC has access to all relevant risk information relating to NWM N.V. available within RBS Group, including escalations from and to NWM N.V. or business committees.
Asset & Liability Management Committee (ALCo) Membership: Chaired by the CFO. Members include the CEO, the CRO, the COO, the N.V. Treasurer, the N.V. Head of Trading, Head of Flow Sales and the Head of Financing & Risk Solutions.	The responsibilities of the ALCo include: • The overall governance responsibility for the strategic management of NWM N.V.'s balance sheet. • To manage capital, liquidity and funding within risk appetite limits. • The liquidity, funding, foreign exchange and interest rate exposures of NWM N.V.'s balance sheet. • The balance sheet structure and risk-weighted assets position of NWM N.V.. • Decisions on capital repatriation and loss coverage. • The implementation and maintenance of transfer pricing policies (although setting the liquidity spread curve remains the responsibility of the RBS Group ALCo). • The approval and implementation within NWM N.V. of the RBS Group Treasury policies and procedures. • Responsible for oversight of retained business (shared assets).

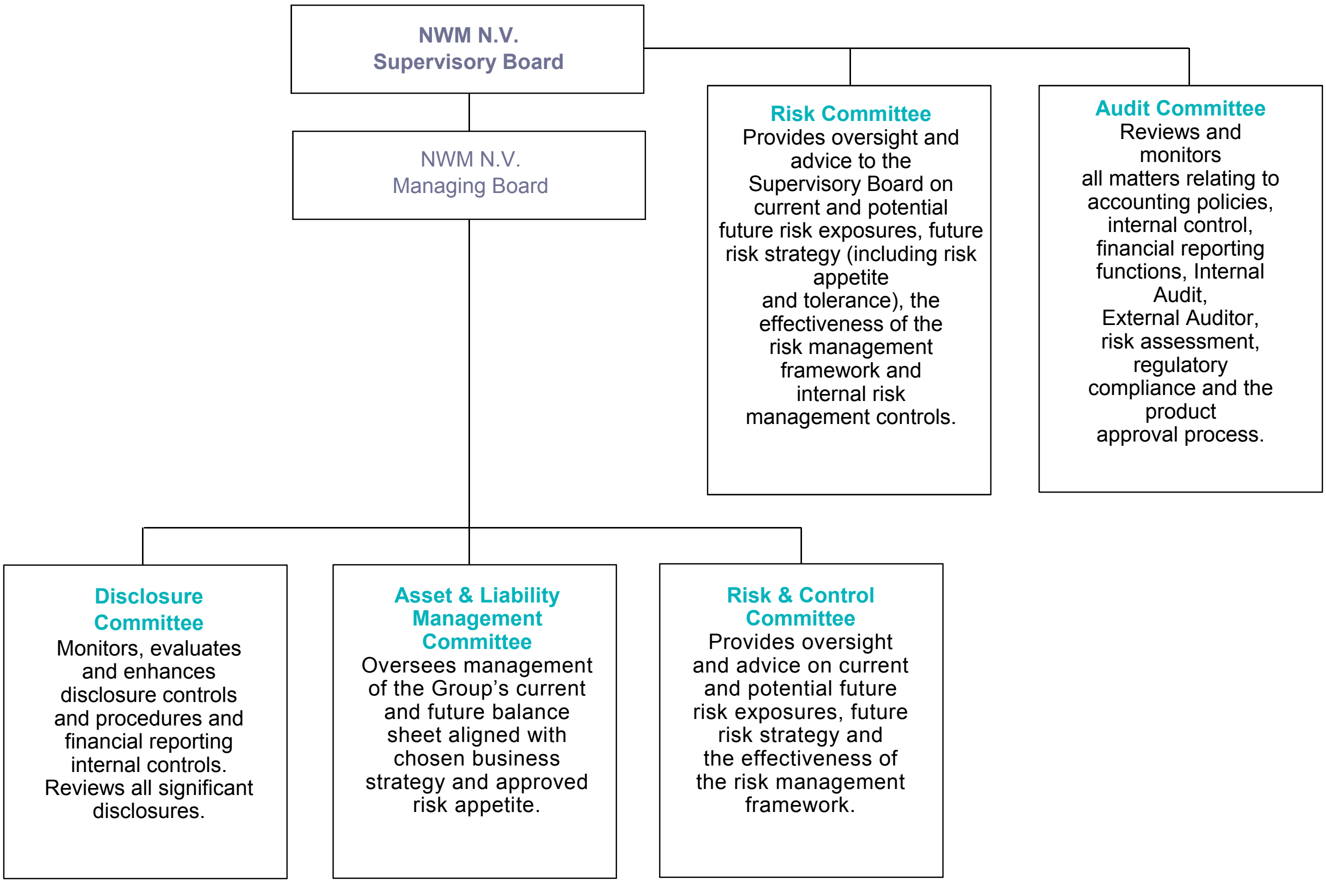
Disclosure Committee (DC)
 	
Membership:
Chaired by the CFO. Members include the CEO, the CRO, the CGO, the N.V. Treasurer, the NV Senior Legal Officer, Head of RBS Accounting Policy and NWM Financial Controller.
	The responsibilities of the DC include:
	• Monitoring, evaluation and enhancing disclosure controls and procedures; and internal controls over financial reporting.
	• Overseeing, evaluating, and approving all significant disclosures made by NWM N.V. including:
	    ○ The Annual Report and Accounts and corresponding interim disclosures.
	    ○ Pillar 3 disclosures (where relevant, as a subset of RBS Group Pillar 3 Disclosures) under the Capital Requirements Directive; and
	    ○ Public filings to be made in connection with the announcement of financial results, excluding filings with regulators.
	Furthermore, the responsibilities of the DC include overseeing, evaluating and reviewing accounting issues and developments and recommendations on key accounting judgements, including capital and risk disclosures, prior to presentation to the NWM N.V. Managing and Supervisory Board. The DC will make recommendations to the NWM N.V. Managing and Supervisory Board in relation to its review of these items.

Capital and risk management

Risk management framework continued

Committee structure

The diagram illustrates the NWM N.V. Group risk committee structure in 2019 and the main purposes of each committee.



Risk management framework continued

Three lines of defence

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

First line of defence

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

- The first line of defence is empowered to take risks within the constraints of the risk management framework and policies as well as the risk appetite statements and measures set by the RBS Group 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 is 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 RBS 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 RBS Group 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 NWM N.V. Group Board and the RBS Group Board if relevant, its subsidiary legal entity boards and executive management on the adequacy and effectiveness of key internal controls, governance and the risk management in place to monitor, manage and mitigate the key risks to RBS Group and its subsidiary companies achieving their objectives.
- The third line of defence executes its duties freely and objectively in accordance with the Institute of Internal Auditor's Code of Ethics & Standards.

Risk appetite

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

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

Risk appetite framework

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

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

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

NWM N.V. Group Board approves the risk appetite framework annually.

Establishing risk appetite

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

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

NWM N.V. Group operates within risk appetite set at RBS Group and NWM Plc level unless specific entity level considerations need to prevail, for example, specific capital structure considerations.

In addition to operating within RBS Group and NWM Plc risk appetite, NWM N.V. Group sets risk appetite limits for its own strategic and most material risks. NWM N.V. Group's risk profile is frequently reviewed and monitored and management focus is concentrated on all strategic risks, material risks and emerging risk issues. Risk profile relative to risk appetite is reported regularly to NWM N.V. Group Board and senior management.

The risk appetite statement is approved by the Risk & Control Committee, the Managing Board and the Supervisory Board.

Risk controls and limits

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.

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

Risk identification and measurement

Risk 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.
- Review of potential risks in new business activities and processes.
- Analysis of potential risks in any complex and unusual business transactions.

Capital and risk management

Risk management framework continued

The financial and non-financial risks that RBS Group faces each day are detailed in the Risk Directory. This provides a common risk language to ensure consistent terminology is used by NWM N.V. Group and the rest of RBS Group. The Risk Directory is subject to annual review. This ensures that it continues to provide a comprehensive and meaningful list of the inherent risks within the businesses.

Risk treatment and mitigation

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

Risk testing and monitoring

Targeted credit risk, market risk, liquidity 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 NWM N.V. Group's regulators – that risk owned policies and procedures are being correctly implemented and operating adequately and effectively. Selected key controls are reviewed at NWM N.V. Group level. Thematic reviews and deep dives are also carried out where appropriate.

Initial adequacy and effectiveness testing of selected key controls, owned and operated by the second line of defence, has been performed. Further implementation of the risk and control assessment framework for NWM N.V. Group's second line of defence is progressing.

Anti-money laundering, sanctions, and anti-bribery and corruption 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.

Regulatory oversight

NWM N.V. Group is subject to the direct supervision of De Nederlandsche Bank (DNB). Following its application to DNB in 2018 for a declaration of no objection, to ensure continuity of service to European Economic Area (EEA) customers following the UK's exit from the European Union (EU), NWM N.V. Group began transacting new business on 25 March 2019. NWM N.V. Group was acquired by NWM Plc, and became a part of NWM Group, with effect from 29 November 2019.

The Autoriteit Financiele Markten (AFM), as an independent market conduct authority, has supervision of NWM N.V. Group in the Netherlands. The AFM considers Brexit to be the main source of uncertainty for the financial markets with significant consequences for the Dutch capital markets.

Capital and risk management

Capital, liquidity and funding risk

Definition

Regulatory capital consists of reserves and instruments issued that are available to the NWM N.V. Group that 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 to count 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 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 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.

For a description of sources of capital, liquidity and funding as utilised by the RBS Group, refer to the RBS Group Annual Report and Accounts 2019 on page 120.

Key developments in 2019

- CET1 capital reduced by €1.1 billion during 2019, primarily due to events relating to the Alawwal bank merger, capital repatriation, and due to the dividends which were paid, via intermediate holding companies, to The Royal Bank of Scotland Group plc (RBSG plc). There were small changes in the regulatory adjustments and the allowed regulatory value for the Tier 2 capital.
- The CET1 ratio decreased to 23.1% (2018 – 31.4%), primarily driven by the reduction in regulatory capital due to the Alawwal bank disposal and the related capital being paid back to the consortium partners. The reduction in RWAs, due to the Alawwal bank disposal, was €6.5 billion, offset by the transferred and new business from NWM Plc of €4.8 billion. Total regulatory capital reduced to €2.1 billion (2018 - €2.9 billion). The total capital ratio of 29.9% was a significant decrease compared to the prior year, due to the Alawwal bank disposal and the transfer of NWM N.V. into NWM Plc. In 2019, NWM N.V. received additional Tier 1 capital of €250 million which resulted in a Tier 1 capital ratio of 26.7%.
- Eligible Tier 2 capital increased by €128 million in 2019 due to newly issued Tier 2 capital of €150 million provided by NWM Plc, partially offset by reduced eligibility due to maturing instruments within 5 years.
- The liquidity portfolio of €4.0 billion was €2.5 billion higher than 2018 due to cash and balances at central banks increasing to €3.2 billion, as well as the liquid asset buffer held in the form of securities. Total funding increased to €6.4 billion reflecting higher balance sheet levels in 2019.

Regulatory framework

Capital requirements regulation and directive

The European Union has implemented the Basel III proposals and a number of important changes to the banking regulatory framework through the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD) collectively known as the CRD IV package (CRD IV).

CRD IV was implemented on 1 January 2014 on a phased basis with full implementation to be completed on 1 January 2019. As part of the implementation of CRD IV, the European Banking Authority's technical standards, which are legal acts specifying particular aspects of CRD IV, are either in progress to be finalised through adoption by the European Commission, or now in force.

CRD IV continues to require a total amount of capital equal to at least 8.0% of risk-weighted assets but the share that has to be of the highest quality, which is CET1 capital, of at least 4.5%.

The CRD IV package also introduces more stringent criteria for capital instruments, harmonised adjustments made to capital recognised for regulatory purposes and establishes new capital buffers to be phased in from 1 January 2014. In addition, full implementation on 1 January 2019 introduced the following minimum requirements, which must be met:

- Pillar 1 requirement of: CET1 of 4.5% of RWAs; Tier 1 of 6.0%; and total capital of 8.0%.
- Capital buffers: 'capital conservation buffer' of 2.5% of RWAs; 'countercyclical capital buffer' of up to 2.5%; an 'other systemically important institutions buffer' for domestically or EU important institutions and, if required by a member state, an additional 'systemic risk buffer'.
- Minimum Tier 1 leverage ratio of 3.0% applicable from 28 June 2021.

The NWM N.V. Group manages changes to capital requirements from new regulation (including model changes) and the resulting impact on the Common Equity Tier 1 ratio alongside its strategy of risk reduction and de-leveraging. For further information please refer to Capital management below.

Banking Union: Single Supervisory Mechanism

On 15 October 2013, the EU Council formally adopted the Regulation on the Single Supervisory Mechanism (SSM) which became operational on 4 November 2014. The SSM is a new framework for banking supervision in Europe with the aims of ensuring the safety and soundness of the European banking system and increasing financial integration and stability in Europe.

The ECB has to ensure that credit institutions not only meet the minimum prudential capital requirements set by the CRD IV but also have an additional buffer reflecting risks or elements of risks not covered by the minimum requirements in CRD IV. This is organised through the framework of the SSM.

The SSM has to ensure that credit institutions have sufficient capital to cover unexpected losses or survive severe stressed economic and market conditions. The capital joint decision is the key outcome of the Supervisory Review and Evaluation Process. In this process, the supervisor reviews the governance and internal control arrangements used by each individual bank to manage its risks (i.e. the Internal Capital Adequacy Assessment Process (ICAAP)).

Overall this framework governs relations between the ECB, national supervisors and banks, and is an important step towards banking union in the EU.

Capital management

The NWM N.V. Group aims to maintain an appropriate level of capital to meet its business needs (which include requirements of its ultimate parent company, RBSG plc) and regulatory requirements, whilst operating within an agreed risk appetite. Determination of appropriate capital levels involves regular Asset & Liability Management Committee (ALCo) capital monitoring, planning and forecasts, and ICAAP. Capital plans are subjected to internal governance reviews, eventually put through Managing Board oversight and approval, as well as review of the appropriate supervisory authority.

Capital and risk management

Capital, liquidity and funding risk continued

Capital planning

The NWM N.V. Group operates a rigorous capital planning process via ALCo aimed at ensuring the capital position is controlled within the agreed parameters. This incorporates regular re-forecasts of the capital position of the NWM N.V. Group. In the event that the projected position deteriorates below acceptable levels, the NWM N.V. Group would revise business plans accordingly.

The NWM N.V. Group manages changes to capital requirements from new regulation as well as model changes and the resulting impact on the Common Equity Tier 1 ratio, focusing on risk reduction and de-leveraging.

Through the ICAAP, the NWM N.V. Group determines its desired capital levels based on three complimentary perspectives: the normative baseline, normative adverse and economic internal perspective. The normative baseline perspective ensures NWM N.V.'s capital is managed to comply with current and known future changes in regulatory capital requirements. In the normative adverse perspective, the NWM N.V. Group's capital levels are evaluated through the application of internally defined stress tests that quantify changes in capital ratios under a range of scenarios. In the economic internal perspective, the NWM N.V. Group calculates the required capital from an economic point of view.

Liquidity and funding management

Liquidity and funding management follows a similar process to that outlined above for capital. Liquidity and funding risk tolerance forms part of the NWM N.V. Group's risk appetite statement, which is reviewed and approved by the NWM N.V. Group Managing Board.

The risk appetite statement defines key metrics, risk trigger levels and capacity for liquidity and funding management within the NWM N.V. Group. The Board also sets the appetite for funding risk to ensure that stable sources of funding are used to fund the NWM N.V. Group's core assets. The NWM N.V. Group monitors its liquidity position against this risk tolerance on a daily basis. In setting risk limits the Board considers the nature of the NWM N.V. Group's activities, overall risk appetite, market best practice and regulatory compliance.

In implementing the NWM N.V. Group's liquidity risk management framework, a suite of tools are used to monitor, limit and stress test the risks within the balance sheet. Limits are established to manage the level of liquidity risk and these include thresholds for the amount and composition of funding sources, asset and liability mismatches, and funding concentrations.

Liquidity portfolio management

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

Within the liquidity portfolio the NWM N.V. Group holds cash at central banks of €3.2 billion (2018 - €0.3 billion) and government and other high quality securities of €0.8 billion (2018 - €1.1 billion).

Funding risk management

Funding is raised through deposits from the money market and through the issuance of a commercial paper program of €240 million.

Governance

The ALCo is responsible for ensuring the NWM N.V. Group maintains adequate capital, liquidity and funding at all times. The ALCo manages and plans the NWM N.V. Group's adequacy levels taking into account current and projected levels and provides input to and oversees levels established within the framework of the ICAAP and ILAAP.

ALCo also plans and manages capital, liquidity and funding interaction with RBS Group. Such interaction would include, amongst other matters, ALCo considerations around the NWM N.V. Group's strategic asset sales/transfers to RBS Group which would need to be capital neutral to RBS Group and are required to be structured in such a way so as to satisfy DNB, ECB and PRA regulatory requirements. The ALCo is in turn ultimately governed by NWM N.V. Group's Managing Board, which approves ALCo and ICAAP and ILAAP decisions.

Capital ratios and risk-weighted assets

The NWM N.V. Group aims to maintain an appropriate level of capital to meet its business needs and regulatory requirements. The NWM N.V. Group's capital ratios and RWAs on a CRR transitional basis are set out below. Refer to Note 23 on the consolidated accounts for a more detailed breakdown of regulatory capital.

Capital ratios	2019 %	2018 %
Common Equity Tier 1 (CET1)	23.1	31.4
Tier 1	26.7	31.4
Total	29.9	32.6

Risk-weighted assets	€m	€m
Credit risk	5,186	8,164
Market risk	1,255	157
Operational risk	624	478
Settlement risk	17	—
	7,082	8,799

Key points

- Within the total RWAs of €7,082 million (2018 - €8,799 million), there is no longer RWAs for the proportional consolidation of NWM N.V. Group's 40% interest in Alawwal bank (2018 - €6,516 million). Due to the migrated business, the RWAs excluding Alawwal bank's interest has grown. This has grown in the counterparty credit risk as well as the credit risk and the undrawn facilities in total for €3,506 million.
- Market risk RWAs include €161 million relating to credit valuation adjustments (2018 - €36 million).
- The operational risk capital charge has increased in 2019, reflecting the three year average operating income of Alawwal bank factored in by the NWM N.V. Group under the basic indicator approach to calculating RWAs and for 2018 positive results from insurance payout from Lehman and Madoff.

Capital and risk management

Capital, liquidity and funding risk continued

CET1 flow statement

The table below analyses the movement in Common Equity Tier 1 capital during the year.

	€m
At 1 January 2019	2,762
Regulatory adjustment: fair value changes in own credit spreads	118
Foreign currency reserves	30
Result current year	634
Other (1)	(1,905)
At 31 December 2019	1,639

Note:
(1) Other includes dividends paid of €657 million and €1,166 million in relation to distributions of the right to receive SABB interests via RFS Holdings B.V. to Santander and the Dutch State following the Alawwal bank merger becoming effective.

Funding sources (audited)

The table below shows the NWM N.V. Group's primary funding sources. Amounts due to holding companies and fellow subsidiaries are predominantly bank deposits for the funded guarantees and the new Tier 2 subordinated debt of €150 million.

	2019		2018	
	€m	%	€m	%
Bank deposits	59	0.9	44	3.4
Customer deposits	1,447	22.6	61	4.8
Trading liabilities	995	15.6	6	0.5
Other financial liabilities	240	3.8	—	—
Subordinated liabilities	642	10.0	746	58.6
Amounts due to holding companies and fellow subsidiaries	3,015	47.1	417	32.7
Total funding	6,398	100.0	1,274	100.0

Δ

Capital and risk management

Credit risk

Definition

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

The disclosures in this section are audited where indicated.

Sources of risk

NWM N.V. Group is exposed to credit risk through lending, derivatives and off-balance sheet products such as trade finance and guarantees. NWM N.V. Group is also exposed to credit risk as a result of debt securities held for liquidity management purposes.

Key developments in 2019

- From 25 March 2019, Western European clients transferred steadily to NWM N.V. Group's balance sheet. These transfers partially occurred with the FSMA part VII transfer and partially individually based on the client sector and products involved.
- These were all performing and Stage 1 assets in line with the agreements made with RBS Group.
- In terms of sector, the largest exposures were to sovereigns, power & utilities, financial institutions, automotive, and telecom. In line with the risk appetite statement, no sector represented more than 25% of the portfolio.
- The majority of the exposure was in Western Europe, primarily the Netherlands, France and Germany. Other significant countries included Spain, Italy, the UK and the US.
- In terms of credit quality, the majority of the exposure was to investment grade clients.

Risk governance

RBS Group operates a Credit Risk function, which 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.

The Risk & Control Committee, which operates under the delegated authority of the Managing Board, ensures that all material credit risks are identified, assessed, monitored, controlled and managed effectively (refer to page 9 for further details). The Risk & Control Committee receives input from various committees including the Credit Risk Committee for the overall credit risk profile and sector/product/asset class concentrations, as well as input from the Risk of Credit Loss Committee, the Internal Model Review Committee and the Stress Testing Committee.

Risk appetite

NWM N.V. Group's approach to lending is governed by a comprehensive credit risk appetite framework, which is operated across RBS Group. The framework is monitored and actions are taken to adapt lending criteria as appropriate. Credit risk appetite aligns to the strategic risk appetite set by RBS Group Board. 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. The framework is supported by a suite of transaction acceptance standards that set out the risk parameters within which businesses should operate.

The four formal frameworks used – and their basis for classification – are detailed in the following table.

	Basis for classification	
Framework	Measure	Other
Single name concentration	Exposure	Risk – based on loss given default for a given probability of default
Sector	Exposure	Risk – based on economic capital and other qualitative factors
Country	Exposure	Risk – based on sovereign default risk, political stability and macroeconomic factors
Product and asset class	Exposure	Risk – based on heightened risk characteristics

Risk controls

Credit policies define mandatory controls, which are subject to assurance testing.

Risk identification and measurement

Credit stewardship

Risks are identified through relationship management and/or credit stewardship of portfolios or customers. 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.

A key aspect of credit risk stewardship is monitoring signs of customer stress, and when identified, applying appropriate debt management actions.

Risk models

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

Credit risk models are designed to provide:

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

Asset quality

All credit grades map to an asset quality scale, used for financial reporting. For customers, a master grading scale is used for internal management reporting across portfolios. Measures of risk exposure may be aggregated and reported at differing levels of detail depending on stakeholder or business requirements. Performing loans are defined as AQ1-AQ9 (where the PD is less than 100%) and non-performing loans as AQ10 or Stage 3 under IFRS 9 (where the PD is 100%).

Counterparty credit risk

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

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

Risk mitigation

Risk mitigation techniques, as set out in the appropriate credit policies, are used in the management of credit portfolios across NWM N.V. Group. These techniques mitigate credit concentrations in relation to an individual customer, a borrower group or a collection of related borrowers.

Capital and risk management

Credit risk continued

Where possible, customer credit balances are netted against obligations. Mitigation tools can include structuring a security interest in a physical or financial asset, the use of credit derivatives including credit default swaps, credit-linked debt instruments and securitisation structures, and the use of guarantees and similar instruments (for example, credit insurance) from related and third parties.

Risk assessment and monitoring

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 ethical risk policies which restrict exposure to certain highly carbon intensive industries as well as those with potentially heightened reputational impacts.

Credit is only granted to customers following joint approval by an approver from the business and the credit risk function. The joint business and credit approvers act within a delegated approval authority under the 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.

Transaction 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 LGD) are reviewed at least 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

Early problem identification

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

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

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

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

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

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

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

Restructuring

Problem debt portfolio customer relationships are mainly managed by the Restructuring team. The purpose of Restructuring is to protect NWM N.V. Group's capital. Restructuring does this by working with corporate and commercial customers in financial difficulty on their restructuring and repayment strategies. Restructuring will always aim to recover capital fairly and efficiently.

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

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

Forbearance (audited)

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 loan/debt 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.

Credit risk continued

Forbearance (audited)

Types of forbearance

The type of forbearance offered is tailored to the customer's individual circumstances and 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

Customer PDs and facility LGDs are re-assessed prior to finalising any forbearance arrangement. The ultimate outcome of a forbearance strategy is highly dependent on the cooperation of the borrower and a viable business or repayment outcome. Where forbearance is no longer appropriate, NWM N.V. Group will consider other options such as the enforcement of security, insolvency proceedings or both, although these are options of last resort.

Provisioning for forbearance

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 is required.

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 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.

Δ

Impairment, provisioning and write-offs (audited)

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

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

Five key areas may materially influence the measurement of credit impairment under IFRS 9 – two of these relate to model build and three relate to their 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 mechanisms).
  - 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 significant increase in credit risk 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 determination of a base case (or central) economic scenario which has the most material impact (of all forward-looking scenarios) on the measurement of loss (the NWM N.V. Group uses consensus forecasts to remove management bias).

Δ

Economic loss drivers (audited)

Central base case economic scenario

The internal base case scenario is the primary forward-looking economic information driving the calculation of ECL. The same base case scenario is used for financial planning by NWM N.V. Group. The current economic base case includes forecasts over a five year forecast horizon.

For NWM N.V. Group, the scenario includes global, UK specific and EU economic factors such as base rates, GDP growth, business investment, consumer spending, unemployment and monetary policy.

The NWM N.V. Group's tailored scenario includes the Netherlands and EU specific economic factors such as GDP growth, unemployment, house price inflation and European Central Bank base rate. The key elements of the current economic base case, which includes forecasts over a five year forecast horizon, are summarised as follows:

Eurozone - GDP growth is forecast to remain subdued in 2020 at 1.5%, little changed from the pace set in 2019 as the downturn in the global industrial cycle continues to afflict the region's manufacturers. Growth is expected to remain at a similar pace through the forecast horizon. The unemployment rate remains steady, close to 8%. The central bank keeps rates low amidst persistently weak demand and inflation.

The Netherlands – The economy is expected to grow approximately 2% in 2020, slowing modestly thereafter to around 1.5% by the end of the forecast period. The unemployment rate inches upwards towards 4.5% over the same timeframe. Following the wider eurozone market, house prices growth slows from its current level to a low single-digit pace through to 2024.

For the purpose of calculating ECL, the primary input is the central base case scenario but a further adjustment is applied to the aggregate credit cycle conditions arising from the base case to explicitly enforce a gradual reversion to long run average conditions starting from the first projected year onwards.

The application of the mean reversion adjustment is based on two empirical observations. Firstly, historic credit loss rates show pronounced mean reversion behaviour and secondly, the accuracy of economic forecasts tends to drop significantly for horizons beyond one or two years.

Approach for multiple economic scenarios (MES)

The response of portfolio loss rates to changes in economic conditions is typically non-linear and asymmetric. Therefore, in order to appropriately take account of the uncertainty in economic forecasts a range of economic scenarios is considered when calculating ECL.

The approach to MES is a Monte Carlo method that involves simulating a large number of alternative scenarios around the central scenario (adjusted for mean reversion) and averaging the losses and PD values for each individual scenario into unbiased expectations of losses (ECL) and PD.

The simulation of alternative scenarios does not occur on the level of the individual economic loss drivers but operates on the aggregate Credit Cycle Indices (CCI) that underpin the Wholesale credit models. CCIs measure portfolio level default rate conditions expressed as an index value. An index value of zero represents long run average default rates. Negative and positive index values represent default rates above and below long run averages respectively.

The impact from MES is factored into account level PDs through scalars. These MES-adjusted PDs are used to assess whether a significant increase in credit risk has occurred. The Monte Carlo MES approach increases Wholesale modelled ECL for Stage 1 and Stage 2 by approximately 8% above the single, central scenario outcomes.

Credit risk continued

Economic loss drivers (audited)

Key economic loss drivers – average over the five year planning horizon and five year outlook for the central base case are set out below.

Economic parameters

	2019 Base case %	2018 Base case %
Eurozone		
GDP - change	1.4	1.6
Unemployment	8.1	8.6
European Central Bank base rate	—	0.3
The Netherlands		
GDP - change	1.7	1.8
Unemployment	4.2	4.5
House Price Inflation - change	2.4	3.8
World GDP - change	2.8	2.7

Economic parameters five year outlook

Eurozone GDP - annual growth

	Base case %
2019	1.3
2020	1.5
2021	1.5
2022	1.4
2023	1.4
2024	1.4

The Netherlands GDP - annual growth

	Base case %
2019	1.8
2020	1.9
2021	1.9
2022	1.6
2023	1.5
2024	1.5

Eurozone unemployment rate

	Base case %
Q4 2019	8.1
Q4 2020	8.1
Q4 2021	8.1
Q4 2022	8.1
Q4 2023	8.2
Q4 2024	8.2

The Netherlands unemployment rate

	Base case %
Q4 2019	3.4
Q4 2020	3.9
Q4 2021	4.2
Q4 2022	4.4
Q4 2023	4.5
Q4 2024	4.6

European Central Bank - base rate

	Base case %
2019	—
2020	—
2021	—
2022	—
2023	—
2024	—

The Netherlands House Price Inflation - annual growth

	Base case %
2019	7.0
2020	4.6
2021	2.5
2022	1.7
2023	1.4
2024	1.6

Δ

Credit risk modelling (audited)

IFRS 9 ECLs are calculated using a combination of:

- Probability of default.
- Loss given default.
- Exposure at default.

In addition, lifetime PDs (as at reporting date and at date of initial recognition) are used in the assessment of the significant increase in credit risk (SICR) criteria.

IFRS 9 ECL model design principles

To meet IFRS 9 requirements, PD, LGD and EAD used in ECL calculations must be:

- Unbiased – material regulatory conservatism has been removed to produce unbiased model estimates.
- Point-in-time – recognise current economic conditions.
- Forward-looking – incorporated into PD estimates and, where appropriate, EAD and LGD estimates.
- For the life of the loan – all PD, LGD and EAD models produce term structures to allow a lifetime calculation for assets in Stage 2 and Stage 3.

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

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

PD models use the existing CCI based point-in-time/through-the-cycle framework to convert one-year regulatory PDs into point-in-time estimates that reflect economic conditions observed at the reporting date across a comprehensive set of region/industry segments.

One year point-in-time PDs are subsequently extended to life-time PDs using a conditional transition matrix approach. The conditional transition matrix approach allows for the incorporation of forward-looking economic information into the life-time PDs.

Credit risk continued

Credit risk modelling (audited)

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.

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

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 largely attributable to changes in exposure management practices rather than economic conditions.

Δ

Significant increase in credit risk (audited)

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). NWM N.V. Group has adopted a framework to identify deterioration based primarily on movements in probability of default supported by additional backstops. The principles applied are consistent across NWM N.V. 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) 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. A doubling of PD would indicate a significant increase in credit risk subject to a minimum PD uplift of 0.1%.
- 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 and exposures managed within the Risk of Credit Loss framework.

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.

Δ

Asset lifetimes (audited)

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.

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 – asset duration is based on annual counterparty review schedules and will be set to the next review date.

Δ

Measurement uncertainty and ECL sensitivity analysis (audited)

The recognition and measurement of ECL is complex and involves the use of significant judgement and estimation. This includes the formulation and incorporation of multiple forward-looking economic conditions into ECL to meet the measurement objective of IFRS 9. The ECL provision is sensitive to the model inputs and economic assumptions underlying the estimate. The portfolio was subject to the following specific portfolio simulation:

- Through-the-cycle (TTC) – simulating the impact of PDs and LGDs moving upwards to the TTC average from their current point-in-time (PIT) estimate. With the current relatively benign economic conditions, Wholesale IFRS 9 PIT PDs are significantly lower than TTC PD. This scenario shows the increase to ECL by immediately switching to TTC measures providing an indication of long run average expectations. IFRS 9 measures have been used so there remains some differences to Basel TTC equivalent measures, where conservative assumptions are required, such as caps or floors, not permitted under the IFRS 9 best estimate approach. This simulation indicated a €2.1 million (53%) uplift in required total Stage 1 and 2 ECL provision, driven by a proportionate uplift in the size of Stage 2.

Δ

Capital and risk management

Credit risk – Banking activities

Introduction

This section details the credit risk profile of NWM N.V. Group's banking activities.

Refer to Accounting policy 10 and Note 12 on the consolidated accounts for revisions to policies and critical judgements relating to impairment loss determination.

Presentation of interest in suspense recoveries

In March 2019, the IFRS Interpretations Committee (IFRIC) issued an agenda decision on the presentation of unrecognised interest when a credit-impaired financial asset (commonly referred to as a 'Stage 3' financial asset) is subsequently paid in full or is no longer credit-impaired. This concluded that the difference arising from the additional interest recovered must be recognised as a reversal of impairment rather than within interest revenue. This affects both recognition and the reversal of the ECL allowance.

RBS Group changed its accounting policy in line with the IFRIC decision. Hence, the carrying amount of the financial assets within the scope of the provisions of the decision as well as the associated ECL allowance on the statement of financial position have been adjusted and the comparative period restated. The coverage ratios for the current and comparative periods have been adjusted and restated accordingly. There has been no restatement of the comparative period in the statement of profit or loss on the grounds of materiality.

Refer to Accounting policy 2, Other amendments to IFRS, for further details.

Financial instruments within the scope of the IFRS 9 ECL framework (audited)

Refer to Note 9 on the consolidated accounts for balance sheet analysis of financial assets that are classified as amortised cost (AC) or fair value through other comprehensive income (FVOCI), the starting point for IFRS 9 ECL framework assessment.

	2019 €bn	2018* €bn
Balance sheet total gross AC/FVOCI	6.1	1.3
In scope of IFRS 9 ECL framework	5.9	1.1
% in scope	97%	85%
Loans - in scope	2.2	0.5
Stage 1	2.0	0.3
Stage 2	0.1	0.1
Stage 3	0.1	0.1
Other financial assets - in scope	3.7	0.6
Stage 1	3.7	0.6
Out of scope of IFRS 9 ECL framework	0.2	0.2

*2018 data has been restated for a change to presentation of unrecognised interest. Refer to Accounting policy 2, Other amendments to IFRS, for further details.

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

- Settlement balances, items in the course of collection, cash balances and other non-credit risk assets of €141 million (2018 - nil). These were assessed as having no ECL unless there was evidence that they were credit impaired.
- Equity shares of €49 million (2018 - €128 million) were outside the IFRS 9 ECL framework by definition.

In scope assets also include €462 million (2018 - €1,961 million) of inter-Group assets not shown in the table above.

Contingent liabilities and commitments

In addition to contingent liabilities and commitments disclosed in Note 24 on the consolidated accounts – reputationally-committed limits were also included in the scope of the IFRS 9 ECL framework. These are offset by €38 million (2018 - nil) 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.
Total contingent liabilities (including financial guarantees) and commitments within IFRS 9 ECL scope were €8,502 million (2018 - €1,831 million), comprised Stage 1 €8,481 million (2018 - €1,831 million); Stage 2 €19 million (2018 - nil); and Stage 3 €2 million (2018 - nil).

Δ

Credit risk – Banking activities continued

Portfolio summary (audited)

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

	2019 €m	2018* €m
Loans - amortised cost		
Stage 1	1,997	379
Stage 2	117	70
Stage 3	79	95
Inter-Group (1)	462	1,961
Total	2,655	2,505
ECL provisions (2)		
Stage 1	2	—
Stage 2	2	4
Stage 3	74	81
Total	78	85
ECL provisions coverage (3,4)		
Stage 1 (%)	0.10	—
Stage 2 (%)	1.71	5.71
Stage 3 (%)	93.67	85.26
Total	3.56	15.63
Other financial assets - Gross exposure	3,698	592
Other financial assets - ECL provisions	—	1
Impairment losses		
ECL charge - third party (5)	(1)	4
ECL loss rate - annualised (basis points) (4)	(4.56)	73.53
Amounts written-off	1	23

*2018 data has been restated for a change to presentation of unrecognised interest. Refer to Accounting policy 2, Other amendments to IFRS, for further details.

Notes:

(1) NWM N.V. Group's intercompany assets were classified in Stage 1. The ECL related to these loans was €0.1 million (2018 - €0.1 million).
(2) Includes €0.4 million (2018 – nil) related to assets at FVOCI.
(3) ECL provisions coverage is calculated as ECL provisions divided by loans - amortised cost.
(4) ECL provisions coverage and ECL loss rates are calculated on third party loans and related ECL provisions and charge respectively.
(5) Includes nil (2018 – €0.8 million) relating to other financial assets at FVOCI and nil (2018 – €0.2 million release) relating to contingent liabilities.
(6) The table above shows gross loans only and excludes amounts that are outside the scope of the ECL framework. Refer to page 21 for Financial instruments within the scope of the IFRS 9 ECL framework for further details. Other financial assets within the scope of the IFSR 9 ECL framework were cash and balances at central banks totalling €3.2 billion and debt securities of €0.5 billion (2018 – €0.3 billion and €0.3 billion respectively).
(7) NWM N.V. Group held collateral against third party loans in Stage 3 of €3 million (2018 – €13 million) and against Stage 1 and Stage 2 third party loans of €72 million (2018 – €58 million). Inter-group loans were uncollateralised.

Δ

Credit risk – Banking activities continued

Portfolio summary – sector analysis (audited)

The table below shows financial assets and off-balance sheet exposures gross of ECL and related ECL provisions and impairment by sector, asset quality and geographical region based on the country of operation of the customer. Except where indicated, the tables below report only third party exposures and related ECL provisions, charges and write-offs.

2019	Property €m	Corporate €m	FI €m	Sovereign €m	Total €m
Loans by geography	93	927	1,172	1	2,193
- Netherlands	*31*	*55*	*13*	—	*99*
- Other Europe	*62*	*718*	*485*	—	*1,265*
- RoW	—	*154*	*674*	*1*	*829*
Loans by asset quality (1)	93	927	1,172	1	2,193
- AQ1	—	—	*82*	—	*82*
- AQ2	—	*73*	—	—	*73*
- AQ3	—	*171*	—	—	*171*
- AQ4	*93*	*261*	*735*	*1*	*1,090*
- AQ5	—	*285*	*222*	—	*507*
- AQ6	—	*3*	*10*	—	*13*
- AQ7	—	—	*123*	—	*123*
- AQ8	—	*55*	—	—	*55*
- AQ10	—	*79*	—	—	*79*
Loans by stage	93	927	1,172	1	2,193
- Stage 1	*93*	*733*	*1,170*	*1*	*1,997*
- Stage 2	—	*115*	*2*	—	*117*
- Stage 3	—	*79*	—	—	*79*
Weighted average life ** - ECL measurement (years)	4	8	7	—	8
Weighted average 12 months PDs **					
- IFRS 9 (%)	*0.08*	*0.75*	*0.52*	—	*0.56*
- Basel (%)	*0.20*	*0.96*	*0.60*	*0.23*	*0.73*
ECL provisions by geography	—	75	3	—	78
- Netherlands	—	*1*	—	—	*1*
- Other Europe	—	*37*	*3*	—	*40*
- RoW	—	*37*	—	—	*37*
ECL provisions by stage	—	75	3	—	78
- Stage 1	—	*1*	*1*	—	*2*
- Stage 2	—	*2*	—	—	*2*
- Stage 3	—	*72*	*2*	—	*74*
ECL provisions coverage (%)	—	8.09	0.26	—	3.56
- Stage 1 (%)	—	*0.14*	*0.09*	—	*0.10*
- Stage 2 (%)	—	*1.74*	—	—	*1.71*
- Stage 3 (%)	—	*91.14*	—	—	*93.67*
ECL charge - Third party	—	(1)	—	—	(1)
ECL loss rate (%)	—	(0.11)	—	—	(0.05)
Amounts written-off	—	1	—	—	1
Other financial assets by asset quality (1)	—	—	306	3,392	3,698
- AQ1-AQ4	—	—	—	*3,392*	*3,392*
- AQ5-AQ8	—	—	*306*	—	*306*
Off-balance sheet	474	6,201	1,827	—	8,502
- Loan commitments	*473*	*6,177*	*863*	—	*7,513*
- Financial guarantees	*1*	*24*	*964*	—	*989*
Off-balance sheet by asset quality (1)	474	6,201	1,827	—	8,502
- AQ1-AQ4	*474*	*5,901*	*1,797*	—	*8,172*
- AQ5-AQ8	—	*299*	*29*	—	*328*
- AQ10	—	*1*	*1*	—	*2*

** Not within audit scope.

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

Credit risk – Banking activities continued

Portfolio summary – sector analysis (audited)

2018*	Corporate €m	FI €m	Sovereign €m	Total €m
Loans by geography	281	262	1	544
- Netherlands	*—*	*43*	*—*	*43*
- Other Europe	*174*	*—*	*—*	*174*
- RoW	*107*	*219*	*1*	*327*
Loans by asset quality (1)	281	262	1	544
- AQ4	*—*	*246*	*1*	*247*
- AQ7	*140*	*—*	*—*	*140*
- AQ8	*61*	*1*	*—*	*62*
- AQ10	*80*	*15*	*—*	*95*
Loans by stage	281	262	1	544
- Stage 1	*132*	*246*	*1*	*379*
- Stage 2	*69*	*1*	*—*	*70*
- Stage 3	*80*	*15*	*—*	*95*
Weighted average life ** - ECL measurement (years)	2	2	2	2
Weighted average 12 months PDs **				
- IFRS 9 (%)	*4.30*	*0.10*	*—*	*0.80*
- Basel (%)	*6.00*	*0.10*	*0.20*	*2.20*
ECL provisions by geography	73	12	—	85
- Netherlands	*—*	*12*	*—*	*12*
- Other Europe	*35*	*—*	*—*	*35*
- RoW	*38*	*—*	*—*	*38*
ECL provisions by stage	73	12	—	85
- Stage 2	*4*	*—*	*—*	*4*
- Stage 3	*69*	*12*	*—*	*81*
ECL provisions coverage (%)	25.98	4.58	—	15.63
- Stage 2 (%)	*5.80*	*—*	*—*	*5.71*
- Stage 3 (%)	*86.25*	*80.00*	*—*	*85.26*
ECL charge - Third party	4	—	—	4
ECL loss rate (%)	1.42	—	—	0.74
Amounts written-off	—	23	—	23
Other financial assets by asset quality (1)	256	—	336	592
- AQ1-AQ4	*—*	*—*	*336*	*336*
- AQ5-AQ8	*256*	*—*	*—*	*256*
Off-balance sheet	—	1,553	278	1,831
- Loan commitments	*—*	*476*	*278*	*754*
- Financial guarantees	*—*	*1,077*	*—*	*1,077*
Off-balance sheet by asset quality (1)	—	1,553	278	1,831
- AQ1-AQ4	*—*	*1,542*	*278*	*1,820*
- AQ5-AQ8	*—*	*11*	*—*	*11*

*2018 data has been restated for a change to presentation of unrecognised interest. Refer to Accounting policy 2, Other amendments to IFRS, for further details.
** Not within audit scope.

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

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

€0.3 billion (2018 – €0.3 billion) AQ10 Personal balances primarily relate to loan commitments, the draw down of which is effectively prohibited.

Key point

- Asset quality – Most on and off-balance sheet exposure was in the AQ1-AQ4 bands, which was equivalent to an indicative investment-grade rating of BBB- or better.

Δ

Credit risk – Banking activities continued

Flow statement (audited)

The flow statement shows the main ECL and related income statement movements. It also shows 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 in the credit risk section, principally in relation to exposures in Stage 1 and Stage 2. These differences do not have a material ECL impact as they relate to balances at central banks. 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.
- Amounts written-off represent the gross asset written-down against accounts with ECL, including the net asset write-down for debt sale activity.

	Stage 1		Stage 2		Stage 3		Total	
NatWest Markets N.V. Group	Financial assets €m	ECL €m	Financial assets €m	ECL €m	Financial assets €m	ECL €m	Financial assets €m	ECL €m
At 1 January 2019	641.1	0.1	67.9	3.8	94.9	81.3	803.9	85.2
Currency translation and other adjustments	(204.2)	—	(4.5)	0.2	(6.8)	(7.2)	(215.5)	(7.0)
Inter-Group movements	1,706.8	1.5	74.4	0.8	—	—	1,781.2	2.3
Transfers from Stage 1 to Stage 2	(0.1)	—	0.1	—	—	—	—	—
Transfers from Stage 2 to Stage 1	6.5	0.6	(6.5)	(0.6)	—	—	—	—
Net re-measurement of ECL on stage transfer		(0.5)		—		—	—	(0.5)
Changes in risk parameters (model inputs)		(0.8)		(1.6)		0.1	—	(2.3)
Other changes in net exposure	3,468.5	1.4	(8.5)	(0.2)	(7.7)	(0.2)	3,452.3	1.0
Other P&L only items				0.5				0.5
Income statement charges/(releases)		0.1		(1.3)		(0.1)		(1.3)
Amounts written-off	—	—	—	—	(0.5)	(0.5)	(0.5)	(0.5)
At 31 December 2019	5,618.6	2.3	122.9	2.4	79.9	73.5	5,821.4	78.2
Net carrying amount	5,616.3		120.5		6.4		5,743.2	
At January 2018	708.5	0.5	487.7	0.6	92.5	55.0	1,288.7	56.1
2018 movements	(67.4)	(0.4)	(419.8)	3.2	2.4	26.3	(484.8)	29.1
At 31 December 2018*	641.1	0.1	67.9	3.8	94.9	81.3	803.9	85.2
Net carrying amount	641.0		64.1		13.6		718.7	

*2018 data has been restated for a change to presentation of unrecognised interest. Refer to Accounting policy 2, Other amendments to IFRS, for further details.

2018 movements included transfers from Stage 1 to Stage 2 of €8.6 million (ECL – nil), transfers from Stage 2 to Stage 1 of €4.6 million (ECL – €0.2 million), transfers into Stage 3 of €0.5 million (ECL – nil). An additional ECL of €0.4 million was recognised as a result of these cumulative transfers. It also included amounts written-off of €22.7 million.

Δ

Stage 2 decomposition by a significant increase in credit risk trigger

The tables below show Stage 2 decomposition for the Wholesale portfolios.

	Corporate		FI		Total	
2019	Loans €m	ECL €m	Loans €m	ECL €m	Loans €m	ECL €m
Wholesale						
Currently up-to-date	115	2	2	—	117	2
- PD deterioration	*111*	*2*	*2*	—	*113*	*2*
- Other driver (adverse credit, forbearance etc)	*4*	—	—	—	*4*	—
Total stage 2	115	2	2	—	117	2

	Corporate		FI		Total	
2018	Loans €m	ECL €m	Loans €m	ECL €m	Loans €m	ECL €m
Wholesale						
Currently up-to-date	69	4	1	—	70	4
- PD deterioration	*61*	*3*	*1*	—	*62*	*3*
- Other driver (adverse credit, forbearance etc)	*8*	*1*	—	—	*8*	*1*
Total stage 2	69	4	1	—	70	4

Key point

- Overall, Stage 2 balances remained broadly stable. Coverage can vary across categories or sectors reflecting the individual characteristics of the customer and exposure type.

Credit risk – Trading activities

Derivatives (audited)

The table below shows third party derivatives by type of contract. The master netting agreements and collateral shown do not result in a net presentation on the balance sheet under IFRS 9.

	2019							2018		
	Notional									
	GBP	USD	Euro	Other	Total	Assets	Liabilities	Notional	Assets	Liabilities
	€bn	€bn	€bn	€bn	€bn	€m	€m	€bn	€m	€m
Gross exposure						2,491	3,603		220	83
IFRS offset						(5)	(5)		—	—
Carrying value	546	35	1,266	15	1,862	2,486	3,598	3	220	83
Of which:										
Interest rate (1)										
Interest rate swaps						1,414	2,123		182	65
Options purchased						318	—		—	—
Options written						—	324		—	—
Total	539	4	1,236	1	1,780	1,732	2,447	3	182	65
Exchange rate										
Spot, forwards and futures						591	605		—	—
Currency swaps						128	525		38	18
Options purchased						35	—		—	—
Options written						—	13		—	—
Total	7	30	30	15	82	754	1,143	—	38	18
Credit	—	—	—	—	—	—	8	—	—	—
Carrying value					1,862	2,486	3,598	3	220	83
Counterparty mark-to-market netting						(1,400)	(1,400)		—	—
Cash collateral						(587)	(1,280)		(3)	(3)
Securities collateral						(105)	—		—	—
Net exposure						394	918		217	80
Of which outside netting arrangements						*66*	*918*		*52*	*56*
Net exposure - intercompany						443	21		436	281
Banks (2)						3	6		—	5
Other financial institutions (3)						254	720		210	56
Corporate (4)						136	192		7	19
Government (5)						1	—		—	—
Net exposure						394	918		217	80
UK						115	714		7	—
Europe						200	186		187	79
US						41	18		—	—
RoW						38	—		23	1
Net exposure						394	918		217	80
Asset quality of uncollateralised derivative assets										
AQ1-AQ4						386			217	
AQ5-AQ8						8			—	
Net exposure						394			217	

Notes:
(1) The notional amount of interest rate derivatives includes €1,734 billion (2018 – nil) in respect of contracts cleared through central clearing counterparties.
(2) Transactions with certain counterparties with whom NWM N.V. Group has netting arrangements, but collateral is not posted on a daily basis; certain transactions with specific terms that may not fall within netting and collateral arrangements; derivative positions in certain jurisdictions, for example, China, where the collateral agreements are not deemed to be legally enforceable.
(3) Transactions with securitisation vehicles and funds where collateral posting is contingent on NWM N.V. Group's external rating.
(4) Mainly large corporates with whom NWM N.V. Group may have netting arrangements in place, but operational capability does not support collateral posting.
(5) Sovereigns and supranational entities with one-way collateral agreements in their favour.

Δ

Credit risk – Trading activities continued

Derivatives: settlement basis and central counterparties (audited)

The table below shows the derivative notional and fair value by trading and settlement method.

	Notional				Asset		Liability	
		Traded over the counter						
	Traded on recognised exchanges	Settled by central counterparties	Not settled by central counterparties	Total	Traded on recognised exchanges	Traded over the counter	Traded on recognised exchanges	Traded over the counter
2019	€bn	€bn	€bn	€bn	€m	€m	€m	€m
Interest rate	—	1,734	46	1,780	—	1,732	—	2,447
Exchange rate	—	—	82	82	—	754	—	1,143
Credit	—	—	—	—	—	—	—	8
Total	—	1,734	128	1,862	—	2,486	—	3,598
2018								
Interest rate	—	—	3	3	—	182	—	65
Exchange rate	—	—	—	—	—	38	—	18
Total	—	—	3	3	—	220	—	83

Δ

Market risk (audited)
NWM N.V. Group is exposed to traded market risk through its trading activities and to non-traded market risk as a result of its banking activities. It manages its traded and non-traded market risk exposures separately. Each type of market risk is discussed separately. The traded market risk section begins below. The non-traded market risk section begins on page 29.

Δ

Traded market risk

Definition (audited)
Traded market risk is the risk arising from changes in fair value on positions, assets, liabilities or commitments in trading portfolios as a result of fluctuations in market prices.

Δ

Sources of risk (audited)
From a market risk perspective, activities are focused on: rates; currencies; securitised products; and traded credit.

NWM N.V. Group undertakes transactions in financial instruments including debt securities, as well as securities financing and derivatives. The key categories of traded market risk are interest rate risk; credit spread risk and foreign currency price risk.

Trading activities may also give rise to counterparty credit risk. For further detail, refer to the Credit risk section.

Δ

Risk governance (audited)
Market risk policy statements set out the governance and risk management framework. The Market Risk function independently identifies, measures, monitors, controls and challenges the risk-taking activities undertaken by the trading business, ensuring these are within the constraints of the market risk framework, policies, approved risk appetite statements and approved limits.

NWM N.V. Group's traded market risk positions are reported monthly to the Risk and Control Committee and subsequently to the Managing and Supervisory Boards.

Δ

Risk appetite
NWM Group's qualitative appetite for traded market risk is set out in the traded market risk appetite statement.

Quantitative appetite is expressed in terms of exposure limits.

The limits at NWM Group level comprise value-at-risk (VaR) and stressed value-at-risk (SVaR). More details on these are provided on the following pages.

In addition, for each trading business or desk, a trading mandate is defined. The desk-level mandates comprise qualitative limits related to the product types within the scope of each desk, as well as quantitative metrics specific to the desk's market risk exposures. These additional limits and metrics aim to control various risk dimensions such as exposure size, aged inventory, currency and tenor.

The limits are reviewed to reflect changes in risk appetite, business plans, portfolio composition and the market and economic environments.

NWM N.V. Group's risk appetite is aligned with that of NWM Group. A comprehensive structure and controls are in place aimed at ensuring that this appetite is not exceeded. NWM N.V. Group aims to mitigate market risk, to the extent possible, by way of hedging transactions with NWM Group.

To ensure approved limits are not breached and that NWM N.V. Group remains within its risk appetite, triggers have been set such that if exposures exceed a specified level, action plans are developed by the relevant business and the Market Risk function and implemented.

For further information on risk appetite, refer to page 11.

Risk controls
For information on risk controls, refer to page 11.

Risk monitoring and mitigation
Traded market risk is identified and assessed by gathering, analysing, monitoring and reporting market risk information at desk, business and NWM N.V. Group-wide levels. Industry expertise, continued system developments and techniques such as stress testing are also used to enhance the effectiveness of the identification and assessment of all material market risks.

Traded market risk exposures are monitored against limits and analysed and signed off daily by the Market Risk function. A daily report summarising the position of exposures against limits at desk, business and NWM N.V. Group levels is provided to the trading desks.

Limit reporting is supplemented with regulatory capital and stress testing information as well as ad hoc reporting.

A risk review of trading businesses is undertaken weekly with senior risk and front office staff. This includes a review of profit and loss drivers, notable position concentrations and other positions of concern.

Business profit and loss performance is monitored automatically through loss triggers which, if breached, require a remedial action plan to be agreed between NWM Group's Market Risk function and the business. The loss triggers are set using both a fall-from-peak approach and an absolute loss level.

Risk measurement (audited)
NWM Group uses a comprehensive set of methodologies and techniques to measure traded market risk. At NWM N.V. Group level, these chiefly comprise VaR and SVaR. In addition, stress testing is used to identify any vulnerabilities and potential losses in excess of VaR and SVaR. The incremental risk charge is not material at NWM N.V. Group level.

Value-at-risk
VaR is a statistical estimate of the potential change in the market value of a portfolio (and, thus, the impact on the income statement) over a specified time horizon at a given confidence level.

For internal risk management purposes, VaR assumes a time horizon of one trading day and a confidence level of 99%.

NWM Group's internal VaR model is based on a historical simulation, utilising market data from the previous 500 days on an equally weighted basis. NWM N.V. Group has used the same model since March 2019.

It captures the potential impact of the following risk factor types: interest rate risk; credit spread risk; and foreign currency price risk. Testing of the performance and adequacy of the VaR model is performed on a regular basis through the following processes:

- Back-testing – Internal and regulatory back-testing is conducted on a daily basis. VaR model back-testing counts the number of days when a loss exceeds the corresponding daily VaR estimate, measured at a 99% confidence level.
- Ongoing model validation – VaR model performance is assessed both regularly and on an ad-hoc basis if market conditions or portfolio profile change significantly.
- Model Risk Management review – As part of the model lifecycle, all risk models (including the VaR model) are independently reviewed to ensure that the model is still fit for purpose given current market conditions and portfolio profile. For further detail on the independent model validation carried out by Model Risk Management, refer to page 34. More information relating to pricing and market risk models is presented in the RBS Group Pillar 3 report.

Δ

Traded market risk continued

1–day 99% traded internal VaR (audited)

The table below analyses the internal VaR for NWM N.V. Group's trading portfolios segregated by type of market risk exposure.

	2019				2018			
	Average	Maximum	Minimum	Period end	Average	Maximum	Minimum	Period end
	€m	€m	€m	€m	€m	€m	€m	€m
Interest rate	0.3	1.1	—	0.3	0.1	0.3	—	—
Credit spread	0.5	0.8	0.3	0.5	0.9	1.5	0.4	0.4
Currency	0.2	1.4	—	0.1	0.4	1.8	—	0.1
Equity	—	—	—	—	—	0.1	—	—
Diversification (1)	(0.3)			(0.3)	(0.3)			(0.1)
Total	0.7	1.8	0.4	0.6	1.1	2.8	0.4	0.4

Note:
(1) NWM N.V. Group benefits from diversification, which reflects the risk reduction achieved by allocating investments across various financial instrument types, industry counterparties, currencies and regions. The extent of diversification benefit depends on the correlation between the assets and risk factors in the portfolio at a particular time.

Key points

- NWM N.V. Group's VaR remains small. The year-on-year decrease in the average VaR mainly reflected the reduction in legacy positions, which had been the main driver of market risk in 2018.
- Following the entity's Brexit contingency programme going live on 25 March 2019, new client transactions started flowing into the NWM N.V. Group trading portfolio. Most of the market risk arising from such transactions is hedged back to back with NWM Group. Small residual market risk exposures reflect valuation adjustment hedges.
- NWM N.V. Group received DNB permission on 25 March 2019 to use the same internal models as NWM Group to calculate market risk capital requirements. It was previously using the same model as RBS Group. The change did not have a material impact on the residual traded market risk in NWM N.V. Group.

Δ

SVaR

As with VaR, the SVaR methodology produces estimates of the potential change in the market value of a portfolio, over a specified time horizon, at a given confidence level. SVaR is a VaR-based measure using historical data from a one-year period of stressed market conditions.

The risk system simulates 99% VaR on the current portfolio for each 250-day period from 2005 to the current VaR date, moving forward one day at a time. The SVaR is the worst VaR outcome of the simulated results.

The internal traded SVaR model captures all trading book positions.

Non-traded market risk

Definition (audited)

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

Δ

Sources of risk (audited)

The key sources of non-traded market risk for NWM N.V. Group are interest rate risk and foreign exchange risk.

Interest rate risk

Non-traded interest rate risk in NWM N.V. Group mainly arises from gap risk and basis risk. These sensitivities can give rise to volatility in net interest income as interest rates vary.

Foreign exchange risk

Non-traded foreign exchange risk exposures arise from two main sources:

- *Structural foreign exchange risk* - arises from the capital deployed in foreign subsidiaries, branches and joint arrangements and related currency funding where it differs from the euro; and
- *Non-trading book foreign exchange risk* - arises from customer transactions and profits and losses that are in a currency other than the functional currency of the transacting operation.

Δ

Risk governance (audited)

Responsibility for identifying, measuring, monitoring and controlling the market risk arising from non-trading activities lies with the Market Risk team.

Policy statements set out the governance and risk management framework for non-traded market risk.

Δ

Risk appetite

NWM Group's qualitative appetite is set out in the non-traded market risk appetite statement. Quantitative appetite is expressed in terms of exposure limits.

The limit framework at NWM Group level comprises VaR, SVaR, sensitivity and stress limits, and earnings-at-risk limits.

The limits are reviewed to reflect changes in risk appetite, business plans, portfolio composition and the market and economic environments.

To ensure approved limits are not breached and that NWM Group remains within its risk appetite, triggers at NWM Group and lower levels have been set and are actively managed.

NWM N.V. Group's risk appetite is aligned with that of NWM Group. A comprehensive structure and controls are in place aimed at ensuring that this appetite is not exceeded. NWM N.V. Group aims to mitigate market risk, to the extent possible, by way of hedging transactions with NWM Group.

For further information on risk appetite, refer to page 11.

Risk controls

For information on risk controls, refer to page 11.

Risk monitoring and measurement

Non-traded market risk positions are reported monthly to the NWM N.V. Risk and Control Committee (RCC) and subsequently to the Managing and Supervisory Boards.

Interest rate risk

NWM N.V. Group policy is to manage interest rate sensitivity in banking book portfolios within defined risk limits which are monitored and approved by NWM N.V. Group RCC. Interest rate swaps are used to hedge some exposures externally.

Key measures used to evaluate non-traded interest rate risk (NTIRR) are subject to approval granted by NWM Group model risk governance. Limits on NTIRR are set according to the Non-Trading Interest Rate and Foreign Currency Risk Policy Statement and are subject to NWM N.V. Group RCC approval.

Capital and risk management

Non-traded market risk continued

NTIRR is measured using a version of the same VaR methodology that is used by NWM Group. VaR metrics are based on interest rate repricing gap reports as at the reporting date. NTIRR one-day VaR at a 99% confidence level for NWM N.V. Group was as follows.

	Average €m	Maximum €m	Minimum €m	Period end €m
2019	0.9	1.4	0.5	0.5
2018	0.7	0.8	0.5	0.5

Foreign exchange risk (audited)

The only material non-traded open currency positions are the structural foreign exchange exposures arising from investments in foreign subsidiaries, branches and associates and their related currency funding. These exposures are assessed and managed by RBS Group Treasury to predefined risk appetite levels under delegated authority from NWM N.V. Group's ALCo.

The table below sets out NWM N.V. Group's structural foreign currency exposures:

2019	Net investments in foreign operations (1) €m	Net investment hedges €m	Structural foreign currency exposures €m
US dollar	136	—	136
Saudi Arabian riyal	3	—	3
Other non-euro	187	(54)	133
	326	(54)	272
2018			
US dollar	166	(5)	161
Saudi Arabian riyal	1,314	(1,293)	21
Other non-euro	316	(51)	265
	1,796	(1,349)	447

Note:
(1) 2018 includes non-controlling interests.

Key points

- The reduction in Saudi Arabian riyal exposure in the year relates to the completion of the Alawwal bank merger with SABB.
- The pre-tax sensitivity of the foreign exchange reserves to changes in exchange rates is proportional to the nominal exposure. At 31 December 2019, a 5% strengthening in all foreign currencies against the euro results in a €14 million increase in foreign exchange reserves before tax, while a 5% weakening in all foreign currencies against the euro results in a €14 million reduction.

Δ

Compliance & conduct risk

Definition

Compliance risk is the risk that the behaviour of NWM N.V. 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 NWM N.V. Group 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 NWM N.V. 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.

Key developments in 2019

- Policies were simplified and enhanced to reflect regulatory changes and technical training delivered across the lines of defence.
- There was ongoing investment in regulatory technology.
- Planning for LIBOR transition was performed.
- Work continued to be prepared for Brexit.

Risk governance

RBS Group defines appropriate standards of compliance and conduct and ensures adherence to those standards through its risk management framework. Relevant compliance and conduct matters that have an impact on NWM N.V. Group are escalated to the NWM N.V. Group Risk & Control Committee and to the NWM N.V. Group Managing Board.

Risk appetite

Risk appetite for compliance and conduct risks is set at NWM N.V. Group Supervisory 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.

Risk controls

A range of controls is operated to ensure 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 RBS Group. Examples of these include the Complaints Management Policy, Client Assets & Money Policy, and Product Lifecycle Policy as well as policies relating to customers in vulnerable situations, cross-border activities and market abuse. Continuous monitoring and targeted assurance is carried out as appropriate.

Risk monitoring and measurement

Compliance and conduct risks are measured and managed through continuous assessment and monthly reporting to the NWM N.V. Group Risk & Control Committee and the NWM N.V. Group Managing Board. 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.

Risk mitigation

Activity to mitigate the most material compliance and conduct risks is carried out across NWM N.V. 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 NWM N.V. Group. Independent assessments of compliance with applicable regulations are also carried out at a legal entity level.

Financial crime risk

Definition

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

Sources of risk

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

Key developments in 2019

- Enhanced financial crime risk assessment processes were implemented to enable improved identification and mitigation of financial crime risks.
- Improvements were made to transaction monitoring alert processes, including the use of risk-based artificial intelligence to facilitate focus on activity of higher concern.
- Financial crime policies were refreshed and updated to reflect changes to the regulatory environment and industry best practice.

Risk governance

The Financial Crime Risk Committee, which is chaired by the NWM Plc SMF17 and in which NWM N.V. Group is represented, is the principal financial crime risk management forum. The committee reviews and, where appropriate, escalates material financial crime risks and issues across RBS Group to the NWM Plc Executive Risk Committee. Financial crime risks in NWM N.V. Group are also reviewed by the NWM N.V. Group Risk & Control Committee and the NWM N.V. Group Managing Board.

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. NWM N.V. Group's systems and controls must be comprehensive and proportionate to the nature, scale and complexity of its businesses. There is no tolerance to systematically or repeatedly breach relevant financial crime regulations and laws.

Risk controls

NWM N.V. Group operates a framework of preventative and detective controls designed to ensure NWM N.V. Group 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.

Risk monitoring and measurement

Financial crime risks are identified and reported through continuous risk management and regular monthly reporting to the NWM N.V. Group Risk & Control Committee and the NWM N.V. Group Managing Board. Quantitative and qualitative data is reviewed and assessed to measure whether financial crime risk is within NWM N.V. Group's risk appetite.

Risk mitigation

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

Capital and risk management

Climate-related financial risk

Definition

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

Sources of risk

Physical risks can 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. NWM N.V. Group could be exposed to physical risks directly by the impacts on its property portfolio and, indirectly, by the impacts on the wider economy as well as impacts on the property and business interests of its customers.

Transition risks can 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. NWM N.V. Group could be exposed to transition risks directly through the costs of adaptation within economic sectors and markets as well as supply chain disruption leading to financial impacts on NWM N.V. Group and its customers. Potential indirect effects include the erosion of NWM N.V. Group's competitiveness, profitability, or potential reputation damage.

Key developments in 2019

- Climate-related financial risk was classified as a top risk.
- A strategy has been developed to integrate the financial risks arising from climate change into the RBS Group's risk management framework.
- NWM N.V. Group submitted a plan to De Nederlandsche Bank detailing how it intends to address expectations on how climate-related financial risks will be governed, managed, assessed and reported.

Risk governance

The RBS Group Board is responsible for addressing and overseeing the financial risks from climate change within NWM N.V. Group's overall business strategy and risk appetite.

The RBS Group Chief Risk Officer is accountable for ensuring the financial risks from climate change are captured in the risk management framework and for ensuring those risks can be measured, monitored, managed and reported.

Risk appetite

As part of the strategy for managing climate-related financial risk, it will be incorporated in the setting of appetite for all relevant risk disciplines. If it is deemed to have a material impact on a particular risk discipline then changes to relevant policies and procedures will be made accordingly. Availability of data and the robustness of risk measurement methodologies will influence the timing of any proposed changes.

Risk monitoring and measurement

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

A process is underway to identify where climate risk requires the use of new key data elements, new risk metrics and enhancement of risk methodologies.

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 increasing 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 2019

- There was an improvement in understanding of the operational risk profile, indicated by an initial control environment assessment, with residual elements under close management.
- A new operational risk system was implemented, aimed at improved insight in and alignment of NWM N.V. Group risks and controls.
- A focus remained on maintaining operational resilience and ensuring preparedness for external threats and challenges such as cyber attacks and Brexit.
- NWM N.V. Group benefits from the RBS Group's multi-layered approach to cyber security. The RBS Group invested in control enhancements to keep pace with the evolving threat landscape. This included new anti-malware controls and improved security testing to quickly detect and remediate vulnerabilities.
- NWM N.V. Group entered into internal service level agreements to manage the risk associated with service provision by NWM Plc and RBS Group.
- Internal training programmes ensure employees are aware of the threats facing NWM N.V. Group and remain vigilant to unauthorised attempts to access systems and data.

Risk governance

A strong operational risk management function is vital to support NWM N.V. Group's ambitions to serve its customers better. Improved management of operational risk against defined appetite directly supports the strategic risk objective of improving stakeholder confidence and is vital for stability and reputational integrity.

The Operational Risk function, which is the second line of defence, delivers a robust operational risk management framework and culture across NWM N.V. Group.

The Operational Risk function is responsible for the execution and continuous improvement of the operational risk management framework, reporting and escalating key concerns to the NWM N.V. Group Risk & Control Committee and the NWM N.V. Group Managing Board.

Risk appetite

Operational risk appetite supports effective management of material operational risks. It expresses the level and types of operational risk NWM N.V. Group is willing to accept to achieve its strategic objectives and business plans.

The RBS Group-wide operational risk appetite statement encompasses the full range of operational risks faced by its legal entities, businesses and functions. A subset of the most material risk appetite measures are defined as board risk measures, which are those that align to strategy and should the limit be breached, would impact on the ability to achieve business plans and threaten stakeholder confidence.

Operational risk continued

Risk controls and mitigation

The Control Environment Certification (CEC) process is a half yearly self-assessment by the CEOs of RBS Group's principal businesses, functions and legal entities, providing 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 Group Audit Committee and Board Risk Committee. They are also shared with external auditors.

The CEC process helps to ensure compliance with the RBS Group Policy Framework, Sarbanes-Oxley 404 requirements concerning internal control over financial reporting (as referenced in the Compliance report on page 41), and certain requirements of the UK Corporate Governance Code.

NWM N.V. Group is part of the CEC process of NWM Plc and a local entity assessment results in a control environment rating as part of the NWM Plc CEC.

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.

Risk 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 RBS Group's Risk Directory. Risk assessments are refreshed at least annually to ensure they remain relevant and capture any emerging risks and also ensure risks are reassessed. NWM N.V. Group is in the process of implementing this annual risk and control assessment process. The first assessments were made in 2019.

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.

NWM N.V. Group uses the standardised approach to calculate its Pillar 1 operational risk capital requirement. This is based on multiplying three years' average historical gross income by coefficients set by the regulator based on business line. As part of the wider Internal Capital Adequacy Assessment Process an operational risk economic capital model is used to assess Pillar 2A, which is a risk-sensitive add-on to Pillar 1. The model uses historical loss data (internal and external) and forward-looking scenario analysis to provide a risk-sensitive view of NWM N.V. Group's P2A capital requirement.

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

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

Operational resilience

NWM N.V. Group manages and monitors operational resilience through its risk and control assessments methodology. This is underpinned by setting, monitoring and testing tolerances for key business services. Progress continues on the response to regulator expectations on operational resilience. This enables a more holistic view of NWM N.V. Group's operational resilience risk profile and the pace of ongoing innovation and change, internally and externally.

Progress also continues on the response to the EBA Guidelines on Outsourcing Arrangements which were issued on 25 February 2019.

This ensures that increases in outsourcing (as seen across the industry), to increase efficiency and further embrace new technologies, is managed safely.

Event and loss data management

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

All financial impacts associated with an operational risk event are reported against the date they were recorded in NWM N.V. Group's financial accounts. A single event can result in multiple losses (or recoveries) that may take time to crystallise. Losses and recoveries with a financial accounting date in 2019 may relate to events that occurred, or were identified in, prior years. NWM Plc purchases insurance against specific losses and to comply with statutory or contractual requirements.

Model risk

Definition

Model risk is the risk that a model is specified incorrectly (not achieving the objective for which it is designed), implemented incorrectly (an error in translating the model specification into the version actually used), or being used incorrectly (correctly specified but applied inappropriately).

Sources of risk

NWM N.V. Group uses a variety of models as part of its risk management process and activities. Key examples include the use of model outputs to support risk assessments in the credit approval process, ongoing credit risk management, monitoring and reporting, as well as the calculation of risk-weighted assets and bad debt provisions. Other examples include the use of models to measure market risk exposures and calculate associated capital requirements, as well as for the valuation of positions. The models used for stress-testing purposes also play a key role in ensuring NWM N.V. Group holds sufficient capital, even in stressed market scenarios. For NWM N.V. Group, to a large extent, models developed for NWM Plc will be used.

Key developments in 2019

- Improved the model risk policy to further embed regulatory guidelines on stress test models within the model risk framework.

Risk governance

A governance framework is in place in NWM Plc, in which NWM N.V. Group representatives participate, to ensure policies and processes relating to models are appropriate and effective. Escalations are made to senior management through the Model Risk Forum, and the relevant business and function risk committees. The committees also consider whether a model can be approved for use. Models used for regulatory reporting may additionally require regulatory approval before implementation.

Risk appetite

Model risk appetite is defined in NWM Plc's model risk appetite statement and is approved by the NWM Plc Board. Model owners and model users are responsible for monitoring performance against appetite, reporting on the model population and carrying out any necessary remediation for positions outside appetite. An area of further development is to set risk appetite for model risk for NWM N.V. Group and to devise, validate and approve models for the specific scope of NWM N.V. Group.

Risk controls

Validation for material models is conducted by an independent risk function. Validation also ensures models are developed and implemented appropriately and that their operational environment is fit for purpose. Reviews of relevant models are carried out for new models or amendments to existing models and as part of an ongoing programme to assess model performance. Reviews may test and challenge the logic and conceptual soundness of the methodology or the assumptions underlying a model. Reviews may also test whether or not all appropriate risks have been sufficiently captured as well as checking the accuracy and robustness of calculations.

Risk monitoring and measurement

The appropriateness of approved risk models is reassessed on a periodic basis. Each periodic review begins with an initial assessment. Based on the initial assessment, internal model governance, including relevant stakeholders, will decide to re-ratify a model or to carry out additional work. The initial assessment considers factors such as a change in the size or composition of the portfolio, market changes, the performance of – or any amendments to – the model and the status of any outstanding issues or scheduled activities carried over from previous reviews.

Risk mitigation

Model risk is mitigated by ensuring adherence to policies and procedures relating to the approval, validation and ongoing monitoring of material models.

Reputational risk

Definition

Reputational risk is the threat to NWM N.V. Group's public image from a failure to meet stakeholders' expectations in relation to performance, conduct or business profile. Stakeholders include customers, investors, employees, suppliers, government, regulators, special interest and consumer groups, media and the general public.

Sources of risk

Reputational risk can arise from the conduct of employees; customer activities and the sectors and countries in which they operate; provision of products and transactions; as well as operations and infrastructure. Unexpected external events can also pose a reputational risk to NWM N.V. Group.

Key developments in 2019

- Updated existing environmental, social and ethical risk acceptance criteria to reflect changes in the wider external environment.
- Enhanced existing escalation processes for businesses and improved reputational risk management in functions.
- Consideration of climate change issues within the reputational risk framework.

Risk governance

A reputational risk policy supports reputational risk management across NWM N.V. Group. NWM Plc reputational risk committees, in which NWM N.V. Group is represented, review relevant issues at an individual business or entity level, while the RBS Group 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 to RBS Group. The Board Risk Committee oversees the identification and reporting of reputational risk. The RBS Group Sustainable Banking Committee has a specific focus on environmental, social and ethical issues.

Risk appetite

NWM N.V. Group operates within the reputational risk appetite set and monitored at NWM Plc level. NWM Plc manages and articulates its appetite for reputational risk through a qualitative reputational risk appetite statement and quantitative measures. NWM Plc seeks continuous improvement in the identification, assessment and management of customers, transactions, products and issues that present a material reputational risk.

Risk controls

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

Risk monitoring and measurement

Primary reputational risk measures are in place to assess internal activity relating to the management of reputational risk, including training. A number of secondary risk measures – including measures also used in the management of operational, conduct and financial risks – are used to assess relevant external factors. Quarterly reports on performance against these measures are provided to the Executive Risk Committee of NWM Plc and the Board Risk Committee of NWM Plc.

Risk 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, unexpected, events that could cause reputational damage are generally mitigated through NWM N.V. Group's Top and Emerging Risks process.

The most material threats to NWM N.V. Group's reputation continued to originate from historical and more recent conduct issues. As a result, RBS Group has been the subject of investigations and reviews by a number of regulators and governmental authorities, some of which have resulted in fines, settlements and public censure. Refer to the Litigation, investigations and reviews section of Note 24 on the consolidated accounts.

Introduction
In order to achieve high standards of corporate governance, NWM N.V. Group organises its business in a way that promotes first-class stewardship by the Managing Board and effective supervision by the Supervisory Board. Integrity, transparency and accountability are key elements of NWM N.V. Group's corporate governance and they are embedded in it's business as a whole. These key elements ensure that the controls and oversight necessary for effective risk management, compliance with regulations, and accurate and complete disclosure of information to the market are effective.

With effect from 29 November 2019, RBS Holdings N.V. (RBSH N.V.) is a wholly-owned subsidiary of NatWest Markets Plc ('NWM Plc' or 'the intermediate holding company'). RBSH N.V. is the parent company of NatWest Markets N.V. (NWM N.V.). The Royal Bank of Scotland Group plc ('RBSG plc') is 'the ultimate holding company'. The term 'RBS Group' comprises RBSG plc and its subsidiary and associated undertakings.

NWM N.V. is a licenced bank regulated by the De Nederlandsche Bank ('Dutch Central Bank').

Corporate governance in the Netherlands, Code Banken and the Dutch Corporate Governance Code
NWM N.V. Group ensures proper corporate governance by focusing on the Dutch Banking Code (Code Banken) which contains specific corporate governance rules and principles for all banks in the Netherlands. In addition, NWM N.V. Group also adheres, where possible, with the Dutch Corporate Governance Code although this is not a required code for NWM N.V. Group.

The Code Banken came into force on 1 January 2010 and was amended on 1 January 2015. It requires banks in the Netherlands to either comply with the rules and principles as set out in the Code Banken or explain any deviation from it. The Code Banken is applicable to NWM N.V. Group as it has a banking licence issued under the Dutch Financial Supervision Act. NWM N.V. Group operates in line with all requirements under the Code Banken. A further explanation on compliance with the updated Code Banken is provided on page 39 of this report.

Capital Requirements Directive IV (CRD IV)
On 1 January 2014, CRD IV came into force in the EU. CRD IV contains several Corporate Governance related requirements, which were implemented in Dutch law on 1 August 2014. It required banks that fall under the Single Supervisory Mechanism by the ECB to set up separate Audit, Nomination and Remuneration Committees for its Supervisory Board. NWM N.V. Group has been qualified as a less significant institution as at 1 January 2017 and does not fall under this Single Supervisory Mechanism supervision of the ECB. However, given its importance, NWM N.V. Group has implemented this requirement by allocating specific responsibilities on the Nomination and Remuneration areas to the Supervisory Board. Also a separate Risk Committee and a separate Audit Committee have been set up to support the Supervisory Board as of 1 January 2020.

European Banking Authority (EBA) guidelines on internal governance
The EBA has issued guidelines relating to internal governance arrangements of credit institutions. These take into account weaknesses identified in the financial crisis and build upon the Committee of European Banking Supervisors (CEBS) Guidelines. The EBA guidelines are implemented by the local competent authorities, which is the Dutch Central Bank. NWM N.V. Group adheres to these guidelines.

Wet beloningsbeleid financiële ondernemingen
On 7 February 2015, the Wet beloningsbeleid financiële ondernemingen (Wbfo) came into force. With this legislation, the Dutch government ensures that financial services companies carry out a sound remuneration policy and avoid payment of excessive variable remuneration. Headline measure is the 20% bonus cap. NWM N.V. Group fully adheres to these principles.

Further information of the remuneration policy can be found in RBSG plc's Annual Report & Accounts 2019, available at www.rbs.com.

Approval of Annual Report
The Managing Board approved the Annual Report at its meeting on 12 March 2020. The Supervisory Board approved the Annual Report at its meeting on 12 March 2020. NWM N.V. Group has proposed to its Shareholder that it adopts the 2019 financial statements, as included in this Annual Report, and discharge the Managing Board and Supervisory Board in respect of their management and supervision respectively.

Boards
RBSH N.V. and NWM N.V. are limited liability companies (naamloze vennootschap) incorporated under the laws of the Netherlands. Both companies have a two-tier system of corporate governance consisting of a Managing Board and a Supervisory Board.

The day-to-day management of the companies is vested with the Managing Board, supervised by the Supervisory Board. The members of the Managing Board and Supervisory Board of RBS Holdings N.V. and NWM N.V. are the same.

The report of the Supervisory Board
This report provides an overview of the tasks and the activities of the Supervisory Board during the calendar year 2019.

In 2017, RBS Group's NatWest Markets business (NatWest Markets Plc) announced its plan to repurpose NWM N.V. Group's existing banking licence in the Netherlands to minimise disruption to the business and to serve customers in the event of any loss of EU passporting after the UK's departure from the EU.

NatWest Markets Plc and NWM N.V. Group are working together to ensure the banking licence is maintained and NWM N.V. Group is operational.

The Supervisory Board supervised the execution of this strategy by challenging and advising the Managing Board on client focus, timing and speed to ensure the banking licence is maintained and NWM N.V. Group is made operational. Furthermore, the corporate strategy and further de-risking of NWM N.V. Group has been discussed during all the Supervisory Board meetings in 2019.

The composition of the Managing Board was another important subject addressed by the Supervisory Board as part of the execution of the integration of the activities of NWM N.V. Group. On 15 February 2019, Marije Elkenbracht joined the Managing Board as Chief Risk Officer and on 25 March, 2019, Angelique Slach joined the Managing Board as Chief Operating Officer.

The composition of the Supervisory Board also changed. During the first quarter of 2019, Robert Begbie and Chris Campbell stepped down from the Supervisory Board and were succeeded by Richard Place, CFO, NWM Plc and two new independent members, Annelies van der Pauw and Anne Snel.

On 19 December 2019, Chris Marks and Richard Place stepped down as Chief Executive Officer and Chief Financial Officer of NatWest Markets Plc and, as a result, have also stepped down as NatWest Markets N.V. Supervisory Board members. Robert Begbie has been appointed Interim Chief Executive Officer of NatWest Markets Plc and it is the intention he joins the Supervisory Board as Chairman subject to regulatory approval. Until Robert Begbie's appointment to the Supervisory Board has received regulatory approval, Maarten Klessens will act as Acting Chairman of the Supervisory Board.

Corporate governance

The tasks of the Supervisory Board

The main task of the Supervisory Board is to supervise the Managing Board, as well as the general affairs of NWM N.V. Group and its associated enterprises. Furthermore, it assists and advises the Managing Board and supervises the corporate governance structure of NWM N.V. Group.

In performing their duties, the members of the Supervisory Board are guided by the interests of NWM N.V. Group and the businesses connected to it taking into account the relevant interests of NWM N.V. Group's stakeholders. Certain powers are vested in the Supervisory Board, including the approval of certain resolutions of the Managing Board. A complete overview of the powers of the Supervisory Board can be found in the Rules governing the Supervisory Board's Principles and Best Practices. These rules also include specific provisions on remuneration and nomination topics as prescribed by the implementation of CRD IV in the Netherlands.

Members of the Supervisory Board

The Supervisory Board is an independent corporate body. Members of the Supervisory Board are appointed by the General Meeting of Shareholders. For each vacant seat the Supervisory Board nominates one or more candidates. The candidates must meet the criteria of the membership profile, which are set out in the Rules Governing the Supervisory Board's Principles and Best Practices of NWM N.V. Group.

The Chairman and Vice-Chairman of the Supervisory Board are appointed by the Supervisory Board from among its members. The Supervisory Board confirms that its current composition has the necessary experience, expertise and independence to execute their duties. They have also sufficient accounting and financial management expertise to understand NWM N.V. Group's business, financial statements and risk profile.

All appointments were made in accordance with the Supervisory Board profile resulting in the current composition of the Supervisory Board. Two members are female which aligns with RBS Group policy on diversity and inclusion.

Supervisory Board members are appointed for a term of four years and may be re-appointed after the end of their term, with a maximum term of 12 years from the date of their first appointment.

Newly appointed Supervisory Board members undertake an induction programme which is tailor-made and adjusted to the specific needs of each new Supervisory Board member. They also undertake a series of meetings with the management of NWM N.V. Group to gain insight and understanding of NWM N.V. Group and its enterprises.

In case of a material (potential) conflict of interest between a member of the Supervisory Board and NWM N.V. Group, the Chairman of the Supervisory Board shall be notified. If the Chairman of the Supervisory Board has a material (potential) conflict of interest, the Vice-Chairman is notified. The respective Supervisory Board member will not take part in the resolution and decision-making process by the Supervisory Board where a conflict of interest exists. During 2019, no conflicts of interest have arisen.

Details of the remuneration of the Supervisory Board can be found in Note 27 on the consolidated accounts.

Activities of the Supervisory Board

Risk and audit topics are discussed on a regular basis and a report with deliberations and findings is prepared for each regular meeting.

Specific nomination and remuneration topics are also discussed on a regular basis.

The Supervisory Board works alongside RBS Group Remuneration Committee to ensure the implementation of a restrained and long-term remuneration policy that is aligned with the organisation's strategy and risk appetite for NWM N.V. Group. The Supervisory Board extensively discussed remuneration at one of its meetings and highlighting the focus that this topic continues to receive in the organisation. In addition, specific remuneration provisions have been included into the Rules governing the Supervisory Board's Principles and best Practices.

Regular and Ad-hoc Supervisory Board meetings were held during the calendar year 2019. All members of the Supervisory Board have complied with the requirement to attend meetings on a frequent basis.

Composition of the Supervisory Board

The members of the Supervisory Board as at 12 March 2020 are as follows:

		Date of first appointment	Date for re-election
Maarten Klessens (Interim Chairman)	(61, Dutch, male)	2 September 2015	30 August 2023
Annelies van der Pauw	(59, Dutch, female)	3 March 2019	3 March 2023
Anne Snel	(51, Irish, female)	25 March 2019	25 March 2023

Maarten Klessens
Acting Chairman of the Supervisory Board and Chairman of the Risk & Audit Committee

Mr Klessens was appointed as an independent member of the Supervisory Board on 2 September 2015 and re-appointed on 30 August 2019.

In 2017 he was also appointed as member of the executive board of Trier Holding B.V. In 2016 he joined the Supervisory Board of Bank of Africa Holding S.A. and the Supervisory Board of DHB Bank N.V. in the Netherlands. He was senior advisor Benelux for StormHarbour Securities LLP, London in 2014 and 2015. From 2011 he was acting head of Global Country Risk for RBS Group and was responsible for country appetite setting and exposure management with special attention for the financial stress in the Eurozone periphery.

Mr Klessens started his career with ABN AMRO in 1986, in structured aircraft finance. In 1997 he was appointed Corporate Executive Vice President for ABN AMRO and had subsequent responsibilities in wholesale product teams, client management and Group Risk. For 12 years he was a voting member of ABN AMRO's Group Risk Committee. Mr Klessens holds a postgraduate in Financial Economics of Tilburg University and a Master in Business Economics of Erasmus University Rotterdam and has had executive training at IMD, INSEAD and University of Michigan.

Annelies van der Pauw

Ms Van der Pauw was appointed as an independent member of the Supervisory Board on 3 March 2019.
Ms Van der Pauw is a partner of the international law firm Allen & Overy LLP (A&O) and has chaired the Amsterdam corporate practice group of A&O since 2006. In her practice, Ms Van der Pauw focuses on mergers and acquisitions and corporate governance issues. Ms Van der Pauw also has extensive equity capital markets experience. In addition to a strong understanding of the legal environment in the Netherlands, Ms Van der Pauw is also the co-chair of the A&O global corporate responsibility programme and a member of the board of the global A&O Foundation. Ms Van der Pauw has been with A&O and its predecessors since 1987.

Anne Snel

Ms Snel was appointed as an independent member of the Supervisory Board on 25 March 2019.
Ms Snel is currently the Head of Risk and Compliance at DIF, a fund manager specialised in infrastructure investment. She has held senior risk roles at Rabobank including Head of Operational Risk and Head of Integrated Risk. She brings a strong understanding of risk and regulation and excellent relationships with both the DNB and ECB, having previously worked in banking supervision at the DNB. Through her last role at Rabobank, she established the Regulatory Oversight function and also the Supervisory Relations function in order to enhance the relationship with Dutch and European regulators. She also has many years of experience in wholesale banking and private equity with ABN AMRO. Ms Snel is experienced in the local legal, regulatory and commercial environment. Her strong European regulatory experience provides her with a thorough understanding of banking and regulation across the continent.

The Report of the Managing Board

The members of the Managing Board and NWM N.V. Group are responsible for the general affairs of NWM N.V. Group and its subsidiaries. The members are appointed by the General Meeting of Shareholders.

The Supervisory Board of NWM N.V. nominates one or more candidates for each vacant seat in the Managing Board. If the Supervisory Board nominates two or more candidates for a vacant seat in the Managing Board, the nomination list is binding. The members of the Managing Board are accountable both collectively and individually for all decisions taken by the Managing Board. The members of the Managing Board are appointed by the general meeting of shareholders of NWM N.V.

The Chairman of the Managing Board leads the members of the Managing Board in its overall management of NWM N.V. Group to achieve its performance goals and ambitions. The Chairman of the Managing Board is the main point of liaison with the Supervisory Board. The Chief Financial Officer is responsible for the financial affairs of NWM N.V. Group. Alongside their overall corporate responsibilities, the members of the Managing Board are responsible for the management of the control and support functions. The Managing Board has delegated certain tasks to a number of Managing Board committees which are described on page 38 of this report.

Composition of the Managing Board

The members of the Managing Board as at 12 March 2020 are as follows:

		Date of first appointment	Date for re-election
Harm Bots (Chairman)	(49, Dutch, male)	1 November 2017	1 November 2021
Cornelis Visscher	(54, Dutch, male)	18 July 2013	18 July 2021
Marije Elkenbracht	(51, Dutch, female)	15 February 2019	15 February 2023
Angelique Slach	(48, Dutch, female)	18 March 2019	18 March 2023

Corporate governance

Harm Bots
Chairman of the Managing Board

Mr Bots was appointed as Head of Strategy for NatWest Markets Group (NWM Group) and has served as a member of its Executive Committee since 2015. He was subsequently appointed as CEO and Chairman of the Managing Board of NWM N.V. on 1 November 2017. Mr Bots has been leading the development and implementation of the Brexit plans for NWM Group, setting up the European licenced bank for RBS Group. Prior to that, Mr Bots has been developing and overseeing the implementation of the NWM Group strategy including a radical restructuring of its business model and managing towards a smaller resource base. He oversaw and delivered a number of large transformation programmes within the business to ensure strategic goals were met. Mr Bots has been with RBS Group since 2008, when he joined through the acquisition of ABN AMRO. He was appointed as Director of GBM Strategy in 2010. Prior to that, Mr Bots held several senior customer-facing positions including roles in a number of countries in Asia. Mr Bots joined ABN AMRO in 1999 as a Management Trainee. Mr Bots holds a Masters degree in Finance and Economic Policy from the University of London SOAS.

Cornelis Visscher
Chief Financial Officer,

Mr Visscher graduated from the Vrije Universiteit in Amsterdam with a degree in Business Economics, specialised in Financial Accounting and Management Accounting. He started his career at ABN AMRO in 1988, where, after several functions in Divisional and Group Finance, he ultimately became responsible for the delivery of ABN AMRO's Group Management Information. Following the acquisition of ABN AMRO by RBS Group and Consortium members, Mr Visscher became the head of Group Consolidation, in which he was responsible for the split of the ABN AMRO accounts between the Consortium members. Furthermore, in 2011 Mr Visscher was seconded to Edinburgh where he became the Head of Financial Control for the Retail & Wealth, Corporate and Business Services Divisions of RBS Group. In this role, he was, amongst other things, responsible for the Offshore programme. As of 2013 he is the CFO for NWM N.V. Group and a member of the NWM N.V. Managing Board.

Angelique Slach
Chief Operating Officer

Ms Slach started her career in Technology at Rabobank's International division after finalising her Business and Financial Economics studies. She fulfilled roles within the international organisation ranging from programme management, strategy, regulatory compliance to managerial roles in both front- and back-office. She gained vast experience working in Wholesale Banking and Capital Markets with her latest roles as Chief Operations Officer for Global Financial Markets, Global Head of Operations and Chief Innovation Officer for Trade and Commodity Finance.

Marije Elkenbracht Chief Risk Officer

Ms Elkenbracht brings 22 years of experience in various risk and strategy roles in ABN AMRO and NIBC. Before joining NWM N.V. Group, Ms Elkenbracht was Managing Director Risk Modelling at ABN AMRO and member of the Supervisory Board of the ABN AMRO Mortgage group. Prior to these roles, she held the position of Managing Director Market, ALM and Treasury Risk also at ABN AMRO. Ms Elkenbracht holds a Master's degree and a PhD in Mathematics from the University of Leiden

Managing Board committees

In order to provide effective oversight and leadership, the Managing Board has three sub-committees, being the Risk & Control Committee (RCC), the Asset & Liability management Committee (ALCo) and the Disclosure Committee.

Risk & Control Committee (RCC)

The RCC oversees the risk framework within NWM N.V. Group, monitors the actual risk profile and advises the Managing Board on these matters. Its scope is, amongst others, credit, market, operational,compliance and financial crime, and regulatory risk within NWM N.V. Group.

Asset & Liability Committee (ALCo)

The Managing Board has delegated to the ALCo the responsibility for the management of capital, liquidity, interest rate risk and foreign exchange risk. This includes responsibility for reviewing, approving and allocating balance sheet, capital, liquidity and funding limits.

Disclosure Committee

The Disclosure Committee advises and assists the Managing Board in fulfilling its responsibilities for overseeing the accuracy and timeliness of public disclosures made by NWM N.V. Group. This inter alia includes advising the Managing Board on the disclosure of financial information.

Code of conduct

RBS Group's Code of Conduct (Our Code) informs everyone what to expect of each other, what to do when unsure of a decision, and where to go for advice when needed. It is available at rbs.com>About us>Our values, or upon request by contacting Company Secretariat at the telephone number listed on page 110. In 2016 we incorporated five new standards of behaviour into Our Code: (1) You must act with integrity; (2) You must act with due skill, care and diligence; (3) You must be open and cooperative with the Financial Conduct Authority (FCA), the Prudential Regulatory Authority (PRA) and other regulators; (4) You must pay due regard to the interests of customers and treat them fairly; and (5) You must observe proper standards of market conduct. These new conduct rules are part of the changes our UK banking regulators, the PRA and FCA, are making to improve accountability across the financial sector as part of the Individual Accountability Regime. The rules are very much in keeping with the values and behaviours that we follow across RBS Group and NWM N.V.Group.

Relations with shareholders

Rights of shareholders

Any resolution to amend the Articles of Association of NWM N.V. Group may only be passed by the General Meeting of Shareholders following a proposal by the Managing Board which has been approved by the Supervisory Board.

Meetings of shareholders and convocation

The General Meetings of Shareholders shall be held in Amsterdam, or in The Hague, Rotterdam, Utrecht or Haarlemmermeer (Schiphol). The Annual General Meeting of Shareholders must be held within six months of the end of each financial year. In addition, general meetings of shareholders shall be held as frequently as deemed necessary by the Shareholder, the Managing Board or the Supervisory Board and when required by law or by the Articles of Association.

General meetings of shareholders shall be convened by the Shareholder, the Managing Board or the Supervisory Board, without prejudice to the provisions of Sections 110, 111 and 112 of Book 2 of the Netherlands Civil Code. Convocation shall take place not later than on the fifteenth day prior to the day of the meeting. Convocation shall state the items to be discussed or alternatively notice shall be given that such items may be inspected at the company's offices. Proposals to amend the Articles of Association or proposals relating to a reduction of the company's capital shall always be included in the actual convocation.

Employees

Our colleagues

As at 31 December 2019, NWM N.V. Group employed approximately 198 people (full-time equivalent basis, including temporary workers), within continuing operations. Details of related costs are included in Note 3 on the consolidated accounts.

Employee consultation

NWM Group recognises employee representatives such as employee bodies and work councils in a number of businesses and countries, and management regularly discuss developments and updates on the progress of its strategic plans with the European Employee Council (EEC). NWM Group has ongoing engagement and discussion with those bodies given the scale of change taking place across NWM Group.

Inclusion

RBS Group's inclusion guidelines apply to all NWM N.V. Group colleagues globally and cover being LGBT Innovative, Gender Balanced, Disability Smart, Ethnically Diverse, all leading to an Inclusive Culture. Detailed information can be found on page 35 of the RBSG plc Annual Report & Accounts 2019 and on the Sustainable Banking pages on rbs.com.

Corporate governance

The Dutch Banking Code (Code Banken)

Introduction

The Code Banken was drawn up by the Netherlands Bankers' Association (NVB) and is mandatory for NWM N.V. Group as stated in Book 2 of the Civil Code from 1 January 2010.

The renewed Code Banken was drawn up by the NVB and applies to NWM N.V. Group from 1 January 2015.

The Code Banken offers specific provisions, but underlying these provisions, its aim is to instil learning in the banking sector following the financial crisis. Drawing lessons and implementing change with the aim to restore trust among all our stakeholders, clients, staff, investors and society at large. RBS Group, including NWM N.V. Group, has undergone, and continues to undergo, profound change following the crisis and is committed to high standards of corporate governance, business integrity and professionalism in all its activities.

Corporate Governance codes and the global footprint of RBS Group

NWM N.V.'s ultimate parent company is the Royal Bank of Scotland Group plc. When implementing the Code Banken, the Managing Board and Supervisory Board of NWM N.V. take into account the effects of similar codes of conduct implemented across RBS Group with the aim to align all businesses within the wider RBS Group.

Compliance with the Code Banken

NWM N.V. Group considers the Code Banken as an important yardstick for the way banks draw lessons from the crisis. NWM N.V. Group takes account of all relevant remuneration regulatory regimes, including the Code Banken and the requirements as included in the Dutch Financial Supervision Act, in designing and implementing its remuneration policy as well as NWM N.V. Group's corporate governance structure.

Supervisory Board

The required expertise and experience are well embedded in the Supervisory Board providing for an independent board with a diverse composition. The Supervisory Board consists of executives of RBS Group with broad banking experience in addition to three independent members. A clearly defined process for the engagement and recruitment of a Supervisory Board member has been established.

If a vacancy for a new member exists, a new member is sought based on an established supervisory board profile to ensure that the knowledge and expertise obtained when filling the vacancy is fully complementing the composition of the board. This profile is amended to reflect the specific requirements for the role.

If the position of Chairman of the Supervisory Board became vacant, a separate individual profile would be drawn up based on an established Chairman's profile to ensure alignment with the specific socio-economic and political culture and the social environment of the bank's main markets.

All Supervisory Board members have committed themselves to fulfil their responsibilities as board members to the best of their ability. Their attendance at meetings is recorded. The board furthermore operates according to a set of rules governing the Supervisory Board's principles and best practices. These have been agreed by all board members. The remuneration received by Supervisory Board members is not dependent on NWM N.V. Group's results. A lifelong learning programme covering aspects as included in the Code Banken being amended to reflect the repurposed banking license.

Furthermore the functioning of the Supervisory Board, including its lifelong learning programme, was assessed in 2016 by an independent party. Their conclusion was that the Supervisory Board members discharge their roles and responsibilities in a satisfying way.

The independent assessment is in accordance with the Code Banken which requires such independent assessment at least once every three years. Due to the new composition of the managing board over the year 2019, the next assessment will take place over 2020

Managing Board

The composition of the Managing Board of NWM N.V. Group ensures that all business areas and all control and support functions are well represented on the board. The board comprises a Chief Executive Officer (CEO), a Chief Financial Officer (CFO), a Chief Risk Officer (CRO) and a Chief Operating Officer (COO). To further clarify the specifics of each role on the board and to ensure adherence to agreements made on procedure and governance, a set of rules governing the Managing Board's principles and best practices has been agreed.

The Managing Board will continuously ensure a prudent risk appetite, based on the risk appetite framework approved by the Supervisory Board. The risk appetite framework shall be approved by the Supervisory Board at least once a year and is actively monitored during the year. Any material changes in the interim shall also require the Supervisory Board's approval. The Managing Board takes the interests of all stakeholders (e.g. employees, clients, shareholders) into account in their decision making. The Managing Board recognises that duty of care for clients is an important component of doing business.

In line with the requirement of the Code Banken, Managing Board members take the Banker's Oath.

The principles in the Banker's Oath are incorporated into RBS Group's code of conduct which is issued to all new employees joining NWM N.V. Group.

Risk Policy

The Managing Board has arranged Risk Management in an adequate manner in order to ensure the Managing Board is aware in good time of any material risks run by the bank and to enable the Managing Board to manage these risks properly. The Chief Risk Officer reports into the Chief Executive Officer.

The Managing Board, through its sub committees, the RCC and the ALCo, takes any decision that is of material significance to the risk profile, the capital position or the liquidity impact.

The Supervisory Board reviews and discusses the risk profile of NWM N.V. Group during each of its meetings. This is based on a risk appetite statement which it reviews on a regular (i.e. a minimum of once a year) basis. More information on the Risk organisation of NWM N.V. Group can be found on pages 7 to 12 of this report.

Audit

To ensure the function's independence, the Head of NWM N.V. Internal Audit reports to the Chair of the Audit Committee of NWM N.V. and the Chief Audit Executive, Natwest Markets Plc, who in turn reports to the Chair of the Audit Committee of NatWest Markets Plc. Internal Audit reports its opinion and findings on the quality of the control framework, the system of governance and the risk management of NWM N.V. Group to the Supervisory Board on a bi-annual basis and provides the Supervisory Board with their audit review in the remaining quarters of the year. Internal Audit furthermore presents its annual audit plan to the Supervisory Board. The Managing Board shall ensure that a systemic audit is conducted of the risks managed in relation to the business activities of NWM N.V. Group.

The external auditors are invited to share their findings and opinion concerning the quality and effectiveness of the system of governance, risk management and NWM N.V. Group's control procedures with the Supervisory Board on a quarterly basis. The external auditors present the annual audit plan to the Supervisory Board and both NWM N.V. Internal Audit and the external auditors take part in a tri-partite meeting with DNB (NWM N.V. Group's regulators in the Netherlands) to share their audit plans, analysis and findings at least once per annum. There is a clear escalation process by which the external auditors can raise, with management, any significant concerns.

Remuneration Policy

Set out below is an overview of the NWM N.V. Group Remuneration Policy.

As NWM N.V. is an indirectly owned subsidiary of The Royal Bank of Scotland Group plc (RBSG), its Remuneration Policy is fully aligned to RBS Group's Remuneration Policy Principles with amendments only to comply with Dutch Remuneration Rules, as set down in regulation Book 1 of the FSA. It applies not only to employees of NWM N.V. Group, but also anybody who is working on its behalf, including individuals employed by other RBS Group entities, agency staff, contractors and the NWM N.V. Supervisory Board. The Remuneration Policy is compliant with CRD IV, UK and Dutch regulatory requirements. The NWM N.V. Group Remuneration Policy is annually reviewed and approved by the Supervisory Board, lastly in its meeting on 29 November 2019.

The Remuneration Policy is aligned to the business strategy, objectives, values, risk appetite and long-term interests, and in turn, that of RBS Group and its shareholders. Our chosen performance metrics reflect the aims of delivering sustained performance against our objectives. The policy explicitly aligns remuneration with effective risk management and a range of measures are considered to assess risk performance and overall risk culture. The remuneration policy aims to reward workers for delivering sustained, long-term business performance provided this is achieved in a manner consistent with our values, within acceptable risk parameters and in line with regulatory requirements.

The NWM N.V. Group Remuneration Policy applies the same principles to all workers who work under the responsibility of NWM N.V. Group, including Locally Identified Staff (LIS) (i.e. those employees who can have a material impact on NWM N.V. Group's risk profile as identified in accordance with Commission Delegated Regulation 604/2014). The European Banking Authority has issued criteria for identifying the categories of staff whose activities have a material influence over NWM N.V. Group's performance or risk profile. The criteria are both qualitative (based on the nature of the role) and quantitative (for example those who exceed the stipulated total remuneration threshold). The qualitative criteria can be summarised as: staff within the management body; senior management; other staff with key functional or managerial responsibilities; and staff who individually, or as part of a Committee, have authority to approve new business products or to commit to credit risk exposures and market risk transactions above certain levels. The quantitative criteria are: individuals earning €500,000 or more in the previous year; individuals in the top 0.3% of earners in the previous year; and individuals who earned more than the lowest paid identified staff per certain qualitative criteria.

In addition to the qualitative and quantitative criteria, RBS Group has applied its own minimum standards to identify roles that are considered to have a material influence over its risk profile. NWM N.V. will assess on a regular basis, and in any case at least twice a year, the individuals qualifying as LIS. LIS are captured as Material Risk Takers (MRTs) at RBS Group level and subject to all the same provisions.

There is a clear distinction between the criteria for setting basic fixed remuneration and variable remuneration. Fixed pay is set to ensure that it reflects relevant professional experience and organisational responsibility as set out in the colleague's job description. The level of fixed pay should be sufficient so that inappropriate risk-taking is not encouraged. Variable pay must be linked to Group, business and individual performance, and appropriate account must be taken of risk factors associated with that performance to ensure that remuneration is consistent with, and promotes, effective risk management. The variable remuneration of colleagues who work the majority of their time in the Netherlands will, on average, not exceed 20% of fixed pay. For colleagues who work the majority of their time outside the Netherlands, their variable remuneration will, as a rule, not exceed 100% of fixed pay. Should a colleague only work a part of their time under the responsibility of NWM N.V., the cap will apply to a pro-rated portion of fixed pay, based on time spent under the responsibility of NWM N.V.

The variable remuneration component (annual bonus) is designed to reflect sustainable and risk-adjusted performance against financial and strategic measures. Control Functions are assessed independently of the business units they oversee, with the Supervisory Board oversight on their remuneration to ensure independence is maintained. Pay for performance is underpinned by a robust performance management process against set goals and behaviours to ensure variable pay does not reward for underperformance and poor behaviours.

A proportion of individual variable remuneration is deferred over a defined period and applies to MRTs and individuals who receive an award over £2,000. Deferral of annual bonus awards ranges from a three to seven year depending on an individual's MRT categorization. Deferral is in a form that meets relevant regulatory requirements, including cash, bonds or shares. At least 40% is deferred over a period which is not less than three years, vesting no faster than on a pro-rata basis; in case of a variable pay component of GBP 500,000 (or EUR equivalent) or more, at least 60% of the total amount is deferred; at least 50% is delivered in RBS Group shares and all shares are subject to a 12 month retention period.
In certain circumstances NWM N.V. Group can reduce or cancel awards before they vest ('malus') or recover awards after they have vested ('clawback'). Variable pay of MRTs is subject to a minimum clawback period of seven years from the date of award. Awards made to all colleagues (including MRTs) working for NWM N.V. in the Netherlands are subject to a clawback period of five years from the date RBS Group or NWM N.V. Group becomes aware of information that should result in clawback.

NWM N.V. Group does not allow variable pay, that would have otherwise been subject to deferral, to be taken in pension form. The use of any personal hedging strategies in respect of unvested awards is prohibited and this is confirmed in participant award documentation. NWM N.V. Group does not pay variable remuneration through vehicles or methods that facilitate the non-compliance with the requirements in CRD IV or EU Regulation No 575/2013.

The total amount of variable pay distributed for performance year 2019 to workers who work under the responsibility of NWM N.V. Group amounts to € 7.20 million. There are two colleagues with a total remuneration for 2019 in excess of € 1 million, one of which is working in Financing & Risk Solutions and one in Trading & Flow Sales.

NWM N.V. Group may make payments to, and/or arrangements with, individuals to settle actual or potential claims relating to the termination of their employment. Such payments and arrangements will be based on the potential liability involved and will only be made to the extent NWM N.V. Group considers appropriate, taking into account the financial soundness and the conduct of the individual. In any event, those individuals whose remit encompasses the day-to-day policy of NWM N.V. Group are prohibited from receiving a severance payment that is more than 100% of their Fixed Pay on an annual basis.

Control functions (Risk, Finance, Internal Audit and HR) are structured in a way that gives them appropriate independence from the business they oversee and sufficient authority to influence the activities and decision making of the businesses' activities. Performance and remuneration is determined based on the control function's performance and priorities rather than the performance of the businesses they oversee.

All colleagues, including MRTs, use a balanced scorecard approach for performance management, which is designed to assess performance against longer term business requirements across financial and non-financial metrics as well as an evaluation of adherence to internal controls and risk management.
The scorecard themes are customer, finance and business delivery, people, and risk and control. In addition, performance assessment includes behaviours aligned to NWM N.V. Group's culture which are appropriate to each colleague's role.

Corporate governance

Management's report on internal control over financial reporting under the Dutch Corporate Governance Code

Although NWM N.V. Group is not obliged to adhere to the Corporate Governance Declaration for the purposes of Corporate Governance Degree (Besluit Corporate Governance), NWM N.V.'s Managing Board has decided nevertheless to adhere to the best practice provision II.1.5 of the Dutch Corporate Governance Code and to substantiate the operation of the internal risk management and control system during the year under review, and to state its adequacy and effectiveness.

NWM N.V. Group's internal risk management and control system is a process, effected by the Managing Board, management, and other personnel, which is designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (i) effectiveness and efficiency of operations; (ii) reliability of financial reporting; and (iii) compliance with laws and regulations.

Different sections of this Annual Report 2019, including capital and risk management on pages 7 to 34, elaborate on NWM N.V. Group's identified risks, such as capital, liquidity and funding risk, credit risk, market risk, conduct risk, operational risk, business risk and reputational risk.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or because the degree of compliance with policies or procedures may deteriorate.

Based on its assessment, management has concluded that, as of 31 December 2019, NWM N.V. Group's internal control over financial reporting is effective.

Managing Board
Amsterdam, 12 March 2020

Management's report on the 2019 Annual Report and Accounts for purposes of Section 5:25 sub 2 Financial Supervision Act

The Managing Board certifies that, to the best of their knowledge:

- the financial statements give a true and fair view, in all material respects, of the assets, liabilities, financial position and loss of NWM N.V. Group and its consolidated entities; and
- the Annual Report gives a true and fair view, in all material respects, of NWM N.V. Group and its consolidated entities as at 31 December 2019 and their state of affairs during 2019; and the Annual Report describes the material risks that NWM N.V. Group is facing.

Managing Board
Amsterdam, 12 March 2020

Financial statements

Consolidated income statement for the year ended 31 December 2019

	Note	2019 €m	2018 €m
Interest receivable		62	26
Interest payable		(80)	(35)
Net interest income	1	(18)	(9)
Fees and commissions receivable		129	3
Fees and commissions payable		(26)	(73)
Income from trading activities		8	138
Other operating income (1)		656	376
Non-interest income	2	767	444
Total income		749	435
Staff costs		(35)	(7)
Premises and equipment		(4)	(5)
Other administrative expenses		(47)	(9)
Depreciation and amortisation		(2)	(1)
Operating expenses	3	(88)	(22)
Profit before impairment releases/(losses)		661	413
Impairment releases/(losses)	12	1	(4)
Operating profit before tax		662	409
Tax charge	6	(28)	(138)
Profit for the year		634	271
Attributable to:			
Ordinary shareholders		626	271
AT1 capital securities		8	—
		634	271

Notes:
(1) 2019 includes a gain of €516 million on completion of the Alawwal bank merger.
(2) The appropriation of net profits pursuant to articles 37.2 and 37.3 of the Articles of Association includes the release from reserves of all profits/(losses) attributable to controlling interests.

Consolidated statement of comprehensive income for the year ended 31 December 2019

	2019 €m	2018 €m
Profit for the year	634	271
Items that do not qualify for reclassification		
(Loss)/gain on fair value of credit in financial liabilities designated at fair value through profit or loss due to own credit risk	(120)	89
	(120)	89
Items that do qualify for reclassification		
FVOCI financial assets	6	(6)
Currency translation	30	24
	36	18
Other comprehensive (loss)/income after tax	(84)	107
Total comprehensive income for the year	550	378
Attributable to:		
Controlling interests	550	378

The accompanying notes on pages 51 to 75, the accounting policies on pages 47 to 50 and the audited sections of the Financial review: Capital and risk management on pages 7 to 34 form an integral part of these financial statements.

Consolidated balance sheet as at 31 December 2019

	Note	2019 €m	2018 €m
Assets			
Cash and balances at central banks	9	3,191	336
Trading assets	7	3,155	13
Derivatives	8	3,898	656
Settlement balances		141	—
Loans to banks - amortised cost	9	738	392
Loans to customers - amortised cost	9	1,374	67
Amounts due from holding companies and fellow subsidiaries	9	1,368	1,961
Other financial assets	14	562	389
Assets of disposal groups	28	—	1,317
Other assets	15	67	160
Total assets		14,494	5,291
Liabilities			
Bank deposits	9	59	44
Customer deposits	9	1,447	61
Amounts due to holding companies and fellow subsidiaries	9	3,021	417
Settlement balances		209	—
Trading liabilties	7	1,832	6
Derivatives	8	4,588	364
Other financial liabilities	16	240	—
Subordinated liabilities	17	642	746
Other liabilities	18	248	420
Total liabilities		12,286	2,058
Total equity		2,208	3,233
Total liabilities and equity		14,494	5,291

The accompanying notes on pages 51 to 76, the accounting policies on pages 47 to 50 and the audited sections of the Financial review: Capital and risk management on pages 7 to 34 form an integral part of these financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2019

	2019 €m	2018 €m
Share capital and share premium account (1)		
At 1 January	7,024	7,024
Capital injection (2)	53	—
Distribution (3)	(1,166)	—
Capital restructuring (4)	(4,211)	—
At 31 December	1,700	7,024
AT1 capital securities		
At 1 January	—	—
Securities issued during the year (5)	250	—
At 31 December	250	—
Fair value through other comprehensive income		
At 1 January	(2)	4
Unrealised gains/(losses)	14	(8)
Realised losses	(8)	2
At 31 December	4	(2)
Foreign exchange reserve		
At 1 January	(18)	(42)
Gains arising during the year	1	5
Reclassification of foreign currency losses included in the income statement	29	19
At 31 December	12	(18)
Retained earnings		
At 1 January	(3,771)	(4,102)
Implementation of IFRS 9 on 1 January 2018	—	(29)
Profit attributable to controlling interests	634	271
Ordinary dividends paid	(657)	
AT1 capital securities dividends paid	(7)	
Acquisition of Western European branches	(19)	
Changes in fair value of credit in financial liabilities designated at fair value through profit or loss	(120)	89
Distribution (6)	(29)	—
Capital restructuring (4)	4,211	—
At 31 December	242	(3,771)
Equity attributable to controlling interests	2,208	3,233

Notes:
(1) Includes Ordinary share capital of €50,000 (2018 - €50,000) – Refer to Note 19 for further details.
(2) Capital injection of €53 million from RFS Holdings B.V. reflects amounts received by RFS Holdings from Santander.
(3) Distributions of the right to receive SABB interests via RFS Holdings B.V. to Santander and the Dutch State following the Alawwal bank merger becoming effective.
(4) In December 2019 a capital restructuring was completed to transfer €4,211 million from Share premium to Retained earnings, refer to Note 19.
(5) AT1 capital notes totalling €250 million issued to RBSG plc (via RFSH B.V.) in June 2019.
(6) €29 million distribution to the Dutch State in connection to surplus capital held on behalf of the Dutch State acquired businesses.

The accompanying notes on pages 51 to 76 the accounting policies on pages 47 to 50 and the audited sections of the Financial review: Capital and risk management on pages 7 to 34 form an integral part of these financial statements.

Consolidated cash flow statement for the year ended 31 December 2019

	Note	2019 €m	2018 €m
Operating activities			
Operating profit before tax		662	409
Adjustments for:			
Interest on treasury bills and debt securities		(21)	(4)
Interest on subordinated liabilities		43	19
Impairment charges on loans to customers		40	(23)
Change in fair value of other subordinated liabilities		93	(102)
(Gain)/loss on sale of other financial assets		(3)	2
Gain on sale of subsidiaries and associates		(516)	—
Change in fair value taken to profit or loss of other financial assets		(19)	—
Depreciation, amortisation and impairment of assets		2	—
Charge and release on provisions		2	(4)
Elimination of foreign exchange differences		85	42
Other non-cash items		25	35
Net cash inflow from operating activities		393	374
Decrease in loans to banks		—	270
(Increase)/decrease in loans to customers		(386)	13
Decrease in amounts due from holding company and fellow subsidiaries		1,196	843
Decrease in trading assets		1,868	—
(Increase)/decrease in settlement balance assets		(141)	4
(Increase)/decrease in derivative assets		(254)	105
Decrease in other financial assets		56	87
Decrease in other assets		56	39
Increase/(decrease) in bank deposits		15	(11)
Increase in customer deposits		1,386	3
Increase/(decrease) in amounts due to holding company and fellow subsidiaries		2,453	(656)
Increase/(decrease) in derivative liabilities		138	(185)
Increase/(decrease) in other financial liabilities		(9)	(40)
Increase/(decrease) in trading liabilities		(2,298)	(4)
Decrease in other liabilities		(109)	(99)
Increase in settlement balance liabilities		209	—
Changes in operating assets and liabilities		4,180	369
Income taxes paid		(83)	(3)
Net cash flows from operating activities (1)		4,490	740
Investing activities			
Sale and maturity of other financial assets		149	307
Purchase of other financial assets		(308)	(266)
Interest on financial assets		21	4
Purchase of property, plant and equipment		(1)	—
Net investment in business interests (2)		558	(2)
Net cash flows from investing activities		419	43
Financing activities			
Redemption of subordinated liabilities		(162)	(191)
Service cost of other equity instruments		(664)	—
Interest on subordinated liabilities		(44)	(22)
Issue of other equity instruments and additional Tier 1 notes		250	—
Net cash flows from financing activities	25	(620)	(213)
Effects of exchange rate changes on cash and cash equivalents		8	8
Net increase/(decrease) in cash and cash equivalents		4,297	578
Cash and cash equivalents at 1 January		1,000	422
Cash and cash equivalents at 31 December	26	5,297	1,000

Notes:
(1) Includes interest received of €18 million (2018 - €25 million) and interest paid of €83 million (2018 - €41 million).
(2) Net investment in business interests in 2019 consists of Net assets sold - €793 million and Fair value given for business acquired - €235 million.

The accompanying notes on pages 51 to 76, the accounting policies on pages 47 to 50 and the audited sections of the Financial review: Capital and risk management on pages 7 to 34 form an integral part of these financial statements.

Accounting policies

1. Corporate information
NatWest Markets N.V. (NWM N.V.) is a public limited liability company, incorporated under Dutch law on 30 May 1990 and registered at Gustav Mahlerlaan 350, 1082 ME Amsterdam, the Netherlands. NWM N.V. Group provides financial services principally in Europe and Asia.

With effect from 29 November 2019, RBS Holdings N.V., the parent company of NWM N.V., is a wholly owned subsidiary of Natwest Markets Plc (NWM Plc), and NWM Plc is owned by The Royal Bank of Scotland Group plc (RBSG plc). RBSG plc is incorporated in the UK and registered at 36 St. Andrew Square, Edinburgh, Scotland. RBSG plc is the ultimate parent company of NWM N.V.. The consolidated financial statements of NWM N.V. are included in the consolidated financial statements of RBSG plc. The consolidated financial statements of NWM N.V. Group incorporate financial information of NWM N.V., its controlled entities and interest in associates and joint ventures. The consolidated financial statements were signed and authorised for issue by the Managing Board on 12 March 2020 and by the Supervisory Board on 12 March 2020. The right to request an amendment of the financial statements is embedded in the Netherlands Civil Code. Interested parties have the right to ask the Enterprise Chamber of the Amsterdam Court of Appeal for an amendment of the financial statements.

IFRIC decision - Disclosure of change in liabilities arising from financing activities (IAS 7 statement of cash flows) – Following the IFRIC decision on how changes in liabilities should be presented in the cash flow statement, NWM N.V. Group has revised its presentation of financing activities and applied this to the cash flow statement.

2. Presentation of accounts
The Managing Board, having made such enquiries as they considered appropriate, including: a review of NWM N.V. Group's activity; the plan to repurpose the banking licence in the Netherlands for EU passporting; and forecasts, projections and other relevant evidence regarding the continuing availability of sufficient resources from RBS Group; have prepared the financial statements on a going concern basis. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations as issued by the IFRS Interpretations Committee (IFRIC) of the IASB and IFRS as adopted by the European Union (EU) (together IFRS).

The significant accounting policies and related judgments are set out below.

The accounts are presented in the functional currency, euro.

With the exception of investment property and certain financial instruments as described in Accounting policies 9 and 16, the accounts are presented on a historical cost basis.

Accounting policy changes effective 1 January 2019
Adoption of IFRS 16
NWM N.V. Group has adopted IFRS 16 'Leases' with effect from 1 January 2019, replacing IAS 17 'Leases'. The impact was immaterial.

Other amendments to IFRS
IAS 12 'Income taxes' was revised with effect from 1 January 2019. The income statement now includes any tax relief on the servicing cost of instruments classified as equity. This amendment has not affected the accounts.

IAS 19 'Employee Benefits' was amended by the IASB in February 2018 to clarify the need to update assumptions whenever there is a plan amendment, curtailment or settlement. This amendment has not affected the accounts.

Presentation of interest in suspense recoveries - In March 2019 the IFRS Interpretations Committee (IFRIC) issued an agenda decision on the presentation of unrecognised interest when a credit-impaired financial asset (commonly referred to as a 'Stage 3' financial asset) is subsequently paid in full or is no longer credit-impaired. This concluded that the difference arising from the additional interest recovered must be recognised as a reversal of impairment rather than within interest revenue. This affects both recognition and the reversal of the expected credit loss (ECL) allowance.

RBS Group changed its accounting policy in line with the IFRIC decision. Hence, the gross carrying amount of the financial assets within the scope of the provisions of the decision, as well as the associated ECL allowance on the balance sheet, have been adjusted by €41 million and the comparative period restated by €49 million with no effect on equity. The coverage ratio for the current and comparative periods have been adjusted and restated accordingly.

In addition, until 1 January 2019, interest in suspense recoveries were presented as a component of interest receivable within Net interest income. From 1 January 2019 interest in suspense recoveries are presented within Impairment losses. Amounts are not material.

IAS 39 'Financial Instruments: Recognition and Measurement', IFRS 9 'Financial Instruments' and IFRS 7 'Financial Instruments: Disclosures' - In September 2019, the IASB published amendments to address the issues arising from the replacement of existing IBOR based interest rate benchmarks with alternative nearly risk-free interest rates (RFRs) in the context of hedge accounting. These amendments allow hedging relationships affected by the IBOR reform to be accounted for as continuing hedges. RBS has early adopted these amendments for the annual reporting period ending on 31 December 2019.

The amendments provide relief on key areas of hedge accounting most notably the hedge effectiveness assessment and the ability to identify LIBOR-based cash flows for the purpose of designation (re-designation) during the period of the Reform.

3. Basis of consolidation
The consolidated accounts incorporate the financial statements of NWM N.V. and entities that give access to variable returns and that are controlled by NWM N.V. Group. Control is assessed by reference to our ability to enforce our will on the other entity, typically through voting rights.

On the acquisition of a business from an RBS Group company, the assets, liabilities and IFRS reserves, such as the cash flow hedging reserve, are recognised at their inherited values taken from the consolidated accounts of RBS Group and include the accounting history since initial recognition. The acquirer recognises, in merger reserve, any difference between the consideration paid and the net items recognised at inherited values.

All intergroup balances, transactions, income and expenses are eliminated on consolidation. The consolidated accounts are prepared under uniform accounting policies.

4. Revenue recognition
Interest income or expense relates to financial instruments measured at amortised cost and debt instruments classified as fair value through OCI using the effective interest rate method and the effective part of any related accounting hedging instruments. 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.

Accounting policies

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 NWM N.V. or by RBSG plc shares. NWM N.V. Group operates a number of share-based compensation schemes under which it awards RBSG 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.

6. Foreign currencies
Transactions in foreign currencies are recorded in the functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the relevant functional currency at the foreign exchange rates ruling at the balance sheet date. Foreign exchange differences arising on the settlement of foreign currency transactions and from the translation of monetary assets and liabilities are reported in income from trading activities except for differences arising on cash flow hedges and hedges of net investments in foreign operations (see Accounting policy 16).

Non-monetary items denominated in foreign currencies that are stated at fair value are translated into the relevant functional currency at the foreign exchange rates ruling at the dates the values are determined. Translation differences arising on non-monetary items measured at fair value are recognised in profit or loss except for differences arising on non-monetary financial assets classified as fair value through OCI, for example equity shares, which are recognised in other comprehensive income unless the asset is the hedged item in a fair value hedge.

Assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into euro at foreign exchange rates ruling at the balance sheet date. Income and expenses of foreign operations are translated into euro at average exchange rates unless these do not approximate to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on the translation of a foreign operation are recognised in other comprehensive income. The amount accumulated in equity is reclassified from equity to profit or loss on disposal of a foreign operation.

7. Provisions and contingent liabilities
NWM N.V. Group recognises a provision for a present obligation resulting from a past event when it is more likely than not that it will be required to transfer economic benefits to settle the obligation and the amount of the obligation can be estimated reliably.

Provision is made for restructuring costs, including the costs of redundancy, when NWM N.V. Group has a constructive obligation to restructure. An obligation exists when NWM N.V. Group has a detailed formal plan for the restructuring and has raised a valid expectation in those affected by starting to implement the plan or by announcing its main features.

NWM N.V. Group recognises any onerous cost of the present obligation under a contract as a provision. An onerous cost is the unavoidable cost of meeting NWM N.V. Group's contractual obligations that exceed the expected economic benefits. When NWM N.V. Group vacates a leasehold property, the right of use asset would be tested for impairment and a provision may be recognised for the ancillary 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.

8. 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 its 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 NWM N.V. Group has a legally enforceable right to offset and where they relate to income taxes levied by the same taxation authority either on an individual NWM N.V. Group company or on NWM N.V. Group companies in the same tax group that intend, in future periods, to settle current tax liabilities and assets on a net basis or on a gross basis simultaneously. Accounting for taxes is judgemental and carries a degree of uncertainty because the tax law is subject to interpretation, which might be questioned by the relevant tax authority. NWM N.V. Group recognises current and deferred taxes using the most likely amount required to be paid or recovered in current or future periods. These are assessed for uncertainty using consistent judgements 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 regards to their acceptance by the tax authorities.

9. 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 NWM N.V. Group manages its financial assets to generate cash flows. A business model assessment determines if cash flows result from holding financial assets to collect the contractual cash flows, from selling those financial assets, or both.

The product classifications apply to financial assets that are either designated at fair value through profit or loss (DFV), or to equity investments designated as at fair value through other comprehensive income (FVOCI). 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.

Accounting policies

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.

Most financial assets are within 'held to collect' business models, and have contractual cash flows that comprise solely payments of principal and interest and therefore measured at amortised cost. Certain financial assets 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, and are measured at fair value through other comprehensive income ('FVOCI').

The contractual terms of a facility; any leverage features; prepayment and extension terms; and triggers that might reset the effective rate of interest; are considered in determining whether cash flows comprise solely payments of principal and interest.

All financial instruments are measured at fair value on initial recognition.

All liabilities not subsequently measured at fair value are measured at amortised cost.

10. Impairment: expected credit losses

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 expected credit losses where there has not been a significant increase in credit risk rating, otherwise allowances are based on lifetime expected losses. Loss allowances for lease receivables are always measured on a lifetime expected loss basis.

Expected credit losses 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 expected credit losses 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 PDs, EADs and LGDs are reviewed annually for appropriateness. The ECL calculation is based on expected future cash flows, which is typically applied at a portfolio level.
- Multiple economic scenarios (MES) – the central, or base, scenario is most critical to the ECL calculation, independent of the method used to generate a range of alternative outcomes and their probabilities.
- Significant increase in credit risk - IFRS 9 requires that at each reporting date, an entity shall assess whether the credit risk on an account has increased significantly since initial recognition. Part of this assessment requires a comparison to be made between the current lifetime PD (i.e. the current probability of default over the remaining lifetime) with the equivalent lifetime PD as determined at the date of initial recognition.

On restructuring a financial asset without causing derecognition of the original asset, the revised cash flows are used in re-estimating the credit loss. Where restructuring causes derecognition of the original financial asset, the fair value of the replacement asset is used as the closing cash flow of the original asset.

Where, in the course of the orderly realisation of a loan, it is exchanged for equity shares or property, the exchange is accounted for as the sale of the loan and the acquisition of equity securities or investment property. Where NWM N.V. Group's interest in equity shares following the exchange is such that NWM N.V. Group controls an entity, that entity is consolidated.

Impaired loans are written off and therefore derecognised from the balance sheet when NWM N.V. Group concludes that there is no longer any realistic prospect of recovery of part, or all, of the loan. For loans that are individually assessed for impairment, the timing of the write off is determined on a case by case basis. Such loans are reviewed regularly and write off will be prompted by bankruptcy, insolvency, renegotiation and similar events.

11. Financial guarantee contracts

Under a financial guarantee contract, NWM N.V. Group, in return for a fee, undertakes to meet a customer's obligations under the terms of a debt instrument if the customer fails to do so. A financial guarantee is recognised as a liability; initially at fair value and, if not designated as at fair value through profit or loss, subsequently at the higher of its initial value less cumulative amortisation and any provision under the contract measured in accordance with Accounting policy 10. Amortisation is calculated so as to recognise fees receivable in profit or loss over the period of the guarantee.

12. Loan commitments

Provision is made for expected credit loss on loan commitments, other than those classified as held-for-trading. Syndicated loan commitments in excess of the level of lending under the commitment approved for retention by NWM N.V. Group are classified as held-for-trading and measured at fair value through profit or loss.

13. 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 NWM N.V. Group retains substantially all the risks and rewards of ownership. If substantially all the risks and rewards have been neither retained nor transferred, NWM N.V. Group does not derecognise an asset over which it has retained control but limits its recognition to the extent of its continuing involvement.

A financial liability is removed from the balance sheet when the obligation is discharged, or is cancelled, or expires.

14. Sale and repurchase transactions

Securities subject to a sale and repurchase agreement under which substantially all the risks and rewards of ownership are retained by NWM N.V. Group continue to be shown on the balance sheet and the sale proceeds recorded as a financial liability. Securities acquired in a reverse sale and repurchase transaction under which NWM N.V. Group is not exposed to substantially all the risks and rewards of ownership are not recognised on the balance sheet and the consideration paid is recorded as a financial asset.

Sale and repurchase transactions that are not accounted for at fair value through profit or loss are measured at amortised cost. The difference between the consideration paid or received and the repurchase or resale price is treated as interest and recognised in interest income or interest expense over the life of the transaction.

15. Netting

Financial assets and financial liabilities are offset and the net amount presented in the balance sheet when, and only when, NWM N.V. Group currently has a legally enforceable right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. NWM N.V. Group is party to a number of arrangements, including master netting agreements, that give it the right to offset financial assets and financial liabilities, but where it does not intend to settle the amounts net or simultaneously, the assets and liabilities concerned are presented gross.

Accounting policies

16. Derivatives and hedging

Derivative financial instruments are initially recognised, and subsequently measured, at fair value. NWM N.V. Group's approach to determining the fair value of financial instruments is set out in the Critical accounting policies section and key sources of estimation uncertainty entitled Fair value - financial instruments; further details are given in Note 9 on the accounts.

Gains and losses arising from changes in the fair value of derivatives that are not the hedging instrument in a qualifying hedge are recognised as they arise in profit or loss. 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. NWM N.V. Group enters into one type of hedge relationship: hedges of the net investment in a foreign operation (net investment hedges).

Hedge of net investment in a foreign operation - in the hedge of a net investment in a foreign operation, the portion of foreign exchange differences arising on the hedging instrument determined to be an effective hedge is recognised in other comprehensive income. Any ineffective portion is recognised in profit or loss. Non-derivative financial liabilities as well as derivatives may be the hedging instrument in a net investment hedge. On disposal or partial disposal of a foreign operation, the amount accumulated in equity is reclassified from equity to profit or loss.

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 and judgements

The reported results of NWM N.V. Group are sensitive to the accounting policies, assumptions, estimates and judgements that underlie the preparation of its financial statements. Dutch company law and IFRS require the directors, in preparing NWM N.V. Group'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 NWM N.V. Group's accounting policies that are considered by the Board to be the most important to the portrayal of its financial condition are discussed below. The use of estimates, assumptions or models that differ from those adopted by NWM N.V. Group would affect its reported results.

Critical accounting policy	Note
Tax	6
Fair value - financial instruments	10

Future accounting developments
International Financial Reporting Standards

A number of IFRSs and amendments to IFRS were in issue at 31 December 2019 that would affect RBS Group from 1 January 2020 or later:

- The amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policy, Changes in Accounting Estimates and Errors' on the definition of material were issued in October 2018 and are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The amendments are aimed at improving the understanding of the existing requirements rather than to significantly impact current materiality judgements. They provide a new definition of material which shall be used to assess whether information, either individually or in combination with other information, is material in the context of the financial statements.
- The amendments to IFRS 3 'Business Combinations' which clarify the definition of a Business were issued in October 2018, are effective for annual reporting periods beginning on or after 1 January 2020 and apply prospectively with earlier application permitted. They clarify the minimum requirements for a business; remove the assessment of whether market participants are capable of replacing any missing elements; add guidance to help entities assess whether an acquired process is substantive; narrow the definitions of a business and of outputs; and introduce an optional fair value concentration test.
- Effective in 2022 - IFRS 17 'Insurance contracts' was issued in May 2017 to replace IFRS 4 and to establish a comprehensive standard for inceptors of insurance policies. The effective date is 1 January 2021, subject to IASB's approval of a deferral until 1 January 2022.

NWM N.V. Group is assessing the effect of adopting these standards on its financial statements.

Notes on the consolidated accounts

1 Net interest income

	2019 €m	2018 €m
Loans to customers - amortised cost	17	8
Loans to banks - amortised cost	—	4
Amounts due from ultimate holding companies and fellow subsidiaries	24	10
Other financial assets	21	4
Interest receivable (1)	62	26
Balances with banks	12	—
Customer deposits	5	4
Amounts due to holding companies and fellow subsidiaries	6	10
Subordinated liabilities	43	19
Internal funding of trading businesses	14	2
Interest payable (1)	80	35
Net interest income	(18)	(9)

Note:
(1) Negative interest on Loans to banks – amortised cost is classed as interest payable and on Customer deposits is classed as interest receivable.

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

	2019 €m	2018 €m
Net fees and commissions (1)	103	(70)
Foreign exchange	(17)	(33)
Interest rate	24	153
Credit	—	4
Equities and other	1	14
Income from trading activities	8	138
Changes in the fair value of financial assets and liabilities designated at fair value through profit or loss	19	(2)
Foreign exchange losses related to recycling of foreign exchange reserve (2)	(29)	(19)
Profit/(loss) on sale of securities	3	(2)
Profit on sale of subsidiaries and associates (2)	532	2
Share of results of associated entities	(2)	78
Release of IBNER reserve (3)	112	54
Other income (4)	21	265
Other operating income	656	376
Non-interest income	767	444

Notes:
(1) Net fees and commissions in 2019 includes transfer pricing income from NWM Plc of €87 million, refer to Note 28 for further details. 2018 includes a €70 million termination fee related to termination costs on the closure of a deal.
(2) In 2019 a gain of €516 million is recognised on completion of the Alawwal bank merger. This includes recycling of foreign exchange reserve in relation to Alawwal bank.
(3) Review of insurance liabilities pertaining to claims resulted in a €112 million release in 2019 (2018 – €54 million).
(4) Other income relates to insurance recoveries of €21 million (2018 – €248 million). Refer to Note 24 for further details.

3 Operating expenses

	2019 €m	2018 €m
Staff costs	33	7
Temporary and contract costs	2	—
Premises and equipment	4	5
Other administrative expenses (1)	49	10
Operating expenses	88	22

Note:
(1) Other administrative expenses include €25 million of cost recharges from RBS Group companies (2018 – nil).

There were 190 people employed (rounded to the nearest ten) in continuing operations at 31 December 2019 (2018 - 30). The average number of persons employed in continuing operations during the year was 100 (2018 - 30).

There were 96 people employed in the Netherlands in continuing operations at 31 December 2019 (2018 – 30).

4 Segmental analysis

NWM N.V. Group is managed as a single reportable segment.

Geographical segments

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

	Netherlands	UK	RoW	Total
2019	€m	€m	€m	€m
Interest receivable	57	—	5	62
Interest payable	(80)	—	—	(80)
Net fees and commissions	72	—	31	103
Income from trading activities	(12)	23	(3)	8
Other operating income (1)	518	12	126	656
Total income	555	35	159	749
Operating profit before tax	499	36	127	662
Total assets	13,520	314	660	14,494
Total liabilities	12,038	178	70	12,286
Net assets attributable to equity owners	1,482	136	590	2,208
Contingent liabilities and commitments	8,387	1	—	8,388
2018				
Interest receivable	19	—	7	26
Interest payable	(35)	—	—	(35)
Net fees and commissions	(1)	(69)	—	(70)
Income from trading activities	(33)	171	—	138
Other operating income (1)	1	240	135	376
Total income	(49)	342	142	435
Operating (loss)/profit before tax	(75)	341	143	409
Total assets	2,340	668	2,283	5,291
Total liabilities	1,128	440	490	2,058
Net assets/(liabilities) attributable to equity owners	1,212	228	1,793	3,233
Contingent liabilities and commitments	1,931	14	—	1,945

Note:
(1) Includes a gain of €516 million on completion of the Alawwal bank merger.

	2019 €m	2018 €m
Fees and commissions receivable		
- Lending (credit facilities)	9	—
- Brokerage	6	3
- Underwriting fees	11	—
- Other	103	—
Total (1)	129	3
Fees and commissions payable (2)	(26)	(73)
Net fees and commissions	103	(70)

Notes:
(1) 2019 Fees and commissions receivable – other includes transfer pricing income from NWM Plc of €87 million. Refer to Note 28 for further details.
(2) 2018 Fees and commissions payable includes a €70 million charge relating to termination costs on the closure of a deal.

5 Auditor's remuneration

Amounts paid to NWM N.V. Group's auditors for statutory audit and audit related services are set out below.

	2019 €m	2018 €m
Fees for the audit of NWM N.V. Group's annual accounts	0.9	0.8
Audit related services (1)	0.7	0.7
Total audit and audit related services	1.6	1.5

Note:
(1) Fees incurred in relation to regulatory audits

Fees payable to the auditor for non-audit services are disclosed in the consolidated financial statements of The Royal Bank of Scotland Group plc.

Notes on the consolidated accounts

6 Tax

	2019	2018
	€m	€m
Current tax		
Charge for the year	(68)	(90)
Over/(under) provision in respect of prior periods	11	(27)
	(57)	(117)
Deferred tax		
Credit/(charge) for the year	29	(48)
Over provision in respect of prior periods	—	27
Tax charge for the year	(28)	(138)

Future tax rates are expected to be low due to the losses carried forward, the actual tax charge differs from the expected tax charge computed by applying the statutory tax rate of the Netherlands of 25% as follows:

	2019	2018
	€m	€m
Expected tax charge	(165)	(102)
Non-taxable items (including recycling of foreign exchange reserve) (1)	126	19
Foreign profits taxed at other rates	15	8
Losses in year not recognised	—	(45)
Losses brought forward and utilised	7	1
Increase in carrying value of tax liability in respect of associates	(22)	(19)
Adjustments in respect of prior years (2)	11	—
Actual tax charge	(28)	(138)

Notes:
(1) Of the €126 million non-taxable items total in 2019, €129 million relates to Alawwal bank.
(2) Prior period tax adjustments include tax provision movements, adjustments to reflect submitted tax computations in the Netherlands and overseas, recovery of previously written-off current tax assets and changes in the valuation of deferred tax assets previously recognised.

	2019	2018
	€m	€m
Deferred tax liability	15	44
Net deferred tax liability	15	44

	Revaluations/ deferred gains	Other	Total
	€m	€m	€m
At 1 January 2018	9	13	22
Charge to income statement	1	—	1
Transfers to and from disposal groups	19	2	21
At 1 January 2019	29	15	44
Charge to income statement	(29)	—	(29)
At 31 December 2019	—	15	15

Judgment and estimate - The existence of unused tax losses is strong evidence that future taxable profit may not be available. NWM N.V. Group management has considered that there are significant changes to NWM N.V. Group's activities compared to prior years as NWM N.V. has re-purposed its banking licence and new business was transferred to NWM N.V. during 2019. Pursuant to the new business model, from March 2019 onwards, NWM N.V. is subject to interim transfer pricing arrangements with its parent entity, NWM Plc. However, there could be implications from the wider strategic review of the NWM Group. Furthermore, uncertainty in respect of Brexit and the related transition period may affect the volume and pace of transfers of business from NWM Plc and NWB Plc to NWM N.V., which may in turn have a material and adverse effect on NWM N.V.'s business operations and profitability. In consideration of these uncertainties, NWM N.V. Group management did not recognise deferred tax assets as at 31 December 2019.

Unrecognised deferred tax - Deferred tax assets of €845 million (2018 - €864 million) have not been recognised in respect of tax losses and tax credits of €3,380 million (2018 - €3,456 million). Of the losses €97 million will expire in one year, €892 million within five years and €554 million thereafter. The tax credits have no expiry date.

Notes on the consolidated accounts

7 Trading assets and liabilities

Trading assets and liabilities comprise assets and liabilities held at fair value in trading portfolios. The movement in the year relates to the business transfers completed. Refer to Note 13 for further details.

	2019	2018
Assets	€m	€m
Loans		
- Reverse repos	1,176	—
- Collateral given	1,637	3
- Other loans	11	6
Total loans	2,824	9
Securities		
- Netherlands	33	—
- UK	3	3
- RoW	295	1
Total securities	331	4
Total	3,155	13
Liabilities		
Deposits		
- Repos	330	—
- Collateral received	660	3
- Other deposits	5	3
Total deposits	995	6
Short positions	837	—
Total	1,832	6

8 Derivatives

Companies within the NWM N.V. Group transact derivatives as principal either as a trading activity or to manage balance sheet foreign exchange, interest rate and credit risk. The increase in the year relates to the business transfers completed. Refer to Note 13 for further details.

The following table shows the notional amounts and fair values of the NWM N.V. Group's derivatives.

	2019			2018		
	Notional amounts	Assets	Liabilities	Notional amounts	Assets	Liabilities
	€bn	€m	€m	€bn	€m	€m
Exchange rate contracts (1)	199	2,141	2,121	2	60	78
Interest rate contracts	1,888	1,757	2,457	5	596	282
Credit derivatives	2	—	10	—	—	—
Equity and commodity contracts	—	—	—	—	—	4
		3,898	4,588		656	364

Note:
(1) Included in exchange rate contracts is net investment hedging of nil (2018 - €3 million assets; €22 million liabilities). Notional values are €0.1 billion (2018 - €1.4 billion).

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

NWM N.V. hedges the exchange rate risk of its net investment in foreign currency denominated operations with currency borrowings and forward foreign exchange contracts. NWM N.V reviews the value of the investments net assets, executing hedges where appropriate to reduce the sensitivity of capital ratios to foreign exchange rate movement. Hedge accounting relationships will be designated where required.

9 Financial instruments - classification

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

	MFVTPL (1) €m	FVOCI (2) €m	Amortised cost €m	Other assets €m	Total €m
Assets					
Cash and balances at central banks			3,191		3,191
Trading assets	3,155		—		3,155
Derivatives (3)	3,898		—		3,898
Settlement balances			141		141
Loans to banks - amortised cost			738		738
Loans to customers - amortised cost			1,374		1,374
Amounts due from holding companies and fellow subsidiaries	896	—	465	7	1,368
Other financial assets	7	521	34		562
Other assets				67	67
31 December 2019	7,956	521	5,943	74	14,494
Cash and balances at central banks			336		336
Trading assets	13		—		13
Derivatives (3)	656		—		656
Loans to banks - amortised cost			392		392
Loans to customers - amortised cost			67		67
Amounts due from holding companies and fellow subsidiaries	—	—	1,960	1	1,961
Other financial assets	7	382	—		389
Assets of disposal groups				1,317	1,317
Other assets				160	160
31 December 2018	676	382	2,755	1,478	5,291

	Held-for-trading €m	DFV (4) €m	Amortised cost €m	Other liabilities €m	Total €m
Liabilities					
Bank deposits			59		59
Customer deposits			1,447		1,447
Amounts due to holding companies and fellow subsidiaries	1,530	—	1,485	6	3,021
Settlement balances			209		209
Trading liabilities	1,832				1,832
Derivatives (3)	4,588				4,588
Other financial liabilities			240		240
Subordinated liabilities (5)		382	260		642
Other liabilities				248	248
31 December 2019	7,950	382	3,700	254	12,286
Bank deposits			44		44
Customer deposits			61		61
Amounts due to holding companies and fellow subsidiaries	3	—	414	—	417
Trading liabilities	6				6
Derivatives (3)	364				364
Subordinated liabilities (5)		493	253		746
Other liabilities				420	420
31 December 2018	373	493	772	420	2,058

Notes:
(1) Mandatory fair value through profit or loss.
(2) Fair value through other comprehensive income.
(3) Includes net hedging derivative assets of €2 million (2018 - €3 million) and net hedging derivative liabilities of nil (2018 - €22 million).
(4) Designated as at fair value through profit or loss.
(5) The cumulative own credit adjustment, representing a reduction of the subordinated liability value, was €78 million (2018 - €196 million) as subordinated bond spreads widened during the year.

	2019 €m	2018 €m
Reverse repos		
Trading assets	1,176	—
Repos		
Trading liabilites	330	—

Notes on the consolidated accounts

9 Financial instruments – classification continued

Amounts due from/to holding companies and fellow subsidiaries are as below:

	2019			2018		
	Holding companies €m	Fellow subsidiaries €m	Total €m	Holding companies €m	Fellow subsidiaries €m	Total €m
Assets						
Loans to banks and customers	1,065	296	1,361	133	1,827	1,960
Other assets	7	—	7	—	1	1
Total inter-group assets	1,072	296	1,368	133	1,828	1,961
Not included above:						
Derivatives	1,412	—	1,412	436	—	436
Liabilities						
Bank and customer deposits	2,472	393	2,865	—	417	417
Other financial liabilities - subordinated liabilities	150	—	150	—	—	—
Other liabilities	2	4	6	—	—	—
Total inter-group liabilities	2,624	397	3,021	—	417	417
Not included above:						
Derivatives	990	—	990	281	—	281

The tables below present information on financial assets and liabilities that are offset in the balance sheet under IFRS or subject to enforceable master netting agreements together with financial collateral received or given.

	Offsetable instruments			Offsetable potential not recognised by IFRS					
2019	Gross €m	IFRS offset €m	Balance sheet €m	Effect of master netting and similar arrangements €m	Cash collateral €m	Other financial collateral €m	Net amount after the effect netting arrangements and related collateral €m	Amounts not subject to offset €m	Balance sheet total €m
Derivative assets	3,837	(5)	3,832	(2,369)	(587)	(105)	771	66	3,898
Derivative liabilities	3,673	(5)	3,668	(2,369)	(1,280)	—	19	920	4,588
Net position	164	—	164	—	693	(105)	752	(854)	(690)
Trading reverse repos (1)	925	(54)	871	(5)	—	(866)	—	305	1,176
Trading repos (1)	384	(54)	330	(5)	—	(276)	49	—	330
Net position	541	—	541	—	—	(590)	(49)	305	846
2018									
Derivative assets	254	—	254	—	(3)	—	251	402	656
Derivative liabilities	277	—	277	—	(3)	—	274	87	364
Net position	(23)	—	(23)	—	—	—	(23)	315	292

Note:
(1) Comparative balances are nil.

10 Financial instruments – valuation

Critical accounting policy: Fair value - financial instruments

In accordance with Accounting policies 9 and 16, financial instruments classified as mandatory fair value through profit or loss, held-for-trading or designated as at fair value through profit or loss and financial assets classified as fair value through other comprehensive income are recognised in the financial statements at fair value. All derivatives are measured at fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. It also uses the assumptions that market participants would use when pricing the asset or liability. In determining fair value NWM N.V. Group maximises the use of relevant observable inputs and minimises the use of unobservable inputs.

Modelled approaches may be used to measure instruments classed as level 2 or 3. Estimation expertise is required in the selection, implementation and calibration of appropriate models. The resulting modelled valuations are considered for accuracy and reliability. Portfolio level adjustments consistent with IFRS 13 are raised to incorporate counterparty credit risk, funding and margining risks. Expert judgement is used in the initial measurement of modelled products by control teams.

Where NWM N.V. Group manages a group of financial assets and financial liabilities on the basis of its net exposure to either market risks or credit risk, it measures the fair value of a group of financial assets and financial liabilities on the basis of the price that it would receive to sell a net long position (i.e. an asset) for a particular risk exposure or to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction at the measurement date under current market conditions.

Credit valuation adjustments are made when valuing derivative financial assets to incorporate counterparty credit risk. Adjustments are also made when valuing financial liabilities measured at fair value to reflect NWM N.V. Group's own credit standing.

Where the market for a financial instrument is not active, fair value is established using a valuation technique. These valuation techniques involve a degree of estimation, the extent of which depends on the instrument's complexity and the availability of market-based data.

Further details about the valuation methodologies and the sensitivity to reasonably possible alternative assumptions of the fair value of financial instruments valued using techniques where at least one significant input is unobservable are given below.

	2019			2018		
	Level 1 €m	Level 2 €m	Level 3 €m	Level 1 €m	Level 2 €m	Level 3 €m
Assets						
Trading assets						
Loans	—	2,824	—	—	9	—
Securities	181	147	3	—	—	4
Derivatives	—	3,682	216	—	514	142
Amounts due from holding companies and fellow subsidiaries	—	896	—	—	—	—
Other financial assets - securities	285	243	—	155	234	—
Total financial assets held at fair value	466	7,792	219	155	757	146
Liabilities						
Amounts due to holding companies and fellow subsidiaries	—	1,530	—	—	3	—
Trading liabilities						
Deposits	—	995	—	—	6	—
Short Positions	736	101	—	—	—	—
Derivatives	—	4,524	64	—	212	152
Subordinated liabilities	—	382	—	—	493	—
Total financial liabilities held at fair value	736	7,532	64	—	714	152

Notes:
(1) Transfers between levels are deemed to have occurred at the beginning of the quarter in which the instruments were transferred. There were no significant transfers between level 1 and level 2.
(2) The determination of an instrument's level cannot be made at a global product level as a single product type can be in more than one level. For example, a single name corporate credit default swap could be in level 2 or level 3 depending on whether the reference counterparty's obligations are liquid or illiquid.

10 Financial instruments – valuation: Level 3 ranges of unobservable inputs

				2019		2018	
Financial instruments	Valuation techniques	Unobservable inputs	Units	Low	High	Low	High
Trading assets and other financial assets							
Equity shares	Price-based	Price	EUR	1	1,020	1	1,020
Derivative assets and liabilities							
Credit derivatives	Option pricing	Constant prepayment rate	bps	5	5	—	—
		Recovery rate	%	40	40	—	—
Interest rate & FX derivatives	Option pricing	Correlation	%	(27)	75	(31)	75
		Volatility	%	40	50	(4)	46
		Constant prepayment rate	bps	5	15	—	—
		Mean reversion	%	—	10	—	—

Notes:
(1) The table above presents the range of values for significant inputs used in the valuation of level 3 assets and liabilities. The range represents the highest and lowest values of the input parameters and therefore is not a measure of parameter uncertainty. Movements in the underlying input may have a favourable or unfavourable impact on the valuation depending on the particular terms of the contract and the exposure.
(2) Price and yield: There may be a range of prices used to value an instrument that may be a direct comparison of one instrument or portfolio with another or, movements in a more liquid instrument may be used to indicate the movement in the value of a less liquid instrument. The comparison may also be indirect in that adjustments are made to the price to reflect differences between the pricing source and the instrument being valued.
(3) Recovery rate: reflects market expectations about the return of principal for a debt instrument or other obligations after a credit event or on liquidation.
(4) Correlation: measures the degree by which two prices or other variables are observed to move together. If they move in the same direction there is positive correlation; if they move in opposite directions there is negative correlation. Correlations typically include relationships between: default probabilities of assets in a basket (a group of separate assets), exchange rates, interest rates and other financial variables.
(5) Volatility: a measure of the tendency of a price to change with time.
(6) Mean reversion: a measure of how much a rate reverts to its mean level.
(7) Constant prepayment rate: the rate is used to reflect how fast a pool of assets pay down.
(8) NWM N.V. Group does not have any material liabilities measured at fair value that are issued with an inseparable third party credit enhancement.

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

Active and inactive markets
A key input in the decision making process for the allocation of assets to a particular level is market activity. In general, the degree of valuation uncertainty depends on the degree of liquidity of an input. Where markets are liquid, little judgment is required. However, when the information regarding the liquidity in a particular market is not clear, a judgment may need to be made. This can be more difficult as assessing the liquidity of a market is not always straightforward. For an equity traded on an exchange, daily volumes of trading can be seen, but for an over-the-counter (OTC) derivative assessing the liquidity of the market with no central exchange is more difficult.

A key related matter is where a market moves from liquid to illiquid or vice versa. Where this change is considered to be temporary, the classification is not changed. For example, if there is little market trading in a product on a reporting date but at the previous reporting date and during the intervening period the market has been considered to be liquid, the instrument will continue to be classified in the same level in the hierarchy. This is to provide consistency so that transfers between levels are driven by genuine changes in market liquidity and do not reflect short term or seasonal effects. Material movements between levels are reviewed quarterly.

The breadth and depth of the IPV data allows for a rules based quality assessment to be made of market activity, liquidity and pricing uncertainty, which assists with the process of allocation to an appropriate level. Where suitable independent pricing information is not readily available, the quality assessment will result in the instrument being assessed as level 3.

Modelled products
For modelled products the market convention is to quote these trades through the model inputs or parameters as opposed to a cash price equivalent. A mark-to-market is derived from the use of the independent market inputs calculated using NWM N.V. Group's model.

The decision to classify a modelled instrument as level 2 or 3 will be dependent upon the product/model combination, the observability and quality of input parameters and other factors. All these must be assessed to classify the asset. If an input fails the observability or quality tests then the instrument is considered to be in level 3 unless the input can be shown to have an insignificant effect on the overall valuation of the product.

The majority of derivative instruments for example vanilla interest rate swaps, foreign exchange swaps and liquid single name credit derivatives are classified as level 2 as they are vanilla products valued using observable inputs. The valuation uncertainty on these is considered to be low and both input and output testing may be available.

10 Financial instruments – valuation: areas of judgement continued

Non-modelled products

Non-modelled products are generally quoted on a price basis and can therefore be considered for each of the three levels. This is determined by the market activity, liquidity and valuation uncertainty of the instruments which is in turn measured from the availability of independent data used by the IPV process to allocate positions to IPV quality levels.

The availability and quality of independent pricing information are considered during the classification process. An assessment is made regarding the quality of the independent information.

For some instruments with a wide number of available price sources, there may be differing quality of available information and there may be a wide range of prices from different sources. In these situations the highest quality source is used to determine the classification of the asset. For example, a tradable quote would be considered a better source than a consensus price.

	2019			2018		
Assets	Level 3 €m	Favourable €m	Unfavourable €m	Level 3 €m	Favourable €m	Unfavourable €m
Trading assets - securities	3	—	—	4	—	—
Derivatives						
Interest rate	194	20	(20)	139	10	(10)
Foreign exchange	12	—	—	—	—	—
Other	10	—	—	3	—	—
Total financial assets held at fair value	219	20	(20)	146	10	(10)
Liabilities						
Derivatives						
Interest rate	36	—	—	3	—	—
Foreign exchange	2	—	—	—	—	—
Other	26	10	(10)	149	20	(10)
Total financial liabilities held at fair value	64	10	(10)	152	20	(10)

Reasonably plausible alternative assumptions of unobservable inputs are determined based on specified target level of certainty of 90%. The assessments recognise different favourable and unfavourable valuation movements where appropriate. Each unobservable input within a product is considered separately and sensitivity is reported on an additive basis.

Other considerations

Whilst certain inputs used to calculate CVA, FVA and own credit adjustments are not based on observable market data, in general the uncertainty of the inputs is not assessed to have a significant effect on the net valuation of the related derivative portfolios and issued debt. Therefore, in general, the classification of the derivative portfolios and issued debt is not determined by the observability of these inputs, and any related sensitivity does not form part of the level 3 sensitivities presented.

Valuation of financial instruments carried at fair value

Fair Value Hierarchy

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

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

Level 2 - instruments valued using valuation techniques that have observable inputs., Examples include most government agency securities, investment-grade corporate bonds, certain mortgage products, including CLOs, most bank loans, repos and reverse repos, less liquid listed equities, state and municipal obligations, most notes issued, certain money market securities, loan commitments and most OTC derivatives.

Level 3 - instruments valued using a valuation technique where at least one input which could have a significant effect on the instrument's valuation, is not based on observable market data. Examples include cash instruments which trade infrequently, certain syndicated and commercial mortgage loans, certain emerging markets and derivatives with unobservable model inputs.

Valuation Techniques

NWM N.V. Group derives fair value of its instruments differently depending on whether the instrument is a non-modelled or a modelled product.

Non-modelled products are valued directly from a price input typically on a position by position basis. Examples include equities and most debt securities.

Products that are priced using models range in complexity from comparatively vanilla such as interest rate swaps and loans through to more complex derivatives. The valuation of modelled products requires an appropriate model and inputs into this model.

Inputs to valuation models

Values between and beyond available data points are obtained by interpolation and extrapolation. When utilising valuation techniques, the fair value can be significantly affected by the choice of valuation model and by underlying assumptions concerning factors such as the amounts and timing of cash flows, discount rates and credit risk. The principal inputs to these valuation techniques are as follows:

Bond prices - quoted prices are generally available for government bonds, certain corporate securities and some mortgage-related products.

Credit spreads - where available, these are derived from prices of credit default swaps or other credit based instruments, such as debt securities. For others, credit spreads are obtained from 3rd party benchmarking services. For counterparty credit spreads, adjustments are made to market prices (or parameters) when the creditworthiness of the counterparty differs from that of the assumed counterparty in the market price (or parameters).

Interest rates - these are principally benchmark interest rates such as the London Interbank Offered Rate (LIBOR), Overnight Index Swaps (OIS) rate and other quoted interest rates in the swap, bond and futures markets.

10 Financial instruments – valuation continued

Foreign currency exchange rates - there are observable prices both for spot and forward contracts and futures in the world's major currencies.

Equity and equity index prices - quoted prices are generally readily available for equity shares listed on the world's major stock exchanges and for major indices on such shares.

Commodity prices - many commodities are actively traded in spot and forward contracts and futures on exchanges in London, New York and other commercial centres.

Price volatilities and correlations - volatility is a measure of the tendency of a price to change with time. Correlation measures the degree which two or more prices or other variables are observed to move together.

Prepayment rates - the fair value of a financial instrument that can be prepaid by the issuer or borrower differs from that of an instrument that cannot be prepaid. In valuing pre-payable instruments that are not quoted in active markets, NWM N.V. Group considers the value of the prepayment option.

Recovery rates/loss given default - these are used as an input to valuation models and reserves for asset-backed securities and other credit products as an indicator of severity of losses on default. Recovery rates are primarily sourced from market data providers or inferred from observable credit spreads.

Valuation Control

NWM N.V. Group's control environment for the determination of the fair value of financial instruments includes formalised protocols for the review and validation of fair values independent of the businesses entering into the transactions.

Independent Price Verification (IPV) is a key element of the control environment. Valuations are first performed by the business which owns the transaction. Such valuations may be directly from available prices, or may be derived using a model and variable model inputs. These valuations are reviewed, and if necessary amended, by a team independent of those trading the financial instruments, in the light of available pricing evidence.

Where measurement differences are identified through the IPV process these are grouped by fair value level and quality of data. If the size of the difference exceeds defined thresholds adjustment to independent levels are made.

IPV takes place at least each month, for all fair value positions. The IPV control includes formalised reporting and escalation of any valuation differences in breach of established thresholds.

The Modelled Product Review Committee sets the policy for model documentation, testing and review, and prioritises models with significant exposure being reviewed by the Model Risk team. NWM N.V. Group's Valuation Committee is made up of valuation specialists and senior business representatives from various functions and oversees pricing, reserving and valuations issues. The committee meets monthly to review and ratify any methodology changes. The Executive Valuation Committee meets quarterly to address key material and subjective valuation issues, to review items escalated by Valuation Committees and to discuss other relevant matters including prudential valuation.

Initial classification of a financial instrument is carried out by the Product Control team following the principles in IFRS 13. They base their judgment on information gathered during the IPV process for instruments which include the sourcing of independent prices and model inputs. The quality and completeness of the information gathered in the IPV process gives an indication as to the liquidity and valuation uncertainty of an instrument.

These initial classifications are subject to senior management review. Particular attention is paid to instruments crossing from one level to another, new instrument classes or products, instruments that are generating significant profit and loss and instruments where valuation uncertainty is high.

NWM N.V. Group uses consensus prices for the IPV of some instruments. The consensus service encompasses the equity, interest rate, currency, commodity, credit, property, fund and bond markets, providing comprehensive matrices of vanilla prices and a wide selection of exotic products. NWM N.V. Group contributes to consensus pricing services where there is a significant interest either from a positional point of view or to test models for future business use. Data sourced from consensus pricing services are used for a combination of control processes including direct price testing, evidence of observability and model testing. In practice this means that NWM N.V. Group submits prices for all material positions for which a service is available. Data from consensus services are subject to the same level of quality review as other inputs used for IPV process.

In order to determine a reliable fair value, where appropriate, management applies valuation adjustments to the pricing information gathered from the above sources. The sources of independent data are reviewed for quality and are applied in the IPV processes using a formalised input quality hierarchy. These adjustments reflect NWM N.V. Group's assessment of factors that market participants would consider in setting a price.

Where unobservable inputs are used, NWM N.V. Group may determine a range of possible valuations derived from differing stress scenarios to determine the sensitivity associated with the valuation. When establishing the fair value of a financial instrument using a valuation technique, NWM N.V. Group considers adjustments to the modelled price which market participants would make when pricing that instrument. Such adjustments include the credit quality of the counterparty and adjustments to compensate for model limitations.

When valuing financial instruments in the trading book, adjustments are made to mid-market valuations to cover bid-offer spread, liquidity and credit risk. These adjustments are presented in the table below:

	2019 €m	2018 €m
Funding – FVA	(18)	—
Credit – CVA	111	103
Bid offer	2	—
Product and deal specific	1	3
	96	106

The reduction in net valuation reserves was driven by negative FVA reserves being recognised in the period following the novation of uncollateralised derivatives with funding benefits from NWM Plc to NWM N.V. Group.

Funding valuation adjustment (FVA)

FVA represents an estimate of the adjustment that a market participant would make to incorporate funding costs and benefits that arise in relation to derivative exposures. FVA is calculated as a portfolio level adjustment and can result in either a funding charge or funding benefit.

Funding levels are applied to estimated potential future exposures. For uncollateralised derivatives, the modelling of the exposure is consistent with the approach used in the calculation of CVA, and the counterparty contingent nature of the exposure is reflected in the calculation. For collateralised derivatives, the exposure reflects initial margin posting requirements.

Credit valuation adjustments (CVA)

CVA represents an estimate of the adjustment to fair value that a market participant would make to incorporate the counterparty credit risk inherent in derivative exposures. CVA is actively managed by a credit and market risk hedging process, and therefore movements in CVA are partially offset by trading revenue on the hedges.

Notes on the consolidated accounts

10 Financial instruments – valuation continued

The CVA is calculated on a portfolio basis reflecting an estimate of the amount a third party would charge to assume the credit risk.

Collateral held under a credit support agreement is factored into the CVA calculation. In such cases where NWM N.V. Group holds collateral against counterparty exposures, CVA is held to the extent that residual risk remains.

Bid-offer

Fair value positions are adjusted to bid (long positions) or offer (short positions) levels, by marking individual cash positions directly to bid or offer or by taking bid-offer reserves calculated on a portfolio basis for derivatives exposures. The bid-offer approach is based on current market spreads and standard market bucketing of risk.

Bid-offer spreads vary by maturity and risk type to reflect different spreads in the market. For positions where there is no observable quote, the bid-offer spreads are widened in comparison to proxies to reflect reduced liquidity or observability. Bid-offer methodologies may also incorporate liquidity triggers whereby wider spreads are applied to risks above pre-defined thresholds.

As permitted by IFRS 13, netting is applied on a portfolio basis to reflect the value at which NWM N.V. Group believes it could exit the portfolio, rather than the sum of exit costs for each of the portfolio's individual trades. This is applied where the asset and liability positions are managed as a portfolio for risk and reporting purposes.

The discount rates applied to derivative cash flows in determining fair value reflect any underlying collateral agreements. Collateralised derivatives are generally discounted at the relevant OIS-related rates at an individual trade level. Reserves are held to the extent that the discount rates applied do not reflect all of the terms of the collateral agreements.

Product and deal specific

On initial recognition of financial assets and liabilities valued using valuation techniques incorporating information other than observable market data, any difference between the transaction price and that derived from the valuation technique is deferred. Such amounts are recognised in profit or loss over the life of the transaction; when market data becomes observable; or when the transaction matures or is closed out as appropriate.

Where system generated valuations do not accurately recover market prices, manuals valuation adjustments are applied either at a position or portfolio level. Manual adjustments are subject to the scrutiny of independent control teams and are subject to monthly review by senior management.

Own Credit

NWM N.V. Group takes into account the effect of its own credit standing when valuing financial liabilities recorded at fair value in accordance with IFRS. Own credit spread adjustments are made when valuing issued debt held at fair value, including issued structured notes, and derivatives. An own credit adjustment is applied to positions where it is believed that counterparties would consider NWM N.V. Group's creditworthiness when pricing trades.

Level 3

The following table shows the movement in level 3 assets and liabilities in the year.

	2019				2018			
	Trading assets (2) €m	Other financial assets (3) €m	Total assets €m	Total liabilities €m	Trading assets (2) €m	Other financial assets (3) €m	Total assets €m	Total liabilities €m
At 1 January	146	—	146	152	30	—	30	140
Amount recorded in the income statement (1)	(15)	—	(15)	70	(59)	—	(59)	(121)
Level 3 transfers in	7	37	44	120	250	—	250	151
Level 3 transfers out	(5)	—	(5)	(107)	—	—	—	—
Purchases	191	—	191	188	1	—	1	—
Settlements	(70)	(37)	(107)	(269)	(75)	—	(75)	(16)
Sales	(42)	—	(42)	(93)	—	—	—	—
Foreign exchange and other	7	—	7	3	(1)	—	(1)	(2)
At 31 December	219	—	219	64	146	—	146	152
Amounts recorded in the income statement in respect of balances held at year end - unrealised	(19)	—	(19)	11	(54)	—	(54)	(116)

Notes:
(1) There were €85 million net losses on trading assets and liabilities (2018 - €62 million gains) recorded in income from trading activities.
(2) Trading assets comprise assets held at fair value in trading portfolios.
(3) Other financial assets comprise fair value through other comprehensive income, designated as at fair value through profit or loss and other fair value through profit or loss.

Notes on the consolidated accounts

10 Fair value of financial instruments not carried at fair value

The following table shows the carrying value and fair value of financial instruments carried at amortised cost on the balance sheet.

2019	Items where fair value approximates carrying value €m	Carrying value €m	Fair value €m	Fair value hierarchy level Level 2 €m	Fair value hierarchy level Level 3 €m
Financial assets					
Cash and balances at central banks	3,191				
Settlement balances	141				
Loans to banks		738	738	—	738
Loans to customers		1,374	1,360	—	1,360
Amounts due from holding companies and fellow subsidiaries		465	465	—	465
Other financial assets		34	34	—	34
Financial liabilities					
Bank deposits	9	50	50	—	50
Customer deposits	172	1,275	1,275	—	1,275
Amounts due to holding companies and fellow subsidiaries	93	1,392	1,392	151	1,241
Settlement balances	209				
Other financial liabilities		240	240	240	—
Subordinated liabilities		260	260	258	2
2018					
Financial assets					
Cash and balances at central banks	336				
Loans to banks		392	392	45	347
Loans to customers		67	64	1	63
Amounts due from holding companies and fellow subsidiaries		1,960	2,011	1,333	678
Financial liabilities					
Bank deposits	44				
Customer deposits		61	70	17	53
Amounts due to holding companies and fellow subsidiaries	382	32	32	—	32
Subordinated liabilities		253	314	314	—

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Quoted market values are used where available; otherwise, fair values have been estimated based on discounted expected future cash flows and other valuation techniques. These techniques involve uncertainties and require assumptions and judgments covering prepayments, credit risk and discount rates. Furthermore there is a wide range of potential valuation techniques. Changes in these assumptions would significantly affect estimated fair values. The fair values reported would not necessarily be realised in an immediate sale or settlement.

The assumptions and methodologies underlying the calculation of fair values of financial instruments at the balance sheet date are as follows:

Short-term financial instruments

For certain short-term financial instruments: cash and balances at central banks, items in the course of collection from other banks, settlement balances, items in the course of transmission to other banks, demand deposits and notes in circulation, fair value approximates to carrying value.

Loans to banks and customers – amortised cost

In estimating the fair value of loans and advances to banks and customers measured at amortised cost, NWM N.V. Group's loans are segregated into appropriate portfolios reflecting the characteristics of the constituent loans.

Two principal methods are used to estimate fair value:

(a) Contractual cash flows are discounted using a market discount rate that incorporates the current spread for the borrower or where this is not observable, the spread for borrowers of a similar credit standing. This method is used for the majority of portfolios where most counterparties have external ratings.

(b) Expected cash flows (unadjusted for credit losses) are discounted at the current offer rate for the same or similar products. This approach is adopted for lending portfolios in order to reflect the homogeneous nature of these portfolios.

Debt securities

The majority of debt securities are valued using quoted prices in active markets or using quoted prices for similar assets in active markets.

Fair values are determined using discounted cash flow valuation techniques.

Deposits by banks and customer accounts

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

Debt securities in issue and subordinated liabilities

Fair values are determined using quoted prices for similar liabilities where available or by reference to valuation techniques and adjusting for own credit spreads where appropriate.

11 Financial instruments - maturity analysis

Remaining maturity

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

	2019			2018		
	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	3,191	—	3,191	336	—	336
Trading assets	2,816	339	3,155	13	—	13
Derivatives	1,507	2,391	3,898	81	575	656
Settlement balances	141	—	141	—	—	—
Loans to banks - amortised cost	738	—	738	392	—	392
Loans to customers - amortised cost	144	1,230	1,374	—	67	67
Amounts due from holding company and fellow subsidiaries (1)	1,085	276	1,361	1,827	133	1,960
Other financial assets	231	331	562	42	347	389
Liabilities						
Bank deposits	9	50	59	44	—	44
Customer deposits	863	584	1,447	—	61	61
Amounts due to holding company and fellow subsidiaries (2)	1,822	1,195	3,017	417	—	417
Settlement balances	209	—	209	—	—	—
Derivatives	1,412	3,176	4,588	39	325	364
Trading liabilities	994	838	1,832	6	—	6
Other financial liabilities	240	—	240	—	—	—
Subordinated liabilities	13	629	642	240	506	746
Lease liabilities	1	8	9	—	—	—

Notes:
(1) Amounts due from holding companies and fellow subsidiaries relating to non-financial instruments of €7 million (2018 - €1 million) have been excluded from the table.
(2) Amounts due to holding companies and fellow subsidiaries relating to non financial instruments of €4 million (2018 – nil) have been excluded from the table.

Assets and on balance sheet liabilities by contractual cash flow maturity

The tables below show the contractual undiscounted cash flows receivable and payable, up to a period of 20 years, including future receipts and payments of interest of financial assets and liabilities by contractual maturity. The balances in the following tables do not agree directly with the consolidated balance sheet, as the tables include all cash flows relating to principal and future coupon payments, presented on an undiscounted basis. The tables have been prepared on the following basis:

Financial assets have been reflected in the time band of the latest date on which they could be repaid, unless earlier repayment can be demanded by NWM N.V.. Financial liabilities are included at the earliest date on which the counterparty can require repayment, regardless of whether or not such early repayment results in a penalty. If repayment is triggered by, or is subject to, specific criteria such as market price hurdles being reached, the asset is included in the time band that contains the latest date on which it can be repaid, regardless of early repayment. The liability is included in the time band that contains the earliest possible date on which the conditions could be fulfilled, without considering the probability of the conditions being met. For example, if a structured note is automatically prepaid when an equity index exceeds a certain level, the cash outflow will be included in the less than three months' period whatever the level of the index at the year end.

The settlement date of debt securities in issue, issued by certain securitisation vehicles consolidated by NWM N.V. depends on when cash flows are received from the securitised assets. Where these assets are prepayable, the timing of the cash outflow relating to securities assumes that each asset will be prepaid at the earliest possible date. As the repayments of assets and liabilities are linked, the repayment of assets in securitisations is shown on the earliest date that the asset can be prepaid, as this is the basis used for liabilities.

The principal amounts of financial liabilities that are repayable after 20 years or where the counterparty has no right to repayment of the principal, are excluded from the table along with interest payments after 20 years.

MFVTPL assets of €8 billion (2018 - €0.7 billion) and HFT liabilities of €8 billion (2018- €0.4 billion) have been excluded from the following tables.

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
Assets by contractual maturity						
Cash and balances at central banks	3,191	—	—	—	—	—
Settlement balances	141	—	—	—	—	—
Loans to banks - amortised cost	738	—	—	—	—	—
Amounts due to holding companies and fellow subsidiaries	334	—	—	—	—	136
Other financial assets	19	212	150	122	9	—
Total maturing assets	4,423	212	150	122	9	136
Loans to customers - amortised cost	119	61	461	797	42	—
	4,542	273	611	919	51	136

Notes on the consolidated accounts

11 Financial instruments - maturity analysis 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
Liabilities by contractual maturity						
Bank deposits	9	—	50	—	—	—
Amounts due to holding company and fellow subsidiaries	208	356	254	665	2	—
Settlement balances	209	—	—	—	—	—
Subordinated liabilities	—	13	—	157	—	—
Other financial liabilities	—	240	—	—	—	—
Total maturing liabilities	426	609	304	822	2	—
Customer deposits	305	562	576	—	—	20
Lease liabilities	—	—	7	2	—	—
	731	1,171	887	824	2	20
Guarantees and commitments notional amount						
Guarantees (1)	1,040	—	—	—	—	—
Commitments (2)	7,343	—	—	—	—	—
	8,383	—	—	—	—	—

2018	0-3 months €m	3-12 months €m	1-3 years €m	3-5 years €m	5-10 years €m	10-20 years €m
Assets by contractual maturity						
Cash and balances at central banks	336	—	—	—	—	—
Amounts due from holding companies and fellow subsidiaries	1,960	—	—	—	—	—
Loans to banks - amortised cost	392	—	—	—	—	—
Other financial assets	28	13	76	112	30	—
Total maturing assets	2,716	13	76	112	30	—
Loans to customers - amortised cost	—	6	11	11	63	—
Derivatives held for hedging	4	1	—	—	—	—
	2,720	20	87	123	93	—

2018						
Liabilities by contractual maturity						
Bank deposits	44	—	—	—	—	—
Amounts due to holding company and fellow subsidiaries	414	—	—	—	—	—
Subordinated liabilities	13	262	85	193	149	276
Total maturing liabilities	471	262	85	193	149	276
Customer deposits	1	5	59	1	3	6
Derivatives held for hedging	9	5	—	—	—	—
	481	272	144	194	152	282
Guarantees and commitments notional amount						
Guarantees (1)	1,456	—	—	—	—	—
Commitments (2)	14	—	—	—	—	—
	1,470	—	—	—	—	—

Notes:
(1) NWM N.V. Group is only called upon to satisfy a guarantee when the guaranteed party fails to meet its obligations. The NWM N.V. Group expects most guarantees it provides to expire unused.
(2) NWM N.V. Group has given commitments to provide funds to customers under undrawn formal facilities, credit lines and other commitments to lend subject to certain conditions being met by the counterparty. The NWM N.V. Group does not expect all facilities to be drawn, and some may lapse before drawdown.

12 Loan impairment provisions

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

	2019 €m	2018* €m
Loans - amortised cost		
Stage 1	1,997	379
Stage 2	117	70
Stage 3	79	95
Inter-Group (1)	462	1,961
Total	2,655	2,505
ECL provisions (2)		
Stage 1	2	—
Stage 2	2	4
Stage 3	74	81
Total	78	85
ECL provisions coverage (3,4)		
Stage 1 (%)	0.10	—
Stage 2 (%)	1.71	5.71
Stage 3 (%)	93.67	85.26
Total	3.56	15.63
Other financial assets - Gross exposure	3,698	592
Other financial assets - ECL provision	—	1
Impairment losses		
ECL charge - third party (5)	(1)	4
ECL loss rate (%) - third party (4)	(4.56)	73.53
Amounts written off	1	23

*2018 data has been restated for a change to presentation of unrecognised interest. Refer to Accounting policy 2, Other amendments to IFRS, for further details.

Notes:
(1) The NWM N.V. Group's intercompany assets were classified in Stage 1. The ECL attached to these loans was €0.1 million at 31 December 2019 (2018 - €0.1 million).
(2) Includes €0.4 million (2018 – nil) related to assets at FVOCI.
(3) ECL provisions coverage is calculated as ECL provisions divided by loans - amortised cost.
(4) ECL provisions coverage and ECL loss rates are calculated on third party loans and related ECL provisions and charge respectively.
(5) Includes nil (2018 – €0.8 million) relating to other financial assets at FVOCI and nil (2018 a €0.2 million release) relating to contingent liabilities.
(6) The table above shows gross loans only and excludes amounts that are outside the scope of the ECL framework. Refer to page 21 for Financial instruments within the scope of the IFRS9 ECL framework for further details. Other financial assets within the scope of the IFSR9 ECL framework were cash and balances at central banks totalling €3.2 billion and debt securities of €0.5 billion (2018 – €0.3 billion and €0.3 billion respectively).
(7) The NWM N.V. Group held collateral against third party loans in Stage 3 of €3 million (2018 – €13 million) and against stage 1 and 2 third party loans of €72 million (2018 – €58 million). Inter-group loans were uncollateralised.

IFRS 9 ECL model design principles

To meet IFRS 9 requirements, PD, LGD and EAD used in ECL calculations must be:

- Unbiased – material regulatory conservatism has been removed to produce unbiased model estimates.
- Point-in-time – recognise current economic conditions.
- Forward-looking – incorporated into PD estimates and, where appropriate, EAD and LGD estimates.
- For the life of the loan – all PD, LGD and EAD models produce term structures to allow a lifetime calculation for assets in Stage 2 and Stage 3.

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

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

For wholesale, while conversion ratios in the historical data show temporal variations, these cannot be sufficiently explained by the CCI measure (unlike in the case of PD and some LGD models) and are presumed to be driven to a larger extent by exposure management practices. Therefore point-in-time best estimates measures for EAD are derived by estimating the regulatory model specification on a rolling five year window.

Approach for multiple economic scenarios (MES)

The base scenario plays a greater part in the calculation of ECL than the approach to MES.

Notes on the consolidated accounts

13 Business transfers

During 2019 substantial business transfers occurred, which covered both trading books and banking books. The consideration in relation to all these transfers was settled by cash and cash equivalents.

Transfers from NWM Plc to NWM N.V.

The transferred portfolios under the FSMA scheme amounted to €7.5 billion of assets and €8.4 billion of liabilities. These transfers included trading assets of €4.3 billion, derivative assets of €3.0 billion, trading liabilities of €4.1 billion and derivative liabilities of €4.1 billion.

In relation to the banking book, which is not under the FSMA scheme, €0.6 billion of lending and securitised products and €1.5 billion of contingent liabilities and commitments were transferred.

Transfers from NatWest Bank Plc to NWM N.V.

Lending of €0.5 billion and contingent liabilities and commitments of €4.7 billion were transferred in relation to the Western European Corporate Portfolio.

14 Other financial assets

	Debt securities				
2019	Other central and local government €m	Other debt €m	Total €m	Equity shares €m	Total €m
Mandatory fair value through profit or loss	—	—	—	7	7
Fair value through other comprehensive income	222	250	472	49	521
Amortised cost	—	34	34	—	34
Total	222	284	506	56	562
2018					
Mandatory fair value through profit or loss	—	4	4	3	7
Fair value through other comprehensive income	14	238	252	130	382
Total	14	242	256	133	389

.

15 Other assets

	2019 €m	2018 €m
Prepayments and deferred expenses	1	—
Current tax	—	2
Property and equipment	35	23
Other assets (1)	31	135
	67	160

Note:
(1) In 2018 other assets included Alsecure reinsurance receivables of €124 million while this entity was put into liquidation in 2019.

16 Other financial liabilities

	2019 €m	2018 €m
Debt securities in issue		
- amortised cost	240	—

17 Subordinated liabilities

	2019 €m	2018 €m
Dated loan capital	642	746

Note:
(1) Excludes amounts due to holding company and fellow subsidiaries of €150 million (2018 – nil).

NWM N.V. has now resumed payments on all discretionary non-equity capital instruments following the end of the European Commission ban in 2013. Future coupons and dividends on hybrid capital instruments will only be paid subject to, and in accordance with, the terms of the relevant instruments.

Maturities and redemptions in the period (values as at date of transaction)	Capital treatment	2019 €m	2018 €m
US$500 million 4.65% subordinated notes June 2018	Tier 2	—	188
€250 million floating rate notes 2019	Tier 2	158	—
US$25 million floating rate notes 2019 (2)	Tier 2	11	3
US$72 million 5.98% notes 2019	Tier 2	65	—
		234	191

Note:
(1) There were no issuances in 2019 or 2018.
(2) It was partially redeemed during 2018.

17 Subordinated liabilities continued
Subordinated liabilities held at 31 December:

Dated loan capital	Capital treatment	2019 €m	2018 €m
€250 million floating rate notes 2019	Tier 2	—	164
€170 million floating rate notes 2041	Tier 2	369	245
€15 million floating rate notes 2020	Tier 2	13	13
US$25 million floating rate notes 2019	Tier 2	—	12
US$72 million 5.98% notes 2019	Tier 2	—	60
US$136 million 7.75% notes 2023	Tier 2	124	119
US$150 million 7.13% notes 2093	Tier 2	136	133
		642	746

Note:
(1) Since the introduction of CRDIV and CRR, all Tier 2 subordinated debt issuances are eligible for grandfathering only and therefore subject to transitional rules.

The following table analyses intercompany subordinated liabilities. These balances are included in amounts due to holding companies and fellow subsidiaries, refer to note 9.

Dated loan capital	Capital treatment	2019 €m	2018 €m
€150 million 1.72% notes 2029 (callable 2024) (1)	Tier 2	150	—

Note:
(1) New issuances during the year to NWM Plc.

18 Other liabilities

	2019 €m	2018 €m
Current taxation	68	89
Accruals and deferred income	95	4
Insurance reserves (1)	16	126
Other liabilities (2)	69	201
	248	420

Notes:
(1) Review of Insurance reserves pertaining to claims resulted in a €110 million decrease compared with 2018.
(2) Includes insurance liabilities.

Alcover AG (Alcover) is consolidated by NWM N.V.; Alcover's insurance business is in run-off. Claims reserves represent the risk-adjusted cash outflows required to settle outstanding claims as they develop. These reserves are established on the basis of an external actuarial valuation and reflect historical claims experience.

Included in other liabilities are provisions for liabilities and charges of €11 million (2018 - €9 million), of which litigation provisions are €6 million (2018 - €7 million) and restructuring provisions of nil (2018 - nil). Arising out of its normal business operations, the NWM N.V. Group is party to legal proceedings in the Netherlands, the United Kingdom, the United States of America and other jurisdictions. Litigation provisions at 31 December 2019 related to numerous proceedings; no individual provision is material. Detailed descriptions of the NWM N.V. Group's legal proceedings and discussion of the associated uncertainties are given in Note 24.

19 Share capital and reserves
NWM N.V.'s share capital at 31 December 2019 and 2018 consisted of 11,112 issued and fully paid ordinary shares of €4.50 each. Its authorised share capital amounts to €225,000. It comprises 41,500 ordinary shares, each with a nominal value of €4.50 and 8,500 preference shares, each with a nominal value of €4.50.

All issued ordinary shares have been fully paid. Each ordinary share entitles the holder to cast one vote. Subject to certain exceptions provided for by law or in the Articles of Association, resolutions are passed by an absolute majority of the votes cast. When shares are issued, each holder of shares shall have pre-emptive right, in proportion to the aggregate amount of their shares, except in the case of an issue of shares for a consideration other than in cash.

In the event of the dissolution and liquidation of NWM N.V., the assets remaining after payment of all debts will be distributed to the holders of ordinary shares on a pro-rata basis.

2019 capital restructure
In December 2019 regulatory permission was given by the DNB to NWM N.V. to transfer up to €4,214 million from Share premium to Retained earnings, however only €4,211 million was actually transferred. Following the transfer the capital structure of RBSH N.V. and NWM N.V. are identical.

Share premium reserve
As a part of the Dutch Scheme one share was issued against the share premium account.

Ordinary shares carry certain pre-emption rights and rank equally in voting, dividend and liquidation rights.

Dutch law prescribes that only the freely distributable reserves of NWM N.V. are taken into account for the purpose of making distributions and in determining the permissible applications of the share premium account. NWM N.V. Group optimises capital efficiency by maintaining reserves in subsidiaries, including regulated entities. The remittance of reserves to NWM N.V. or the redemption of capital by regulated entities may be subject to maintaining the capital resources required by the relevant regulator

Dividends
In November 2019 NWM N.V. paid an ordinary dividend of €520 million, or €46,796 per share, via its parent company to RBSG plc. Furthermore, in December 2019, NWM N.V. paid a dividend of €137 million, or €12,329 per share, via its parent company to NWM Plc.

.

20 Leases

NWM N.V. Group has adopted IFRS 16 Leases retrospectively from 1 January 2019 on a modified retrospective basis without restating prior periods. Adoption of IFRS 16 resulted in the right of use assets of €3 million and lease liabilities of €3 million.

Lessees

Amounts recognised in consolidated income statement	2019 €m
Depreciation	(1)

Amounts recognised in consolidated balance sheet	2019 €m
Right of use assets included in property, plant and equipment	11
Additions to right of use assets	9
Lease liabilities (1)	(11)

The total cash outflow for leases is €1 million. Rental expense in respect of operating leases in 2018 was €3 million.

Note:
(1) Contractual cash flows of lease liabilities is shown in Note 11.

21 Structured entities

Structured entities

A structured entity (SE) is an entity that has been designed such that voting or similar rights are not the dominant factor in deciding who controls the entity, for example when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. SEs are usually established for a specific, limited purpose. They do not carry out a business or trade and typically have no employees. They take a variety of legal forms - trusts, partnerships and companies - and fulfil many different functions. As well as being a key element of securitisations, SEs are also used in fund management activities to segregate custodial duties from the fund management advice.

Unconsolidated structured entities

NWM N.V. Group's interests in unconsolidated structured entities are analysed below.

	2019			2018		
	Asset backed securitisation vehicles €m	Investment funds and other €m	Total €m	Asset backed securitisation vehicles €m	Investment funds and other €m	Total €m
Trading assets and derivatives						
Trading assets	2	—	2	9	—	9
Derivative liabilities	—	—	—	(3)	—	(3)
Total	2	—	2	6	—	6
Non-trading assets						
Loans to customers	194	122	316	5	—	5
Other financial assets	34	—	34	—	—	—
Total	228	122	350	5	—	5
Liquidity facilities/loan commitments	—	8	8	—	—	—
Maximum exposure	230	130	360	11	—	11

.

Notes on the consolidated accounts

22 Asset transfers

Transfers that do not qualify for derecognition

Under IFRS9 financial asset is transferred if the NWM N.V. Group either (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the right to the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. Following a transfer the financial asset will be derecognised; not derecognised and retained in full on the NWM N.V. Group's balance sheet; continue to be recognised on the balance sheet to the extent of the NWM N.V. Group's continuing involvement.

Securities repurchase agreements and lending transactions

The NWM N.V. Group enters into securities repurchase agreements and securities lending transactions under which it transfers securities in accordance with normal market practice. In addition to repurchase agreement transactions, NWM N.V. Group entered into off balance-sheet securities lending transactions whereby it receives and transfers securities under fee-based loans or borrows and other similar arrangements.

Generally, the agreements require additional collateral to be provided if the value of the securities falls below a predetermined level. Under standard terms for repurchase transactions in the UK and US markets, the recipient of collateral has an unrestricted right to sell or repledge it, subject to returning equivalent securities on settlement of the transaction.

Securities sold under such repurchase transactions are not derecognised if the NWM N.V. Group retains substantially all the risks and rewards of ownership. Securities received as collateral under reverse repurchase agreements were €1.9 billion (2018 - €1.1 billion) of which €1.2 billion (2018 - €0.1 billion) had been sold or repledged as collateral of the RBSH Group's own transactions.

The following assets have failed derecognition	2019 €m	2018 €m
Trading assets	189	—

Note:
(1) Associated liabilities were €185 million (2018 - nil).

Assets pledged as collateral

The NWM N.V. Group pledges collateral with its counterparties in respect of derivative liabilities. There were €1.6 billion of assets pledged against liabilities in 2019 (2018 - €3 million).

23 Capital resources

NWM N.V. Group's regulatory capital resources were as follows:

	2019 €m	2018 €m
Tier 1		
Controlling interests	1,958	3,233
Adjustment for:		
- Other regulatory adjustments (1)	(319)	(471)
Common equity Tier 1	1,639	2,762
Hybrid capital	250	—
Additional Tier 1	250	—
Total Tier 1	1,889	2,762
Tier 2		
Subordinated debt	365	234
Deductions from Tier 2 capital	(134)	(131)
Total Tier 2 capital	231	103
Total regulatory capital	2,120	2,865

Note:
(1) Includes reversal of own credit risk of €78 million (2018 - €196 million) plus the elimination of the profit that has not been approved yet.

It is NWM N.V. Group's policy to maintain an appropriate capital base, to expand it as appropriate and to utilise it efficiently throughout its activities to optimise the return to shareholders, while maintaining a prudent relationship between the capital base and the underlying risks of the business. In carrying out this policy, NWM N.V. Group has regard to the supervisory requirements of DNB. DNB uses capital ratios as a measure of capital adequacy in the Dutch banking sector, comparing a bank's capital resources with its risk-weighted assets (RWAs) (the assets and off-balance sheet exposures are weighted to reflect the inherent credit and other risks). NWM N.V. Group has complied with its capital requirements during the year.

A number of subsidiaries and sub-groups within NWM N.V. Group are subject to various individual regulatory capital requirements. Furthermore, the payment of dividends by subsidiaries and the ability of members of NWM N.V. Group to lend money to other members of NWM N.V. Group may be subject to restrictions such as local regulatory or legal requirements, the availability of reserves and financial and operating performance.

Notes on the consolidated accounts

24 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 2019. Although NWM N.V. Group is exposed to credit risk in the event of non-performance of the obligations undertaken by customers, the amounts shown do not, and are not intended to, provide any indication of NWM N.V. Group's expectation of future losses.

	Less than 5 years €m	Over 5 years €m	2019 €m	2018 €m
Contingent liabilities and commitments (1,2)				
Guarantees and assets pledged as collateral security	57	983	1,040	1,456
Other contingent liabilities	5	—	5	475
Standby facilities, credit lines and other commitments	7,187	156	7,343	14
	7,249	1,139	8,388	1,945

Notes:
(1) Related parties balance included within contingent liabilities and commitments as at 31 December 2019 is €56 million (2018 - €379 million).
(2) The increase in the year relates to the business transfers completed, Refer to Note 13 for further details.

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. NWM N.V. Group'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 above. These commitments and contingent obligations are subject to NWM N.V. Group's normal credit approval processes.

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

Other contingent liabilities - these include standby letters of credit, supporting customer debt issues and contingent liabilities relating to customer trading activities such as those arising from performance and customs bonds, warranties and indemnities.

Standby facilities and credit lines - under a loan commitment NWM N.V. Group agrees to make funds available to a customer in the future. Loan commitments, which are usually for a specified term may be unconditionally cancellable or may persist, provided all conditions in the loan facility are satisfied or waived. Commitments to lend include commercial standby facilities and credit lines, liquidity facilities to commercial paper conduits and unutilised overdraft facilities.

Other commitments - these include documentary credits, which are commercial letters of credit providing for payment by NWM N.V. Group to a named beneficiary against presentation of specified documents, forward asset purchases, forward deposits placed and undrawn note issuance and revolving underwriting facilities, and other short-term trade related transactions.

Risk-sharing agreements

During 2019, NWM Plc and NWM N.V. have established limited risk-sharing arrangements that facilitate the smooth provision of services to NatWest Markets' customers. The arrangements include:

- The provision of a funded guarantee of up to £3 billion by NWM Plc to NWM N.V. that limits NWM N.V.'s exposure to large individual customer credits to 10% of NWM N.V.'s capital. Funding is provided by NWM Plc deposits placed with NWM N.V. of not less than the guaranteed amount. At 31 December 2019 the deposits amounted to €0.8 billion and the guarantee fees in the period were €1.5 million.
- The provision of credit protection and an unfunded guarantee by NWM Plc in respect of NWM N.V.'s legacy portfolio. At 31 December 2019 the exposure at default covered by the credit protection and unfunded guarantee was approximately €0.3 billion (of which €0.2 billion was cash collateralised) and €0.1 billion respectively. A fair value decrease of €6 million in relation to the credit protection and cash collateral, and fees of €1.2 million in relation to the unfunded guarantee, were recognised in the year.

Obligations with ABN AMRO Bank N.V.

Included within guarantees and assets pledged as collateral security as at 31 December 2019 is €0.7 billion (2018 - €1.1 billion), which relates to NWM N.V. Group's obligations over liabilities held within the Dutch State acquired businesses included in ABN AMRO Bank N.V..

24 Memorandum items continued

On the division of an entity by demerger, Dutch law establishes a cross liability between surviving entities in respect of the creditors at the time of the demerger. NWM N.V. Group's cross liability is limited by law to the lower of its equity and the eligible debts of ABN AMRO Bank N.V. on 6 February 2010. The likelihood of cross liability crystallising is considered remote.

Litigation, investigations and reviews

NWM N.V. and certain members of RBS Group are party to legal proceedings and the subject of investigation and other regulatory and governmental action in the Netherlands, the United Kingdom (UK), the European Union (EU), the United States (US) and other jurisdictions.

NWM N.V. Group recognises a provision for a liability in relation to these matters when it is probable that an outflow of economic benefits will be required to settle an obligation resulting from past events, and a reliable estimate can be made of the amount of the obligation.

In many proceedings and investigations, it is not possible to determine whether any loss is probable or to estimate reliably the amount of any loss, either as a direct consequence of the relevant proceedings and investigations or as a result of adverse impacts or restrictions on NWM N.V. Group's reputation, businesses and operations. Numerous legal and factual issues may need to be resolved, including through potentially lengthy discovery and document production exercises and determination of important factual matters, and by addressing novel or unsettled legal questions relevant to the proceedings in question, before a liability can reasonably be estimated for any claim. NWM N.V. Group cannot predict if, how, or when such claims will be resolved or what the eventual settlement, damages, fine, penalty or other relief, if any, may be, particularly for claims that are at an early stage in their development or where claimants seek substantial or indeterminate damages.

There are situations where NWM N.V. Group may pursue an approach that in some instances leads to a settlement agreement. This may occur in order to avoid the expense, management distraction or reputational implications of continuing to contest liability, or in order to take account of the risks inherent in defending claims or investigations, even for those matters for which NWM N.V. Group believes it has credible defences and should prevail on the merits. The uncertainties inherent in all such matters affect the amount and timing of any potential outflows for both matters with respect to which provisions have been established and other contingent liabilities.

The future outflow of resources in respect of any matter may ultimately prove to be substantially greater than or less than the aggregate provision that NWM N.V. Group has recognised. Where (and as far as) liability cannot be reasonably estimated, no provision has been recognised.

RBS Group is involved in ongoing litigation, investigations and reviews that are not described below but are described on pages 256 to 261 in RBS Group's Annual Report & Accounts 2019. RBS Group expects that in future periods, additional provisions, settlement amounts and customer redress payments will be necessary, in amounts that are expected to be substantial in some instances. While NWM N.V. Group may not be directly involved in such RBS Group matters, any final adverse outcome of those matters may also have an adverse effect on NWM N.V. Group.

Litigation

Madoff

NWM N.V. is a defendant in two actions filed by Irving Picard, as trustee for the bankruptcy estates of Bernard L. Madoff and Bernard L. Madoff Investment Securities LLC, in bankruptcy court in New York. In both cases, the trustee alleges that certain transfers received by NWM N.V. amounted to fraudulent conveyances that should be clawed back for the benefit of the Madoff estate.

In the primary action, filed in December 2010, the trustee is asking the bankruptcy court for leave to file an amended complaint, seeking to clawback a total of US$276.3 million in redemptions that NWM N.V. allegedly received from certain Madoff feeder funds and certain swap counterparties. NWM N.V. is opposing the motion for leave to file an amended complaint and otherwise will seek dismissal of the claims. In the second action, filed in October 2011, the trustee seeks to recover an additional US$21.8 million. In November 2016, the bankruptcy court dismissed this case on international comity grounds, and that decision was appealed. On 25 February 2019, the United States Court of Appeals for the Second Circuit reversed the bankruptcy court's decision. If the U.S. Supreme Court declines to review the matter, the case will return to the bankruptcy court for further proceedings.

Australian Bank Bill Swap Reference Rate (BBSW)

In August 2017, a class action complaint was filed in the United States District Court for the Southern District of New York against certain RBS Group companies (including NWM N.V.) and a number of other financial institutions. The complaint alleges that the defendants conspired to manipulate the BBSW and asserts claims under the U.S. antitrust laws, the Commodity Exchange Act, RICO (Racketeer Influenced and Corrupt Organizations Act), and the common law. The court dismissed all claims against RBS Group companies for lack of personal jurisdiction in November 2018, but plaintiffs filed an amended complaint. On 13 February 2020, the court declined to dismiss the amended complaint as against NWM Plc and certain other defendants, but reiterated its prior dismissal of all claims asserted against NWM N.V.

Fondazione Monte dei Paschi di Siena

A claim for €285.9 million was brought by Fondazione Monte dei Paschi di Siena (FMPS) in July 2014 against former directors and 13 syndicate banks, NWM N.V., in connection with an Italian law-governed term facility agreement for €600 million dated 4 June 2011. The claim is a civil action based on a non-contractual liability arising from the alleged breach of the by-laws of FMPS which set a 20 per cent limit for its debt to equity ratio (the Ratio). The lenders are alleged to have aided and abetted the former directors of FMPS to breach the Ratio. It is alleged that as sophisticated financial institutions, each lender should have known FMPS's financial situation, including its debt to equity ratio, and that putting the facility in place would cause it to breach the Ratio. NWM N.V. will defend the claim, which has been transferred to the Florence courts. Preliminary hearings took place in June and October 2019. A further hearing has been scheduled for April 2020.

Anti-Terrorism Act litigation against NWM N.V.

NWM N.V. and certain other financial institutions, are defendants in several actions pending in the United States District Courts for the Eastern and Southern Districts of New York, filed by a number of US nationals (or their estates, survivors, or heirs), most of whom are or were US military personnel, who were killed or injured in attacks in Iraq between 2003 and 2011.

The attacks at issue in the cases were allegedly perpetrated by Hezbollah and certain Iraqi terror cells allegedly funded by the Islamic Republic of Iran. According to the plaintiffs' allegations, the defendants are liable for damages arising from the attacks because they allegedly conspired with Iran and certain Iranian banks to assist Iran in transferring money to Hezbollah and the Iraqi terror cells, in violation of the US Anti-Terrorism Act, by agreeing to engage in 'stripping' of transactions initiated by the Iranian banks so that the Iranian nexus to the transactions would not be detected.

The first of these actions was filed in the United States District Court for the Eastern District of New York in November 2014. On 16 September 2019, the district court dismissed the case, finding that the claims were deficient for several reasons, including lack of sufficient allegations as to the alleged conspiracy and causation. The plaintiffs are appealing the decision to the United States Court of Appeals for the Second Circuit. Another action, filed in the United States District

Notes on the consolidated accounts

24 Memorandum items continued

Litigation, investigations and reviews

Court for the Southern District of New York in 2017, was dismissed on 28 March 2019 on similar grounds. The dismissal is subject to re-pleading by the plaintiffs or appeal. Other follow-on actions that are substantially similar to the two that have now been dismissed are pending in the same courts.

Interest rate swap claim by Ville d'Aubagne

Ville d'Aubagne, a French local authority, filed a claim in April 2013 against NWM N.V. and NWM Plc in respect of two structured interest rates swaps, which were entered into between Ville d'Aubagne and RBS N.V. (now NWM N.V.), and novated to RBS plc (now NWM Plc) in 2009.

In the same year, they were terminated early and a rescheduling agreement was entered into under which payments were rescheduled over 28 years. Ville d'Aubagne sought retroactive cancellation of the swaps and the rescheduling agreement. The amount claimed was approximately €65 million (which was subject to fluctuations in market value from time to time). NWM N.V. was successful in its defence of the claim, winning at first instance in November 2015. An appeal of that decision was dismissed by the French Court of Appeal in January 2018. Ville d'Aubagne appealed to the French Supreme Court, which has remitted the case to the Court of Appeal for reconsideration of one aspect relevant to NWM Plc, and ruled that NWM N.V. should be removed from the proceedings. NWM Plc is due to file appeal submissions at the Court of Appeal by 29 April 2020.

Investigations and reviews

NWM N.V. Group's financial condition can be affected by the actions of various governmental and regulatory authorities in the Netherlands, the UK, the EU, the US and elsewhere. RBS Group has engaged, and will continue to engage, in discussions with relevant governmental and regulatory authorities, including in the Netherlands, the UK, the EU, the US and elsewhere, on an ongoing and regular basis, and in response to informal and formal inquiries or investigations, regarding operational, systems and control evaluations and issues including those related to compliance with applicable laws and regulations, including consumer protection, business conduct, competition/anti-trust, anti-bribery, anti-money laundering and sanctions regimes.

The NatWest Markets business in particular has been providing, and continues to provide, information regarding a variety of matters, including, for example, the setting of benchmark rates and related derivatives trading, conduct in the foreign exchange market, and various issues relating to the issuance, underwriting, and sales and trading of fixed income securities, including structured products and government securities, some of which have resulted, and others of which may result, in investigations or proceedings.

Any matters discussed or identified during such discussions and inquiries may result in, among other things, further inquiry or investigation, other action being taken by governmental and regulatory authorities, increased costs being incurred by NWM N.V. Group, remediation of systems and controls, public or private censure, restriction of NWM N.V. Group's business activities and/or fines. Any of these events or circumstances could have a material adverse effect on NWM N.V. Group, its business, authorisations and licences, reputation, results of operations or the price of securities issued by it.

25 Analysis of changes in financing during the year

	Share capital and share premium		Subordinated liabilities	
	2019	2018	2019	2018
	€m	€m	€m	€m
At 1 January	7,024	7,024	746	993
Interest on subordinated liabilities	—	—	(44)	(22)
Maturity and redemption of subordinated liabilities	—	—	(162)	(191)
Net cash outflow from financing	—	—	(206)	(213)
Foreign exchange	—	—	118	49
Other adjustments (including own credit adjustments)	(5,324)	—	134	(83)
At 31 December	1,700	7,024	792	746

26 Analysis of cash and cash equivalents

	2019	2018
	€m	€m
At 1 January		
- cash	336	68
- cash equivalents	664	354
	1,000	422
Net cash outflow	4,297	578
At 31 December	5,297	1,000
Comprising:		
Cash and balances at central banks	3,191	336
Loans to banks - amortised cost (1)	2,106	664
Cash and cash equivalents	5,297	1,000

Note:
(1) Cash collateral posted with bank counterparties in respect of derivative liabilities is €349 million (2018 - nil).

The NWM N.V. Group had mandatory reserve deposits with central banks of €47 million (2018 - €6 million).

Notes on the consolidated accounts

27 Remuneration of the Managing Board and Supervisory Board

Remuneration of the Managing Board

The Managing Board during the year comprised the following members:
(1) H. Bots.
(2) C. Visscher
(3) M. Elkenbracht (from 15 February 2019)
(4) A. Slach (from 18 March 2019)

As a result of the repurposing of NWM N.V.'s banking licence, the number of Managing Board members has increased in 2019 and they have spent all their time on NWM N.V. matters.

Members receive pension benefits through their employment in RBS Group.

The remuneration of the Managing Board is presented in aggregate in the table below. RBSG plc and its subsidiaries adhere to relevant statutory requirements and RBS Group discloses individual remuneration of RBS Group executive directors, compliant with the UK PRA Remuneration Code.

	2019 €000	2018 €000
Salaries and short-term benefits	1,604	621
Pensions	285	101
Profit sharing and bonus payments	348	131
Total	2,237	853

Notes:
(1) There are no loans from NWM N.V. Group to the Managing Board members.
(2) The vesting of long-term incentive awards in the form of shares in RBS Group will normally be subject to the satisfaction of financial and non-financial performance conditions. The performance conditions will be set by the RBS Group Performance and Remuneration Committee for each award. In addition, awards will only vest to the extent the Committee is satisfied that the vesting outcome reflects underlying financial results and if conduct and risk management during the performance period has been effective.

Remuneration of the Supervisory Board

The Supervisory Board during the year comprised the following members:
(1) C. Marks (until 19 December 2019)
(2) R. Begbie (until 4 March 2019)
(3) C. Campbell (until 4 March 2019)
(4) M. Klessens.
(5) R. Place (from 3 March to 19 December 2019)
(5) A. van der Pauw (from 3 March 2019)
(6) A. Snel (from 25 March 2019)

The Supervisory Board included members employed elsewhere within RBS Group. The Supervisory Board members from RBS Group were not remunerated for time spent on matters relating to NWM N.V..

The table below provides information on the remuneration of the Supervisory Board in aggregate.

	2019 €000	2018 €000
Remuneration (1)	123	80

Note:
(1) There are no loans from NWM N.V. Group to the Supervisory Board members.

Notes on the consolidated accounts

28 Related parties

NWM N.V. Group has a related party relationship with associates, joint ventures, key management and shareholders. The UK Government through HM Treasury is the ultimate controlling party of The Royal Bank of Scotland Group plc ('RBSG plc')

Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions. NWM N.V. Group enters into a number of banking transactions with related parties in the normal course of business. These transactions include loans, deposits, foreign currency transactions and receiving of services. These transactions are carried out on commercial terms and at market rates. Employees are offered preferential terms for certain banking products. No allowances for loan losses have been recognised in respect of loans to related parties in 2019 and 2018.

Transfer pricing

The NWM N.V. Group is a party to transfer pricing arrangements with its parent entity, NWM Plc. Arm's length transfer pricing legislation in both the Netherlands and UK requires that, for transactions between related parties, each entity is remunerated on the same basis as two independent parties negotiating a contract covering similar activities. The transfer pricing arrangements between NWM N.V. and NWM Plc require approval by both counterparties and are subject to confirmation by Dutch and UK tax authorities.

In 2019 individual transfer pricing models for each of the main business line interactions with NWM Plc were introduced. Each type of transaction relies on a transfer pricing model with an appropriate remuneration, based on cost-plus, return on equity or revenue split. Under the transfer pricing arrangements, NWM N.V. reported income of €87 million for the activities it performed for European customers as part of the NWM Plc post Brexit operating model. The transfer pricing models designed for the different businesses will be included in our submission to the Dutch and UK taxation authorities for a bilateral advance pricing agreement (APA). The APA submission is expected to be done in H1 2020. The APA will have a term of maximum five years.

Judgement and estimation uncertainty - NWM N.V. Group management has concluded it is probable that Dutch and UK tax authorities will accept the current transfer pricing models. The transfer pricing models are sensitive to parameters used, such as the mark-ups and the return on capital. The tax authorities could have a different interpretation of the OECD Transfer Pricing Guidelines and / or facts and circumstances. Any adjustments requested by the Dutch and UK tax authorities to the current transfer pricing models may therefore have a material impact on the NWM N.V. Group's non-interest income and hence its taxable profit and unused taxable losses. For the cost-plus, NWM N.V. Group has considered a range of mark-ups from benchmarking studies. Applying the lower quartiles of the benchmarks used for the cost-plus calculations and reducing the return on equity percentage by 2%, would decrease the transfer pricing income by €10 million to €77 million. Applying the upper quartiles of the benchmarks used for the cost-plus calculations and increasing the return on equity percentage by 2%, would increase the transfer pricing income by €14 million to €101 million.

Acquisition of Western European branches

Up till 1 March 2019 NWB Plc owned a number of Western European branches that supported corporate lending sales and origination activities in the EEA. On 1 March 2019, NWM N.V. acquired the NWB Plc Western European branches in Germany, Spain, Italy, France, Sweden and The Netherlands. In addition, on 1 April 2019, NWM N.V. acquired the Ireland branch from NWM Plc. These transactions amount to €19 million and have taken place on an arm's length basis.

Disposal of Alawwal bank

On 16 June 2019, the merger of Alawwal bank and SABB was completed, with NWM N.V. receiving an aggregate 10.8% shareholding in SABB on behalf of itself and its consortium partners. RBS Group's economic interest in the merged entity, amounting to 4.1%, was then sold to NWM Plc, and the balance of shares was transferred separately to RFS Holdings B.V. consortium partners, as part of the unwind of those arrangements. NWM N.V. has recognised an income gain on disposal of the Alawwal bank stake for shares received in SABB of €516 million. The completion of the Alawwal bank and SABB merger was followed by NWM N.V. becoming a subsidiary of NWM Plc on 29 November 2019.

Transactions and balances with the UK Government

Transactions conducted directly with the UK Government are limited to normal banking transactions, taxation and other administrative relationships. There may be other significant transactions with entities under the common control of or subject to significant influence by the UK Government. These would include, amongst others, loans, deposits, guarantees, fee based relationships, or equity holdings. Disclosure is made of any significant transactions with these entities.

Transactions with directors or key management

At 31 December 2019 there were no transactions outstanding with directors or key management (for NWM N.V. Group this comprises the members of the Managing and Supervisory Boards). Refer to Note 27 for further details of remuneration of the Managing and Supervisory Boards.

The table below discloses transactions between NWM N.V. and subsidiaries of the RBS Group.

	2019 €m	2018 €m
Interest receivable	22	7
Interest payable	(4)	(8)
Fees and commissions receivable	104	—
Fees and commissions payable	(19)	—
	103	(1)

29 Post balance sheet events

On 14 February 2020, RBS Group announced its plan to rename the parent company and provide a new Purpose for the RBS Group that will help us become a more sustainable business, delivering better outcomes for our customers and our shareholders. The RBS Group has also announced that NWM Group will be refocused to support a more integrated corporate and institutional customer offering. This will mean a significant transformation for NWM Group.

The existence of a new coronavirus (COVID-19) was confirmed in early January 2020. Since then the coronavirus has spread across China and to a significant number of other countries, causing ongoing disruption to businesses and economic activity. The NWM N.V. Group considers this coronavirus outbreak to be a non-adjusting post balance sheet event. As this situation is continuing to develop, it is not considered practicable at this time to determine the impact of coronavirus on NWM N.V. Group or to provide a quantitative estimate of that impact. NWM N.V. Group's estimates of expected credit loss provisions in 2020 will incorporate the impact of the outbreak on macroeconomic forecasts.

Other than this, there have been no significant events between 31 December 2019 and the date of approval of these accounts which would require a change to, or additional disclosure in, the accounts.

Parent company Financial Statements

Accounting policies

The company financial statements of NWM N.V. have been prepared in accordance with the requirements in Title 9 Book 2 of the Dutch Civil Code. The NWM N.V. Group prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the IASB and IFRS as adopted by the EU. The accounting policies applied in the company financial statements are the same as those applied in the consolidated financial statements on pages 47 to 50.

Interest in subsidiaries are accounted for using the equity method.

Interests in associates are valued at the company's share of their consolidated net asset value determined on the basis of IFRS as endorsed by the EU and adopted by the company.

Basis of preparation

The financial statements are presented in euros, which is the presentation currency of the company. Refer to Accounting policy 2 on the consolidated accounts for further information on going concern. The presentation of the Income statement and Balance sheet has been updated to align to the requirements of Title 9 following the business transfers completed in 2019.

Company income statement for the year ended 31 December 2019

	Note	2019 €m	2018 €m
Interest receivable		70	25
Interest payable		(91)	(35)
Net interest income	1	(21)	(10)
Income from subsidiaries and associates	11	136	94
Fees and commissions receivable (1)		129	—
Fees and commissions payable		(27)	(1)
Net fees and commissions income		102	(1)
Results from financial transactions	2	(11)	140
Other income (2)	2	531	217
Total income		737	440
Staff costs		(35)	(7)
Other expenses		(51)	(24)
Depreciation and amortisation		(2)	—
Operating expenses before impairment releases/(losses)	3	(88)	(31)
Impairment releases/(losses)		1	(4)
Operating expenses including impairment releases/(losses)		(87)	(35)
Operating profit before tax		650	405
Tax charge	6	(16)	(134)
Profit for the year		634	271
Attributable to:			
Ordinary shareholders		626	271
AT1 capital securities		8	—

Notes:
(1) Fees and commissions receivable in 2019 is mainly driven by transfer pricing income from NWM Plc of €87 million.
(2) 2019 includes a gain of €516 million on completion of the Alawwal bank merger.

The accompanying notes on pages 78 to 89 form an integral part of these financial statements.

Parent Company Financial Statements

Company balance sheet as at 31 December 2019 (before appropriation of result)

	Note	2019 €m	2018 €m
Assets			
Cash and balances at central banks	8	3,191	336
Short term government paper		201	—
Loans to banks (1)	8	2,275	2,341
Loans to customers (2)	8	4,003	210
Derivatives (3)	7	3,898	656
Debt securities		362	—
Equity securities		3	4
Investment in subsidiaries	11	441	325
Interest in associates	11	—	1,319
Property and equipment	14	14	2
Other assets	13	182	38
Total assets		14,570	5,231
Bank deposits (4)	8	3,552	619
Customer deposits (5)	8	1,929	64
Derivatives (6)	7	4,588	429
Debt securities in issue		240	—
Other liabilities	17	1,193	17
Provisions	17	68	123
Subordinated liabilities (7)	16	792	746
Total liabilities		12,362	1,998
Share capital and share premium account		1,700	7,024
Revaluation reserves		4	(4)
Legal reserves		22	1,150
Other reserves		(402)	(5,208)
AT1 capital securities (8)		250	—
Unappropriated results		634	271
Total equity	18	2,208	3,233

Notes:
(1) Loans to banks includes Amounts due from holding company and fellow subsidiaries of €1,060 million (2018 - €1,819 million).
(2) Loans to customers includes Amounts due from holding company and fellow subsidiaries of €299 million (2018 - €133 million).
(3) Derivative assets include Amounts due from holding company and fellow subsidiaries of €1,412 million (2018 - €371 million).
(4) Bank deposits includes Amounts due to holding company and fellow subsidiaries of €2,880 million (2018 - €418 million).
(5) Customer deposits includes Amounts due to holding company and fellow subsidiaries of €100 million (2018 - nil).
(6) Derivative liabilities include Amounts due to holding company and fellow subsidiaries of €1,711 million (2018 - €371 million).
(7) Subordinated liabilities includes Amounts due to holding company and fellow subsidiaries of €150 million (2018 - nil).
(8) AT1 capital notes totalling €250 million issued to RBSG plc (via RFSH B.V.) in June 2019.
(9) As at 31 December 2019 contingent liabilities and commitments were €8,383 million (2018 - €1,470 million).

The accompanying notes on pages 78 to 89 form an integral part of these financial statements.

Parent Company Financial Statements

Company statement of changes in equity for the year ended 31 December 2019

	2019 €m	2018 €m
Share capital and share premium account (1)		
At 1 January	7,024	7,092
Capital injection (2)	53	—
Distribution (3)	(1,166)	(68)
Capital restructuring (4)	(4,211)	—
At 31 December	1,700	7,024
Revaluation reserves		
At 1 January	(4)	2
Changes in equity securities and debt securities at fair value through OCI	8	(6)
At 31 December	4	(4)
Legal reserves		
At 1 January	1,150	1,080
Changes in foreign exchange reserve	28	24
Changes in non-distributable profit participations	(1,156)	46
At 31 December	22	1,150
Other reserves		
At 1 January	(5,208)	(5,198)
Implementation of IFRS 9 on 1 January 2018	—	(29)
Transfer from unappropriated results	271	(92)
Ordinary dividends paid	(657)	—
AT1 capital securities dividends paid	(7)	—
Acquisition of Western European branches	(19)	—
Changes in fair value of credit in financial liabilities designated at fair value	(120)	89
Distribution (5)	(29)	—
Capital restructuring (4)	4,211	—
Changes in non-distributable profit participations	1,156	(46)
Other changes	—	68
At 31 December	(402)	(5,208)
AT1 capital securities		
At 1 January	—	—
Securities issued during the year (6)	250	—
At 31 December	250	—
Unappropriated results		
At 1 January	271	(92)
Transfer from unappropriated results	(271)	92
Net result for the year	634	271
At 31 December	634	271
Total equity	2,208	3,233

Notes:
(1) Includes Ordinary share capital of €50,000 (2018 - €50,000) – refer to Note 19 on the consolidated accounts for further details.
(2) Capital injection of €53 million from RFS Holdings B.V. reflects amounts received by RFS Holdings from Santander.
(3) Distributions of the right to receive SABB interests via RFS Holdings B.V. to Santander and the Dutch State following the Alawwal bank merger becoming effective.
(4) In December 2019 a capital restructuring was completed to transfer €4,211 million from Share premium to Retained earnings.
(5) €29 million distribution to the Dutch State in connection to surplus capital held on behalf of the Dutch State acquired businesses.
(6) AT1 capital notes totalling €250 million issued to RBSG plc (via RFSH B.V.) in June 2019.

The accompanying notes on pages 78 to 89 form an integral part of these financial statements.

Parent Company Financial Statements

1 Net interest income

	2019 €m	2018 €m
Loans to customers	16	7
Loans to banks	—	4
Amounts due from holding company and fellow subsidiaries	36	14
Debt securities	18	—
Interest receivable (1)	70	25
Balances with banks	4	—
Customer deposits	6	14
Amounts due to holding company and fellow subsidiaries	24	—
Other liabilities	2	—
Subordinated liabilities	41	19
Internal funding of trading businesses	14	2
Interest payable (1)	91	35
	(21)	(10)

Note:
(1) Negative interest on Loans to banks - amortised cost is classed as interest payable and on Customer deposits is classed as interest receivable.

2 Non-interest income

	2019 €m	2018 €m
Fees and commissions receivable	129	—
Fees and commissions payable	(27)	(1)
Net fees and commissions (1)	102	(1)
Foreign exchange	(16)	(33)
Interest rate	4	155
Credit	—	4
Equities and other	1	14
Results from financial transactions	(11)	140
Other operating income (2)	531	217

Notes:
(1) Fees and commissions in 2019 is mainly driven by transfer pricing income from NWM Plc of €87 million.
(2) 2019 includes a gain of €516 million on completion of the Alawwal bank merger. 2018 includes Madoff related recoveries of €248 million.

3 Operating expenses

	2019 €m	2018 €m
Wages and salaries	27	6
Social security costs	4	—
Pension costs	4	1
Staff costs	35	7

There were 190 people employed (full time equivalent rounded to the nearest ten) in continuing operations at 31 December 2019 (2018 – 30). The average number of persons employed in continuing operations during the year was 100 (2018 - 30).

Refer to Note 5 on the consolidated accounts for details on auditor's remuneration.

4 Segmental analysis

Refer to Note 4 on the consolidated accounts for further details.

5 Dividends

In November 2019 NWM N.V. paid an ordinary dividend of €520 million, or €46,796 per share, via its parent company to RBSG plc. Furthermore, in December 2019, NWM N.V. paid a dividend of €137 million, or €12,329 per share, via its parent company to NWM Plc.

6 Tax

Refer to Note 6 on the consolidated accounts for further details.

7 Derivatives

The following table shows the notional amounts and fair values of NWM N.V.'s derivatives. The increase in the year represents the business transfers completed. Refer to Note 13 on the consolidated accounts for further details.

	2019			2018		
	Notional	Assets	Liabilities	Notional	Assets	Liabilities
	€bn	€m	€m	€bn	€m	€m
Exchange rate contracts	199	2,141	2,121	2	60	78
Interest rate contracts	1,888	1,757	2,457	5	596	347
Credit derivatives	2	—	10	—	—	—
Equity and commodity contracts	—	—	—	—	—	4
		3,898	4,588		656	429

Note:
(1) Included in exchange rate contracts is net investment hedging of nil (2018 - €3 million assets, €22 million liabilities). Notional values are €0.1 billion (2018 - €1.4 billion).

NWM N.V. hedges the exchange rate risk of its net investment in foreign currency denominated operations with currency borrowings and forward foreign exchange contracts. NWM N.V. reviews the value of the investments net assets, executing hedges where appropriate to reduce the sensitivity of capital ratios to foreign exchange rate movement. Hedge accounting relationships will be designated where required.

8 Financial instruments – classification

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

	MFVTPL (1) €m	DFV (2) €m	FVOCI (3) €m	Amortised cost €m	Other assets €m	Total €m
Assets						
Cash and balances at central banks				3,191		3,191
Short term government paper			201			201
Loans to banks (4)	1,385			890		2,275
Loans to customers (4)	2,330			1,673		4,003
Derivatives	3,898					3,898
Debt securities	328			34		362
Equity securities	3					3
Investment in subsidiaries					441	441
Interest in associates					—	—
Property and equipment					14	14
Other assets				141	41	182
31 December 2019	7,944	—	201	5,929	496	14,570
Cash and balances at central banks				336		336
Loans to banks (4)		537		1,804		2,341
Loans to customers (4)	10			200		210
Derivatives	656					656
Debt securities	—			—		—
Equity securities	4					4
Investment in subsidiaries					325	325
Interest in associates					1,319	1,319
Property and equipment					2	2
Other assets					38	38
31 December 2018	670	537	—	2,340	1,684	5,231

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

8 Financial instruments – classification continued

	Held-for-trading €m	DFV (2) €m	Amortised cost €m	Other liabilities €m	Total €m
Liabilities					
Bank deposits (5)	2,143		1,409		3,552
Customer deposits (5)	382		1,547		1,929
Derivatives	4,588				4,588
Debt securities in issue			240		240
Other liabilities	837		209	147	1,193
Provisions				68	68
Subordinated liabilities		382	410		792
31 December 2019	7,950	382	3,815	215	12,362
Bank deposits (5)	6	449	164		619
Customer deposits (5)	3		61		64
Derivatives	429				429
Other liabilities				17	17
Provisions				123	123
Subordinated liabilities		494	252		746
31 December 2018	438	943	477	140	1,998

Notes:
(1) Mandatory fair value through profit or loss.
(2) Designated as at fair value through profit or loss.
(3) Fair value through other comprehensive income.
(4) Includes reverse repos of €874 million (2018 - €1,143 million) in loans to banks, and €1,032 million (2018 - nil) in loans to customers.
(5) Includes repos of €939 million (2018 - nil) in bank deposits, and €95 million (2018 - nil) in customer deposits.

The tables below present information on the NWM N.V.'s financial assets and liabilities that are offset in the balance sheet under IFRS or subject to enforceable master netting agreement together with financial collateral received or given.

	Instruments which can be offset			Potential for offset not recognised by IFRS					
2019	Gross €m	IFRS offset €m	Balance sheet €m	Effect of master netting and similar agreements €m	Cash collateral €m	Other financial collateral €m	Net amount after the effect of netting arrangement and related collateral €m	Instruments outside netting agreements €m	Balance sheet total €m
Derivative assets	3,837	(5)	3,832	(2,369)	(587)	(105)	771	66	3,898
Derivative liabilities	3,673	(5)	3,668	(2,369)	(1,280)	—	19	920	4,588
Net position	164	—	164	—	693	(105)	752	(854)	(690)
2018									
Derivative assets	254	—	254	—	(3)	—	251	402	656
Derivative liabilities	277	—	277	—	(3)	—	274	152	429
Net position	(23)	—	(23)	—	—	—	(23)	250	227

9 Financial instruments – valuation

For further information relating to the following tables, refer to Note 10 on the consolidated accounts.

Valuation hierarchy

The following table shows the financial instruments carried at fair value on the balance sheet by valuation hierarchy.

	2019			2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	€m	€m	€m	€m	€m	€m
Assets						
Short term government paper	201	—	—	—	—	—
Loans to banks	—	1,385	—	—	537	—
Loans to customers	—	2,330	—	—	10	—
Derivatives	—	3,682	216	—	514	142
Debt securities	181	147	—	—	—	—
Equity securities	—	—	3	—	—	4
Total financial assets held at fair value	382	7,544	219	—	1,061	146
Liabilities						
Bank deposits	—	2,143	—	—	455	—
Customer deposits	—	382	—	—	3	—
Derivatives	—	4,524	64	—	277	152
Other liabilities	736	101	—	—	—	—
Subordinated liabilities	—	382	—	—	494	—
Total financial liabilities held at fair value	736	7,532	64	—	1,229	152

Notes:
(1) Transfers between levels are deemed to have occurred at the beginning of the quarter in which the instruments were transferred. There were no significant transfers between level 1 and level 2.
(2) The determination of an instrument's level cannot be made at a global product level as a single product type can be in more than one level. For example, a single name corporate credit default swap could be in level 2 or level 3 depending on whether the reference counterparty's obligations are liquid or illiquid.

For further information on the level 3 movements and sensitivities, refer to Note 10 on the consolidated accounts.

9 Financial instruments - fair value of financial instruments not carried at fair value

The following table shows the carrying value and fair value of financial instruments carried at amortised cost on the balance sheet.

2019	Items where fair value approximate carrying value €m	Carrying value €m	Fair value €m	Fair value hierarchy level Level 2 €m	Level 3 €m
Financial assets					
Cash and balances at central banks	3,191				
Loans to banks		890	890	—	890
Loans to customers		1,673	1,660	—	1,660
Debt securities		34	34	—	34
Other assets - settlement balances	141				
Financial liabilities					
Bank deposits	102	1,307	1,307	—	1,307
Customer deposits	172	1,375	1,375	—	1,375
Debt securities in issue		240	240	240	—
Other liabilities - settlement balances	209				
Subordinated liabilities		410	411	409	2
2018					
Financial assets					
Cash and balances at central banks	336				
Loans to banks		1,804	1,804	850	954
Loans to customers		200	248	185	63
Financial liabilities					
Bank deposits	132	32	32	—	32
Customer deposits		61	70	17	53
Subordinated liabilities		252	314	314	—

10 Financial instruments - maturity analysis

Remaining maturity

The following table shows the NWM N.V.'s residual maturity of financial instruments, based on contractual date of maturity.

2019	Repayable on demand €m	0-1 months €m	1-3 months €m	3-6 months €m	6-12 months €m	1-2 years €m	2-5 years €m	Over 5 years €m	Maturity not relevant €m
Assets									
Cash and balances at central banks	3,191	—	—	—	—	—	—	—	
Short term government paper	—	—	—	201	—	—	—	—	
Loans to banks	1,194	733	208	—	—	2	29	109	
Loans to customers	1,463	1,085	41	38	—	63	1,125	188	
Derivatives	—	614	418	185	289	217	545	1,630	
Debt securities	—	—	—	—	—	—	34	328	
Equity shares									3
Other assets (1)	—	141	—	—	—	—	—	—	
Liabilities									
Bank deposits	512	1,497	2	172	276	53	787	253	
Customer deposits	558	120	108	302	256	576	—	9	
Derivatives	—	584	374	190	264	239	400	2,537	
Debt securities in issue	—	—	—	120	120	—	—	—	
Other liabilities (2)	—	209	—	—	1	6	2	2	837
Subordinated liabilities	—	—	—	13	—	—	274	505	

2018	Repayable on demand €m	0-1 months €m	1-3 months €m	3-6 months €m	6-12 months €m	1-2 years €m	2-5 years €m	Over 5 years €m	Maturity not relevant €m
Assets									
Cash and balances at central banks	336	—	—	—	—	—	—	—	
Loans to banks	668	1,490	183	—	—	—	—	—	
Loans to customers	—	—	—	—	9	—	1	200	
Derivatives	—	3	—	17	61	—	1	574	
Equity shares									4
Liabilities									
Bank deposits	588	31	—	—	—	—	—	—	
Customer deposits	3	—	—	—	—	53	—	8	
Derivatives	—	70	12	21	1	—	1	324	
Subordinated liabilities	—	8	—	160	72	12	118	376	

Notes:
(1) Includes settlement balances of €141 million (2018 - nil).
(2) Includes settlement balances of €209 million (2018 - nil), short positions of €837 million (2018 - nil) and lease liabilities of €11 million (2018 - nil).

10 Financial instruments - maturity analysis continued

Assets and liabilities by contractual cash flow maturity

The tables below show the contractual undiscounted cash flows receivable and payable, up to a period of 20 years, including future receipts and payments of interest of financial assets and liabilities by contractual maturity. The balances in the following tables do not agree directly with the consolidated balance sheet, as the tables include all cash flows relating to principal and future coupon payments, presented on an undiscounted basis. The tables have been prepared on the following basis:

Financial assets have been reflected in the time band of the latest date on which they could be repaid, unless earlier repayment can be demanded by NWM N.V.. Financial liabilities are included at the earliest date on which the counterparty can require repayment, regardless of whether or not such early repayment results in a penalty. If repayment is triggered by, or is subject to, specific criteria such as market price hurdles being reached, the asset is included in the time band that contains the latest date on which it can be repaid, regardless of early repayment. The liability is included in the time band that contains the earliest possible date on which the conditions could be fulfilled, without considering the probability of the conditions being met. For example, if a structured note is automatically prepaid when an equity index exceeds a certain level, the cash outflow will be included in the less than three months' period whatever the level of the index at the year end.

The settlement date of debt securities in issue, issued by certain securitisation vehicles consolidated by NWM N.V. depends on when cash flows are received from the securitised assets. Where these assets are prepayable, the timing of the cash outflow relating to securities assumes that each asset will be prepaid at the earliest possible date. As the repayments of assets and liabilities are linked, the repayment of assets in securitisations is shown on the earliest date that the asset can be prepaid, as this is the basis used for liabilities.

Amounts excluded from the below tables

The principal amounts of financial liabilities that are repayable after 20 years or where the counterparty has no right to repayment of the principal are excluded from tables along with interest payments after 20 years.

MFVTPL assets of €7.9 billion (2018 - €0.7 billion) and HFT liabilities of €8.0 billion (2018 - €0.4 billion) have been excluded from the following tables.

Due to the exclusions, the following tables do not agree to the balance sheet.

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
Assets by contractual maturity						
Cash and balances at central banks	3,191	—	—	—	—	—
Short dated government papers	—	201	—	—	—	—
Loans to banks	890	—	—	—	—	—
Debt securities	—	—	34	—	—	—
Other assets	141	—	—	—	—	—
Total maturing assets	4,222	201	34	—	—	—
Loans to customers	281	62	461	797	42	136
	4,503	263	495	797	42	136

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
Liabilities by contractual maturity						
Bank deposits	234	356	304	515	—	—
Debt securities in issue	—	240	—	—	—	—
Other liabilities	210	—	6	2	2	—
Subordinated liabilities	—	13	—	307	—	—
Total maturing liabilities	444	609	310	824	2	—
Customer deposits	404	562	576	—	—	20
	848	1,171	886	824	2	20
Guarantees and commitments notional amount						
Guarantees (1)	1,040	—	—	—	—	—
Commitments (2)	7,343	—	—	—	—	—
	8,383	—	—	—	—	—

For notes to this table refer to the following page.

10 Financial instruments - maturity analysis continued

2018	0-3 months €m	3-12 months €m	1-3 years €m	3-5 years €m	5-10 years €m	10-20 years €m
Assets by contractual maturity						
Cash and balances at central banks	336	—	—	—	—	—
Loans to banks	2,341	—	—	—	—	—
Total maturing assets	2,677	—	—	—	—	—
Loans to customers	133	5	12	11	63	—
Derivatives held for hedging	4	1	—	—	—	—
	2,814	6	12	11	63	—

2018	0-3 months €m	3-12 months €m	1-3 years €m	3-5 years €m	5-10 years €m	10-20 years €m
Liabilities by contractual maturity						
Bank deposits	613	—	—	—	—	—
Subordinated liabilities	13	262	85	193	149	276
Total maturing liabilities	626	262	85	193	149	276
Customer deposits	1	5	59	1	3	6
Derivatives held for hedging	9	5	—	—	—	—
	636	272	144	194	152	282
Guarantees and commitments notional amount						
Guarantees (1)	1,456	—	—	—	—	—
Commitments (2)	14	—	—	—	—	—
	1,470	—	—	—	—	—

Notes:
(1) The NWM N.V. is only called upon to satisfy a guarantee when the guaranteed party fails to meet its obligations. The NWM N.V. expects most guarantees it provides to expire unused. For further information, see Note 23 on the consolidated accounts.
(2) The NWM N.V. 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 NWM N.V. does not expect all facilities to be drawn, and some may lapse before drawdown.

11 Investment in Group undertakings

The Company had a 40% interest in the equity of Alawwal bank which was incorporated and operated in the Kingdom of Saudi Arabia. On 16 June 2019, the merger of Alawwal bank and SABB was completed, with NWM N.V. receiving an aggregate 10.8% shareholding in SABB on behalf of itself and its consortium partners. The RBS Group's economic interest in the merged entity, amounting to 4.1%, was then sold to NWM Plc, and the balance of shares was transferred separately to RFS Holdings B.V. consortium partners, as part of the unwind of those arrangements.

The NWM N.V. Group accounted for its interest in Alawwal bank as a held for sale asset. The interest in associate in relation to Alawwal bank is classified as a disposal group under IFRS and measured at its carrying value at 31 December 2018, under Dutch GAAP within the parent company accounts this remains within the investment in NWM N.V. Group undertakings as detailed below.

Changes in investments in subsidiaries

	2019 €m	2018 €m
At 1 January	325	434
Income from subsidiaries	136	(17)
Capital repatriation/dividends received	(39)	(104)
Other changes	19	12
At 31 December	441	325

Changes in interest in associates

	2019 €m	2018 €m
At 1 January	1,319	1,205
Effect of change in accounting policy	—	(33)
Share of results	—	111
Dividends received	—	—
Disposals	(1,345)	—
Exchange rate differences	26	27
Other changes	—	9
At 31 December	—	1,319

11 Investment in Group undertakings continued

The parent company's subsidiary undertakings, participating interests and branches at 31 December 2019 are shown below:

Group interest 100%	Notes
AA Merchant Banking B.V.	*i, (1)*
Alcover A.G.	*i, (2)*
Alternative Investment Fund B.V.	*i, (1)*
KEB Investors L.P.	*i, (7)*
KEEP SPV Ltd	*i, (8)*
RBS Asia Holdings B.V.	*i, (1)*
RBS European Investments SARL	*i, (11)*
RBS Hollandsche N.V.	*i, (12)*
RBS Investments (Ireland) Ltd	*i, (5)*
RBS Nominees (Ireland) Ltd	*i, (5)*
RBS Nominees (Netherlands) B.V.	*i, (1)*
RBS WCS Holding Company	*i, (10)*

Group interest <100%	Notes
Eris Finance S.R.L	*iii, (9)*
German Public Sector Finance B.V.	*iv, (6)*

Actively being dissolved or liquidated	Notes
Alsecure Life Insurance PCC Ltd	*i, (3)*
Alsecure US PCC Ltd	*i, (4)*
Maja Finance S.R.L	*ii, (9)*

Branches geographic location
France, Germany, Hong Kong, Italy, Republic of Ireland, Spain, Sweden, United Kingdom

Key:
i Group interest of 100%
ii Group interest of 45%
iii Group interest of 50%
iv Group interest of 97.97%

Notes	Registered addresses	Country of incorporation
(1)	Claude Debussylaan 94, 1082 MD, Amsterdam	Netherlands
(2)	Tirolerweg 8, Zug, CH-6300	Switzerland
(3)	Level 5, Mill Court, La Charroterie, St Peter Port, GY1 1EJ	Guernsey
(4)	3rd Floor, Dixcart House, Sir William Place, St Peter Port, GY1 1GX	Guernsey
(5)	Ulster Bank Group Centre, George's Quay, Dublin 2, D02 VR98	RoI
(6)	De entree 99 -197, 1101 HE Amsterdam Zuidoost	Netherlands
(7)	Clarendon House, Two Church Street, Suite 104, Reid Street, Hamilton, HM 11	Bermuda
(8)	66-72, Gaspé House, Esplanade, St Helier, JE2 3QT	Jersey
(9)	Via Vittorio Alfieri 1, Conegliano TV, IT-TN 31015	Italy
(10)	1209, Orange Street, Wilmington, Delaware, 19801	USA
(11)	46, Avenue John F. Kennedy, L-1855	Luxembourg
(12)	Gustav Mahlerlaan 350, 1082 ME, Amsterdam	Netherlands

All subsidiaries and participating interests operate principally in their country of incorporation.

The list of participating interests for which statements of liability have been issued, has been filed with the Chamber of Commerce in Amsterdam.

Some of NWM N.V.'s subsidiaries and participating investments are regulated entities and therefore their ability to transfer funds to NWM N.V. is subject to regulatory approvals.

12 Financial assets – other

Credit risk impairments - refer to Note 12 on the consolidated accounts and the Capital and risk management credit risk section for further details.

Non-traded market risk - refer to Capital and risk management non-traded market risk section for details on structural foreign exchange exposure

13 Other assets

	2019 €m	2018 €m
Settlement balances	141	—
Other financial assets	—	—
Other	41	38
	182	38

14 Property and equipment

	2019			2018
	Right-of-use (1) €m	Computer equipment €m	Total €m	Total (2) €m
Cost or valuation				
At 1 January 2019	—	2	2	2
Implementation of IFRS 16 on 1 January 2019	3	—	3	—
Additions	9	2	11	—
At 31 December 2019	12	4	16	2
Accumulated impairment, depreciation and amortisation				
At 1 January 2019	—	—	—	—
Charge for the year	(1)	(1)	(2)	—
At 31 December 2019	(1)	(1)	(2)	—
Net book value at 31 December	11	3	14	2

Notes:
(1) Right-of-use assets recognised on implementation of IFRS 16 on 1 January 2019.
(2) Comparative period represents computer equipment only.

15 Contingent liabilities and commitments and contractual obligations for future expenditure not provided in the accounts

The amounts shown in the table below are intended only to provide an indication of the volume of business outstanding at 31 December 2019. Although the NWM N.V. 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 NWM N.V.'s expectation of future losses. In relation to contingent liabilities and commitments and contractual obligations for future expenditure, refer to Note 24 on the consolidated accounts for further details.

	Less than 5 years €m	Over 5 years €m	2019 €m	2018 €m
Contingent liabilities and commitments				
Guarantees and assets pledged as collateral security	57	983	1,040	1,456
Standby facilities, credit lines and other commitments	7,187	156	7,343	14
	7,244	1,139	8,383	1,470

16 Subordinated liabilities

Refer to Note 17 on the consolidated accounts for further details.

17 Other liabilities and provisions

	2019 €m	2018 €m
Short positions in securities	837	—
Settlement balances	209	—
Accruals	80	—
Deferred Income	15	—
Other financial liabilities	6	—
Other liabilities	46	17
	1,193	17

Provisions for liabilities and charges	2019 €m	2018 €m
Litigation and other regulatory	6	7
Current taxation	57	85
Deferred taxation	—	29
Other	5	2
	68	123

Arising out of its normal business operations, the NWM N.V. is party to legal proceedings in the Netherlands, United Kingdom, the United States of America and other jurisdictions. Litigation provisions at 31 December 2019 related to numerous proceedings; no individual provision is material. Detailed descriptions of the NWM N.V.'s legal proceedings and discussion of the associated uncertainties are given in Note 24 on the consolidated accounts.

18 Asset transfers
Refer to Note 22 on the consolidated accounts for further details.

19 Share capital and reserves
NWM N.V.'s share capital at 31 December 2019 and 2018 consisted of 11,112 issued and fully paid ordinary shares of €4.50 each. Its authorised share capital amounts to €225,000. It comprises 41,500 ordinary shares, each with a nominal value of €4.50 and 8,500 preference shares, each with a nominal value of €4.50. All issued ordinary shares have been fully paid. Each ordinary share entitles the holder to cast one vote. Subject to certain exceptions provided for by law or in the Articles of Association, resolutions are passed by an absolute majority of the votes cast. When shares are issued, each holder of shares shall have pre-emptive right, in proportion to the aggregate amount of their shares, except in the case of an issue of shares for a consideration other than in cash. In the event of the dissolution and liquidation of NWM N.V., the assets remaining after payment of all debts will be distributed to the holders of ordinary shares on a pro-rata basis.

In June 2019, following the Alawwal bank merger becoming effective, €1,166 million (the value of the right to receive SABB interests) was distributed from Share premium via RFS Holdings B.V. to Santander and the Dutch State. In December 2019 a capital restructuring was completed to transfer €4,211 million from Share premium to Retained earnings.

The Revaluation reserves consist of €2 million equity securities at fair value through other comprehensive income (2018 - (€4) million) and €2 million debt securities at fair value through other comprehensive income (2018 - nil).

The Legal reserves consist of €10 million non-distributable reserve shares (2018 - €10 million), €12 million foreign exchange reserve (2018 - (€16) million) and nil non-distributable profit participations (2018 - €1,156 million). The €1,156 million decrease in non-distributable profit participations is due to the disposal of the investment in Alawwal bank.

In June 2019 NWM N.V. issued capital securities of €250 million which qualify as Additional Tier 1 capital as described in CRD IV and CRR. These securities are perpetual. They can be called on after five years and have a coupon of 3 month Euribor plus 6.10%, payable on a quarterly basis.

20 Profit appropriation
Profit is appropriated in accordance with article 37 of the Articles of Association. The main stipulations with respect to shares currently in issue are as follows:

The Managing Board may decide to make appropriations to reserves, subject to the approval of the Supervisory Board (article 37.2.a.). The allocation of the amount remaining after these appropriations shall be determined by the General Meeting of Shareholders. The Managing Board, subject to the approval of the Supervisory Board, shall make a proposal to that effect. A proposal to pay a dividend shall be dealt with as a separate agenda item at the General Meeting of Shareholders (article 37.2.a.).

NWM N.V.'s policy on reserves and dividends shall be determined and can be amended by the Supervisory Board, upon the proposal of the Managing Board. The adoption of and each subsequent amendment to the policy on reserves and dividends shall be discussed and accounted for at the General Meeting of Shareholders under a separate agenda item (article 37.2.b.).

Subject to approval of the Supervisory Board, the Managing Board may make the dividend or interim dividend on the shares payable, at the discretion of the holders, either in cash or, provided it is authorised to issue shares, partly or wholly in shares in the Company's capital or in a combination thereof, such combination to be determined by the Managing Board (article 37.3.).

Subject to the approval of the Supervisory Board, the Managing Board shall be authorised, in so far as such is permitted by the profit as evidenced by an interim balance sheet drawn up with due observance of the provisions of Section 105, Subsection 4 of Book 2 of the Netherlands Civil Code, to make payable an interim dividend on the shares once or more frequently in the course of any financial year and prior to the approval of the Annual Accounts by the General Meeting of Shareholders (article 37.4.).

Subject to the approval of the Supervisory Board, the Managing Board may decide on a distribution charged against reserves in cash or, if the Board is authorised to issue shares, in the form of shares (article 37.5.).

Proposed profit appropriation
Appropriation of net profit pursuant to articles 37.2 and 37.3 of the Articles of Association:

	2019 €m	2018 €m
Addition to reserves	634	271

Parent Company Financial Statements

21 Incorporation and registration
NWM N.V. is a public limited liability company, incorporated under Dutch law on 30 May 1990, and registered at Claude Debussylaan 94, 1082 MD Amsterdam, The Netherlands and is entered in the Trade Register of the Amsterdam Chamber of Commerce under no. 33002587.

22 Remuneration of the Managing Board and Supervisory Board
Refer to Note 27 on the consolidated accounts for further details.

23 Related parties
Refer to Note 28 on the consolidated accounts for further details.

24 Post balance sheet events
On 14 February 2020, RBS Group announced its plan to rename the parent company and provide a new Purpose for the RBS Group that will help us become a more sustainable business, delivering better outcomes for our customers and our shareholders. The RBS Group has also announced that NWM Group will be refocused to support a more integrated corporate and institutional customer offering. This will mean a significant transformation for NWM Group.

The existence of a new coronavirus (COVID-19) was confirmed in early January 2020. Since then the coronavirus has spread across China and to a significant number of other countries, causing ongoing disruption to businesses and economic activity. The NWM N.V. Group considers this coronavirus outbreak to be a non-adjusting post balance sheet event. As this situation is continuing to develop, it is not considered practicable at this time to determine the impact of coronavirus on NWM N.V. Group or to provide a quantitative estimate of that impact. NWM N.V. Group's estimates of expected credit loss provisions in 2020 will incorporate the impact of the outbreak on macroeconomic forecasts.

Other than this, there have been no significant events between 31 December 2019 and the date of approval of these accounts which would require a change to, or additional disclosure in, the accounts.

The publication of these accounts was approved by the Supervisory Board on 12 March 2020. The financial statements will be presented for adoption at the forthcoming General Meeting. With regard to the adoption of the financial statements of NWM N.V., the Articles of Association state: 'The resolution to adopt the financial statements will be passed by an absolute majority of votes validly cast be the General Members' Council.'

Amsterdam, 12 March 2020

Supervisory Board	Managing Board
Maarten Klessens	Harm Bots
Annelies van der Pauw	Cornelis Visscher
Anne Snel	Angelique Slach
	Marije Elkenbracht

Other information

Articles of Association

The description set out below is a summary of the material information relating to the Company's share capital, including summaries of certain provisions of the Articles of Association and applicable Dutch law in effect at the relevant date. The Articles of Association of NWM N.V. were last amended by a notarial deed executed by Mr B.J. Kuck, civil law notary in Amsterdam on 30 April 2018, under register entry number 33002587.

As stated in the Articles of Association the object of the Company is:

- The participation in, collaboration with and financing, administration and management of other enterprises and companies and the performance of all acts, activities and services which are related or may be conducive thereto.
- The engagement in banking and stockbroking activities, the management of third party assets, acting as trustee, administrator, executor of wills and executive director, non-executive director or liquidator of companies or other organisations, the provision of insurances and the performance of all other acts and activities which are related or may be conducive thereto, all in the broadest possible sense.
- The fostering of the direct and indirect interests of all those who are involved in any way in the Company and the safeguarding of the continuity of the Company and its affiliated enterprise(s).

Shares and voting rights

The company's share capital at 31 December 2019 and 2018 consisted of 11,112 issued and fully paid ordinary shares of €4.50 each. The Company's authorised share capital amounts to €225,000. It comprises 41,500 ordinary shares, each with a nominal value of €4.50, and 8,500 preference shares, each with a nominal value of €4.50.

When shares are issued, each holder of shares shall have pre-emptive right, in proportion to the aggregate amount of their shares, except in the case of an issue of shares for a consideration other than in cash or an issue of shares to employees of the company or of a group company (art.9).

In the event of the dissolution and liquidation of the Company, the assets remaining after payment of all debts will be distributed to the shareholders of ordinary shares on a pro-rata basis (art 39.3).

Relations with shareholders

Rights of shareholders

Any resolution to amend the Articles of Association or dissolve NWM N.V. may only be passed by the General Meeting of Shareholders following a proposal by the Managing Board which has been approved by the Supervisory Board. A copy of the proposal containing the literal text of the proposed amendments shall be made available for inspection by the holders of shares of NWM N.V. at the offices of NWM N.V. and at the offices stated in the convocation to the meeting, from the day of convocation to the end of the Meeting. Each Shareholder may obtain a full copy of the proposal free of charge.

Meetings of shareholders and convocation

General meetings of shareholders shall be held in Amsterdam, or in The Hague, Rotterdam, Utrecht or Haarlemmermeer (Schiphol). Annual General Meeting of Shareholders must be held within six months of the end of each financial year. In addition, General meetings of shareholders shall be held as frequently as deemed necessary by the Managing Board or the Supervisory Board and when required by law or by the Articles of Association. General meetings of shareholders shall be convened by the Managing Board or the Supervisory Board, without prejudice to the provisions of Sections 110, 111 and 112 of Book 2 of the Netherlands Civil Code. Convocation shall take place not later than on the fifteenth day prior to the day of the meeting. Convocation shall state the items to be discussed or alternatively notice shall be given that such items may be inspected at the company's offices.

Proposals to amend the Articles of Association or proposals relating to a reduction of the company's capital shall always be included in the actual convocation.

Code of conduct

The code of conduct applies to everyone who works for the NWM N.V. Group.

It promotes honest and ethical conduct, including the handling of actual or apparent conflicts of interest between personal and professional relationships. The NWM N.V. Group recognises that personal conduct, business integrity and the NWM N.V. Group's security are crucial, and the code of conduct serves to inform those who work for us of the NWM N.V. Group's expectations of their behaviour and practices.

The code of conduct is available on the RBS Group's website www.rbs.com and will be provided to any person without charge, upon request, by contacting Company Secretariat on the telephone number listed below.

Important addresses

Company Secretariat

Claude Debussylaan 94
1082 MD Amsterdam
The Netherlands
Telephone: + 31 20 464 26 99

Investor Relations

250 Bishopsgate
London EC2M 4AA
Telephone: +44 (0)207 672 1758
Facsimile: +44 (0)207 672 1801
Email: investor.relations@rbs.com

Registered office

Claude Debussylaan 94
1082 MD Amsterdam
The Netherlands

Website

https://www.natwestmarkets.com/natwest-markets/about-us/board-and-governance/natwest-markets-n-v-.html

Independent auditor's report

To: the shareholders and supervisory board of NatWest Markets N.V.

Report on the audit of the financial statements 2019 included in the Annual Report and Accounts

Our opinion

We have audited the 2019 financial statements of NatWest Markets N.V. (NWM N.V. or the Company), based in Amsterdam. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

- The accompanying consolidated financial statements give a true and fair view of the financial position of NWM N.V. as at 31 December 2019, and of its result and its cash flows for 2019 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code
- The accompanying company financial statements give a true and fair view of the financial position of NWM N.V. as at 31 December 2019, and of its result for 2019 in accordance with Part 9 of Book 2 of the Dutch Civil Code

The consolidated financial statements comprise:

- The consolidated balance sheet as at 31 December 2019
- The following statements for 2019: the consolidated income statement, the consolidated statements of comprehensive income and changes in equity and the consolidated cash flow statement
- The notes comprising a summary of the significant accounting policies and other explanatory information

The company financial statements comprise:

- The company balance sheet as at 31 December 2019
- The company income statement for 2019
- The notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the Our responsibilities for the audit of the financial statements section of our report.

We are independent of NWM N.V. in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the "Wet toezicht accountantsorganisaties" (Wta, Audit firms supervision act), the "Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten" (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the "Verordening gedrags- en beroepsregels accountants" (VGBA, Dutch Code of Ethics).

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

Our audit approach

Our understanding of the business

NWM N.V. is a licensed bank of which main businesses are trading financial instruments and lending with corporates and financial institutions. The group is structured in components and we tailored our group audit approach accordingly. We paid specific attention in our audit to a number of areas driven by the operations of the group and our risk assessment. We refer to the key audit matters below for the transfer of derivatives and the loan portfolio for clients located in Western Europe (hereafter 'Western Europe Corporate Portfolio') from NWM Plc and National Westminster Bank Plc to NWM N.V., valuation of financial instruments with higher risk characteristics including related income from trading activities, transfer pricing adjustments, uncertain tax positions and deferred tax asset recognition and IT systems and controls impacting financial reporting.

We start by determining materiality and identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud, non-compliance with laws and regulations or error in order to design audit procedures responsive to those risks, and to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Materiality

Materiality	€32 million (2018: €43 million)
Benchmark applied	1.5% of total equity (2018: 1.5%)
Explanation	Based on our professional judgement, a benchmark of 1.5% of total equity is an appropriate quantitative indicator of materiality and it best reflects the focus of users of the financial statements on repayment (capacity) of equity, while earnings are highly volatile following the start of new business transferred from NWM Plc in 2019.

We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the supervisory board that misstatements in excess of €1.6 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Our focus on fraud and non-compliance with laws and regulations

Our responsibility

Although we are not responsible for preventing fraud or non-compliance and cannot be expected to detect non-compliance with all laws and regulations, it is our responsibility to obtain reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error. Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Non-compliance with laws and regulations may result in fines, litigation or other consequences for the company that may have a material effect on the financial statements.

Our audit response related to fraud risks

In order to identify and assess the risks of material misstatements of the financial statements due to fraud, we obtained an understanding of the entity and its environment, including the entity's internal control relevant to the audit and in order to design audit procedures that are appropriate in the circumstances. As in all of our audits, we addressed the risk of management override of internal control. We do not audit internal control per se for the purpose of expressing an opinion on the effectiveness of the company's internal control.

We considered available information and made enquiries of relevant executives, directors (including internal audit, legal and compliance) and the supervisory board. As part of our process of identifying fraud risks, we evaluated fraud risk factors with respect to financial reporting fraud, misappropriation of assets and bribery and corruption in close co-operation with our forensic specialists. In our risk assessment we considered the potential impact of performance based bonus schemes which the company has in place for certain employees. Furthermore, as NWM N.V. is a global company, operating in multiple jurisdictions, we considered the risk of bribery and corruption.

We evaluated the design and the implementation and, where considered appropriate, tested the operating effectiveness, of internal controls that mitigate fraud risks. In addition, we performed procedures to evaluate key accounting estimates for management bias in particular relating to important judgement areas and significant accounting estimates as disclosed in Note "Accounting Policies – Critical accounting policies and key sources of estimation uncertainty and judgements" to the financial statements. We have also used data analysis to identify and address high-risk journal entries. We refer to the key audit matters below for our procedures performed and observations over key accounting estimates regarding the valuation of financial instruments with higher risk characteristics including related income from trading activities, transfer pricing arrangements and recognition and valuation of deferred tax assets.

We incorporated elements of unpredictability in our audit. We considered the outcome of our other audit procedures and evaluated whether any findings were indicative of fraud or non-compliance. If so, we re-evaluate our assessment of fraud risk and its resulting impact on our audit procedures.

Our audit response related to risks of non-compliance with laws and regulations

We assessed factors related to the risks of non-compliance with laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general industry experience, through discussions with the Managing Board, reading minutes, inspection of internal audit and compliance reports and performing substantive tests of details of classes of transactions, account balances or disclosures.

We also inspected lawyers' letters and correspondence with regulatory authorities and remained alert to any indication of (suspected) non-compliance throughout the audit. Finally we obtained written representations that all known instances of non-compliance with laws and regulations have been disclosed to us.

Going concern

In order to identify and assess the risks of going concern and to conclude on the appropriateness of management's use of the going concern basis of accounting, we consider based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern.

Scope of the group audit

NWM N.V. is at the head of a group of entities. The financial information of this group is included in the consolidated financial statements of NWM N.V. The banking activities of NWM N.V. are structured in geographical segments: the Netherlands, United Kingdom, other parts of the European Union and the rest of the world. NWM N.V. has one subsidiary in Switzerland that provides insurance services.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

We assigned a full scope to the banking activities in the geographical segments mentioned above which are managed centrally and audited by the group audit team. The component in Switzerland, focusing on insurance services, is audited by our Swiss EY member firm. We assigned a specific scope to the component in Switzerland. We sent detailed instructions covering significant areas including the relevant risks of material misstatement and set out the information required to be reported to the group audit team. We held calls with the auditor of this component and discussed the planning, risk assessment, procedures performed, findings and observations reported to the group auditor. This resulted in a nearly full coverage of total equity and total assets.

Independent auditor's report

By performing the procedures mentioned above at group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the consolidated financial statements.

Teaming and use of specialists

We ensured that the audit teams both at group and at component levels included the appropriate skills and competences which are needed for the audit of a listed client in the banking industry. We included specialists in the areas of IT audit, forensics, treasury, income tax and have made use of our own experts in the areas of valuations of derivatives and insurance liabilities.

General audit procedures

Our audit further included among others:

- Performing audit procedures responsive to the risks identified, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the supervisory board. The key audit matters are not a comprehensive reflection of all matters discussed.

The key audit matter "the measurement and held-for-sale classification of associate Alawwal" which was included in our last year's auditor's report, is no longer considered a key audit matter for this year due to the related divestment during 2019.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Transfer of derivatives and Western Europe Corporate Portfolio (key audit matter)
(Note 13 'Business transfers to the financial statements')

Risk	As part of its plan to be operationally ready for RBS Group (the Group) to continue to serve European Economic Area (EEA) customers after Brexit, NWM N.V. became the principal NWM Plc and corporate banking trading entity for EEA customers. As such the in-scope EEA component of business was transferred from NWM Plc and National Westminster Bank Plc to NWM N.V. The transfer was governed under Part VII Business Transfer of the Financial Services and Markets Act 2000 "FSMA Scheme". NWM N.V. began transacting new business on 25 March 2019. Given the significance of the transfers to NWM N.V.'s balance sheet and the ongoing impact to its operations, we consider this a key audit matter. Reference is made to Note 13 'Business transfers'.
Our audit approach	We gained an understanding of management's process for implementing the transfers. We verified that Court approval was obtained for FSMA scheme and examined regulatory correspondence to understand the impact and resolution of any significant findings that might impact financial reporting. We obtained an understanding of the migration process, key governance and oversight controls around the transfers between legal entities and tested the design and operating effectiveness of the overall review and approval. We also reviewed internal project reports and Risk & Control Committee minutes to assess the effectiveness of management's review process around the transfers and the conclusions reached. We challenged management's assessment of the accounting treatment of the transfer as well as the valuation of the assets and liabilities moved and performed substantive procedures over the transfer of balances between legal entities. We tested the design and operating effectiveness of the Group's key controls over financial reporting as it relates to the implications of the transfer and the relevant disclosures.
Key observations	We concur with management's accounting for the transfer of trading assets and liabilities and Western Europe client portfolio and the related disclosures in the 2019 annual accounts. We concur with the related disclosures in the financial statements.

Valuation of financial instruments with higher risk characteristics including related income from trading activities (key audit matter)
(Note 10 'Financial instruments-valuation' to the financial statements)

Risk	The valuation of financial instruments with higher risk characteristics involves both significant judgement and the risk of inappropriate revenue recognition through incorrect pricing as outlined in the bullets below. The judgement in estimating fair value of these instruments can involve complex valuation models and significant fair value adjustments, both of which may be reliant on data inputs where there is limited market observability. The judgements and estimates are: • Complex model-dependent valuations, which include interest rate swaps linked to pre-payment behaviour • Certain fair value adjustments made to derivatives including Funding Valuation Adjustments (FVA) and Credit Valuation Adjustments (CVA) relating to derivative counterparties whose credit spread is less readily able to be determined; and • The measurement of related revenue through the valuation of these instruments given the level of management judgement involved. Reference is made to Note 10 'Financial instruments - valuation'.
Our audit approach	We evaluated the design and operating effectiveness of controls relating to financial instrument valuation and related measurement including independent price verification, model review and approval, collateral management and income statement analysis and reporting. Among other procedures, we involved our financial instrument valuation and modelling specialists to assist us in performing the following procedures: • Testing complex model-dependent valuations by performing independent calculations to assess the appropriateness of models and the adequacy of assumptions and inputs used by NWM N.V.; and • Comparing the methodology used for fair value adjustments to current market practice. We re-valued a sample of counterparty level FVA and CVAs, compared funding spreads to third party data and independently challenged illiquid CVA inputs. We also performed back-testing analysis of recent trade activity to evaluate the drivers of significant differences between book value and trade value and to assess the impact on the fair value of similar instruments within the portfolio. We considered the implications of any changes to the business on the valuation of financial instruments in accordance with the relevant accounting standards. Where differences between our independent valuation and management's valuation were outside our thresholds, we performed additional testing over each variance to assess the appropriateness of the valuation of financial instruments with higher risk characteristics including related income from trading activities.
Key observations	We are satisfied that the models and assumptions used by management to reflect the fair value of financial instruments with higher risk characteristics and the recognition of related income are reasonable and in accordance with IFRS. We concur with the related disclosures in the financial statements.

Transfer pricing arrangements, uncertain tax positions and deferred tax asset recognition (key audit matter)
(Note 2 'Non-interest income', Note 6 'Tax', Note 28 'Related Parties' to the financial statements)

Risk	In March 2019 Western Europe clients were transferred from NWM Plc to NWM N.V., initiating a new operating model for NWM N.V. As the application of local regulations on income tax is complex, involvement of the different tax authorities is required for compliancy of the new transfer pricing agreements related to intergroup transactions and services. NWM N.V. has designed a set of profit allocation models for its activities based on cost plus, return on equity, revenue split and comparable uncontrolled prices. The adequacy of the methodology depends on the underlying business and suitability of the transfer pricing arrangement and is therefore subject to judgement. Furthermore, uncertainties exist regarding the long term business plans and future profitability of NWM N.V. due the ongoing Brexit process and wider strategic review of the NWM franchise. Consequently, the recognition and measurement of income from transfer pricing agreements and corporate income tax require NWM N.V. to exercise significant judgement in estimating future revenue and tax positions as per 31 December 2019. The measurement of corporate income tax as well as the assessment of unrecognized contingent tax assets are subject to judgement and estimation uncertainty. Among others, this relates to intergroup transactions and services, transfer pricing models, carry forward tax losses and tax credits. There is a risk that income, corporate income tax expense, current and deferred tax positions may be misstated as a result of the transfer pricing models not being accepted by the NL and UK tax authorities. Deferred tax assets may be misstated due to the incorrect assessment of utilization of carry forward tax losses and tax credits. Reference is made to the 'Critical accounting policies and key sources of estimation uncertainty and judgements' sections in the 'Accounting Policies' to the financial statements, Note 2 'Non-interest income', Note 6 Tax and Note 28 Related Parties.
Our audit approach	We tested the design and implementation of internal controls across the processes relevant to transfer pricing adjustments and recognition of deferred tax assets. This included, amongst other, controls governing model inputs, post model adjustments, posting of journal entries and disclosures. Furthermore, with the support of our internal transfer pricing and income tax specialists, we assessed the completeness, measurement and accuracy of transfer pricing adjustments and documentation and the recoverability of tax losses and tax credits. In order to understand and evaluate management's judgements, we considered the status of current tax authority enquiries and correspondences, current estimates and developments in the tax environment and challenged management's key assumptions. Finally, we reviewed the completeness and accuracy of the disclosures relating to the uncertain tax positions and transfer pricing agreements in compliance with EU-IFRS requirements, including critical assumptions and estimates used together with the sensitivity analysis.
Key observations	Based on our audit of the management's assessment and measurement of the transfer pricing income, uncertain tax positions and deferred tax assets, we concluded that the recognized transfer pricing income is reasonable. Furthermore, we concur with the treatment of the uncertain tax positions and deferred tax assessment of the management at 31 December 2019. We concur with the related disclosures in the financial statements.

IT systems and controls impacting financial reporting (key audit matter)

Risk	The IT environment is complex and pervasive to the operations of NWM N.V. 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. Such controls contribute to mitigating the risk of potential fraud or errors as a result of changes to applications and data. 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.
Our audit approach	We evaluated the design and operating effectiveness of IT controls over the applications, operating systems and databases that are relevant to financial reporting. 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 controls. We tested system migrations and related technology changes (including where relevant new systems) resulting from transformation programmes that were 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 removal of users. We identified an increasing number of systems outsourced to third party service providers. For these systems, we tested IT general controls through evaluating the relevant Service Organisation Controls reports produced by third parties by assessing the timing of the reporting and the controls tested. We also tested required complementary controls performed by management. Where control deficiencies were identified, we tested remediation activities performed by management and compensating controls in place and assessed where necessary to mitigate any residual risk.
Key observations	The combination of the tests of the controls and the substantive tests performed, provided sufficient evidence to enable us to rely on the continued operation of the IT systems for the purposes of our audit.

Report on other information included in the Annual Report and Accounts

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of the following sections:

- Financial review
- Capital and risk management
- Corporate governance
- Risk factors
- Other information as required by Part 9 of Book 2 of the Dutch Civil Code
- Additional information

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements
- Contains the information as required by Part 9 of Book 2

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

The Managing Board is responsible for the preparation of the other information, including the management board report (consisting of Financial review and Corporate governance sections) in accordance with Part 9 of Book 2 of the Dutch Civil Code and the other information required by Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were engaged by the Supervisory Board as auditor of NWM N.V. on 22 July 2016, as of the audit for the year 2016 and have operated as statutory auditor ever since that date.

No prohibited non-audit services
We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

Other non-prohibited services provided
In addition to the statutory audit of the financial statements we provided the following services:

- We issued auditor's reports and reports of factual findings following the audit of the prudential statements prepared by management on behalf of the Dutch Central Bank, consisting of Financial Reporting (FinRep), Common Reporting (CoRep) and following the agreed upon procedures regarding Interest rate risk reporting.
- Asset Segregation: We performed reasonable assurance procedures regarding Asset Segregation
- ECB Fee Return: We issued a report of factual findings following the agreed upon procedures performed.

Description of responsibilities for the financial statements
Responsibilities of the Managing Board and the Supervisory Board for the financial statements
The Managing Board is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Managing Board is responsible for such internal control as the Managing Board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Managing Board is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Managing Board should prepare the financial statements using the going concern basis of accounting unless the Managing Board either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The Managing Board should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements
Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

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. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgement and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. The Our audit approach section above includes an informative summary of our responsibilities and the work performed as the basis for our opinion.

Communication
We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.
In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Amsterdam, 13 March 2020

Ernst & Young Accountants LLP

P.J.A.J. Nijssen

Risk factors

Principal Risks and Uncertainties

Set out below are certain risk factors that could adversely affect the NWM N.V. Group's future results, its financial condition and prospects and cause them to be materially different from what is forecast or expected and directly or indirectly impact the value of its securities in issue. These risk factors are broadly categorised and should be read in conjunction with other sections of this annual report, including the forward looking statements section, the strategic report and the capital and risk management section, and should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties facing the NWM N.V. Group.

Strategic Risk

RBS Group has announced a new strategy that will require changes in the NWM Group's business (including the NWM N.V. Group), including reductions in capital allocated to the NWM Group its cost base and complexity.

On 14 February 2020, the RBS Group announced a new strategy, focused on becoming a Purpose-led business. This new strategy will require changes in the NWM Group's business, including an increased focus on serving the RBS Group's corporate & institutional customer base, with NWM N.V. remaining the NWM Group's principal European operating company. Over the medium term, the NWM Group intends to simplify its operating model and technology platform, as well as reduce its cost base and capital requirements. Together, these initiatives are referred to as the 'NWM Refocusing'. The changes required are substantial, will be implemented over several years, and may not result in the expected outcome on the timeline and in the manner contemplated.

The scale and scope of the intended changes present material and increased operational, IT system, culture, conduct, business and financial risks to the NWM Group, including NWM N.V., especially during the planning and implementation period. The NWM Refocusing is resource-intensive and disruptive, and will divert management resources, adding to the challenge for the new senior management team of the NWM Group. In addition, the scale of changes being concurrently implemented will require the implementation and application of robust governance and controls frameworks and further consolidation of IT systems and there is no guarantee that the NWM Group and by extension, the NWM N.V. Group, will be successful in doing so. It is difficult to predict the effect of the NWM Refocusing on the NWM N.V. Group in detail at this time, at entity level or otherwise. There can be no assurance that the implications for the NWM N.V. Group will correspond with or be proportionate to those for the NWM Group. See also, 'Operational risks are inherent in the NWM N.V. Group's businesses.'
NWM Plc's risk weighted assets (RWAs) are expected to reduce by £14-18 billion in the medium term, through accelerating the exit of exposures and an optimisation of inefficient capital across the NWM Group, especially in relation to its Rates products. The implications for NWM N.V. are uncertain but not currently expected to be proportionate given its different RWA exposure. However, the NWM Refocusing entails significant commercial, operational and execution risks which may negatively impact NWM N.V. should, for example, RWAs take longer to exit or are more costly to reduce than anticipated or not possible to exit at all or operating costs be higher than anticipated, revenues reduce relatively faster than costs as a result of execution issues or market conditions, or if NWM Plc and/or NWM N.V. have difficulties accessing the funding market, if required, on acceptable terms or at all (including if the legal entity credit ratings are negatively impacted). Should any of the above arise, additional management actions by the NWM Group or the RBS Group may be triggered which may impact NWM N.V. The implementation of the NWM Refocusing is also expected to result in material costs for the NWM Group and could be materially higher than anticipated, including due to material uncertainties and factors outside of the NWM Group's control, or phased in a manner other than currently expected.

The focus on meeting cost reduction targets will require head-count reductions by the NWM Group and may also result in limited investment in other areas which could affect the NWM N.V. Group's long-term prospects, product offering or competitive position and its ability to meet its other targets. A significant proportion of the cost savings are dependent on simplification of the IT systems and therefore may not be realised in full if IT capabilities are not delivered in line with assumptions. These risks will be present throughout the period of refocusing and alignment which is expected to last for the medium term.

Each of these risks could jeopardise the delivery and implementation of the NWM Refocusing, result in higher than expected costs, impact the NWM N.V. Group's products and services offering, reputation with customers or business model and adversely impact the NWM N.V. Group's ability to deliver its strategy and meet its targets and guidance, any of which could in turn have a material adverse impact on the NWM N.V. Group's results of operations, financial condition and prospects. The NWM Refocusing envisages a smaller scaled business and its successful implementation will result in substantially lower revenues.

As a result, there can be no certainty that the NWM Refocusing will be successfully executed, that the NWM Group will meet targets and expectations, or that the refocused NWM Group will be a viable, competitive business aligned to the RBS Group's corporate and institutional customer offering.

The NWM Group may not be able to successfully implement the NWM Refocusing and it may not achieve its targets and the NWM Group may not ultimately result in a viable, competitive business.

As part of the NWM Refocusing, the NWM Group has set a number of financial, capital and operational targets and expectations including for the NWM N.V. Group. These include (but are not limited to) expectations relating to reductions in RWAs and the timing thereof, and CET1 ratio.

The successful implementation of the NWM Refocusing is highly complex and the ability to meet associated targets and expectations is subject to various internal and external factors and risks. These include, but are not limited to, market, regulatory, economic and political uncertainties, operational risks, insufficient cost reduction plans, risks relating to the RBS Group's, the NWM Group's and the NWM N.V. Group's business models and strategies and delays or difficulties in implementing the NWM Refocusing. The successful implementation of the NWM Refocusing will also depend on how the NWM Refocusing is perceived by its customers, regulators, rating agencies, stakeholders and the wider market, how that impacts its business, and the NWM N.V. Group's ability to retain employees required to deliver the transition and its go-forward strategic priorities.

Revenues will be negatively impacted, and the implementation may be more difficult or expensive than expected. Costs relating to the NWM Refocusing may also be higher than anticipated. Uncertainty regarding the implications of the NWM Refocusing on the NWM N.V. Group, regulatory pressures or changes in the economic and political and regulatory environment in which the NWM N.V. Group operates or regulatory uncertainty or economic volatility, including (but not limited to) as a result of the continued uncertainty surrounding the terms of the UK's exit from the EU and the volume and pace of transfers of European Economic Area clients from NWM Plc to NWM N.V., or changes in the scale and timing of policy responses on climate change, may require the NWM Group to adjust aspects of the NWM Refocusing relevant to the NWM N.V. Group or the timeframe for its implementation. See also, 'NWM N.V. is the RBS Group's banking and trading entity located in the Netherlands. NWM N.V. has recently repurposed its banking licence, and the NWM N.V. Group may be subject to further changes.'

The NWM N.V. Group's ability to serve its customers may be diminished by the implementation of the NWM Refocusing. In addition, customer reactions to the changed nature of the NWM Group's business model as a result may be more adverse than expected and previously anticipated revenue and profitability levels may not be achieved in the timescale envisaged or at all. An adverse macroeconomic environment, including sustained low interest rates, continued political and regulatory uncertainty and/or strong market competition may also pose significant challenges to the successful implementation of the NWM Refocusing and the achievement of its targets. The prolonged period of implementation and changed nature of the NWM Group's business may also adversely affect the credit rating assigned to NWM Plc and certain of its subsidiaries (including NWM N.V.) or any of their respective debt securities, which could adversely affect the availability and cost of funding for the NWM N.V. Group and negatively impact the NWM N.V. Group's liquidity position.

Should the NWM Group not be able to implement or execute the NWM Refocusing as contemplated, it may negatively impact revenues for the NWM N.V. Group, its ability to meet targets and expectations and could lead to revisions to the NWM Refocusing strategy, including management actions by the RBS Group. Such changes and revisions could have an adverse effect on the NWM N.V. Group, and may affect its ability to be a viable and competitive business.

The RBS Group has announced a new Purpose-led Strategy which will further influence the NWM Refocusing and the go-forward strategy of the NWM N.V. Group.
On 14 February 2020 the RBS Group announced a new strategy, focused on becoming a more purpose-led business, designed to champion potential, and to help individuals, families and businesses to thrive. The strategy has three areas of focus – climate change, enterprise and learning – where RBS Group believes it can have the greatest positive impact. Together, these strategic initiatives are referred to as the RBS Group's 'Purpose-led Strategy'. To deliver against this purpose and deliver sustainable returns, the RBS Group intends to: focus on the lifecycles of its customers using insights about customers to evolve product and service offerings; re-engineer and simplify the RBS Group by updating operational capability and technology and strengthening governance and control frameworks to reduce costs and improve customer journeys; focus on innovation and partnership to drive change and achieve growth in new product areas and customer segments; and have a sharper focus on capital allocation and deploy it more effectively for customers, in particular through the NWM Refocusing.

The implementation of the new Purpose-led Strategy is highly complex and will require the NWM N.V. Group to set supporting targets and implement a large number of concurrent and interdependent actions and initiatives, including the NWM Refocusing, any of which could fail to be implemented in the manner and to the extent contemplated, due to operational, legal, execution or other issues. The anticipated changes for the NWM N.V. Group to support the RBS Group's successful implementation of the Purpose-led Strategy are expected to be substantial and some will take many years to fully embed and may not result in the expected outcome on the timeline and in the manner contemplated. See also – 'The RBS Group's Purpose-led Strategy includes one area of focus on climate which entails significant execution risk and is likely to require material changes to the business model of the RBS Group (including the NWM N.V. Group) over the next ten years.'

As part of its new Purpose-led Strategy, the RBS Group has set a number of financial, capital and operational targets and expectations, both for the short term and throughout the implementation period. In addition to the NWM Refocusing, the RBS Group will require significant reductions to its wider cost base. In addition to requiring additional cost reductions within the NWM N.V. Group, this could affect the cost and scope of the RBS Group's provision of services to the NWM Group, which individually and collectively may impact the NWM N.V. Group's competitive position and its ability to meet its other targets. The implementation and delivery of the Purpose-led Strategy by the RBS Group could have a material adverse impact on the NWM N.V. Group's results of operations, financial condition and prospects.

The RBS Group's Purpose-led Strategy includes one area of focus on climate change which entails significant execution risk and is likely to require material changes to the business model of the RBS Group (including the NWM N.V. Group) over the next ten years.
The RBS Group's new strategy on climate change, together with its commitments under the UN Principles on Responsible Banking to align its strategy to the 2015 Paris Agreement will require the NWM N.V. Group to dedicate resource to the RBS Group's efforts to develop the capacity and methodology to understand, and measure the climate impact of the emissions from its financing activity. The RBS Group must identify its approach to this on a short time scale to meet its target of setting and publishing sector-specific targets by 2021 and its goal of setting comprehensive climate impact scenario-based reduction targets and plans for the alignment to the 2015 Paris Agreement by 2022, and be able to adequately define and benchmark its current climate impact to demonstrate its progress against its ambition to reduce this by half over the next ten years. The NWM N.V. Group therefore expects to set targets for reductions to the NWM N.V. Group's financed emissions which are currently unknown in scope and nature but are expected to be significant. These targets, together with the impact of embedding climate into its risk framework and other regulatory, policy and market changes, is likely to necessitate far reaching changes to the NWM N.V. Group's operating model and existing exposures, and potentially on timescales outside of risk appetite. Whilst the risks presented by climate change are unprecedented, how the NWM N.V. Group implements the RBS Group's strategy to respond to climate change may also have a material adverse effect on the NWM N.V. Group's business and funding, and its future profitability over the short, medium and long term. Once established, there is no certainty that the NWM N.V. Group will be able to meet its climate change targets and ambitions or that seeking to do so will not have an adverse impact on the NWM N.V. Group, including its competitive position. See also 'The NWM Group expects to face significant risks in connection with climate change and the transition to a low carbon economy'.

Financial resilience risk

The NWM Group may not meet the targets it communicates to the market, generate returns or implement its strategy effectively.
The NWM N.V. Group is subject to transfer pricing arrangements with its parent entity, NWM Plc. Arm's length transfer pricing legislation in both the Netherlands and UK requires that, for transactions between related parties, each entity is rewarded on the same basis as two independent parties negotiating a contract covering the same activities. The transfer pricing arrangements between NWM N.V. and NWM Plc require approval by both counterparties and are subject to audit by Dutch and UK tax authorities. A significant portion of NWM N.V. Group's income derives from transfer pricing income received from NWM Plc. Should the level of such income change as a result of regulatory intervention or otherwise, this may have a material and adverse impact on the NWM N.V. Group's profitability.

As part of the NWM Refocusing, the NWM N.V. Group has a number of stated internal and external financial, capital and operational targets including in respect of: CET1 ratio targets, leverage ratio targets, targets in relation to local regulation, funding plans and requirements, management of RWAs and the timing thereof, employee engagement, diversity and inclusion as well as environmental, social and customer satisfaction targets.

The NWM N.V. Group's ability to meet its targets and to successfully implement its strategy is subject to various internal and external factors and risks. These include, but are not limited to, client and staff behaviour and actions, market, regulatory, economic and political factors, developments relating to litigation, governmental actions, investigations and regulatory matters, and operational risks and risks relating to the NWM N.V. Group's business model and strategy (including risks associated with environmental, social and governance issues) and the NWM Refocusing. See also 'The NWM Group may not be able to successfully implement the NWM Refocusing and it may not achieve its targets and the NWM Group may not ultimately result in a viable, competitive business'.

A number of factors may impact NWM N.V.'s ability to maintain its current CET1 ratio targets, including impairments, the extent of organic capital generation or the destruction and evolution of RWAs. In addition, the exit of legacy positions in NWM N.V. may be accompanied by the recognition of disposal losses which may be partially recognised prior to the disposal and which may be higher than anticipated.

The NWM N.V. Group's ability to meet its planned reductions in annual costs may vary considerably from year to year. Furthermore, the focus on meeting balance sheet and cost reduction targets may result in limited investment in other areas which could affect the NWM N.V. Group's long-term product offering or competitive position and its ability to meet its other targets, including those related to customer satisfaction.

Should NWM N.V.'s income be adversely affected due to transfer pricing factors, or should it be unable to meet its targets or generate a sustainable return, there may be an adverse impact on NWM N.V. Group's profitability and impact its viability.

NWM N.V. is the RBS Group's banking and trading entity located in the Netherlands. NWM N.V. has recently repurposed its banking licence, and the NWM N.V. Group may be subject to further changes.

As part of the RBS Group's strategy, NWM N.V. is RBS Group's banking and trading entity located in the Netherlands serves EEA customers, and became a NWM Plc subsidiary in November 2019. The banking licence of NWM N.V. was repurposed for which purpose a declaration of non-objection (DNO) was received from the central bank of the Netherlands (*De Nederlandsche Bank*) (DNB). Certain conditions are attached to the NWM N.V.'s banking licence, and approval from the DNB is required for material changes to the NWM N.V.'s operating model. In addition, although the head office for NWM N.V. is located in Amsterdam, the NWM N.V. Group also operates branches in France, Germany, Ireland, Italy, Spain and Sweden.

As a subsidiary of NWM Plc (and ultimately RBSG plc), NWM N.V. utilises a number of NWM Group and RBS Group systems, policies and frameworks (via a shared services model) including in relation to: technology (including innovation) and network infrastructure, marketing, risk frameworks, financial accounting systems, reporting, on-boarding processes, model development and validation, certain administrative and legal services and governance. See also, 'Operational risks are inherent in the NWM N.V. Group's businesses'). In addition, the products that NWM N.V. offers are based on those offered by NWM Plc. As such, any changes made to systems, policies, frameworks or products of the RBS Group or NWM Group may have a corresponding adverse effect on NWM N.V..

On 31 January 2020, the UK ceased to be a member of the European Economic Area (Brexit) and has entered a transition period, currently due to expire on 31 December 2020. During this transition period, the UK retains the benefits of membership of the EU's internal market and the customs union, but loses its representation in the EU's institutions and its role in EU decision-making. As part of RBS Group's strategy, due to Brexit, it is anticipated that European Economic Area ('EEA') clients of RBS Group have been, or will be, transferred from NWM Plc and NWB Plc to NWM N.V.. Due to the uncertainty surrounding the transition period, the volume and pace of transfers of clients from NWM Plc and NWB Plc is subject to significant uncertainty, and may be affected by current and future regulation and client demand. Furthermore, the uncertainty surrounding Brexit could have an impact on NWM N.V.'s future operating model and on the volume and pace of transfers of clients from NWM Plc and NWB Plc to NWM N.V. which may affect the level of staffing and resourcing required for NWM N.V.. In turn, any of the above could affect NWM N.V.'s RWA levels, CET1 ratio, liquidity and funding positions. See 'Prevailing uncertainty regarding the terms of the UK's withdrawal from the European Union has adversely affected and will continue to affect the NWM Plc (NWM N.V.'s parent entity) and RBSG plc (NWM N.V.'s ultimate parent) and may have an indirect effect on the NWM N.V. Group'.

A number of the factors described above are outside the control of NWM N.V., and should changes be made, there may be a material and adverse impact on NWM N.V.'s profitability.

The NWM N.V. Group is reliant on access to the capital markets to meet its funding requirements.

The NWM N.V. Group's funding plan currently anticipates that it will be required to issue debt securities in order to meet its funding requirements, based on its current and anticipated business activities, and such funding requirements necessitate the NWM N.V. Group to diversify its existing funding sources. The NWM N.V. Group may therefore be reliant on frequent access to the capital markets for funding, and on terms that are acceptable to it. Such access entails execution risk and could be impeded by a number of internal or external factors, including, those referred to below in 'The NWM N.V. Group faces market risk as a result of increased political and economic risks and uncertainty in the European and global markets', 'Prevailing uncertainty regarding the terms of the UK's withdrawal from the European Union has adversely affected and will continue to affect the NWM Plc (NWM N.V.'s parent entity) and RBSG plc (NWM N.V.'s ultimate parent) and may have an indirect effect on the NWM N.V. Group.' and 'Any reduction in the credit rating assigned to RBSG plc, any of its subsidiaries (including NWM Plc or NWM N.V.) or any of their respective debt securities could adversely affect the availability of funding for the NWM N.V. Group, reduce the NWM N.V. Group's liquidity position and increase the cost of funding'.

In addition, NWM N.V. receives capital and funding from the RBS Group and NWM N.V. is therefore reliant on the willingness of RBSG plc to fund its internal capital targets. NWM N.V. has set target levels for different tiers of capital, as percentages of its RWAs. The level of capital and funding required for NWM N.V. to meet its internal targets is therefore a function of the level of RWAs and its leverage exposure in NWM N.V. and this may vary over time.

Any inability of the NWM N.V. Group to adequately access the relevant capital markets, to manage its balance sheet in line with assumptions in its funding plans, or to issue internal capital, may adversely affect the NWM N.V. Group's profitability and viability, and may cause NWM N.V. to fail to meet its regulatory capital requirements.

NWM N.V. may not meet the prudential regulatory requirements for capital and liquidity.

The NWM N.V. Group is required by the DNB to maintain adequate financial resources. Adequate capital also gives the NWM N.V. Group financial flexibility in the face of turbulence and uncertainty in the global economy and specifically in its core markets in the Netherlands, UK and in the EU.

NWM N.V.'s 2020 target CET1 ratio is above 15% on a consolidated basis. This target CET1 ratio is based on expected regulatory requirements, internal modelling and risk appetite (including under stress), taking into account potential transfers of EEA clients from NWM Plc and NWB Plc to NWM N.V. due to Brexit. As at 31 December 2019, NWM N.V.'s CET1 ratio (on a consolidated basis) was 23.1%.

Other factors that could influence the NWM N.V.'s CET1 ratio include, amongst other things (see also, 'RBS Group has announced a new strategy that will require changes in the NWM Group's business (including the NWM N.V. Group), including reductions in capital allocated to the NWM Group its cost base and complexity'):

- a depletion of NWM N.V.'s capital resources through losses (which would in turn impact retained earnings), revenue attrition, increased liabilities, sustained periods of low or lower interest rates, reduced asset values resulting in write-downs or reserve adjustments, impairments, changes in accounting policy, accounting charges or foreign exchange movements;
- a change in the quantum of NWM N.V.'s RWAs, stemming from exceeding target RWA levels, the implementation of the NWM Refocusing, regulatory adjustments (for example, from additional market risk backtesting exceptions) or foreign exchange movements. An increase in RWAs would lead to a reduction in the CET1 ratio;
- changes in prudential regulatory requirements including the Total Capital Requirement for NWM N.V (as regulated by the DNB), including Pillar 2 requirements and regulatory buffers, as well as any applicable scalars;
- further losses (including as a result of extreme one-off incidents such as cyber, fraud or conduct issues) would deplete capital resources and place downward pressure on the CET1 ratio; or

- the timing of planned liquidation, disposal and/or capital releases of legacy entities owned by NWM N.V.

Any capital management actions taken under a stress scenario may affect, among other things, the NWM N.V. Group's product offering, credit ratings, ability to operate its businesses and pursue its current strategies and strategic opportunities as well as negatively impacting investor confidence and the value of the NWM N.V. Group's securities. See also, 'NWM N.V. may not manage its capital, liquidity or funding effectively which could trigger the execution of certain management actions or recovery options' and 'The RBS Group (including the NWM N.V.) may become subject to the application of statutory stabilisation or resolution powers which may result in, among other actions, the write-down or conversion of the certain Eligible Liabilities (including NWM N.V.'s Eligible Liabilities)'.

NWM N.V. may not be able to adequately access sources of liquidity and funding.

The NWM N.V. Group is required to access sources of liquidity and funding through deposits and wholesale funding, including debt capital markets and trading liabilities such as repurchase agreements. The level of deposits and wholesale funding may fluctuate due to factors outside the NWM N.V. Group's control, such as a loss of confidence (including in individual NWM N.V. Group entities, the European banking sector or the banking sector as a whole) and increasing competitive pressures for bank funding or the reduction or cessation of deposits and other funding by foreign counterparties, which could result in a significant outflow of deposits or reduction in wholesale funding within a short period of time. See also, 'The NWM N.V. Group has significant exposure to counterparty and borrower risk'. An inability to grow, roll-over, or any material decrease in, the NWM N.V. Group's deposits, short-term wholesale funding and short-term liability financing could, particularly if accompanied by one of the other factors described above, materially affect the NWM N.V. Group's ability to satisfy its liquidity needs.

The NWM N.V. Group engages from time to time in "fee based borrow" transactions whereby collateral (such as government bonds) is borrowed from counterparties on an unsecured basis in return for a fee. This borrowed collateral may be used by the NWM N.V. Group to finance parts of its balance sheet, either in its repo financing business, derivatives portfolio or more generally across its balance sheet. If such "fee based borrow" transactions are unwound whilst used to support the financing of parts of the NWM N.V. Group balance sheet, then unsecured funding from other sources would be required to replace such financing. There is a risk that the NWM N.V. Group is unable to replace such financing on acceptable terms or at all, which could adversely affect its liquidity position and have a material adverse effect on the NWM N.V. Group's financial condition and results of operations. In addition, because the "fee base borrow" transactions are conducted off-balance sheet (due to the collateral being borrowed) investors may find it more difficult to gauge the NWM N.V. Group's creditworthiness, particularly if these transactions were to be unwound in a stress scenario, and any perceived lack of creditworthiness may adversely affect the NWM N.V. Group.

As at 31 December 2019, the NWM N.V. Group reported a liquidity coverage ratio of 505% on a solo basis. If its liquidity position were to come under stress and if the NWM N.V. Group is unable to raise funds through deposits or wholesale funding sources on acceptable terms or at all, its liquidity position could be adversely affected and it might be unable to meet deposit withdrawals on demand, buy back requests, to repay borrowings as they mature, to meet its obligations under committed financing facilities, to comply with regulatory funding requirements, to undertake certain capital and/or debt management activities, or to fund new loans, investments and businesses. The NWM N.V. Group may need to liquidate unencumbered assets to meet its liabilities, including disposals of assets not previously identified for disposal to reduce its funding commitments. This could also lead to higher funding costs. In a time of reduced liquidity, or market stress, the NWM N.V. Group may be unable to sell some of its assets, or may need to sell assets at depressed prices, which in either case could negatively affect the NWM N.V. Group's results.

NWM N.V. may not manage its capital, liquidity or funding effectively which could trigger the execution of certain management actions or recovery options.

Under the EU Bank Recovery and Resolution Directive ('BRRD'), as implemented in the Netherlands, the NWM N.V. Group must maintain a recovery plan acceptable to its regulator, such that a breach of NWM N.V.'s applicable capital or leverage requirements would trigger consideration of NWM N.V.'s recovery plan, and in turn may prompt consideration of the RBS Group's recovery plan. If, under stressed conditions, the capital or leverage ratio were to decline, there are a range of management actions and recovery options (focused on risk reduction and mitigation) that NWM N.V. could undertake that may or may not be sufficient to restore adequate capital and leverage ratios. Additional management options relating to existing capital issuances, asset or business disposals, capital payments and dividends could also be undertaken to support NWM N.V.'s capital and leverage requirements. The RBS Group may also address a shortage of capital in NWM N.V. by providing parental support to NWM N.V., subject to evidence that the conditions set out in Article 23 of the BRRD, as implemented into Dutch law in article 3:301 and 3:305 of the Dutch Financial Supervision Act (*Wet op het financiëel toezicht*, 'DFSA') have been met. The RBS Group's (and NWM N.V.'s) regulator may also request that the NWM N.V. Group carry out additional capital management actions. The Bank of England has identified single point-of-entry as the preferred resolution strategy for RBS Group. However, under certain conditions set forth in the BRRD, as implemented by the DFSA, as the Dutch resolution authority, the DNB also has the power to 'bail-in' certain securities of the NWM N.V. Group without further action at the RBS Group level.

Any capital management actions taken under a stress scenario may affect, among other things, the NWM N.V. Group's product offering, credit ratings, ability to operate its businesses and pursue its current strategies and strategic opportunities as well as negatively impacting investor confidence and the value of the NWM N.V. Group's securities. See also, 'The RBS Group (including the NWM N.V.) may become subject to the application of statutory stabilisation or resolution powers which may result in, among other actions, the write-down or conversion of certain Eligible Liabilities (including NWM N.V.'s Eligible Liabilities)'. In addition, if NWM N.V.'s liquidity position were to be adversely affected, this may require unencumbered assets to be liquidated or may result in higher funding costs which may adversely impact the NWM N.V. Group's margins and profitability.

Any reduction in the credit rating assigned to RBSG plc, any of its subsidiaries (including NWM Plc or NWM N.V.) or any of their respective debt securities could adversely affect the availability of funding for the NWM N.V. Group, reduce the NWM N.V. Group's liquidity position and increase the cost of funding.

Rating agencies regularly review RBSG plc, NWM Plc, NWM N.V. and other RBS Group entity credit ratings, which could be negatively affected by a number of factors that can change over time including, the credit rating agency's assessment of the NWM N.V. Group's strategy and management's capability and role within the RBS Group; NWM N.V. Group's financial condition including in respect of profitability, asset quality, capital, funding and liquidity; the level of political support for the industries in which the NWM N.V. Group operates; the implementation of structural reform; the legal and regulatory frameworks applicable to NWM N.V. Group's legal structure; business activities and the rights of its creditors; changes in rating methodologies; changes in the relative size of the loss-absorbing buffers protecting bondholders and depositors; the competitive environment, political and economic conditions, including downgrades in domestic and key markets' sovereign credit rating and market uncertainty. See also, RBS Group has announced a new strategy that will require changes in the NWM Group's business (including the NWM N.V. Group), including reductions in capital allocated to the NWM Group its cost base and complexity'.

Any reductions in the credit ratings of RBSG plc, NWM Plc, NWM N.V. or of certain other RBS Group entities, including, in particular, downgrades below investment grade, or a deterioration in the capital markets' perception of NWM N.V. Group's financial resilience could significantly affect NWM N.V. Group's access to money markets, reduce the size of its deposit base and trigger additional collateral or other requirements in derivatives contracts and other secured funding arrangements or the need to amend such arrangements, which could adversely affect the NWM N.V. Group's (and, in particular, NWM N.V.'s) cost of funding and its access to capital markets and could limit the range of counterparties willing to enter into transactions with the NWM N.V. Group (and, in particular, NWM N.V.). This could in turn adversely impact its competitive position and threaten the prospects of the NWM N.V. Group in the short to medium-term.

The NWM N.V. Group operates in markets that are highly competitive, with increasing competitive pressures and technology disruption.

The market for international banking, investment banking and trading services is highly competitive, and competition may intensify in response to evolving customer behaviour, technological changes, competitor behaviour, new entrants to the market, industry trends resulting in increased disaggregation or unbundling of financial services, the impact of regulatory actions and other factors. Innovations such as biometrics, artificial intelligence, the cloud, blockchain, and quantum computing may also rapidly facilitate industry transformation.

Increasingly many of the products and services offered by the NWM N.V. Group are, and will become, technology intensive and the NWM N.V. Group's ability to develop such services and comply with related regulatory changes has become increasingly important to retaining and growing the NWM N.V. Group's client businesses across its geographical footprint. The NWM N.V. Group's innovation strategy (which is based on NWM Group's strategy, and which includes investment in its IT capability intended to improve its core infrastructure and client interface capabilities as well as investments and partnerships with third party technology providers) may not allow the NWM N.V. Group to continue to grow such services in the future. Moreover, certain of the NWM N.V. Group's current or future competitors may be more successful in implementing innovative technologies for delivering products or services to their clients.

Furthermore, the NWM N.V. Group's competitors may be better able to attract and retain clients and key employees and may have access to lower cost funding and/or be able to attract deposits or provide investment banking services on more favourable terms than the NWM N.V. Group. As mentioned above, NWM N.V. operates a shared services model in relation to technology and innovation. Although the NWM N.V. Group invests in new technologies and participate in industry and research-led initiatives aimed at developing new technologies, such investments may be insufficient or ineffective, especially given the focus on its cost savings targets. This may limit additional investment in areas such as financial innovation and therefore could affect the NWM N.V. Group's offering of innovative products or technologies for delivering products or services to clients and its competitive position. The NWM Group and the NWM N.V. Group may also fail to identify future opportunities or derive benefits from disruptive technologies in the context of rapid technological innovation, changing customer behaviour and growing regulatory demands. Furthermore, the development of innovative products depends on the NWM Group and the NWM N.V. Group's ability to produce underlying high quality data, failing which its ability to offer innovative products may be compromised.

If the NWM N.V. Group is unable to offer competitive, attractive and innovative products that are also profitable, it will lose market share, incur losses on some or all of its activities and lose opportunities for growth. In this context, the NWM N.V. Group is investing in the automation of certain solutions and interactions within its customer-facing businesses, including through artificial intelligence. Such initiatives may result in operational, reputational and conduct risks if the technology used is defective, or is not fully integrated into the NWM N.V. Group's current solutions or does not deliver expected cost savings. The investment in automated processes will likely also result in increased short-term costs for the NWM N.V. Group.

In addition, recent and future disposals and restructurings by the NWM N.V. Group, the implementation of the NWM Refocusing and the RBS Group's Purpose-led Strategy (including its climate ambition), cost-reduction measures, as well as employee remuneration constraints, may also have an impact on its ability to compete effectively and intensified competition from incumbents, challengers and new entrants in the NWM N.V. Group's core markets could affect the NWM N.V. Group's ability to provide satisfactory returns. See also, 'The NWM Group may not be able to successfully implement the NWM Refocusing and it may not achieve its targets and the NWM Group may not ultimately result in a viable, competitive business'. Moreover, activist investors have increasingly become engaged and interventionist in recent years, which may pose a threat to the RBS Group's strategic initiatives. Furthermore, continued consolidation in certain sectors of the financial services industry could result in the NWM N.V. Group's remaining competitors gaining greater capital and other resources, including the ability to offer a broader range of products and services and geographic diversity, or the emergence of new competitors.

The NWM N.V. Group may be adversely affected if the RBS Group fails to meet the requirements of regulatory stress tests.

The RBS Group is subject to annual stress tests by its regulator in the UK and is also subject to stress tests by European regulators with respect to RBSG plc, NWM N.V. and Ulster Bank Ireland DAC. Stress tests are designed to assess the resilience of banks to potential adverse economic or financial developments and ensure that they have robust, forward-looking capital planning processes that account for the risks associated with their business profile. If the stress tests reveal that a bank's existing regulatory capital buffers are not sufficient to absorb the impact of the stress, then it is possible that the bank may need to take action to strengthen its capital position.

Failure by the RBS Group to meet its quantitative and qualitative requirements of the stress tests set forth by its UK regulators or those elsewhere may result in: the RBS Group's regulators requiring the RBS Group to generate additional capital, reputational damage, increased supervision and/or regulatory sanctions and/or loss of investor confidence.

The NWM N.V. Group has significant exposure to counterparty and borrower risk.

The NWM N.V. Group has exposure to many different industries, customers and counterparties, and risks arising from actual or perceived changes in credit quality and the recoverability of monies due from borrowers and other counterparties are inherent in a wide range of the NWM N.V. Group's businesses. These are particularly relevant for those businesses for which the concentration of client income is heavily weighted towards a specific geographic region, industry or client base. The NWM N.V. Group is exposed to credit risk if a customer, borrower or counterparty defaults, or under IFRS 9, suffers a sufficiently significant deterioration of credit quality such that, under SICR ('significant increases in credit risk') rules, it moves to Stage 2 for impairment calculation purposes. Credit risk may arise from a variety of business activities, including, but not limited to: extending credit to clients through various lending commitments; entering into swap or other derivative contracts under which counterparties have obligations to make payments to the NWM N.V. Group (including un-collateralised derivatives); providing short or long-term funding that is secured by physical or financial collateral whose value may at times be insufficient to fully cover the loan repayment amount; posting margin and/or collateral and other commitments to clearing houses, clearing agencies, exchanges, banks, securities firms and other financial counterparties; and investing and trading in securities and loan pools, whereby the value of these assets may fluctuate based on realised or expected defaults on the underlying obligations or loans. See also, 'Capital and risk management — Credit Risk'. Any negative developments in the activities listed above may negatively impact the NWM N.V. Group's clients and credit exposures, which may, in turn, adversely impact the NWM N.V. Group's profitability.

The credit quality of the NWM N.V. Group's borrowers and other counterparties is impacted by prevailing economic and market conditions and by the legal and regulatory landscape in Europe in general, and any deterioration in such conditions or changes to legal or regulatory landscapes could worsen borrower and counterparty credit quality and consequently adversely impact the NWM N.V. Group's ability to enforce contractual security rights.

Concerns about, or a default by, a financial institution could lead to significant liquidity problems and losses or defaults by other financial institutions, since the commercial and financial soundness of many financial institutions is closely related and inter-dependent as a result of credit, trading, clearing and other relationships. Any perceived lack of creditworthiness of a counterparty may lead to market-wide liquidity problems and losses for the NWM N.V. Group. This systemic risk may also adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with which the NWM N.V. Group interacts on a daily basis. See also, 'The NWM N.V. Group is reliant on access to the capital markets to meet its funding requirements'.

As a result of the above, borrower and counterparty credit quality may cause accelerated impairment charges under IFRS 9, increased repurchase demands, higher costs, additional write-downs and losses for the NWM N.V. Group and an inability to engage in routine funding transactions.

The NWM N.V. Group is exposed to the financial industry, including sovereign debt securities, banks, financial intermediation providers (including providing facilities to financial sponsors and funds, backed by assets or investor commitments) and securitised products (typically senior lending to special purpose vehicles backed by pools of financial assets). Due to the NWM N.V. Group's exposure to the financial industry, it also has exposure to shadow banking entities (ie, entities which carry out banking activities outside a regulated framework). Recently, there has been increasing regulatory focus on shadow banking. In particular, the European Banking Authority Guidelines (EBA/GL/2015/20) require NWM N.V. Group to identify and monitor its exposure to shadow banking entities, implement and maintain an internal framework for the identification, management, control and mitigation of the risks associated with exposure to shadow banking entities, and ensure effective reporting and governance in respect such exposure. If the NWM N.V. Group is unable to properly identify and monitor its shadow banking exposure, maintain an adequate framework, or ensure effective reporting and governance in respect of shadow banking exposure, this may adversely affect the financial condition and prospects of the NWM N.V. Group.

The NWM N.V. Group could incur losses or be required to maintain higher levels of capital as a result of limitations or failure of various models.

Given the complexity of the NWM N.V. Group's business, strategy and capital requirements, the NWM N.V. Group relies on analytical models for a wide range of purposes, including to manage its business, assess the value of its assets and its risk exposure, as well as to anticipate capital and funding requirements (including to facilitate the RBS Group's mandated stress testing). In addition, the NWM N.V. Group utilises models for valuations, credit approvals, calculation of loan impairment charges on an IFRS 9 basis, financial reporting and for financial crime and fraud risk management. The NWM N.V. Group's models, and the parameters and assumptions on which they are based, are periodically reviewed and updated to maximise their accuracy.

Such models are inherently designed to be predictive in nature. Failure of these models, including due to errors in model design or inputs, to accurately reflect changes in the micro and macroeconomic environment in which the NWM N.V. Group operates, to capture risks and exposures at the subsidiary level, to be updated in line with the NWM N.V. Group's current business model or operations, or findings of deficiencies by the RBS Group, the NWM Group or the NWM N.V. Group's regulators (including as part of the RBS Group's mandated stress testing) may result in increased capital requirements, regulatory actions and/or require management action. The NWM N.V. Group may also face adverse consequences as a result of actions based on models that are poorly developed, implemented or used, models that are based on inaccurate or compromised data or as a result of the modelled outcome being misunderstood, or by such information being used for purposes for which it was not designed.

The NWM N.V. Group's financial statements are sensitive to underlying accounting policies, judgments, estimates and assumptions.

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income, expenses, exposures and RWAs. Due to the inherent uncertainty in making estimates (particularly those involving the use of complex models), future results may differ from those estimates. Estimates, judgments, assumptions and models take into account historical experience and other factors, including market practice and expectations of future events that are believed to be reasonable under the circumstances.

The accounting policies deemed critical to the NWM N.V. Group's results and financial position, based upon materiality and significant judgments and estimates, which include loan impairment provisions, are set out in 'Critical accounting policies and key sources of estimation uncertainty' on page 48. New accounting standards and interpretations that have been issued by the International Accounting Standards Board but which have not yet been adopted by the NWM N.V. Group are discussed in 'Accounting developments' on page 48

Changes in accounting standards may materially impact NWM N.V. Group's financial results.

Changes in accounting standards or guidance by accounting bodies or in the timing of their implementation, whether immediate or foreseeable, could result in the NWM N.V. Group having to recognise additional liabilities on its balance sheet, or in further write-downs or impairments to its assets and could also significantly impact the financial results, condition and prospects of the NWM N.V. Group.

The NWM N.V. Group's trading assets amounted to EUR 3.2 billion as at 31 December 2019. The valuation of financial instruments, including derivatives, measured at fair value can be subjective, in particular where models are used which include unobservable inputs. Generally, to establish the fair value of these instruments, the NWM N.V. Group relies on quoted market prices or, where the market for a financial instrument is not sufficiently credible, internal valuation models that utilise observable market data. In certain circumstances, the data for individual financial instruments or classes of financial instruments utilised by such valuation models may not be available or may become unavailable due to prevailing market conditions. In such circumstances, the NWM N.V. Group's internal valuation models require the NWM N.V. Group to make assumptions, judgments and estimates to establish fair value, which are complex and often relate to matters that are inherently uncertain. Any of these factors could require the NWM N.V. Group to recognise fair value losses, which may have an adverse effect on the NWM N.V. Group's income generation and financial position.

With effect from 1 January 2019, the NWM N.V. Group adopted IFRS 16 Leases, as disclosed in the Accounting Policies. The impact on Other assets and Other liabilities was immaterial. While adoption of this standard has had no effect on the NWM N.V. Group's cash flows, it has impacted financial ratios, which may influence investors' perception of the financial condition of the NWM N.V. Group.

The RBS Group (including NWM N.V.) may become subject to the application of statutory stabilisation or resolution powers which may result in, among other actions, the write-down or conversion of certain Eligible Liabilities (including NWM N.V.'s Eligible Liabilities).

The Bank Recovery and Resolution Directive ('BRRD') establishes a common approach within the European Union (EU) to the recovery and resolution of banks. In the UK and Netherlands the BRRD has been implemented via national legislation which grants powers to a national resolution authority ('NRA'). In Europe (excluding the UK) the BRRD is also (partly) implemented by a directly binding regulation which established a Single Resolution Mechanism ('SRM') and a single EU Resolution Board ('SRB') with powers which exceed the powers of the EU NRAs.

United Kingdom – RBSG plc and its UK affiliates

The UK Banking Act 2009, as amended ('Banking Act'), implemented the BRRD in the UK and created a special resolution regime ('UK SRR'). Under the UK SRR, HM Treasury, the Bank of England and the PRA and FCA ('UK Authorities') are granted substantial powers to resolve and stabilise UK-incorporated financial institutions.

Five stabilisation options exist under the current UK SRR: (i) transfer of all of the business of a relevant entity or the shares of the relevant entity to a private sector purchaser; (ii) transfer of all or part of the business of the relevant entity to a 'bridge bank' wholly-owned by the Bank of England; (iii) transfer of part of the assets, rights or liabilities of the relevant entity to one or more asset management vehicles for management of the transferor's assets, rights or liabilities; (iv) the 'Bail-in Tool' consisting of the write-down, conversion, transfer, modification, or suspension of the relevant entity's equity, capital instruments and liabilities ('Eligible Liabilities'); and (v) temporary public ownership of the relevant entity (options (i) to (v) above being referred to as the 'Resolution Stabilisation Tools'). These Resolution Stabilisation Tools may be applied to a UK bank or investment firm and certain of its affiliates (which would include RBSG plc as the parent company), where certain conditions are met (such as, whether the firm is failing or likely to fail, or whether it is reasonably likely that action will be taken (outside of resolution) that will result in the firm no longer failing or being likely to fail). Moreover, the UK SRR provides for modified insolvency and administration procedures for relevant entities, and confers ancillary powers on the UK Authorities, including the power to modify or override certain contractual arrangements in certain circumstances. The UK Authorities are also empowered by order to amend the law for the purpose of enabling the powers under the UK SRR to be used effectively. Such orders may apply retrospectively.

Under the Banking Act, the UK Authorities are generally required to have regard to specified objectives in exercising the powers provided for by the Banking Act. One of the objectives (which is required to be balanced as appropriate with the other specified objectives) refers to the protection and enhancement of the stability of the financial system of the UK. Moreover, the 'no creditor worse off' safeguard contained in the Banking Act (which provides that creditors' losses in resolution should not exceed those that would have been realised in an insolvency of the relevant institution) may not apply in relation to an application of the separate write-down and conversion power relating to capital instruments under the Banking Act, in circumstances where a stabilisation power is not also used; holders of debt instruments which are subject to the power may, however, have ordinary shares transferred to or issued to them by way of compensation.

Uncertainty exists as to how the UK Authorities may exercise the powers granted to them under the Banking Act including the determination of actions undertaken in relation to the ordinary shares and other securities issued by RBSG plc (and certain of its affiliates) and may depend on factors outside of RBSG plc's control. Moreover, the relevant provisions of the Banking Act remain untested in practice.

The Netherlands – NWM N.V.

The special resolution regime measures set out in the BRRD were implemented into Dutch law in 2015. The BRRD, and the SRM, provide that the Dutch Central Bank and the SRB are the resolution authorities responsible for a resolution in relation to NWM N.V. (the 'N.V. Authorities', and together with the UK Authorities, the 'Authorities') with broad powers to implement resolution measures with respect to banks incorporated in the Netherlands which meet the conditions for resolution, which may include (without limitation) measures analogous to the Resolution Stabilisation Tools (options set out at points (i) to (v) above under the Banking Act). These powers and tools are designed to be used prior to the point at which any insolvency proceedings with respect to NWM N.V. could have been initiated.

In addition to the resolution powers of the N.V. Authorities described above, the Dutch Minister of Finance may, with immediate effect, take measures or expropriate assets and liabilities of, claims against or securities issued by or with the consent of NWM N.V., if in the Minister of Finance's opinion the stability of the financial system is in serious and immediate danger as a result of the situation in which the firm finds itself (the "Minister of Finance Powers").

There remains uncertainty regarding the ultimate nature and scope of these powers, and any exercise of the resolution regime powers by the N.V. Authorities or the Minister of Finance Powers by the Dutch Minister of Finance may adversely affect holders of NWM N.V.'s Eligible Liabilities that fall within the scope of such powers.

If the NWM N.V. Group (or any other RBS Group entity) is at or is approaching the point of non-viability such that regulatory intervention is required, any exercise of the resolution regime powers by the Authorities may adversely affect holders of the NWM N.V. Group's Eligible Liabilities that fall within the scope of resolution regime powers. This may result in various actions being undertaken in relation to the NWM N..V Group and any Eligible Liabilities of the NWM N.V. Group, including write-down, conversion, transfer or modification which may adversely affect the financial results, condition and prospects of the NWM N.V. Group.

The RBS Group is subject to Bank of England oversight in respect of resolution, and the NWM N.V. Group could be adversely affected should the Bank of England deem the RBS Group's preparations to be inadequate.

The RBS Group is subject to regulatory oversight by the Bank of England, and is required (under the PRA rulebook) to carry out an assessment of its preparations for resolution, submit a report of the assessment to the PRA, and disclose a summary of this report. The initial report is due to be submitted to the PRA on 2 October 2020 and the Bank of England's assessment of RBS Group's preparations is scheduled to be released on 11 June 2021.

The RBS Group has dedicated significant resources towards the preparation of the RBS Group for a potential resolution scenario. However, if the assessment reveals that the RBS Group is not adequately prepared to be resolved, or does not have adequate plans in place to meet resolvability requirements by 1 January 2022, the RBS Group may be required to take action to enhance its preparations to be resolvable, resulting in additional cost and the dedication of additional resources. Such actions may adversely affect the RBS Group and/or the NWM N.V. Group, resulting in restrictions on maximum individual and aggregate exposures, a requirement to dispose of specified assets, a requirement to cease carrying out certain activities and/or maintaining a specified amount of MREL. This may also result in reputational damage and/or loss of investor confidence.

Operational and IT resilience risk

The NWM N.V. Group is subject to increasingly sophisticated and frequent cyberattacks.

The NWM N.V. Group is experiencing an increase in cyberattacks across both the entire NWM N.V. Group and against the NWM N.V. Group's supply chain, reinforcing the importance of due diligence and close working with the third parties on which the NWM N.V. Group relies. The NWM N.V. Group is reliant on technology for its operations, against which there is a constantly evolving series of attacks, that are increasing in terms of frequency, sophistication, impact and severity. The NWM N.V. Group is reliant on RBS Group and NWM Group for certain technology and network infrastructure. As cyberattacks evolve and become more sophisticated, the RBS Group and NWM Group (and therefore the NWM N.V. Group) are required to continue to invest in additional capability designed to defend against emerging threats. Hostile attempts are made by third parties to gain access to and introduce malware (including ransomware) into the NWM N.V. Group's IT systems, and to exploit vulnerabilities. In 2019, the NWM N.V. Group was subjected to a small number of Distributed Denial of Service ('DDOS') attacks, which are a pervasive and significant threat to the global financial services industry. The focus is to mitigate the impact of the attacks and sustain availability of services for NWM N.V. Group's customers.

The NWM N.V. Group has information and cyber security controls in place, which are subject to review on a continuing basis and the RBS Group and NWM Group (and therefore the NWM N.V. Group) continue to invest significant resources in the development and evolution of cyber security controls that are designed to minimise the potential effect of such attacks. However, given the nature of the threat, there can be no assurance that such measures will prevent all attacks in the future. See also, 'The NWM N.V. Group's operations are highly dependent on its complex IT systems, and any IT failure could adversely affect the NWM N.V. Group'.

Any failure in the implementation and execution of the RBS Group's and the NWM Group's (and therefore the NWM N.V. Group's) cybersecurity policies, procedures or controls, may result in significant financial losses, major business disruption, inability to deliver customer services, or loss of data or other sensitive information (including as a result of an outage) and may cause associated reputational damage. Any of these factors could increase costs (including costs relating to notification of, or compensation for clients and credit monitoring), result in regulatory investigations or sanctions being imposed or may affect the NWM N.V. Group's ability to retain and attract clients. Regulators world-wide continue to recognise cybersecurity as an increasing systemic risk to the financial sector and have highlighted the need for financial institutions to improve their monitoring and control of, and resilience (particularly of critical services) to cyberattacks, and to provide timely notification of them, as appropriate.

Additionally, third parties may also fraudulently attempt to induce employees, customers, third party providers or other users who have access to the NWM N.V. Group's systems to disclose sensitive information in order to gain access to the NWM N.V. Group's data or that of the NWM N.V. Group's clients or employees. Cybersecurity and information security events can derive from groups or factors such as: internal or external threat actors, human error, fraud or malice on the part of the NWM N.V. Group's employees or third parties, including third party providers, or may result from accidental technological failure.

The NWM N.V. Group expects greater regulatory engagement, supervision and enforcement by the DNB in relation to its overall resilience to withstand IT and related disruption, either through a cyberattack or some other disruptive event. Such increased regulatory engagement, supervision and enforcement is uncertain in relation to scope, consequence and pace of change, which could negatively impact the NWM N.V. Group. Due to the NWM N.V. Group's reliance on technology and the increasing sophistication, frequency and impact of cyberattacks, it is likely that such attacks could have a material adverse impact on the NWM N.V. Group.

In accordance with the General Data Protection Regulation ('GDPR'), the NWM N.V. Group is required to ensure it implements timely appropriate and effective organisational and technological safeguards against unauthorised or unlawful access to data of the NWM N.V. Group, its clients and its employees. In order to meet this requirement, the NWM N.V. Group relies on the effectiveness of its internal policies, controls and procedures to protect the confidentiality, integrity and availability of information held on its IT systems, networks and devices as well as with third parties with whom the NWM N.V. Group interacts. A failure to monitor and manage data in accordance with the GDPR requirements of the applicable legislation may result in financial losses, regulatory fines and investigations and associated reputational damage. In addition, whilst the NWM N.V. Group takes measures to prevent, detect and minimise attacks, the NWM N.V. Group's systems, and those of third party providers, are subject to frequent cyberattacks.

The NWM N.V. Group operations and strategy are highly dependent on the effective use and accuracy of data.

The NWM N.V. Group relies on the effective use of accurate data to support and improve its operations and deliver its strategy. Failure to produce underlying high quality data and/or the ineffective use of such data could result in a failure to satisfy its customers' expectations including by delivering innovative products and services. This could place NWM N.V. Group at a competitive disadvantage, inhibit its efforts to reduce costs and improve its systems, controls and processes, and result in a failure to deliver the NWM N.V. Group's strategy. The use of unethical or inappropriate data and/or non-compliance with customer data and privacy protection could give rise to conduct and litigation risks and could also increase the risk of an operational event or losses or other adverse consequences due to inappropriate models, systems, processes, decisions or other actions.

Operational risks are inherent in the NWM N.V. Group's businesses.

Operational risk is the risk of loss resulting from inadequate or failed internal processes, procedures, people or systems, or from external events, including legal risks. The NWM N.V. Group operates in many countries, offering a diverse range of products and services supported by 190 employees as at 31 December 2019; it therefore has complex and diverse operations. As a result, operational risks or losses can arise from a number of internal or external factors (including financial crime). These risks are also present when the NWM N.V. Group relies on third-party suppliers or vendors to provide services to it or its clients, as is increasingly the case as the NWM N.V. Group outsources certain functions, including with respect to the implementation of new technologies, innovation and responding to regulatory and market changes.

Operational risks continue to be heightened as a result of the implementation of the NWM Refocusing and the RBS Group's Purpose-led Strategy, the NWM N.V. Group's current cost-reduction measures and conditions affecting the financial services industry generally and in particular the legal and regulatory uncertainty resulting therefrom. This may place significant pressure on the NWM N.V. Group's ability to maintain effective internal controls and governance frameworks.

As mentioned above, as a subsidiary of NWM Plc (and ultimately RBSG plc), NWM N.V. utilises certain shared critical services of RBS Group and NWM Group systems, in particular in relation to systems, policies and frameworks (via a shared services model), including in relation to: technology (including innovation) and network infrastructure, marketing, risk frameworks, financial accounting systems, reporting, on-boarding processes, model development and validation, certain administrative and legal services and governance. The costs for such services are determined by RBS Group and may increase from time to time. A failure to adequately supply these services may result in increased costs or other liabilities to the NWM N.V. Group should the NWM N.V. Group have to increase its capacity to provide these services internally or by outsourcing to third parties for these services. Moreover, because the NWM N.V. Group utilises certain services provided by the RBS Group, changes in the cost of these services may adversely impact the NWM N.V. Group's results of operations. In addition, changes made in the relevant policies and frameworks made by RBS Group or NWM Group may be outside the control of NWM N.V. and a failure to manage these systems in a manner that is beneficial for NWM N.V. could adversely affect the operations or profitability of NWM N.V..

The effective management of operational risks is critical to meeting customer service expectations and retaining and attracting client business. Although the NWM N.V. Group has implemented risk controls and mitigation actions, with resources and planning having been devoted to mitigate operational risk, such measures may not be effective in controlling each of the operational risks faced by the NWM N.V. Group. Ineffective management of such risks could adversely affect the NWM N.V. Group.

See also RBS Group has announced a new strategy that will require changes in the NWM Group's business (including the NWM N.V. Group), including reductions in capital allocated to the NWM Group its cost base and complexity'.

The NWM N.V. Group's operations are highly dependent on its complex IT systems, and any IT failure could adversely affect the NWM N.V. Group.
The NWM N.V. Group's operations are highly dependent on the ability to process a very large number of transactions efficiently and accurately while complying with applicable laws and regulations. The NWM N.V. Group is reliant on the RBS Group and the NWM Group for certain technology and network infrastructure, as NWM N.V.'s IT systems are built upon the RBS Group and the NWM Group systems. As such, the proper functioning of the RBS Group and the NWM Group technology and network infrastructure is critical to the operations of NWM N.V..

The proper functioning of the NWM N.V. Group's transactional and payment systems, financial crime and sanctions controls, risk management, credit analysis and reporting, accounting, customer service and other IT systems, is also critical to the NWM N.V. Group's operations.

Individually or collectively, any critical system failure, material loss of service availability or material breach of data security could cause serious damage to the NWM N.V. Group's ability to provide services to its clients, which could result in reputational damage, significant compensation costs or regulatory sanctions (including fines resulting from regulatory investigations) or a breach of applicable regulations. In particular, such issues could cause long-term damage to the NWM N.V. Group's reputation and could affect its regulatory approvals, competitive position, business and brands, which could undermine its ability to attract and retain clients. This risk is heightened as the NWM N.V. Group outsources certain functions and continues to innovate and offer new digital solutions to its clients as a result of the trend towards online and digital product offerings.

In 2019, the NWM N.V. Group continued to make considerable investments to further simply, upgrade and improve its IT systems and technology capabilities and expects to continue to make considerable investments to further simplify, upgrade and improve its IT and technology capabilities. As part of the NWM Refocusing, the NWM N.V. Group continues to develop and enhance digital services for its customers and seeks to improve its competitive position through enhancing controls and procedures and strengthening the resilience of services including cyber security. Should such investment and rationalisation initiatives fail to achieve the expected results or prove to be insufficient due to cost challenges or otherwise, this could negatively affect the NWM N.V. Group's operations, its reputation and ability to retain or grow its client business or adversely impact its competitive position, thereby negatively impacting the NWM N.V. Group's financial position.

The NWM N.V. Group relies on attracting, retaining, developing and remunerating senior management and skilled personnel, and is required to maintain good employee relations.
The NWM N.V. Group's current and future success depends on its ability to attract, retain, develop and remunerate highly skilled and qualified personnel, including senior management, directors, sales staff, market trading specialists and key employees, in a highly competitive labour market and under internal cost reduction pressures. This entails risk, particularly in light of the Dutch compensation regulations and heightened regulatory oversight of banks, which may have an adverse effect on the NWM N.V. Group's ability to hire, retain and engage well-qualified employees. The market for skilled personnel is increasingly competitive, thereby raising the cost of hiring, training and retaining skilled personnel. In addition, certain economic, market and regulatory conditions and political developments may reduce the pool of candidates for key management and non-executive roles, including non-executive directors with the right skills, knowledge and experience, or increase the number of departures of existing employees.

Some of the NWM N.V. Group's employees are represented by employee representative bodies, including trade unions. Engagement with its employees and such bodies is important to the NWM N.V. Group in maintaining good employee relations. Any breakdown of these relationships could affect the NWM N.V. Group's business, reputation and results of operations.

A failure in the NWM N.V. Group's risk management framework could adversely affect the NWM N.V. Group, including its ability to achieve its strategic objectives.
Risk management is an integral part of all of the NWM N.V. Group's activities and includes the definition and monitoring of the NWM N.V. Group's risk appetite and reporting on the NWM N.V. Group's risk exposure and the potential impact thereof on the NWM N.V. Group's financial condition. NWM N.V.'s risk management framework is based on the framework of the RBS Group and the NWM Group. Financial risk management is highly dependent on the use and effectiveness of internal stress tests and models and ineffective risk management may arise from a wide variety of factors, including lack of transparency or incomplete risk reporting, unidentified conflicts or misaligned incentives, lack of accountability control and governance, lack of consistency in risk monitoring and management or insufficient challenges or assurance processes. Failure to manage risks effectively could adversely impact the NWM N.V. Group's reputation or its relationship with its clients, shareholders or other stakeholders.

The NWM N.V. Group's operations are inherently exposed to conduct risks. These include business decisions, actions or reward mechanisms that are not responsive to or aligned with the NWM N.V. Group's client needs or do not reflect the NWM N.V. Group's customer-focussed strategy, ineffective product management, unethical or inappropriate use of data, implementation and utilisation of new technologies, outsourcing of customer service and product delivery, the possibility of mis-selling of financial products and mishandling of customer complaints. Some of these risks have materialised in the past and ineffective management and oversight of conduct risks may lead to further remediation and regulatory intervention or enforcement. The NWM N.V. Group's businesses are also exposed to risks from employee misconduct including non-compliance with policies and regulations, negligence or fraud (including financial crimes), any of which could result in regulatory fines or sanctions and serious reputational or financial harm to the NWM N.V. Group.

The NWM N.V. Group has been seeking to embed a strong risk culture (based on risk management policies and frameworks as set forth by the RBS Group and the NWM Group) across the organisation and has implemented policies and allocated new resources across all levels of the organisation to manage and mitigate conduct risk and expects to continue to invest in its risk management framework. However, such efforts may not insulate the NWM N.V. Group from future instances of misconduct and no assurance can be given that the NWM N.V. Group's strategy and control framework will be effective. See also, RBS Group has announced a new strategy that will require changes in the NWM Group's business (including the NWM N.V. Group), including reductions in capital allocated to the NWM Group its cost base and complexity'. There is also the risk that the risk management frameworks, as developed by RBS Group and NWM Group, may not be properly adapted for NWM N.V.'s specific circumstances.

Furthermore, NWM N.V. has policies and controls in place to combat financial crime, and has made technological and other investments to detect financial crime. Although the NWM N.V. head office is located in Amsterdam (where the NWM N.V. risk management function is based), it also operates branches in France, Germany, Ireland, Italy, Spain and Sweden. Should such risk policies and controls be inadequate to combat financial crime, particularly in the NWM N.V. branches (where there is less direct supervision) there could be an adverse impact on NWM N.V.

As a result, any failure in the NWM N.V. Group's risk management framework could negatively affect the NWM N.V. Group and its financial condition through reputational and financial harm and may result in the inability to achieve its strategic objectives for its clients, employees and wider stakeholders.

The NWM N.V. Group's operations are subject to inherent reputational risk.
Reputational risk relates to stakeholder and public perceptions of the NWM N.V. Group arising from an actual or perceived failure to

meet stakeholder expectations, including with respect to the NWM Refocusing and related targets, due to any events, behaviour, action or inaction by the NWM N.V. Group, its employees or those with whom the NWM N.V. Group is associated. This includes brand damage, which may be detrimental to the NWM N.V. Group's business, including its ability to build or sustain business relationships with clients, and may cause low employee morale, regulatory censure or reduced access to, or an increase in the cost of, funding. Reputational risk may arise whenever there is a material lapse in standards of integrity, compliance, customer or operating efficiency and may adversely affect the NWM N.V. Group's ability to attract and retain clients. In particular, the NWM N.V. Group's ability to attract and retain clients may be adversely affected by, amongst others: negative public opinion resulting from the actual or perceived manner in which the NWM N.V. Group or any other member of the RBS Group conducts or modifies its business activities and operations, media coverage (whether accurate or otherwise), employee misconduct, the NWM N.V. Group's financial performance, IT systems failures or cyberattacks, data breaches, financial crime, the level of direct and indirect government support for RBSG plc, or the actual or perceived practices in the banking and financial industry in general, or a wide variety of other factors. See also, RBS Group has announced a new strategy that will require changes in the NWM Group's business (including the NWM N.V. Group), including reductions in capital allocated to the NWM Group its cost base and complexity'.

Modern technologies, in particular online social networks and other broadcast tools which facilitate communication with large audiences in short time frames and with minimal costs, may also significantly increase and accelerate the impact of damaging information and allegations.

Although the NWM N.V. Group has implemented a Reputational Risk Policy to improve the identification, assessment and management of customers and clients, transactions, products and issues which represent a reputational risk, the NWM N.V. Group cannot be certain that it will be successful in avoiding damage to its business from reputational risk.

Economic and political risk

The NWM N.V. Group faces increased political and economic risks and uncertainty in the European and global markets.

The outlook for the global economy over the medium-term remains uncertain due to a number of factors including: the EU's future relationship with the UK (see 'Prevailing uncertainty regarding the terms of the UK's withdrawal from the European Union has adversely affected and will continue to affect NWM Plc (NWM N.V.'s parent entity) and RBSG plc (NWM N.V.'s ultimate parent) and may have an indirect effect on the NWM N.V. Group'), trade barriers and prolonged trade wars, widespread political instability, an extended period of low inflation and low interest rates, and global regional variations in the impact and responses to these factors. Such conditions could be worsened by a number of factors including political uncertainty or macro-economic deterioration in the Eurozone, China or the US, the conflicts or tensions in the Middle East and Asia, increased instability in the global financial system and concerns relating to further financial shocks or contagion (for example, due to economic concerns in emerging markets), market volatility or fluctuations in the value of, *inter alia*, the euro and the pound sterling, new or extended economic sanctions, volatility in commodity prices or concerns regarding sovereign debt. This may be compounded by the ageing demographics of the populations in the markets that the NWM N.V. Group serves, or rapid change to the economic environment due to the adoption of technology and artificial intelligence. Any of the above developments could adversely impact the NWM N.V. Group directly (for example, as a result of credit losses) or indirectly (for example, by impacting global economic growth and financial markets and the NWM N.V. Group's clients and their banking needs).

In addition, the NWM N.V. Group is exposed to risks arising out of geopolitical events or political developments, such as trade barriers, exchange controls, sanctions and other measures taken by sovereign governments that may hinder economic or financial activity levels. Furthermore, unfavourable political, military or diplomatic events, including secession movements or the exit of other member states from the EU, armed conflict, pandemics and widespread public health crises (including the recent coronavirus outbreak, the impact of which will depend on future developments, which are highly uncertain and cannot be predicted), state and privately sponsored cyber and terrorist acts or threats, and the responses to them by governments and markets, could negatively affect the business and performance of the NWM N.V. Group including as a result of the indirect effect on regional or global trade and/or the NWM N.V. Group's customers.

Actual or perceived difficult global economic conditions can create challenging economic and market conditions and a difficult operating environment for the NWM N.V. Group's businesses and its clients and counterparties, thereby affecting its financial performance.

The value of the NWM N.V. Group's financial instruments may be materially affected by market risk, including as a result of market fluctuations. Market volatility, illiquid market conditions and disruptions in the credit markets may make it extremely difficult to value certain of the NWM N.V. Group's financial instruments, particularly during periods of market displacement which could cause a decline in the value of the NWM N.V. Group's financial instruments. This may have an adverse effect on the NWM N.V. Group's results of operations in future periods, or inaccurate carrying values for certain financial instruments. Similarly, the NWM N.V. Group trades a considerable amount of financial instruments (including derivatives) and volatile market conditions could result in a significant decline in the NWM N.V. Group's net trading income or result in a trading loss.

In addition, financial markets are susceptible to severe events evidenced by rapid depreciation in asset values, which may be accompanied by a reduction in asset liquidity. Under these extreme conditions, hedging and other risk management strategies may not be as effective at mitigating trading losses as they would be under more normal market conditions. Moreover, under these conditions, market participants are particularly exposed to trading strategies employed by many market participants simultaneously and on a large scale, increasing the NWM N.V. Group's counterparty risk. The NWM N.V. Group's risk management and monitoring processes seek to quantify and mitigate the NWM N.V. Group's exposure to more extreme market moves. However, severe market events have historically been difficult to predict and the NWM N.V. Group could realise significant losses if extreme market events were to occur.

Prevailing uncertainty regarding the terms of the UK's withdrawal from the European Union has adversely affected and will continue to affect the NWM Plc (NWM N.V.'s parent entity) and RBSG plc (NWM N.V.'s ultimate parent) and may have an indirect effect on the NWM N.V. Group.

Following the EU Referendum in June 2016, and pursuant to the exit process triggered under Article 50 of the Treaty on European Union in March 2017 and the ratification of the withdrawal agreement by the UK government and the EU (through the Council of Ministers), the UK ceased to be a member of the EU and the European Economic Area ('EEA') on 31 January 2020 ('Brexit') and entered a transition period, currently due to expire on 31 December 2020. During this transition period, the UK retains the benefits of membership of the EU's internal market and the customs union, but loses its representation in the EU's institutions and its role in EU decision-making.

The UK and EU are currently seeking to determine the terms of their future relationship by the end of the transition period, and the resulting economic, trading and legal relationships with both the EU and other counterparties currently remain unclear and subject to significant uncertainty. If the UK and EU do not agree a new comprehensive trade agreement by the end of the transition period and the transition period is not extended, then, subject to separate agreements being made with third countries, the UK would be expected to operate on basic World Trade Organization terms, the outcome of which for RBS Group would be similar in certain respects to a 'no-deal' Brexit and which may result in, amongst others, loss of access to the EU single market for goods and services, the imposition of import duties and controls on trade between the UK and the EU and related trade disruption.

NWM Plc (NWM N.V.'s parent entity) and RBSG plc (NWM N.V.'s ultimate parent) are both headquartered and/or incorporated in the Scotland, United Kingdom. As part of the RBS Group's strategy, the NWM N.V. Group is RBS Group's banking and trading entity in the Netherlands which serves EEA customers, and is part of the RBS Group's Brexit strategy. As such, continued uncertainty as to the future relationship between the UK and EU and the legal and regulatory arrangements under which the RBS Group will operate, will affect the profitability, competitive position, viability and business model and product offering of both RBS Group and NWM Group, and therefore, may indirectly affect NWM N.V. Group. Such uncertainty in respect of Brexit and the related transition period may affect the volume and pace of transfers of business from NWM Plc and NWB Plc to NWM N.V., which may in turn have a material and adverse effect on NWM N.V.'s business operations and profitability. See 'NWM N.V. is the RBS Group's banking and trading entity located in the Netherlands. NWM N.V. has recently repurposed its banking licence, and the NWM N.V. Group may be subject to further changes.'

The NWM Group expects to face significant risks in connection with climate change and the transition to a low carbon economy.

The risks associated with climate change are subject to rapidly increasing prudential and regulatory, political and societal focus in the UK, the Netherlands and internationally. Embedding climate risk into the NWM N.V. Group's risk framework, and adapting the NWM N.V. Group's operations and business strategy to address the physical risks of climate change and the risk associated with a transition to a low carbon economy in line with the RBS Group's Purpose-led Strategy and ambition to reduce the climate impact of its financing activities and evolving regulatory requirements and market expectations is expected to have a significant impact on the NWM N.V. Group.

Multilateral agreements, in particular the 2015 Paris Agreement, and subsequent commitments by the UK and Scottish Governments to achieving net zero carbon emissions by 2050 and 2045, respectively, and by the Dutch Government to cutting the Netherlands' carbon emissions with 95% by 2050, compared to 1990 levels, as well as proposals stemming from the EU Sustainable Finance Action plan, will require widespread levels of adjustment across all sectors and markets of the European Union, including the Netherlands, in which the NWM N.V. Group operates. Some sectors such as property, energy, infrastructure (including transport) and agriculture are expected to be particularly impacted. The nature and timing of the far-reaching commercial, technological, policy and regulatory changes that this transition will entail remain uncertain. The UK and Dutch Governments and regulators, including the PRA, NWM Plc's prudential regulator, and the DNB, NWM N.V.'s prudential regulator, have indicated it is a priority issue. The impact of such regulatory, policy, commercial and technological changes is expected to be highly significant and may be disruptive, especially if such changes do not occur in an orderly or timely manner or are not effective in reducing emissions sufficiently.

Furthermore, the nature and timing of the manifestation of the physical risks of climate change (which include more extreme specific weather events such as flooding and heat waves and longer term shifts in climate) are also uncertain, and their impact on the economy is predicted to be more acute if carbon emissions are not reduced on a timely basis or to the requisite extent. Recent data indicates that global carbon emissions are continuing to increase. The potential impact on the economy includes, but is not limited to, lower GDP growth, significant changes in asset prices and profitability of industries, higher unemployment and the prevailing level of interest rates.

See also, 'The RBS Group's Purpose-led Strategy includes one area of focus on climate change which entails significant execution risk and is likely to require material changes to the business model of the RBS Group (including the NWM N.V. Group) over the next ten years' , 'The NWM N.V. Group's businesses are subject to substantial regulation and oversight, which are constantly evolving and may adversely affect the NWM N.V. Group' and 'Any reduction in the credit rating assigned to RBSG plc, any of its subsidiaries (including NWM Plc or NWM N.V.) or any of their respective debt securities could adversely affect the availability of funding for the NWM N.V. Group, reduce the NWM N.V. Group's liquidity position and increase the cost of funding'.

If the NWM N.V. Group does not adequately embed climate risk into its risk framework to appropriately measure, manage and disclose the various financial, transition and physical risks it faces associated with climate change, or if the RBS Group or the NWM N.V. Group fail to implement the RBS Group's new strategy on climate change and adapt its business model to the changing regulatory requirements and market expectations on a timely basis, it may have a material and adverse impact on the NWM N.V. Group's level of business growth, its competitiveness, profitability, prudential capital requirements, ESG ratings, credit ratings, cost of funding, reputation, results of operation and financial condition.

Changes in interest rates have affected and will continue to affect the NWM N.V. Group's business and results.

Interest rate risk exists for the NWM N.V. Group, as monetary policy has been accommodative in recent years. However, there remains considerable uncertainty as to the direction of interest rates and pace of change (as set by the European Central Bank and other major central banks). Continued sustained low or negative interest rates could adversely affect the NWM N.V. Group's profitability and prospects. In addition, a continued period of negative interest rates and flat yield curves has affected and may continue to affect the interest rate margin realised between lending and borrowing costs.

Conversely, while increases in interest rates may support NWM N.V. Group income, sharp increases in interest rates could lead to generally weaker than expected growth, or even contracting GDP, reduced business confidence, higher levels of unemployment or underemployment and adverse changes to levels of inflation.

HM Treasury (or UKGI on its behalf) could exercise a significant degree of influence over the RBS Group and the NWM N.V. Group is ultimately controlled by the RBSG plc.

In November 2019, NWM Plc acquired RBS Holdings N.V. ('RBSH), NWM N.V.'s immediate parent, from RFS Holdings B.V. (RFSH). All entities are wholly owned by RBSG plc. As such, RBSG plc is the ultimate parent company of NWM N.V.

In its November 2018 Autumn Budget, the UK Government announced its intention to continue the process of privatisation of RBSG plc and to carry out a programme of sales of RBSG plc ordinary shares with the objective of selling all of its remaining shares in RBSG plc by 2023-2024. As of 31 December 2019, the UK Government held 62.1% of the issued ordinary share capital of RBSG plc. There can be no certainty as to the continuation of the sell-down process or the timing or extent of such sell-downs. On 6 February 2019, RBSG plc obtained shareholder approval to participate in certain directed share buyback activities.

UK Government Investments Limited ('UKGI') manages HM Treasury's shareholder relationship with RBSG plc and, although HM Treasury has indicated that it intends to respect the commercial decisions of the RBS Group and that the RBS Group entities (including the NWM N.V. Group) will continue to have its own independent board of directors and management team determining their own strategy, its position as a majority shareholder (and UKGI's position as manager of this shareholding) means that HM Treasury or UKGI could exercise a significant degree of influence over, among other things, the election of directors and appointment of senior management, the RBS Group's (including the NWM N.V. Group's) capital strategy, dividend policy, remuneration policy or the conduct of the RBS Group's (including the NWM N.V. Group's) operations, and HM Treasury or UKGI's approach depends on government policy, which could change, including as a result of a general election. The exertion of such influence over RBS Group could in turn have an adverse effect on the governance or business strategy of the NWM N.V. Group.

In addition, as a wholly-owned subsidiary of NWM Plc (and ultimately, RBSG plc), NWM Plc and RBSG plc may have a significant influence on the NWM N.V. Group's board of directors, corporate policies, corporate governance and strategic direction. The interests of RBSG plc as an equity holder and as the NWM N.V. Group's ultimate parent may differ from the interests of the NWM N.V. Group or of potential investors in the NWM N.V. Group's securities.

Legal, regulatory and conduct risk

The NWM N.V. Group's businesses are subject to substantial regulation and oversight, which are constantly evolving and may adversely affect the NWM N.V. Group.

The NWM N.V. Group is subject to extensive laws, regulations, corporate governance practice and disclosure requirements, administrative actions and policies in each jurisdiction in which it operates. Many of these have been introduced or amended recently and are subject to further material changes, which may increase compliance and conduct risks. In particular, the NWM N.V. Group is subject to (i) direct supervision by the DNB and indirect supervision of the European Central Bank (in relation to prudential regulation); (ii) direct supervision by the Dutch Authority for the Financial Markets in The Netherlands (*Stichting Autoriteit Financiële Markten* (AFM)) and indirect supervision by ESMA (in relation to market conduct); and (iii) supervision by the local regulators (in respect of the NWM N.V. Group's branch offices). The NWM N.V. Group expects government and regulatory intervention in the financial services industry to remain high for the foreseeable future.

The NWM N.V. Group's operations are subject to substantial regulation and oversight on financial crime. On a continuous basis the NWM N.V. Group implements and executes policies and procedures related to financial crime (including anti-bribery and corruption, anti-tax evasion, sanctions and anti-money laundering) for wholesale and institutional clients. The NWM N.V. Group has an increased focus on detecting financial crime including in relation to its IT systems. Across the banking industry there is an increased regulatory focus on combatting financial crime and over the past year, a number of Dutch and European banks have been subject to money laundering investigations. In order to prevent and combat financial crime, the NWM N.V. Group utilises a yearly Systematic Integrity Analysis (SIRA), holds company wide training and awareness programmes, has dedicated increased management resources to improve the NWM N.V. Group's frameworks and procedures (which are based on RBS Group's frameworks and procedures), has centralised KYC activities, and has implemented technology solutions and control frameworks by the second and third lines of defence. There is increasing risk in failing to comply with relevant requirements which could result in sanctions, fines and regulatory actions which could be imposed by the authorities and which could also lead to severe reputational risk.

Prudential regulatory requirements:

In recent years, regulators and governments have focussed on reforming the prudential regulation of the financial services industry and the manner in which the business of financial services is conducted. Amongst others, measures have included: enhanced capital, liquidity and funding requirements, implementation of the UK ring-fencing regime, implementation and strengthening of the recovery and resolution framework applicable to financial institutions in the Netherlands, the UK, the EU and the US, financial industry reforms (including in respect of MiFID II), enhanced data privacy and IT resilience requirements, enhanced regulations in respect of the provision of 'investment services and activities', enhanced regulations in respect of the provision of 'investment services and activities', and increased regulatory focus in certain areas, including conduct and duty of care, consumer protection regimes, outsourcing, anti-money laundering, anti-bribery, anti-tax evasion, financial crime, swap dealers payment systems, sanctions and anti-terrorism laws and regulations. This has resulted in the NWM N.V. Group facing greater regulation and scrutiny in the Netherlands and the other countries in which it operates.

In addition, there is significant oversight by the EU competition authorities. The competitive landscape for banks and other financial institutions in the Europe is rapidly changing. Recent regulatory and legal changes have and may continue to result in new market participants and changed competitive dynamics in certain key areas.

Regulatory requirements:

Recent regulatory changes, proposed or future developments and heightened levels of public and regulatory scrutiny in the EU have resulted in increased capital, funding and liquidity requirements, changes in the competitive landscape, changes in other regulatory requirements and increased operating costs, and have impacted, and will continue to impact, the NWM N.V. Group's product offering and business models. In particular, the NWM N.V. Group is required to continue to comply with regulatory requirements in respect to ensure operational continuity in resolution; the steps required to ensure such compliance entail significant costs, and also impose significant operational, legal, reputational and execution risks. Serious consequences could arise should the NWM N.V. Group be found to be non-compliant with such regulatory requirements. Such changes may also result in an increased number of regulatory investigations and proceedings and have increased the risks relating to the NWM N.V. Group's ability to comply with the applicable body of rules and regulations in the manner and within the time frames required.

Any of these developments (including any failure to comply with new rules and regulations) could have a significant impact on the NWM N.V. Group's authorisations and licences, the products and services that the NWM N.V. Group may offer, its reputation and the value of its assets, the NWM N.V. Group's operations and/or legal entity structure, and the manner in which the NWM N.V. Group conducts its business. Areas in which, and examples of where, governmental policies, regulatory and accounting changes and increased public and regulatory scrutiny could have an adverse impact (some of which could be material) on the NWM N.V. Group include, but are not limited to, those set out above as well as the following:
general changes in government, central bank, regulatory or competition policy, or changes in regulatory regimes that may influence investor decisions in the markets in which the NWM N.V. Group operates;

- amendments to the framework or requirements relating to the quality and quantity of regulatory capital
- to be held by the NWM N.V. Group as well as liquidity and leverage requirements, either on a solo, consolidated or subgroup level;
- changes to the design and implementation of national or supranational mandated recovery, resolution or insolvency regimes or the implementation of additional or conflicting loss-absorption requirements, including those mandated under Dutch rules, the BRRD, or CRR;
- rules and regulations relating to, and enforcement of, anti-corruption, anti-bribery, anti-money laundering, anti-terrorism, sanctions, anti-tax evasion or other similar regimes;
- the imposition of additional restrictions on the NWM N.V. Group's ability to compensate its senior management and other employees and increased responsibility and liability rules applicable to senior and key employees;
- rules relating to foreign ownership, expropriation, nationalisation and confiscation of assets;
- changes to corporate practice and disclosure governance requirements, senior manager responsibility, corporate structures and conduct of business rules;
- financial market infrastructure reforms establishing new rules applying to investment services, short selling, market abuse, derivatives markets and investment funds;
- new or increased regulations relating to customer data and privacy protection as well as IT controls and resilience, including the GDPR;
- the introduction of, and changes to, taxes, levies or fees applicable to the NWM N.V. Group's operations;
- laws and regulations in respect of climate change and sustainable finance (including ESG) considerations; and
- other requirements or policies affecting the NWM N.V. Group and its profitability or product offering, including through the imposition of increased compliance obligations or obligations which may

lead to restrictions on business growth, product offerings, or pricing.

In 2016, the DNB established the Sustainable Finance Platform to promote and increase awareness of sustainable funding in the Dutch financial sector. This platform is aimed at promoting sustainability initiatives and in addition to the DNB, eight supervisory authorities and government ministries (including the AFM, the Dutch Banking Association and the Dutch Ministry of Finance) participate. In addition, the DNB indicated that the management of risks associated with climate change would be one of its supervisory priorities and asked banks that fall under its direct supervision to submit a climate risk self-assessment as part of their Supervisory Review and Evaluation Process (SREP) submission.

The prudential regulation and supervision of climate risk will be an important driver in how the RBS Group, including NWM N.V. Group, otherwise decides how it allocates capital and further develops its risk appetite for financing certain types of activity or engaging with counterparties that do not align to a transition to a net zero economy. The AFM have also announced that sustainability, including topics such as climate change and green finance, will be one of its supervisory priorities. In this respect the AFM requires supervised entities to, inter alia, fairly and transparently disclose their sustainability principles. The NWM N.V. Group also recognises various legislative actions and proposals by, among others, the European Commission's Action Plan on Sustainable Finance which include a taxonomy on sustainable finance. Many of these legislative and regulatory initiatives, and especially the EU taxonomy, are focused on developing standardised definitions for the green and sustainable criteria of assets and liabilities, which could change over time and impact the NWM N.V. Group's recognition of its climate financing activity and lead to reputational and conduct risk on the sustainable financing activity of the NWM Group, including NWM N.V. Group.

Changes in laws, rules or regulations, or in their interpretation or enforcement, or the implementation of new laws, rules or regulations, including contradictory or conflicting laws, rules or regulations by key regulators or policymakers in different jurisdictions, or failure by the NWM N.V. Group to comply with such laws, rules and regulations, may adversely affect the NWM N.V. Group's business, financial condition and results. In addition, uncertainty and insufficient international regulatory coordination as enhanced supervisory standards are developed and implemented may adversely affect the NWM N.V. Group's ability to engage in effective business, capital and risk management planning.

The NWM N.V. Group and NWM Plc are subject to a number of legal, regulatory and governmental actions and investigations as well as associated remedial undertakings, the outcomes of which are inherently difficult to predict, and which could have an adverse effect on the NWM N.V. Group.

The NWM N.V. Group's operates in legal and regulatory environments that expose it to potentially significant legal proceedings, and civil, criminal, regulatory and governmental actions. The NWM N.V. Group and NWM Plc have settled a number of legal and regulatory actions over the past several years but continue to be, and may in the future be, involved in such actions in the US, the UK, Europe and other jurisdictions.

The NWM N.V. Group and /or NWM Plc are subject to a number of ongoing reviews, investigations and proceedings (both formal and informal) by governmental law enforcement and other agencies and litigation proceedings, relating to, among other matters, the offering of securities, conduct in the foreign exchange market, the setting of benchmark rates such as LIBOR and related derivatives trading, the issuance, underwriting, and sales and trading of fixed-income securities (including government securities), product mis-selling, customer mistreatment, anti-money laundering, antitrust and various other compliance issues. See also, 'Litigation, investigations and reviews' of Note 24 in the consolidated NWM N.V. accounts on pages 71 and 72 for details of those matters affecting NWM N.V Group. Legal and regulatory actions are subject to many uncertainties, and their outcomes, including the timing, amount of fines or settlements or the form of any settlements, which may be material and in excess of any related provisions, are often difficult to predict, particularly in the early stages of a case or investigation, and the NWM N.V. Group's and NWM Plc's expectations for resolution may change.

Adverse outcomes or resolution of current or future legal or regulatory actions and associated remedial undertakings could result in restrictions or limitations on the NWM N.V. Group's operations, and could adversely impact the NWM N.V. Group's capital position or its ability to meet regulatory capital adequacy requirements. Failure to comply with undertakings made by the NWM N.V. Group or NWM Plc to its regulators may result in additional measures being taken against, or penalties being imposed on the NWM N.V. Group.

The NWM N.V. Group may not effectively manage the transition of LIBOR and other IBOR rates to alternative risk free rates.

UK, Dutch, European and other international regulators are driving a transition from the use of interbank offer rates (IBORs), including LIBOR, to alternative risk free rates (RFRs). In the UK, the FCA has asserted that they will not compel LIBOR submissions beyond 2021, thereby jeopardising its continued availability, and has strongly urged market participants to transition to RFRs, as have the AFM and the DNB in the Netherlands and the CFTC and other regulators in the US. The NWM N.V. Group has a significant exposure to IBORs, and continues to reference it in certain products, primarily its loans and derivatives. Although the NWM N.V. Group is actively engaged with customers and industry working groups to manage the risks relating to such exposure, and is exploring ways to utilise RFRs to the extent possible, the legal mechanisms to effect transition cannot be confirmed, and the impact cannot be determined nor any associated costs accounted for, until such time that RFRs are utilised exclusively, and there is market acceptance on the form of alternative RFRs for different products, and certain IBOR obligations may not be able to be changed. The transition and uncertainties around the timing and manner of transition to RFRs represent a number of risks for the NWM N.V. Group, its clients and the financial services industry more widely. Following an analysis of the NWM N.V. Group's IBOR-linked financial products and instruments, the NWM N.V. Group has identified the following risks: legal risks (as changes will be required to documentation for new and the majority of existing transactions); financial risks (which may arise from any changes in valuation of financial instruments linked to benchmarks rates and may impact the NWM N.V. Group's cost of funds and its risk management related financial models); pricing risks (such as changes to benchmark rates could impact pricing mechanisms on certain instruments); operational risks (due to the requirement to adapt IT systems, trade reporting infrastructure and operational processes); and conduct risks (which include communication regarding the potential impact on customers, and engagement with customers during the transition period).

It is therefore currently difficult to determine to what extent the changes will affect the NWM N.V. Group, or the costs of implementing any relevant remedial action. Uncertainty as to the nature and extent of such potential changes, alternative reference rates or other reforms including the potential continuation of the publication of LIBOR may adversely affect financial instruments using LIBOR as benchmarks. The implementation of any alternative RFRs may be impossible or impracticable under the existing terms of such financial instruments and could have an adverse effect on the value of, return on and trading market for certain financial instruments and on the NWM N.V. Group's profitability. There is also the risk of an adverse effect to reported performance arising from the transition rules established by accounting bodies, as certain rules (as proposed by the IASB) are still to be finalised.

Additional information

Major shareholders

On 17 October 2007, RFS Holdings B.V. (RFS Holdings), a company incorporated by RBS Group, Fortis and Santander, acquired 85.6% of RBS Holdings N.V.. Through subsequent purchases, RFS Holdings increased its stake in RBSH Group to 99.3% as at 31 December 2007. RFS Holdings started squeeze-out proceedings in order to acquire the remainder of the shares in RBSH Group from minority shareholders and this procedure was completed on 22 September 2008. As a result RFS Holdings is from that date the sole shareholder of RBS Holdings N.V.. RFS Holdings is controlled by The Royal Bank of Scotland Group plc, which is incorporated in the UK and registered at 36 St. Andrew Square, Edinburgh, Scotland and The Royal Bank of Scotland Group plc is the ultimate parent company of RBSH Group Holdings N.V..

On 3 October 2008, the Dutch State fully acquired all Fortis' businesses in the Netherlands, including the Fortis share in RFS Holdings. On 24 December 2008, the Dutch State purchased from Fortis Bank Nederland (Holding) N.V. its investment in RFS Holdings, to become a direct shareholder in RFS Holdings. On 31 December 2010, RBS Group increased its shareholding in RFS Holdings to 97.72%. As of that date, the Dutch State has a 1.25% shareholding and Santander has a 1.03% shareholding. On 7 November 2012 the Dutch State transferred its investment to Stichting Administratiekantoor Beheer Financiële Instellingen.

On 6 December 2019 following the transfer of RBS Holdings N.V. and all its subsidiaries including NWM N.V to NWM Plc on 29 November 2019 RFS Holding B.V. was liquidated.

Stock exchange listings

None of the shares in the NatWest Markets N.V. Group are listed.

Issued share capital

The issued share capital of NWM N.V. consists of 11,112 ordinary shares with a nominal value of €4.50 each.

Dividends

The NatWest Markets N.V. Group's policy is to pay dividends on ordinary shares taking account the capital position and prospects. For further information on the payment of dividends, refer to Note 7 on the consolidated accounts.

Off-balance sheet arrangements

NatWest Markets N.V. Group has no off-balance sheet arrangements that have or are reasonably likely to have an adverse effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

For further information on off-balance sheet commitments and contingent liabilities see Note 24 on the consolidated accounts.

Forward-looking statements

Cautionary statement regarding forward-looking statements
Certain sections in this document contain 'forward-looking statements' as that term is defined in the United States Private Securities Litigation Reform Act of 1995, such as statements that include the words 'expect', 'estimate', 'project', 'anticipate', 'commit', 'believe', 'should', 'intend', 'plan', 'could', 'probability', 'risk', 'Value-at-Risk (VaR)', 'target', 'goal', 'objective', 'may', 'endeavour', 'outlook', 'optimistic', 'prospects' and similar expressions or variations on these expressions.

In particular, this document includes forward-looking statements relating, but not limited to: future profitability and performance, including financial performance targets such as return on tangible equity; cost savings and targets; implementation of the RBS Group and NWM N.V. Group's strategy; litigation and government and regulatory investigations, including the timing and financial and other impacts thereof; the continuation of the NWM Group's balance sheet reduction programme, including the reduction of risk-weighted assets (RWAs) and the timing thereof; capital and strategic plans and targets; capital, liquidity and leverage ratios and requirements, including CET1 Ratio, RWA equivalents (RWAe), Pillar 2 and other regulatory buffer requirements, minimum requirement for own funds and eligible liabilities, and other funding plans; funding and credit risk profile; capitalisation; portfolios; net interest margin; customer loan and income growth; the level and extent of future impairments and write-downs, including with respect to restructuring and remediation costs and charges; and the NWM N.V. Group's exposure to political risk, economic risk, climate change risk, operational risk, conduct risk, cyber and IT risk and credit rating risk and to various types of market risks, including interest rate risk, foreign exchange rate risk and commodity and equity price risk; customer experience including our Net Promotor Score (NPS); employee engagement and gender balance in leadership positions.

Limitations inherent to forward-looking statements
These statements are based on current plans, estimates, targets and projections, and are subject to significant inherent risks, uncertainties and other factors, both external and relating to the RBS Group and the NWM N.V. Group's strategy or operations, which may result in the NWM N.V. Group being unable to achieve the current targets, predictions, expectations and other anticipated outcomes expressed or implied by such forward-looking statements. In addition, certain of these disclosures are dependent on choices relying on key model characteristics and assumptions and are subject to various limitations, including assumptions and estimates made by management. By their nature, certain of these disclosures are only estimates and, as a result, actual future gains and losses could differ materially from those that have been estimated. Accordingly, undue reliance should not be placed on these statements. Forward-looking statements speak only as of the date we make them and we expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in the NWM N.V. Group's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Important factors that could affect the actual outcome of the forward-looking statements
We caution you that a large number of important factors could adversely affect our results or our ability to implement our strategy, cause us to fail to meet our targets, predictions, expectations and other anticipated outcomes or affect the accuracy of forward-looking statements we describe in this document including in the risk factors set out in the NWM N.V. Group's 2019 Annual Report and other risk factors and uncertainties discussed in this document. These include the significant risks presented by: strategic risk (including in respect of: the implementation and execution of the NWM Refocusing, the impact of the RBS Group's Purpose-led Strategy and climate ambition on the NWM Group (including the NWM N.V. Group), and the risk that the NWM Group and/or the NWM N.V. Group may not achieve its targets); financial resilience risk (including in respect of: the NWM Group's ability to meet targets. generate returns or implement its strategy effectively; the recent repurposing of NWM N.V.'s banking licence and risk of further change; the NWM N.V. Group's reliance on access to global capital markets to meet its funding commitments; the ability of NWM N.V. to meet prudential regulatory requirements for capital and liquidity; NWM N.V.'s ability to adequately access sources of liquidity and funding; NWM N.V.'s ability to manage its capital, liquidity or funding effectively; changes in the credit ratings of RBSG plc, any of its subsidiaries (including NWM N.V.) or any of their respective debt securities; the highly competitive markets in which the NWM N.V. Group operates; the ability of the RBS Group or NWM N.V. to meet requirements of regulatory stress tests; deteriorations in borrower and counterparty credit quality; possible losses or the requirement to maintain higher levels of capital as a result of limitations or failure of various models; sensitivity of the NWM N.V. Group's financial statements to underlying accounting policies, judgments, assumptions and estimates; changes in applicable accounting policies or rules; and the application of statutory stabilisation or resolution powers, operational and IT resilience risk (including in respect of: the NWM N.V. Group being subject to cyberattacks; operational risks inherent in the NWM N.V. Group's business; the NWM N.V. Group's operations being highly dependent on its IT systems; the NWM N.V. Group's reliance on attracting, retaining, developing and remunerating senior management and skilled personnel and maintaining good employee relations; the NWM N.V. Group's risk management framework; and reputational risk), economic and political risk (including in respect of: increased political and economic risks and uncertainty in the European and global markets; prevailing uncertainty surrounding the terms of the UK's withdrawal from the European Union; climate change and the transition to a low carbon economy; changes in interest rates; and HM Treasury's ownership of RBSG and the possibility that it may exert a significant degree of influence over the RBS Group), and legal, regulatory and conduct risk (including in respect of: the NWM N.V. Group's businesses being subject to substantial regulation and oversight; legal, regulatory and governmental actions and investigations; and the transition of LIBOR and IBOR rates to alternative risk free rates).

The forward-looking statements contained in this document speak only as at the date hereof, and the NWM N.V. Group does not assume or undertake any obligation or responsibility to update any forward-looking statement to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

The information, statements and opinions contained in this document do not constitute a public offer under any applicable legislation or an offer to sell or solicit of any offer to buy any securities or financial instruments or any advice or recommendation with respect to such securities or other financial instruments.