NatWest Markets N.V.

Annual Report and Accounts 2020

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 refers to NWM N.V. and its subsidiary and associated undertakings. The term 'RBSH Group' refers to RBSH N.V. and its only subsidiary, NWM N.V.. RBSH N.V. is a wholly-owned subsidiary of NatWest Markets Plc (NWM Plc). The term 'NWM Group' refers to NWM Plc and its subsidiary and associated undertakings. NatWest Group plc is 'the ultimate holding company' (renamed from the Royal Bank of Scotland Group plc ('RBSG plc') on 22 July 2020). The term 'NatWest Group' refers to NatWest Group plc and its subsidiary and associated undertakings. NatWest Group plc is registered at 36 St Andrew Square, Edinburgh, Scotland.

NWM N.V. publishes its financial statements in 'euro', the European single currency. The abbreviation '€' represents the 'euro', and the abbreviations '€m' and '€bn' represent millions and thousands of millions of euros, respectively, and references to 'cents' represent cents in the European Union ('EU'). The abbreviations '£m' and '£bn' represent millions and thousands of millions of pounds sterling, respectively, and references to 'pence' represent pence in the United Kingdom ('UK'). Reference to 'dollars' or '$' are to United States of America ('US') dollars. The abbreviations '$m' and '$bn' represent millions and thousands of millions of dollars, respectively, and references to 'cents' represent cents in the US. The term 'EEA' refers to European Economic Area.

International Financial Reporting Standards

Unless otherwise indicated, the financial information contained in this Annual Report and Accounts 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).

Description of business

NWM N.V., a licensed bank, operates as an investment banking firm serving corporates and financial institutions in the European Economic Area ('EEA'). NWM N.V. offers financing and risk solutions which includes debt capital markets and risk management, as well as trading and flow sales that provides liquidity and risk management in rates, currencies, credit, and securitised products. NWM N.V. is based in Amsterdam with branches authorised in London, Dublin, Frankfurt, Madrid, Milan, Paris and Stockholm.

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. The joint Supervisory Team comprising ECB and De Nederlandsche Bank (DNB) 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. NatWest Group 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 NatWest Group 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 NatWest Group plc. NWM N.V. is outside the ring-fence.

Performance overview

NWM N.V. Group reported an attributable profit of €6 million for 2020 compared with €634 million in 2019, primarily reflecting lower total income as prior year included the impact of the Alawwal bank merger and disposal. Impairment charges were €42 million compared to a €1 million release in 2019.

Income, balance sheet and RWAs

- Total income was €151 million compared with €749 million in 2019, primarily reflecting lower Other operating income of €17 million (2019 - €656 million), as prior year included the gain on the merger of Alawwal bank of €516 million and a €112 million release of Alcover claims reserves.
- Total assets increased to €21.7 billion from €14.5 billion in 2019 and total liabilities increased to €19.6 billion compared with €12.3 billion in 2019, primarily driven by increases in derivative assets, derivative liabilities and amounts due to holding companies and fellow subsidiaries, and the raising of new funding for N.V..
- RWAs decreased to €5.4 billion from €7.1 billion at 31 December 2019, reflecting lower levels of credit and market risk as the business seeks to reduce RWAs including through the execution of capital optimisation actions and exit activity.

Progress on strategic change

- Throughout 2020, NWM Group has made progress on the new strategy announced in February 2020, creating greater alignment with NatWest Group customers as well as refining products and services offered. This has involved reorganising the front office operating model, with some customer facing roles and functional teams transferring to NatWest Holdings Limited to simplify the operating model and leverage shared resources and expertise to act as one bank for customers. A Capital Management Unit was also established to safely manage the capital reduction and optimisation. NWM N.V. Group has been indirectly impacted as a result of the NWM Group strategic change.

Financial review

Brexit developments

- Following the 2016 EU Referendum, the UK ceased to be a member of the EU and the EEA on 31 January 2020 ('Brexit') and the transition period ended on 31 December 2020.
- As part of preparations to ensure continuity of service to NatWest Group's EEA customers after Brexit, NWM N.V. began transacting new business on 25 March 2019. Also, during 2019 substantial business transfers occurred, which covered both trading books and banking books.
- During 2020, approximately 1,350 customers were transferred from NWM Plc to NWM N.V. for new transactions. In addition, in November 2020 primary dealerships of 11 European debt management offices were migrated to NWM N.V. from NWM Plc.
- In December 2020, NWM N.V.'s Banking Business Transfer Scheme was extended up to 31 December 2021.
- Significant uncertainty remains as to the extent to which UK law will diverge from EU/EEA laws, whether and what equivalence determinations will be made by the various regulators and therefore what the respective legal and regulatory arrangements will be, under which NWM Group will operate. The legal and political uncertainty and any actions taken as a result of this uncertainty, as well as new or amended rules, could have a significant impact on NWM N.V. Group's operations.

Impact of COVID-19

Business resilience

- Robust business continuity plans ensured that NWM N.V. Group was able to continue to support customers and protect employees, with the vast majority of the workforce working remotely since the onset of the pandemic in Q1 2020. In line with guidance from public health authorities and local governments in the various regions where NWM N.V. Group operates, a small proportion of employees have returned to the workplace, primarily those in regulated roles and key oversight functions.

.

Capital, funding and liquidity

- NWM N.V. Group RWAs decreased to €5.4 billion from €7.1 billion at 31 December 2019, reflecting lower levels of credit and market risk as the business seeks to reduce RWAs including through the execution of capital optimisation actions and exit activity. NWM N.V. Group experienced an elevated level of drawings on committed corporate facilities during initial stages of COVID-19 pandemic. A significant part of these drawings had been repaid at year end.
- In March 2020, exceptional levels of market volatility due to the pandemic resulted in an increase in VaR model back-testing exceptions across the industry, including in NWM N.V. Group. During the year, NWM N.V. Group utilised a temporary capital relief by DNB to mitigate the impact on market risk capital requirements.
- NWM N.V. Group remained well-capitalised, with a NWM N.V. Group CET1 ratio of 30.6%, within guidance of above 15%.
- The liquidity position also remained strong, with NWM N.V. liquidity portfolio of €5.7 billion and LCR of 356%.
- Capital, funding and liquidity remained closely monitored, with increased tracking and scenario analysis to ensure balance sheet strength.
- During 2020 NWM N.V. Group broadened its funding base by increasing the customer deposit book and issuances of commercial paper. NWM N.V. Group established a €2 billion Euro Medium Term Note programme, therefore NWM N.V. Group may, subject to compliance with all relevant laws, regulations and directives, from time to time, issue unsecured and unsubordinated notes.

Risk

- Risk management activities have continued to focus on the safety and soundness of the business. There was an additional emphasis on the oversight of initiatives to support customers following the onset of the COVID-19 pandemic in Q1 2020 as well as of the transformation work that was executed throughout 2020.
- A COVID-19 risk register was established in the early stages of the pandemic to track all key risks and risk acceptance decisions, together with regular analysis of the impact of COVID-19 on NWM N.V. Group's risk profile. COVID-19 related risks have since been integrated into standard management and governance processes.
- In response to the pandemic, a number of macro-economic scenarios were developed at NatWest Group level to assess the range of potential medium-term impacts. These were benchmarked against the Bank of England's illustrative scenario and continually updated throughout the year. The outputs of these analyses were used to develop continuity plans for NWM N.V. Group's critical services.
- Weekly calls were and continue to be held to assess the COVID-19 related risks and to decide on mitigating actions for the NWM N.V. Group locations in Europe.
- The Risk function also provided oversight of adjustments to working practices and processes in some areas to facilitate working from home arrangements. These were introduced to ensure appropriate supervision of colleagues and to maintain service continuity for customers.
- Operational resilience remained a key focus, but the pandemic highlighted NWM Group's strong ability to respond to a major disruption event.

Impairments

- The unprecedented nature of the COVID-19 crisis prompted a change of approach to formulating multiple economic scenarios (MES). The incorporation of these stresses in Q2 2020 resulted in a probability of default (PD) deterioration across models and sectors, leading to an increase in IFRS 9 Stage 2 exposures and associated expected credit loss (ECL) provisioning.
- The impairment charge for the year ended 31 December 2020 was €42 million, compared to a release of €1 million for the year ended 31 December 2019.

Outlook(1)

Further changes are expected regarding the scope of NWM N.V. Group's activities in 2021 resulting from structural changes as part of NatWest Group's strategy and the implementation of business design changes agreed with the regulator following UK's exit from the EU.

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 112 to 128. These statements constitute forward-looking statements. Refer to Forward-looking statements in this document.

Performance key metrics and ratios	2020	2019
Liquidity coverage ratio (LCR) (%)	**356**	505
Liquidity portfolio (€bn)	**5.7**	4.0
Total wholesale funding (€bn)	**3.5**	1.7
Total funding including repo (€bn)	**9.2**	6.4
Common Equity Tier (CET1) ratio (%)	**30.6**	23.1
CRR leverage ratio (%)	**11.6**	8.9
Risk-weighted assets (RWAs) (€bn)	**5.4**	7.1
Total Capital ratio (%)	**39.0**	29.9

Chairman's statement

2020 has been a significant year. While facing unprecedented circumstances, we have adopted new ways of working and successfully delivered in extremely volatile market conditions. We have supported our colleagues, focused on what matters most to our customers and delivered a safe Brexit transition.

We have made good progress in our transformation to become a more sustainable part of NatWest Group and end 2020 with a strong platform in place and an ambitious plan to grow our business in 2021 and beyond.

Financial Performance

NatWest Markets N.V. Group reported an attributable profit of €6 million for 2020 compared with €634 million in 2019. This primarily reflects a lower total income compared to 2019, which included the impact of the Alawwal bank merger. In addition, impairment charges were €42 million compared to a €1 million release in 2019.

Total assets increased to €21.7 billion as at 31 December 2020 compared with €14.5 billion as at 31 December 2019. This was mainly driven by increases in cash and balances at central banks, trading assets and derivatives.

NatWest Markets N.V. Group continues to be well capitalised. Total equity as at 31 December 2020 was €2.2 billion, a decrease of €0.04 billion compared with 31 December 2019. At 31 December 2020, NatWest Markets N.V. Group's Total capital ratio was 39.0% with a CET 1 ratio of 30.6% and Tier 1 ratio of 35.3%. NatWest Markets N.V. Group's total risk-weighted assets were €5.4 billion at 31 December 2020.

I am pleased that NatWest Markets N.V. received regulatory approval for the appointment of Robert Begbie, CEO NatWest Markets, and David King, CFO NatWest Markets, to the Supervisory Board. In June 2020, Shalini Sharma replaced David Hopkins as General Counsel of NatWest Markets N.V. and joined the NatWest Markets N.V. Management team. In December 2020, NatWest Markets N.V.'s Hong Kong branch successfully handed back its licence as part of closing down our operations.

In 2020 Fitch upgraded the senior ratings of NatWest Markets Plc and NatWest Market N.V. by 1 notch to A+ to reflect expectation that external senior creditors will benefit from resolution funds ultimately raised by NatWest Group and which are designed to protect subsidiaries' senior creditors in a group failure. Both Fitch and S&P revised the outlook for all NatWest Group entities to negative from stable, in line with most of the sector. Moody's long-term deposit and senior unsecured debt ratings of NatWest Markets Plc and NatWest Markets N.V. were both upgraded by two notches to A3 from Baa2, retaining positive outlook. This upgrade recognises the strength of our business and a further signal of confidence to our customers and stakeholders that we will deliver on our purpose.

Supporting our customers through Brexit

From the announcement of Brexit, our primary goal has been to support our customers and ensure continuity of service. With the initial Brexit deadline of 31 March 2019, NatWest Markets N.V. began transacting new business on 25 March 2019 providing access to EU capital markets and support for our European customers. During 2020, we migrated approximately 1,350 customers and the primary dealerships of 11 European debt management offices to ensure they could continue to receive valuable financing and risk management services when the transition period ended on 31 December 2020. We gained further flexibility to accommodate our customers' needs when the Court of Session approved our request to extend our Banking Business Transfer Scheme up to 31 December 2021.

I am proud of the collaboration and focus we have shown in successfully supporting our customers through Brexit, keeping them informed as we monitored political developments and implemented our plan, all the while managing the impacts of COVID-19.

Response to the pandemic

As our customers navigated the uncertainty of the pandemic, we have delivered a number of important transactions and have helped corporates, banks, financial institutions, governments and the economies that we serve to rebuild. The pandemic highlighted our strong ability to respond to a major disruptive event. Robust business continuity plans ensured that NatWest Markets N.V. Group was able to continue to support customers safely and protect employees throughout the year, with the vast majority of the workforce in Europe working remotely since the onset of the coronavirus crisis in the first quarter of 2020.

Building a purpose-led bank

In February 2020, NatWest Group announced becoming a purpose-led bank – championing potential, helping people, families and businesses to thrive. NatWest Markets N.V. makes a key contribution to this and aspires to be a business that is guided by this purpose.

Our priorities in 2020 and for 2021 remain unchanged – continued focus on customers, collaboration across NatWest Group, and keeping our business safe and secure. By putting purpose at our core, we will be the partner of choice to meet the financial markets needs of NatWest Group's customers. We succeed when our customers thrive.

We are committed to supporting NatWest Group's three areas of focus: enterprise, learning and climate. These are areas where we can make a difference and they are material to our future success.

For example, helping customers achieve their Environmental, Social, and Governance (ESG) and climate ambitions is fundamental to our purpose. We will continue to develop our ESG and climate strategy, evolving our offering and expertise at pace and in line with the market's exponential growth. We are committed to putting sustainability at the heart of everything we do.

We are determined to become a learning organisation. Working with NatWest Group, we are equipping our leaders with skills and tools to lead with purpose.

We will continue to foster a culture of inclusion, as we recognise that diversity is vital to our success. Championing diversity while creating an inclusive workplace that gives our people the best opportunity to succeed and grow their careers will continue to be key in 2021.

A sustainable future

On behalf of the Managing Board, I would like to thank our customers and stakeholders for their loyalty and trust. I am proud of our teams for their focus and resilience to support our customers during these continuously challenging times

Building on these strong foundations, we are now looking forward to 2021 and putting our purpose into action, helping our customers and our colleagues to thrive, fostering a culture of diversity and inclusion and further shaping the business for the future.

Harm Bots
Chairman and CEO, NatWest Markets N.V.
18 February 2021

Financial review

Summary consolidated income statement

	2020	2019	Variance	
	€m	€m	€m	
Interest receivable	**54**	62	(8)	*(13%)*
Interest payable	**(64)**	(80)	16	*(20%)*
Net interest income	**(10)**	(18)	*8*	*(44%)*
Fees and commissions receivable	**205**	129	*76*	*59%*
Fees and commissions payable	**(46)**	(26)	*(20)*	*77%*
Income from trading activities	**(15)**	8	*(23)*	*nm*
Other operating income (1)	**17**	656	*(639)*	*(97%)*
Non-interest income	**161**	767	*(606)*	*(79%)*
Total income	**151**	749	*(598)*	*(80%)*
Operating expenses	**(93)**	(88)	*(5)*	*6%*
Profit before impairment (losses)/releases	**58**	661	*(603)*	*(91%)*
Impairment (losses)/releases	**(42)**	1	*(43)*	*nm*
Operating profit before tax	**16**	662	*(646)*	*(98%)*
Tax charge	**(10)**	(28)	*18*	*(64%)*
Profit for the year	**6**	634	*(628)*	*(99%)*
Attributable to:				
Ordinary shareholders	**(8)**	626	*(634)*	*(101%)*
AT1 capital securities	**14**	8	*6*	*75%*

nm = not meaningful

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

Operating profit before tax was €16 million compared with €662 million in 2019. This decrease was due to lower total income which decreased by €598 million to €151 million, and higher operating expenses of €93 million compared with €88 million in 2019. Impairment losses were €42 million compared with releases of €1 million in 2019.

Profit for the year was €6 million compared with €634 million in 2019.

Net interest income was a net expense of €10 million compared with a net expense of €18 million in 2019. Interest receivable decreased by €8 million to €54 million (2019 - €62 million). Interest payable decreased by €16 million to €64 million (2019 - €80 million). The increase in net interest income is mainly due to higher interest receivable from loans to customers and lower interest payable to internal funding of the trading business and to subordinated liabilities. This was partially offset by lower interest receivable from other financial assets and higher interest payable to customer deposits.

Non-interest income decreased by €606 million to €161 million compared with €767 million in 2019. Net fees and commissions were an income of €159 million (2019 - €103 million income). This was mainly driven by transfer pricing income from NWM Plc of €125 million (2019 - €87 million).

Income from trading activities was a loss of €15 million, compared with a gain of €8 million in 2019. This was primarily driven by legacy transactions. 2020 foreign exchange trading income included a €10 million loss driven by legacy items and interest rate trading income included a €12 million loss related to CVA charges on legacy transactions.

Other operating income decreased by €639 million to €17 million, compared with €656 million in 2019. This was mainly driven by legacy items. 2020 included a release of €11 million in relation to Alcover claims reserves compared with a €112 million release in 2019. 2019 also included a gain of €516 million on completion of the Alawwal bank merger and Madoff related recoveries of €21 million.

Operating expenses increased by €5 million to €93 million compared with €88 million in 2019. This was mainly due to staff costs which were up €20 million to €53 million. Premises and equipment costs increased by €3 million to €7 million (2019 - €4 million). This was partially offset by administrative expenses which decreased by €18 million to €31 million, mainly driven by legacy items.

Impairments were a loss of €42 million compared with a release of €1 million in 2019. The €42 million net impairment charge was mainly driven by a downgrade of an individual significant exposure.

Tax charge for 2020 was €10 million compared with €28 million in 2019. The gain on the Alawwal bank merger in 2019 was exempt from Dutch corporate income tax.

Financial review

Consolidated balance sheet as at 31 December 2020

	2020	2019	Variance	
	€m	€m	€m	
Assets				
Cash and balances at central banks	**4,452**	3,191	*1,261*	*40%*
Trading assets	**4,380**	3,155	*1,225*	*39%*
Derivatives	**6,935**	3,898	*3,037*	*78%*
Settlement balances	**358**	141	*217*	*nm*
Loans to banks - amortised cost	**190**	738	*(548)*	*(74%)*
Loans to customers - amortised cost	**946**	1,374	*(428)*	*(31%)*
Amounts due from holding companies and fellow subsidiaries	**3,540**	1,368	*2,172*	*159%*
Other financial assets	**896**	562	*334*	*59%*
Other assets	**47**	67	*(20)*	*(30%)*
Total assets	**21,744**	14,494	*7,250*	*50%*
Liabilities				
Bank deposits	**52**	59	*(7)*	*(12%)*
Customer deposits	**1,258**	1,447	*(189)*	*(13%)*
Amounts due to holding companies and fellow subsidiaries	**3,551**	3,021	*530*	*18%*
Settlement balances	**943**	209	*734*	*nm*
Trading liabilities	**1,512**	1,832	*(320)*	*(17%)*
Derivatives	**9,309**	4,588	*4,721*	*103%*
Other financial liabilities	**2,200**	240	*1,960*	*nm*
Subordinated liabilities	**655**	642	*13*	*2%*
Other liabilities	**91**	248	*(157)*	*(63%)*
Total liabilities	**19,571**	12,286	*7,285*	*59%*
Total equity	**2,173**	2,208	*(35)*	*(2%)*
Total liabilities and equity	**21,744**	14,494	*7,250*	*50%*

nm = not meaningful

Total assets were €21,744 million at 31 December 2020, an increase of €7,250 million, or 50%, compared with €14,494 million at 31 December 2019, mainly driven by cash and balances at central banks of €4,452 million (31 December 2019 - €3,191 million), derivatives of €6,935 million (31 December 2019 - €3,898 million) and amounts due from holding companies and fellow subsidiaries of €3,540 million (31 December 2019 - €1,368 million).

Cash and balances at central banks increased by €1,261 million to €4,452 million at 31 December 2020. 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 €1,225 million to €4,380 million. The 2020 balance mainly pertains to cash collateral posted to derivative counterparties amounting to €3,417 million (2019 - €1,637 million) and loans subject to reverse repurchase agreements amounting to €908 million (2019 - €1,176 million).

Loans to banks - amortised cost decreased by €548 million, or 74%, to €190 million at 31 December 2020, mainly due to the decrease in non-euro cash placements held for liquidity buffer purposes.

Loans to customers - amortised cost decreased by €428 million to €946 million, primarily reflecting maturities and repayments. 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 increased by €2,172 million to €3,540 million, mainly driven by an increase in loans to banks of €1,264 million to €1,763 million (2019 - €499 million) and an increase in loans subject to reverse repurchase agreements of €925 million to €1,655 million (2019 - €730 million).

Other financial assets increased by €334 million to €896 million and included debt securities up €327 million to €833 million and equity shares up €7 million to €63 million. The increase in debt securities relates to liquidity management and the increase in equity shares relates to the legacy portfolio.

Other assets decreased by €20 million, or 30%, to €47 million.

Derivative assets and liabilities increased by €3,037 million to €6,935 million, and derivative liabilities increased by €4,721 million, to €9,309 million. The increases in mark-to-market were driven by a downward shift in interest rate yields and new business during the year. The balances mainly pertain to interest rate derivatives and exchange rate derivatives. €2,968 million of the assets and €2,230 million of the liabilities are balances with holding companies and fellow subsidiaries.

Settlement balance assets and liabilities were €358 million (31 December 2019 - €141 million) and €943 million (31 December 2019 - €209 million) respectively, reflecting higher year end trading volumes.

Bank deposits decreased by €7 million, or 12%, to €52 million at 31 December 2020.

Customer deposits decreased by €189 million to €1,258 million, reflecting client-led activity.

Amounts due to holding companies and fellow subsidiaries increased by €530 million to €3,551 million, mainly driven by an increase in bank deposits of €327 million to €2,494 million (2019 - €2,163 million). This increase in bank deposits mainly relates to cash collateral from NWM Plc.

Trading liabilities decreased by €320 million to €1,512 million, mainly due to the €703 million decrease in short positions. The 2020 balance mainly pertains to cash collateral received from derivative counterparties amounting to €1,072 million (2019 - €665 million and deposits subject to repurchase agreements amounting to €306 million (2019 - €330 million).

Other financial liabilities increased by €1,960 million to €2,200 million, driven by an increase in debt securities in issue to €1,314 million (2019 - €240 million) and an increase in evergreen deposits to €886 million (2019 - nil).

Subordinated liabilities increased by €13 million, or 2%, to €655 million mainly due to reduced own credit adjustments, partially offset by the impact of US dollar to Euro exchange rate movements during the year.

Other liabilities decreased by €157 million, or 63%, to €91 million at 31 December 2020 mainly due to a reduction in legacy items.

Equity attributable to controlling interests decreased by 2%, to €2,173 million, mainly driven by a reduction in own credit adjustments of €27 million due to the tightening credit spreads, dividends paid on AT1 capital securities of €14 million and currency translation adjustments of €3 million. This was partially offset by the profit for the period of €6 million and fair value through other comprehensive income movements of €3 million.

Top and emerging risks

NWM Group employs a regular process for identifying and managing its top and emerging risks. Top and emerging risks are more specific scenarios of concern that could have a significant negative impact on NWM Group's ability to operate or meet its strategic objectives.

External

COVID-19	NWM N.V. Group has managed and responded to any significant government or authority changes in response to the pandemic to ensure there is no adverse impact on the business strategy, customers, operations and employees. Heightened monitoring is in place through the COVID-19 pandemic. Specific consideration is given to internal and external factors that may require plans to flex dynamically, region by region. We continue to ensure NWM Group's strategy is embedded into our future planning and thinking to ensure we minimise any potential future impact that this pandemic may trigger. NWM Group remains well prepared having completed a number of exercises against a range of worsening scenarios to ensure it can respond to any significant government changes in response to the pandemic.
Market volatility	NWM N.V. Group is exposed to macro-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 Group continues to use a range of complementary approaches to inform strategic planning and risk mitigation. These include active management of portfolios and adjustment of risk appetite, scenario planning and stress testing.
Brexit	NWM Group has implemented plans to operate in the EU market and continues to monitor effects of the UK's withdrawal from the EU which may adversely affect NWM Group and its operating environment. The NWM N.V. Group has a key role in NatWest Group's preparations for the UK's loss of access to the European Single Market. An inadequate preparation to the Brexit exposes NWM N.V. Group to business disruption and exposes the bank to regulatory risk. NWM N.V. Group continues to monitor geopolitical risks and regulatory developments and is working to obtain the additional regulatory permissions to facilitate continuity of business following the UK's departure from the EU.
Climate-related risks	Accelerating climate change may lead to heightened financial risks and faster-than-anticipated impacts on 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 – all of which underline the importance of NatWest Group's climate commitments. NatWest Group continues to adapt its operations and business strategy to mitigate the risks of both climate change and the transition to a low-carbon economy. It is also 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 could damage NWM N.V. Group's ability to do business and/or compromises data security. Across NWM Group, a multi-layered approach to its defences exists and NWM Group continues to invest in building its resilience and cybersecurity capabilities.
Competitive environment	NWM Group's target markets are highly competitive, with changes in technology, regulation, customer behaviour and business models continuing to accelerate competitive pressure. Customer demands and expectations are high and increasing. There is a risk that NWM N.V. Group does not keep up with its competitors - for example it is not able to adapt or compete effectively in line with the product offerings and geography. NWM Group monitors the competitive environment to ensure its business model remains sustainable and viable. It remains focused on innovating to deliver compelling propositions for customers. It is focusing on being One Bank and working across the ring-fence to ensure customers are offered all of NatWest Group's services, and increasing customer satisfaction.
Regulatory, Legal & Conduct Risks	NWM Group operates in a highly-regulated market and must manage compliance with current regulations and prepare for future regulations, including the finalised Basel III framework or capital requirement for NWM Group. The implications of proposed or potential regulatory developments are incorporated into NWM Group's business and financial plans. As part of this NWM Group continues to mitigate and manage the business and operational risks arising from LIBOR transition, and to minimise risk and disruption to customers. Activity to assess the conduct risk implications for NWM Group and its customers has also been a key focus. NWM Group is aligned to the NatWest Group's LIBOR programme and continues to work closely with regulators and industry bodies to manage the impact. Compliance to regulations related to the Financial Crime, Service Management and Internal Models also remained the areas of attention for NWM N.V. Group. Conduct and supervisory risks have been heightened by both strategic change and prolonged working from home as a result of lockdown protocols. NWM Group monitors conduct risk through the Conduct Risk framework and continues to adapt and monitor adherence and appetite position through NWM Group's Conduct Committee. This aims to deliver strong customer and business outcomes, reducing the risk of material staff misconduct and supporting business sustainability.

Top and emerging risks

Internal

Strategy execution	NatWest Group announced a new strategy for NWM Group in February 2020 which included an increased focus on serving NatWest Group's corporate and institutional customer base. Over the medium term, NWM Group intends to simplify its operating model and reduce its risk-weighted assets and cost base. The required changes are substantial and will be implemented over several years. This will entail material execution risks, commercial risks and operational risks for NWM N.V. Group. There is a dependency on NatWest Group's strategic decisions which could affect NWM N.V. Group's own strategy. NWM Group's Board maintains proactive engagement with NWM N.V. Group to ensure strategic alignment.
Sustainable control environment	The internal system of controls is key to NWM N.V. Group's management of its risks. Failure to maintain a sustainable control environment, due to changes in NWM Group's operating environment or business strategy, could result in an increase in risks across NWM N.V. Group. To mitigate these risks, an operational risk management framework is in place that supports ongoing identification, management and monitoring of our risk and control profile. Our overall control environment is assessed yearly to ensure NWM N.V. Group's control environment position remains within appetite. The enhancement of NWM N.V. Groups control environment has continued focus, among others due to Brexit related adjustments.
Key person risk	NWM Group's people risk could increase through the loss of key staff, the recalibration of roles and loss of institutional knowledge due to strategic change. NWM N.V. Group monitors people risk closely and has plans in place to support retention of key roles. Wider NatWest Group programmes are in place that support engagement, and training is in place for all employees.
Workforce diversity	Given the focus on diversity - particularly the proportion of females in senior roles, pay gaps and ethnic diversity, the risk of not supporting and promoting a diverse and inclusive workforce could have an adverse impact on NWM Group employee engagement and strategy. This could also lead to a reputational impact arising from investors and regulators. Creating an inclusive workplace plays a powerful role in the shaping of the business and views of stakeholders.
Legacy system vulnerabilities	There is a risk that NWM N.V. Group does not effectively agree and manage its end-of-life strategy for legacy system vulnerabilities. NatWest Group continues to invest in its IT infrastructure – including NWM N.V. Group's IT systems – to prevent customer service disruption. An investment programme to improve the resilience of the systems has started and is expected to mitigate legacy system vulnerabilities and modernise the infrastructure to deliver a future-state technology platform for NWM N.V. Group.
Management of algorithmic trading	There remains inherent risk within algorithmic trading for unanticipated behaviour or performance in an algorithm. The focused activity to meet the requirements of the MIFID II and PRA SS 5/18 regulations has put NWM Group into a good state for business automation and growth. This risk is further mitigated on an ongoing basis through continual development across the key pillars of our algorithmic trading governance framework.
Financial Crime	Accurate information about who we do business with helps us to protect our customers, society and our bank from financial crimes. As a financial institution NWM N.V. Group have an obligation to prevent criminals from misusing the financial system and comply with applicable laws and regulations. NWM N.V. Group believes in working together with regulatory and law enforcement authorities to prevent the financial crimes incidences. In line with the global organization NWM N.V. Group has been organized around five key financial crime themes: Customer Due Diligence, Transaction monitoring, Anti-Bribery and Corruption, Sanctions and Anti-tax Evasion. NWM N.V. Group continued to work towards strengthening the procedures, systems and controls to combat financial crime.
Model Risk	Risk management has a high reliance on the accuracy of the models. After securing the repurpose licence in 2018 NWM N.V. Group has been undergoing in 2020 scheduled Internal Model Inspections for IMM and IMA by DNB. These inspections have been communicated well in advance to the management at the time DNB provided the DNO (Declaration of No Objection) to NWM N.V. Group. These inspections are detailed assessments of the functioning, governance and reliability of selected internal risk models used by NWM N.V. Group on the basis of CRR and EGIM standards. The model inspections are aimed at affirming the models to be fit for purpose for the entity and the products and accurately perform the risk calculations. The interaction with DNB on these inspections will continue in 2021. Successful inspections would result in extension of the model usage whereas an adverse outcome could lead to potential capital charges or recommendation for model improvements.

Climate-related disclosures

Climate-related disclosures

We recognise that climate change is a global issue which has significant implications for our customers, colleagues, suppliers, partners and therefore, NWM N.V. Group itself. We believe it's vital that we make a rapid transition towards a low-carbon economy, and as part of NatWest Group (NWM N.V. Group ultimate parent), we must play a leading role in this transition and support our customers, economies and communities.

This section includes climate-related disclosures based on our progress towards our intention to align our climate-related disclosure with the applicable regulatory requirements and with Financial Stability Board's Task Force on Climate-related Financial Disclosures ('TCFD') recommendations.

Governance

NWM N.V. Managing Board and senior management team respectively oversee and manage NWM N.V. Group's response to climate change.

Governance framework

The structure chart below illustrates how climate-related governance operates at NWM N.V. Managing Board, NWM N.V. Board Committees and NWM N.V. Executive Committees.

NWM N.V. Group Climate governance map

Notes:

(1) The NWM N.V. Managing Board together with NWM N.V. Supervisory Board and its committees have a prominent role in overseeing the interaction between climate change, strategy and risk appetite.

(2) NWM N.V. Executive Committees are responsible for ensuring delivery of NWM N.V. Group strategy, including climate strategy.

(3) The Climate & Sustainability Committee of NWM Group (NatWest Markets Plc and its subsidiaries, including NWM N.V. Group), also attended by the executive members of NWM N.V. Group, is a forum to assess and manage climate-related risks and opportunities for NWM Group and its subsidiaries, including NWM N.V. Group.

NWM N.V. Managing Board oversight

The NWM N.V. Managing Board and senior management recognise the growing challenge of climate change, and in 2020, have started to take steps to integrate climate-related risks and opportunities into the governance framework.

The NWM N.V. Managing Board together with the NWM N.V. Supervisory Board and its committees have ultimate oversight of how NWM N.V. Group identifies, measures, manages and mitigates climate-related risks and opportunities throughout the business. The NWM N.V. Managing Board will be assisted by the committees of NWM N.V. Supervisory Board, NWM N.V. Risk & Control Committee in setting risk appetite and monitoring the risk management response to climate change related physical and transition risks and opportunities within the business. The NWM N.V. Audit Committee will review disclosures, including non-financial reporting and NWM N.V. Group specific climate-related disclosures.

In November 2020, a new NWM Group CEO-led management forum – the Climate & Sustainability Committee ('CSC'), was established to oversee and manage climate-related risks and opportunities for NatWest Markets Plc and its subsidiaries and its subsidiaries, including NWM N.V. Group. The CSC, which is also attended by the executive members of NWM N.V. Group - will oversee NWM Group's (including NWM N.V. Group) strategic response to climate change, in line with the NatWest Group Purpose-led Strategy, and will consider both the financial and nonfinancial risks posed by climate change as well as explore climate-related opportunities for our customers.

Board knowledge and expertise

NWM N.V. Managing Board has been offered targeted training on climate-related risks and opportunities to support ongoing oversight and upskilling. This has included an internal online learning module on the impact of climate change on financial services, as well as a more in-depth education through enrolment in the University of Cambridge Institute for Sustainability Leadership Programme.

Management's role in assessing and managing climate-related risks and opportunities

A NatWest Group-wide Climate Change Programme (GCCP) has been established to support delivery of NatWest Group's climate-related objectives. The GCCP Executive Steering Group (ESG) is responsible for coordinating the NatWest Group's response across climate-related regulations, risks and opportunities. The ESG includes cross-franchise and functional representatives, including NWM N.V. Group.

To develop its governance around climate-related risks and opportunities. NWM N.V. Group intends to focus on the following:

- Establish climate change related roles and responsibilities within NWM N.V. Group.
- Continue to increase awareness of and education about climate change and climate relates themes.
- Further develop climate change reporting and monitoring operating rhythm at NWM N.V. Managing Board and NWM N.V. Group executive level.
- Increase Board-level and executive knowledge and understanding of climate-related matters and ensure that NWM N.V. has a co-ordinated response to climate-related regulations, risks and opportunities in line with NatWest Group's purpose, ambition and external commitments.

Climate-related disclosures

Strategy

In February 2020, NatWest Group announced its ambition to be a leading bank in the UK and the Republic of Ireland in helping to address the climate challenge by making its own operations net carbon zero in 2020 and climate positive by 2025, and to at least halve the climate impact of its financing activity by 2030 and to do what is necessary to achieve alignment with the objectives of the 2015 Paris Agreement. As part of NatWest Group, our climate strategy supports and contributes to this ambition and is focused on helping customers to achieve their climate ambitions, proactively supporting their transition to a low-carbon economy while managing our own operations with respect to carbon emissions.

The focus on climate change has grown exponentially and addressing and incorporating its impacts are now a fundamental consideration for our customers and the markets we operate in. Therefore, in 2020, we have started to prioritise climate-related risks and opportunities and we have taken steps to build out our capabilities and adapt our business model to help customers navigate their own journeys to transitioning to a low-carbon economy.

We prioritised sharing relevant insights with customers and market participants, including our regulators, corporates, investors and industry experts to address specific challenges in respect of climate change and related financing.

We engaged colleagues on climate change education programmes, partnering with academic institutions to increase awareness across our global business and to inspire personal choice to support our climate change agenda.

During 2020, NWM N.V. Group has contributed to the progress of NatWest Group's climate ambitions, key highlights include:

- NatWest Markets N.V. led the inaugural Euro green bond for renewable materials company Stora Enso, supporting the company's ambitious sustainability agenda. The EUR 500 million 10-year transaction helps fund a variety of projects, including initiatives in sustainable forestry, renewable energy, water management and eco-efficient product development. It obtained a nine times oversubscribed orderbook, highlighting broad European and ESG investor interest in the trade.
- NatWest Markets N.V. acted as bookrunner on the Kingdom of Sweden's inaugural sovereign Green Bond, raising SEK 20 billion of proceeds linked to central government expenditures to meet Sweden's environmental and climate goals, which include protection of valuable natural environments, climate investments and railway maintenance. The framework received a "dark green" rating by Cicero – the highest grade.
- NatWest Markets N.V. acted as bookrunner on Mediobanca's inaugural Green Bond, confirming the company's commitment to reshape the Mediobanca Group in line with its ESG strategy. The proceeds of the €500 million 7-year Senior Preferred Unsecured Notes will be used to finance or refinance eligible projects including renewable energy and efficiency, sustainable mobility, green buildings, circular economy and SME/micro financing.

Scenario analysis

In 2020, we included a qualitative assessment of climate risk as one of the contributing factors in our annual ICAAP scenario. Over the course of 2021 and in supporting NatWest Group's preparation for the Climate Biennial Exploratory Scenario (CBES), we expect to be able to make increasingly quantitative statements about our assessment of climate risk and how that contributes to the overall risk profile of NWM N.V. Group.

To realise its climate-related ambitions, NWM N.V. Group intends to focus on the following:

- Identify and assess climate-related risks and opportunities and the understanding of size and drivers of emerging climate-related risks by leveraging analysis from NatWest Group's Climate Centre of Excellence to inform our approach.
- Explore the expansion of climate-related capabilities including new products across all business lines that matter most to our customers and explore working with our customers as they transition their business models to align with low-carbon economies.
- Develop and implement NWM N.V. Group's strategy, to address climate change that is aligned to NatWest Group's overall vision, purpose and plan.
- Enhance climate measurement capabilities in the financial planning process.
- Consider setting appropriate climate-related targets and/or commitments.

Risk Management

The risks associated with climate change are complex and pervasive. Climate-related risks are classified as either physical risks, those that arise from the physical effects associated with changes to the climate such as rising temperature, changing weather patterns and extreme weather events, or transition risks - which are those that may arise from the shift from high-carbon reliance to low-carbon reliance.

NatWest Group classifies climate risk as a principal risk and also considers climate in the context of a number of other closely correlated financial and non-financial risks. Principal risks most impacted by climate-related risks are credit risk, market risk, model risk, reputational risk and operational risks. Its assessment and management require a strategic approach that considers how actions taken today may affect NWM N.V. Group's current risk profile now and in the future.

Climate change represents inherent risks to NWM N.V. Group not only from its impact on the global economy and the businesses of its customers, but also in potential effects on asset values, operational costs and business models as the essential transition to a low-carbon economy accelerates.

When considering climate-related risks and their materiality, NWM N.V. Group uses analysis from NatWest Group's Climate Centre of Excellence to inform its approach. We incorporate this analysis into our own assessment of climate impacts that are specific to our exposures and the analysis is overseen by the CSC, which is also attended by the executive members of NWM N.V. Group.

To identify, assess, and manage climate-related risks, NWM N.V. Group intends to focus on the following:

- Understand the correlation and potential impact of climate change and its associated risks across different risk types and integrate climate risk into the risk management framework.
- Develop climate risk policy and embed climate risk considerations in risk appetite.
- Embed climate-related risks management in key business processes.
- Commence to develop and refine internal climate scenario analysis and stress testing capability, and the necessary methodology and processes to be able to carry out increasingly effective climate risk scenario analysis for risk management and strategic decision-making purposes.

Metrics and Targets

In line with NatWest Group's strategy, NWM N.V. Group intends to identify and develop NWM N.V. Group's key metrics and targets to assess and manage own climate-related risks and opportunities, and where useful or material, metrics related to its operations.

Refer to Risk Factors - Climate and Sustainability-related risks in the NWM N.V. 2020 in this document that describes several particular uncertainties, climate and sustainability-related risks to which NWM N.V. Group is exposed.

Risk and capital management

Presentation of information

Where indicated by a bracket in the margins, certain information in the Risk and capital management section (pages 11 to 42) is within the scope of the Independent auditor's report.

Update on COVID-19

The unprecedented challenge posed by the global pandemic – for families, businesses and governments around the world – also led to a number of significant risk management challenges. NWM N.V. Group remained committed to supporting its customers while operating safely and soundly in line with its strategic objectives. Most notably, the credit risk profile was heightened due to deteriorating economic conditions. This is detailed in the Credit risk section.

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

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

Risk management framework

Introduction

NWM N.V. Group operates under NatWest Group's enterprise wide risk management framework, which is centred around the embedding of a strong risk culture. The framework ensures the governance, capabilities and methods are in place to facilitate risk management and decision-making across the organisation. Common policies, procedures, frameworks and models apply across NatWest Group and are tailored for NWM N.V. Group where necessary.

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

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

All 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.

Culture

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

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

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

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

Training

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

Our Code

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

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

If conduct falls short of NatWest Group's required standards, the accountability review process is used to assess how this should be reflected in pay outcomes for those individuals concerned. The NatWest Group-wide remuneration policy ensures that the remuneration arrangements for all employees 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.

Risk and capital management

Risk management framework continued

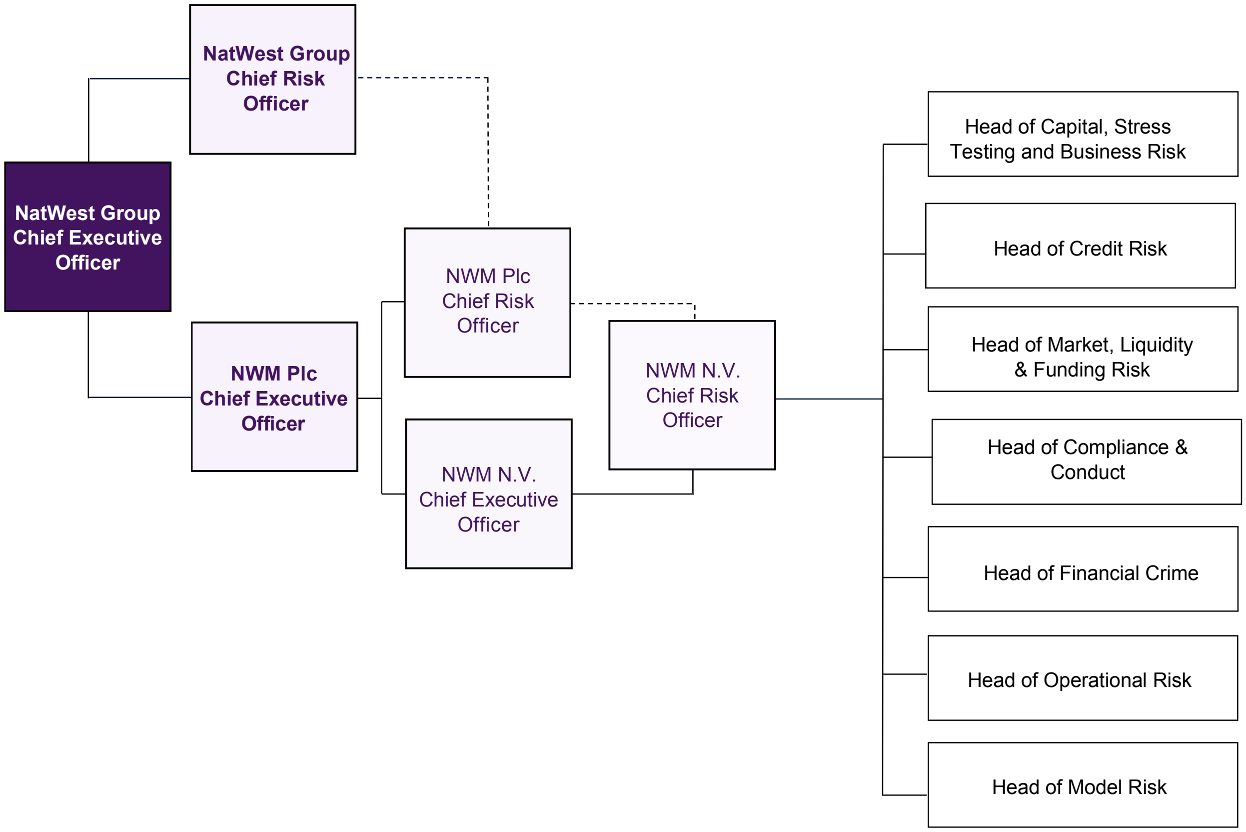
Governance

Risk management structure

While NWM N.V. is part of NatWest Group – and operates within NatWest Group's risk framework – the NWM N.V. Supervisory Board is responsible for approving and overseeing the implementation of NWM N.V.'s business strategy (within the parameters set by the NatWest Group Board). Policies and compliance activities may be adapted in order to comply with local legal or regulatory requirements.

Service level agreements are in place between NWM N.V. Group and NatWest Group and also with NWM Plc to accommodate integrated risk management oversight.

The diagram shows NWM N.V.'s risk management structure in 2020.



Notes:
(1) NWM N.V. is a wholly owned subsidiary of NatWest Group plc.
(2) The NWM N.V. Chief Risk Officer has a functional reporting line to the NWM Plc 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 NatWest 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, climate 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 details NWM N.V. Group's key boards and committees together with an overview of their responsibilities.

Board/Committee	Responsibilities
Supervisory Board Membership: Consisted of four members as at 31 December 2020.	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.
Board Risk Committee (BRC) Membership: Current membership consists of an independent member as Chairman and an independent member as a regular member.	The Board Risk Committee provides oversight and advice on current and future risk exposures, the effectiveness of the risk management framework, future risk strategy and (with the Audit Committee) internal controls required to manage risk.
Board Audit Committee Membership: At least two Supervisory Board Members (including the Chairman of the Committee), of which at least one must be independent. The members must have thorough knowledge of the financial aspects of risk management or the necessary experience to permit a thorough assessment of risks as well as thorough knowledge of financial reporting, internal control systems, audits and accounting (relating to financial institutions or other large companies).	The Board Audit Committee: • Reviews and monitors all matters relating to accounting policies, internal control, financial reporting functions, Internal Audit, External Auditor, risk assessment, regulatory compliance and the product approval process. • Establishes a procedure for the selection of an external auditor. • Assesses the monitoring of the external auditor and the statutory control of the annual accounts.
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 & Controls 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 owner who 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.
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 NatWest Group ALCo). • The approval and implementation within NWM N.V. of NatWest Group Treasury policies and procedures. • Responsible for oversight of retained business (shared assets).

Risk and capital management

Risk management framework continued

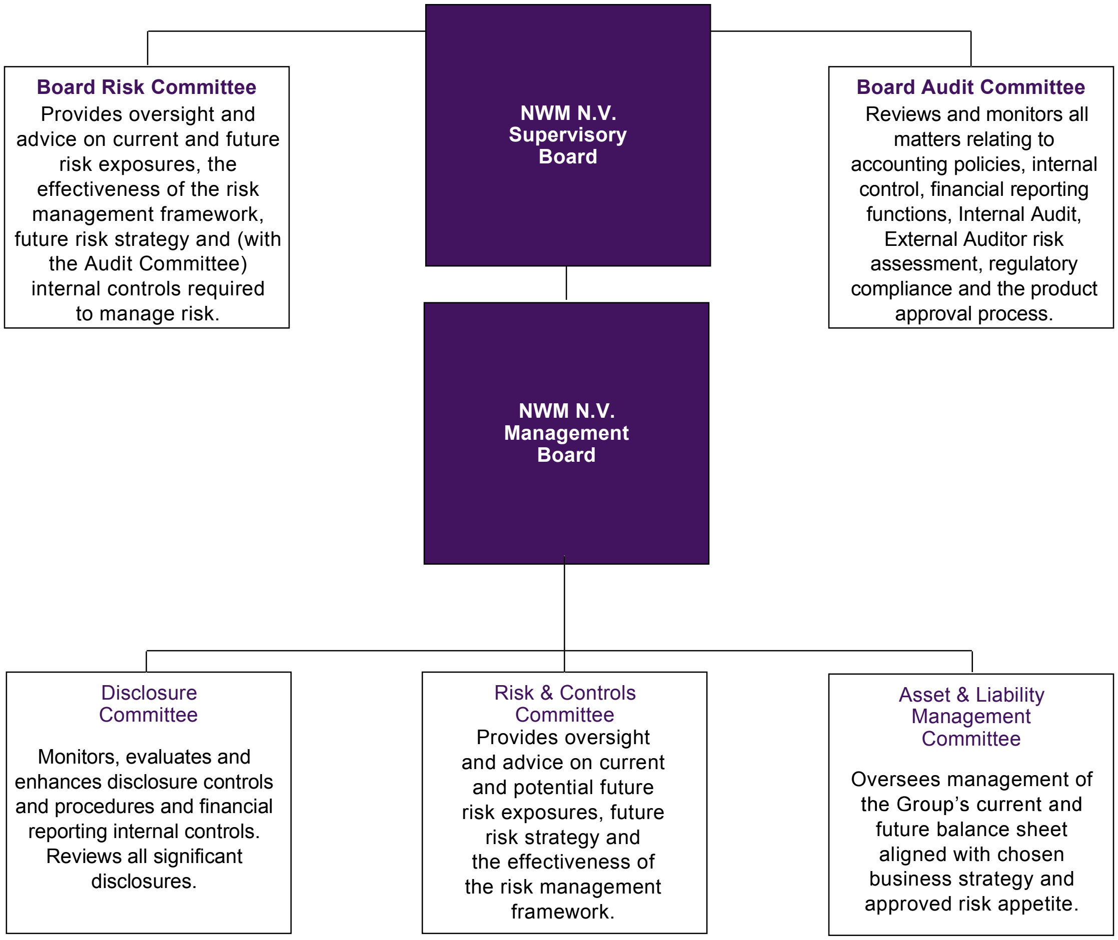
Board/Committee	Responsibilities
Disclosure Committee (DC) Membership: Chaired by the CFO. Members include the CEO, the CRO, the CGO, the N.V. Treasurer, the N.V. Senior Legal Officer, Head of NatWest Accounting Policy and NWM Financial Controller.	The responsibilities of the DC include: • Monitoring, 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: o The Annual Report and Accounts and corresponding interim disclosures. o Pillar 3 disclosures (where relevant, as a subset of NatWest Group Pillar 3 disclosures) under the Capital Requirements Directive; and o 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 risk and capital 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.

Risk and capital management

Risk management framework continued

Committee structure

The diagram shows NWM N.V. Group's risk committee structure in 2020 and the main purposes of each committee.



Board Risk Committee
Provides oversight and advice on current and future risk exposures, the effectiveness of the risk management framework, future risk strategy and (with the Audit Committee) internal controls required to manage risk.

Board Audit Committee
Reviews and monitors all matters relating to accounting policies, internal control, financial reporting functions, Internal Audit, External Auditor risk assessment, regulatory compliance and the product approval process.

Disclosure Committee

Monitors, evaluates and enhances disclosure controls and procedures and financial reporting internal controls. Reviews all significant disclosures.

Risk & Controls Committee
Provides oversight and advice on current and potential future risk exposures, future risk strategy and the effectiveness of the risk management framework.

Asset & Liability Management Committee

Oversees management of the Group's current and future balance sheet aligned with chosen business strategy and approved risk appetite.

Risk management framework continued

Three lines of defence

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

First line of defence

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

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

Second line of defence

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

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

Third line of defence

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

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

Risk appetite

Risk appetite defines the level and types of risk 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 or 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 requirements, the operational environment, and from control environment. Establishing 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 might be out of appetite are identified, assessed, escalated and addressed in a timely manner.

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

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

The NWM N.V. Managing Board approves the risk appetite framework annually.

Establishing risk appetite

In line with NatWest Group's risk appetite framework, risk appetite is maintained 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 are established at legal entity level and consist of qualitative statements of appetite supported by risk limits and triggers that operate as a defence against excessive risk-taking.

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

In addition to operating within NatWest Group and NWM Plc risk appetite, NWM N.V. Group sets additional risk appetite limits for its own strategic and most material risks where necessary. 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 their associated limits are an integral part of the risk appetite approach and a key part of embedding risk appetite in day-to-day risk management decisions. A clear tolerance for material risk types is set in alignment with business activities.

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

Identification and measurement

Identification and measurement within the risk management process comprise:

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

Risk management framework continued

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

Mitigation

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

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

Testing and monitoring

Targeted credit risk, 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 also reviewed. 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, are also tested. During 2020, the control framework was strengthened, and this will be a continued focus in 2021.

Anti-money laundering, sanctions, anti-bribery and corruption and tax evasion processes and controls are also tested and monitored. This helps provide an independent understanding of the financial crime control environment, whether or not controls are adequate and effective and whether financial crime risk is appropriately identified, managed and mitigated. Financial crime was another area for further strengthening during 2020 and this work will also continue in 2021.

Regulatory oversight

NWM N.V. Group is subject to the direct supervision of De Nederlandsche Bank (DNB).

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.

Market risk

NWM N.V. Group is exposed to traded market risk through its trading activities and to non-traded market risk through its banking activities. Traded and non-traded market risk exposures are managed and discussed separately. The traded market risk section begins below. The non-traded market risk section begins on page 19.

Traded market risk

Definition

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.

Sources of risk

From a market risk perspective, activities are focused on rates, currencies 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 details, refer to the Credit risk section.

Governance

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, and risk appetite statements and measures.

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.

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 16.

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.

Measurement

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 uses the same model.

The model also captures the potential impact of interest rate risk; credit spread risk; and foreign currency price risk.

The performance and adequacy of the VaR model are tested 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 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 41. More information relating to pricing and market risk models is presented in the NatWest Group Pillar 3 Report.

Traded market risk continued

1–day 99% traded internal VaR

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

	2020				2019			
	Average	**Maximum**	**Minimum**	**Period end**	Average	Maximum	Minimum	Period end
	€m	**€m**	**€m**	**€m**	€m	€m	€m	€m
Interest rate	**0.3**	**0.7**	**0.1**	**0.2**	0.3	1.1	—	0.3
Credit spread	**0.6**	**4.7**	**0.4**	**0.6**	0.5	0.8	0.3	0.5
Currency	**0.2**	**0.7**	**—**	**0.2**	0.2	1.4	—	0.1
Diversification (1)	**(0.4)**			**(0.4)**	(0.3)			(0.3)
Total	**0.7**	**4.7**	**0.5**	**0.6**	0.7	1.8	0.4	0.6

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

- COVID-19 and geopolitical risk resulted in periods of exceptional market volatility and increased illiquidity during 2020. Despite this volatility, traded VaR remained within appetite throughout the year.
- Although traded VaR fluctuated throughout 2020, it remained broadly unchanged year-on-year on an average basis, due to risk reduction activity.

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.

A simulation of 99% VaR is run 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

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

Sources of risk

The key sources of non-traded market risk 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 arises 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.
- *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.

Governance

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.

Risk appetite

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

Its quantitative appetite is expressed in terms of exposure limits. The Board limits at NWM Plc level comprise a VaR measure supplemented with SVaR, sensitivities, earnings-at-risk and economic-value-of-equity. Other limits monitored at executive governance level notably include a stress limit based on the foreign exchange sensitivity of NWM Plc's CET1 ratio.

To ensure limits are not breached and that NWM Plc remains within its risk appetite, triggers at NWM Plc and lower levels have been set such that if exposures exceed a specified level, action plans are developed by the business, the Non-Traded Market Risk function and Finance for implementation.

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.

For further information on risk appetite, refer to page 16.

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.

Risk and capital 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
2020	**1.3**	**4.8**	**0.4**	**1.6**
2019	0.9	1.4	0.5	0.5

Key point

- The peak in NTIRR VaR reflects the market volatility driven by the outbreak of COVID-19.

Foreign exchange risk

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 NatWest 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:

2020	Net investments in foreign operations €m	Net investment hedges €m	Structural foreign currency exposures €m
US dollar	**9**	**—**	**9**
Saudi Arabian riyal	**—**	**—**	**—**
Other non-euro	**48**	**—**	**48**
	57	**—**	**57**
2019			
US dollar	136	—	136
Saudi Arabian riyal	3	—	3
Other non-euro	187	(54)	133
	326	(54)	272

Key points

- The reduction in net investments in foreign operations for both the US dollar and Other non-euro reflects the final repatriation of capital from the liquidation of the legacy NWM N.V. Group Taiwan branch in July 2020.
- The pre-tax sensitivity of the foreign exchange reserves to changes in exchange rates is proportional to the nominal exposure. At 31 December 2020, a 5% strengthening in all foreign currencies against the euro results in a €3 million increase in foreign exchange reserves before tax, while a 5% weakening in all foreign currencies against the euro results in a €3 million reduction.

Capital, liquidity and funding risk

Definition

Regulatory capital consists of reserves and instruments issued that are available to 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 NatWest Group, refer to the NatWest Group Annual Report and Accounts 2020 on page 213.

Key developments in 2020

- In response to COVID-19, regulators made adjustments to the regulatory framework on capital requirements. The European Central Bank announced measures on 12 March 2020, 20 March 2020, 16 April 2020 and 28 July 2020, restricting dividend payments, widening the definition of capital eligible to cover certain Pillar 2 capital requirements, and reducing the impact on capital requirements of backtesting exemptions on the Value at Risk measure for market risk. DNB has adopted implementing decisions to apply these measures for Less Significant Institutions (LSIs) in the Netherlands. In addition, the European Union adopted on 24 June 2020 an amendment to the Capital Requirements Regulation (CRR), known as the 'CRR quick fix', which, among other changes, implemented a temporary exemption of certain central bank balances from the leverage ratio exposure measure.
- Over 2020 NWM N.V. Group broadened its funding base by increasing the customer deposit book and issuances of commercial paper. Furthermore, NWM N.V. Group established a €2bn Euro Medium Term Note programme, therefore NWM N.V. Group may, subject to compliance with all relevant laws, regulations and directives, from time to time, issue unsecured and unsubordinated notes.
- NWM N.V. Group is applying an elevated liquidity buffer to absorb any potential negative impact from market uncertainties, such as Brexit and COVID-19. Following the initial COVID-19 stress in the first half of 2020, NWM N.V. Group supported their clients in their liquidity needs, resulting in an initial increased outflow of liquidity, which to a great extent was reversed over the second part of the year.

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 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 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'.
- A Liquidity Coverage Ratio (LCR) requirement of 100%.

On 20 May 2019, the European Union adopted amendments to CRR and CRD, known as 'CRR2' and 'CRD V' respectively, introducing the following additional minimum requirements that must be met from 28 June 2021:

- Minimum Tier 1 leverage ratio of 3.0%.
- Minimum Net Stable Funding Ratio (NSFR) of 100%.

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

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, NatWest Group 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, liquidity and funding risk continued

Capital planning

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 NWM N.V. Group. In the event that the projected position deteriorates below acceptable levels, NWM N.V. Group would revise business plans accordingly.

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, NWM N.V. Group determines its desired capital levels based on three complementary 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, 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, 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 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 NWM N.V. Group. The Board also sets the appetite for funding risk to ensure that stable sources of funding are used to fund NWM N.V. Group's core assets. 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 NWM N.V. Group's activities, overall risk appetite, market best practice and regulatory compliance.

In implementing 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 NatWest Group's liquidity risk appetite. NatWest 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, NWM N.V. Group holds cash at central banks of €4.5 billion (2019 – €3.2 billion) and government and other high quality securities of €1.2 billion (2019 – €0.8 billion).

Funding risk management

Funding is raised through deposits from the money market and through the issuance of a commercial paper program of €1.4 billion.

Governance

The ALCo is responsible for ensuring NWM N.V. Group maintains adequate capital, liquidity and funding at all times. The ALCo manages and plans 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 NatWest Group. Such interaction would include, amongst other matters, ALCo considerations around NWM N.V. Group's strategic asset sales/transfers to NatWest Group which would need to be capital neutral to NatWest 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

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

Capital ratios	**2020** **%**	2019 %
Common Equity Tier 1 (CET1)	**30.6**	23.1
Tier 1	**35.3**	26.7
Total	**39.0**	29.9

Risk-weighted assets	**€m**	€m
Credit risk	**4,047**	5,186
Market risk	**703**	1,255
Operational risk	**605**	624
Settlement risk	**—**	17
	5,355	7,082

Key points

- RWAs reduced to €5.4 billion from €7.1 billion at 31 December 2019, reflecting lower levels of credit and market risk as the business seeks to reduce RWAs including through the execution of capital optimisation actions and exit activity.
- Reduction of €1.1 billion was seen largely within the drawn positions as well as the undrawn facilities as corporate clients were exited and exposures were reduced for some others including nostros.
- Within counterparty credit risk, a slight increase of €0.1 billion was noted due to further onboarding of Markets clients ahead of the Brexit date. The risk weighting on intergroup exposures reduced with €0.3 billion from collateral optimisations within the group.
- Within market risk, the repatriation of capital of a legacy branch, the reduction of the Risks Not In VaR (RNIV) portfolio, a reduced SVaR and a smaller incremental risk charge on debt instruments resulted in a further RWA reduction of €0.5 billion.

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 2020	**23.1**	**1,639**
Regulatory adjustment: fair value changes in own credit spreads		**27**
Foreign currency reserves		**(4)**
Result current year		**6**
Other (1)		**(30)**
At 31 December 2020	**30.6**	**1,638**

Note:

(1) Other includes dividend payments on AT1 capital securities of €14 million and fair value changes of €23 million. This was partially offset by a decrease in other regulatory adjustments of €8 million.

Funding sources

The table below shows NWM N.V. Group's primary funding sources

	2020		2019	
	€m	%	€m	%
Bank deposits	**52**	**0.6**	59	0.9
Customer deposits	**1,258**	**13.8**	1,447	22.6
Trading liabilities (1)	**1,378**	**15.2**	995	15.6
Other financial liabilities	**2,200**	**24.2**	240	3.8
Subordinated liabilities	**655**	**7.2**	642	10.0
Amounts due to holding companies and fellow subsidiaries (2)	**3,543**	**39.0**	3,015	47.1
Total funding	**9,086**	**100**	6,398	100

Notes:

(1) Trading liabilities excludes short positions of €134 million (2019 – €837 million).

(2) Amount due to holding companies and fellow subsidiaries relating to non-financial instruments of €8 million (2019 – €6 million) have been excluded from the table.

Risk and capital management

Credit risk

Definition

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

Sources of risk

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 2020

- Credit risk RWAs reduced from €5.2 billion to €4.0 billion which was in line with the NWM N.V. strategy and associated client, product reviews and exits.
- Of the €42 million ECL charge for the year, €36 million related to a single client.
- COVID-19 has had an unprecedented economic impact, pushing the global economies into a deep recession. At a macro level, some sectors such as aviation and leisure were more impacted than others. This initially resulted in relatively large drawdowns under committed revolving credit facilities which were later substituted by government support schemes providing abundant liquidity in the market and minimising the economic impact. The European regulators acted firmly and swiftly by providing guidance to banks on how to deal with the perceived deep but temporary impact of COVID-19 on provisions, capital and liquidity, to avoid exacerbating the impact on lending and liquidity through the pro-cyclicality of IFRS 9. Considering NWM N.V. Group's portfolio consisted of large corporates which were typically well diversified in terms of product or geography and had a strong credit standing, the portfolio only showed some credit deterioration in terms of probability of default (PD) with some clients losing their investment grade status. NWM N.V. Group did not suffer credit losses from actual defaults. One client entered into debt restructuring negotiations but the positions were exited prior to this announcement. NWM N.V. Group did agree to a negligible number of concessions such as covenant holidays and covenant resets on a temporary basis. NWM N.V. Group was not required to provide any payment holidays. In 2020, NWM N.V. Group did not have to participate in any of the government support schemes for its clients.
- In order to support customers through COVID-19 and adhere to regulatory guidance, NWM N.V. Group implemented a Viability Assessment Framework to deal with customer requests in a transparent, fair and consistent manner.

Governance

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

Governance activities include:

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

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 46 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

Credit risk appetite aligns to the strategic risk appetite set by the Board and is set and monitored through a risk appetite framework.

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

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

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

Credit policy standards are in place and are expressed as a set of mandatory controls.

Identification and measurement

Credit stewardship

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

Asset quality

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

Counterparty credit risk

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

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.

Mitigation

Mitigation techniques, as set out in the appropriate credit policies and transactional acceptance standards, 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.

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.

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.

Credit risk continued

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

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 Wholesale Credit Authorities Framework Policy.

The level of delegated authority held by approvers is dependent on their experience and expertise with only a small number of senior executives holding the highest approval authority.

Both business and credit approvers are accountable for the quality of each decision taken, although the credit risk approver holds ultimate sanctioning authority.

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

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

Problem debt management

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 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 Risk of Credit Loss framework is used where the credit profile of a customer has deteriorated materially since origination. Experienced credit risk officers apply expert judgement to classify cases into categories that reflect progressively deteriorating credit risk. There are two classifications in the framework that apply to non-defaulted customers – 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.

Customers classified in the Heightened Monitoring category are those who are still performing but have certain characteristics – such as trading issues, covenant breaches, material PD downgrades and past due facilities – that may affect the ability to meet repayment obligations. Heightened Monitoring customers require pre-emptive actions to return or maintain their facilities within risk appetite prior to maturity.

Risk of Credit Loss customers are performing customers that have met the criteria for Heightened Monitoring and also pose a risk of credit loss 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 - including 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.

Restructuring

Where customers are categorised as Risk of Credit Loss, relationships are mainly managed by the Restructuring team in NatWest Bank Plc as a service to NWM N.V. Group, however ultimate credit decisions are taken by the NWM N.V. Group Credit Team. The team protects NWM N.V. Group's capital by working with corporate and commercial customers to support their turnaround and recovery strategies and enable them to return to mainstream banking.

Forbearance

Forbearance takes place when a concession is made on the contractual terms of a loan/debt in response to a customer's financial difficulties. The aim of forbearance is to support and restore the customer to financial health while minimising risk. 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.

Impact of COVID-19

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

Risk appetite

NWM N.V. Group's credit stewardship included carrying out regular portfolio or customer reviews and problem debt identification and management. At the outset of COVID-19, NWM N.V. Group undertook a vulnerability assessment of sectors and conducted more frequent monitoring of these portfolios, including sub-sector and single name analysis. Additional oversight forums for both new and existing customer requests linked to sector, customer viability and transaction value were also introduced. Monitoring of government support scheme lending, including tracking customer lending journeys to prioritise resources, ensured customers could be supported in a timely manner. Risk appetite limits were reduced to reflect current risks and remain under constant review.

Assessment and monitoring

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

- Customer credit grades were reassessed when a request for financing was made, a scheduled customer credit review undertaken or a material event specific to that customer occurred.
- A request for support using one of the government-backed COVID-19 support schemes was not, in itself, a reason for a customer's credit grade to be amended.
- Large or complex customers were graded using financial forecasts, incorporating both the effect of COVID-19 and the estimated length of time to return to within credit appetite metrics.
- All other customers who were not subject to any wider significant increase in credit risk (SICR) triggers and who were assessed as having the ability in the medium-term post-COVID-19 to be viable and meet credit appetite metrics were graded using audited accounts.
- NWM N.V. Group identified those customers for whom additional borrowing would require remedial action to return to within risk appetite over the medium term, and customers who were exhibiting signs of financial stress before COVID-19. These customers were graded with reference to the impact COVID-19 had on their business.

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

Credit risk continued

Problem debt management

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

Forbearance

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

ECL modelling

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

Credit grading models

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

Credit grading models are designed to provide:

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

Impairment, provisioning and write-offs

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

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

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

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

Refer to Accounting policy 10 for further details.

IFRS 9 ECL model design principles

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

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

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

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

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

PD estimates

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

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

LGD estimates

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

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

Governance and post model adjustments

The IFRS 9 PD, EAD and LGD models are subject to NWM N.V. Group's model risk policy that stipulates periodic model monitoring, periodic re-validation and defines approval procedures and authorities according to model materiality. Various post model adjustments (PMAs) were applied where management judged they were necessary to ensure an adequate level of overall ECL provision. All PMAs were subject to formal approval through provisioning governance, and were categorised as follows:

- Deferred model calibrations – ECL adjustments where model monitoring indicated that losses were being over predicted but where it was judged that an implied ECL release was not supportable. As a consequence, any potential ECL release was deferred and retained on the balance sheet.
- Economic uncertainty – ECL adjustments primarily arising from uncertainties associated with multiple economic scenarios (also for 2019) and credit outcomes as a result of the effect of COVID-19 and the consequences of government interventions. In both cases, management judged that additional ECL was required until further credit performance data became available on the behavioural and loss consequences of COVID-19.
- Other adjustments – ECL adjustments where it was judged that the modelled ECL required to be amended.

Credit risk continued

ECL post model adjustments	2020 €m	2019 €m
Deferred model calibrations	—	—
Economic uncertainty	2	1
Other adjustments	—	—
Total	2	1

Significant increase in credit risk (SICR)

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

The framework comprises the following elements:

- IFRS 9 lifetime PD assessment (the primary driver) – on modelled portfolios the assessment is based on the relative deterioration in forward-looking lifetime PD and is assessed monthly. To assess whether credit deterioration has occurred, the residual lifetime PD at balance sheet date (which PD is established at date of initial recognition 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. In broad terms, a doubling of PD would indicate a SICR. However, the PD uplift must be at least 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. Customers accessing the various COVID-19 support mechanisms were assessed as detailed in the Impact of COVID-19 section.

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

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

Provisioning for forbearance

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

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.

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

Asset lifetimes

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

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

Economic loss drivers

Introduction

The portfolio segmentation and selection of economic loss drivers for IFRS 9 follow closely the approach used in stress testing. To enable robust modelling the forecasting models for each portfolio segment (defined by product or asset class and where relevant, industry sector and region) are based on a selected, small number of economic factors, (typically three to four) that best explain the temporal variations in portfolio loss rates. The process to select economic loss drivers involves empirical analysis and expert judgement.

The key economic variables in NWM N.V. Group include national gross domestic product (GDP), unemployment rate and the central bank base rate.

Economic scenarios

As at 31 December 2020, the range of anticipated future economic conditions was defined by a set of four internally developed scenarios and their respective probabilities. They comprised upside, base case, downside and extreme downside scenarios. The scenarios primarily reflect a range of outcomes for the path of COVID-19 and associated effects on the economy. The scenarios are summarised as follows:

Upside – This scenario assumes a strong recovery through 2021, facilitated by a very rapid rollout of the vaccine. The rebound in consumer spending from an easing in lockdown restrictions is rapid, enabling a more successful reabsorption of furloughed labour compared to the base case. That limits the rise in unemployment.

Credit risk continued

Base case – Lockdown restrictions are loosened enabling a recovery over the course of 2021. The rollout of the vaccine proceeds successfully as planned. Economic sentiment recovers bolstering consumer demand as accumulated household savings are spent, providing support to the recovery.

Downside – This scenario assumes the rollout of the COVID-19 vaccine is slower compared to base case, leading to a more sluggish recovery amid sustained uncertainty. This scenario assumes that the labour market and asset market damage is greater than in the base case. Unemployment peaks at 13.5%, surpassing the peak reached following the eurozone debt crisis.

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

In contrast, as at 31 December 2019, NWM N.V. Group used five discrete scenarios to characterise the distribution of risks in the economic outlook. For 2020, the four scenarios provide sufficient coverage across potential rises in unemployment and degree of permanent damage to the economy, around which there are pronounced levels of uncertainty at this stage.

For NWM N.V. Group, the scenarios include EU economic variables such as GDP growth, unemployment and base rate.

The main macroeconomic variables for these scenarios are set out in tables below. The compound annual growth rate (CAGR) for GDP is shown. It also shows the five-year average for unemployment and the European Central Bank main refinancing rate.

Main macroeconomic variables

	2020				2019				
	Upside	Base case	Downside	Extreme downside	Upside 2	Upside 1	Base case	Downside 1	Downside 2
Five-year summary	%	%	%	%	%	%	%	%	%
Eurozone									
GDP - CAGR	**3.4**	**2.7**	**2.4**	**1.2**	2.4	2.0	1.4	1.2	0.6
Unemployment - average	**8.1**	**8.7**	**10.6**	**11.8**	7.3	7.6	8.1	8.7	10.0
European Central Bank									
- main refinancing rate - average	**0.1**	**—**	**—**	**—**	1.5	0.8	—	—	—
Probability weight	**20.0**	**40.0**	**30.0**	**10.0**	12.7	14.8	30.0	29.7	12.7

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

Annual figures

Eurozone GDP - annual growth				
2020	**(6.6)**	**(8.0)**	**(9.3)**	**(10.5)**
2021	**9.5**	**5.2**	**3.1**	**(4.2)**
2022	**1.9**	**2.1**	**2.9**	**6.1**
2023	**1.4**	**2.1**	**2.7**	**3.5**
2024	**1.3**	**2.4**	**2.8**	**2.1**
2025	**1.4**	**1.8**	**2.0**	**1.7**

Eurozone - unemployment rate - annual average				
2020	**8.9**	**8.8**	**9.8**	**9.2**
2021	**8.9**	**9.4**	**12.5**	**14.3**
2022	**7.9**	**8.9**	**10.8**	**12.7**
2023	**7.8**	**8.6**	**9.9**	**11.0**
2024	**7.8**	**8.3**	**9.4**	**10.4**
2025	**7.8**	**8.2**	**9.4**	**10.1**

European Central Bank - main refinancing rate - annual average				
2020	**—**	**—**	**—**	**—**
2021	**—**	**—**	**—**	**—**
2022	**—**	**—**	**—**	**—**
2023	**0.08**	**—**	**—**	**—**
2024	**0.15**	**—**	**—**	**—**
2025	**0.15**	**0.04**	**—**	**—**

Worst points

The worst points refer to the worst four-quarter rate of change for GDP and the worst quarterly figures for unemployment between 2020 and 2025. Unemployment in the upside has a higher peak compared to the base case, but the average reading rate for the full period is an upside outcome.

	31 December 2020				31 December 2019	
	Upside	Base case	Downside	Extreme downside	Downside 1	Downside 2
Eurozone	%	%	%	%	%	%
GDP (year-on-year)	**(14.7)**	**(14.7)**	**(14.7)**	**(15.8)**	(0.6)	(3.3)
Unemployment	**10.1**	**9.7**	**13.8**	**15.0**	9.0	10.7

Credit risk continued

Probability weightings of scenarios

NWM N.V.'s approach to IFRS 9 multiple economic scenarios (MES) involves selecting a suitable set of discrete scenarios to characterise the distribution of risks in the economic outlook and assigning appropriate probability weights. The scale of the economic impact of COVID-19 and the range of recovery paths necessitates a change of approach to assigning probability weights from that used in recent updates. Previously GDP paths for NWM N.V.'s scenarios were compared against a set of 1,000 model runs, following which a percentile in the distribution was established that most closely corresponded to the scenario. This approach does not produce meaningful outcomes in the current circumstances because GDP is highly volatile and highly uncertain.

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

Use of the scenarios in lending

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

The four economic scenarios are translated into forward-looking projections of CCIs using a set of econometric models. Subsequently the CCI projections for the individual scenarios are averaged into a single central CCI projection according to the given scenario probabilities. The central CCI projection is then overlaid with an additional mean reversion assumption, i.e. that after one to two years into the forecast horizon the CCI gradually revert to their long-run average of zero.

Finally, ECL is calculated using a Monte Carlo approach by averaging PD and LGD values arising from many CCI paths simulated around the central CCI projection.

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

Economic uncertainty

Treatment of COVID-19 relief mechanisms

Use of COVID-19 relief mechanisms will not automatically merit identification of SICR and trigger a Stage 2 classification in isolation.

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

As some of the government support mechanisms conclude, NWM N.V. Group anticipates further credit deterioration in the portfolios. There are a number of key factors that could drive further downside to impairments, through deteriorating economic and credit metrics and increased stage migration as credit risk increases for more customers. A key factor would be a more adverse deterioration in GDP and unemployment in the economies in which NWM N.V. Group operates, but also, among others:

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

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

Model monitoring and enhancement

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

Government support

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

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

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

Extreme GDP movements

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

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

Industry sector detail

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

Credit risk continued

Measurement uncertainty and ECL sensitivity analysis

The recognition and measurement of ECL is complex and involves the use of significant judgement and estimation, particularly in times of economic volatility and uncertainty. This includes the formulation and incorporation of multiple forward-looking economic conditions into ECL to meet the measurement objective of IFRS 9. The ECL provision is sensitive to the model inputs and economic assumptions underlying he estimate.

The focus of the simulations is on ECL provisioning requirements on performing exposures in Stage 1 and Stage 2. The simulations are run on a stand-alone basis and are independent of each other; the potential ECL impacts reflect the simulated impact as at 31 December 2020. Scenario impacts on SICR should be considered when evaluating the ECL movements of Stage 1 and Stage 2. In all scenarios the total exposure was the same but exposure by stage varied in each scenario.

Stage 3 provisions are not subject to the same level of measurement uncertainty – default is an observed event as at the balance sheet date. Stage 3 provisions therefore have not been considered in this analysis.

The impact arising from the upside, downside and extreme downside scenarios has been simulated. In the simulations, NWM N.V. Group has assumed that the economic macro variables associated with these scenarios replace the existing base case economic assumptions, giving them a 100% probability weighting and thus serving as a single economic scenario.

These scenarios have been applied to all modelled portfolios in the analysis below, with the simulation impacting both PDs and LGDs. Modelled overlays present in the underlying ECL estimates are also sensitised in line with the modelled ECL movements, but those that were judgmental in nature, primarily those for economic uncertainty, were not (refer to the Governance and post model adjustments section). As expected, the scenarios create differing impacts on ECL by portfolio and the impacts are deemed reasonable. In this simulation, it is assumed that existing modelled relationships between key economic variables and loss drivers hold, but in practice other factors would also have an impact, for example, potential customer behaviour changes and policy changes by lenders that might impact on the wider availability of credit

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

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

2020	Actual	Upside	Downside	Extreme downside
Stage 1 modelled exposure (€m)	**1,223**	**1,223**	**1,223**	**1,207**
Stage 1 modelled ECL (€m)	**1**	**1**	**2**	**2**
Stage 1 coverage (%)	**0.08%**	**0.08%**	**0.16%**	**0.17%**
Stage 2 modelled exposure (€m)	**385**	**385**	**385**	**401**
Stage 2 modelled ECL (€m)	**41**	**39**	**40**	**42**
Stage 2 coverage (%)	**10.65%**	**10.13%**	**10.39%**	**10.47%**
Stage 1 and Stage 2 modelled exposure (€m)	**1,608**	**1,608**	**1,608**	**1,608**
Stage 1 and Stage 2 modelled ECL (€m)	**42**	**40**	**42**	**44**
Stage 1 and Stage 2 coverage (%)	**2.61%**	**2.49%**	**2.61%**	**2.74%**
Variance – (lower)/higher to actual total Stage 1 and Stage 2 ECL		**(2.0)**	**0.0**	**2.0**

Notes:

(1) Variations in future undrawn exposure values across the scenarios are modelled, however the exposure position reported is as at 31 December 2020 and therefore does not include variation in future undrawn exposure values.

(2) Reflects ECL for all modelled exposure in scope for IFRS 9; in addition to loans this includes bonds and cash. The analysis excludes non-modelled portfolios.

(3) All simulations are run on a stand-alone basis and are independent of each other, with the potential ECL impact reflecting the simulated impact as at 31 December 2020. The simulations change the composition of Stage 1 and Stage 2 exposure but total exposure is unchanged under each scenario as the loan population is static.

(4) Refer to the Economic loss drivers section for details of economic scenarios.

(5) 2019 comparatives are not included as the sensitivity scenario analysis relates to the 31 December 2020 balance sheet position. Refer to the 2019 Annual Report and Accounts for the sensitivity analysis carried out at that time.

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 to the consolidated financial statements for policies and critical judgements relating to impairment loss determination.

Financial instruments within the scope of the IFRS 9 ECL framework

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

	2020 **€bn**	2019 €bn
Balance sheet total gross amortised cost and FVOCI	**7.0**	6.1
In scope of IFRS 9 ECL framework	**6.5**	5.9
% in scope	**93%**	97%
Loans - in scope	**1.2**	2.2
Stage 1	**0.8**	2.0
Stage 2	**0.3**	0.1
Stage 3	**0.1**	0.1
Other financial assets - in scope	**5.3**	3.7
Stage 1	**5.3**	3.7
Out of scope of IFRS 9 ECL framework	**0.5**	0.2

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 €353 million (2019 – €141 million). These were assessed as having no ECL unless there was evidence that they were credit impaired.
- Equity shares of €61 million (2019 – €49 million) were outside the IFRS 9 ECL framework by definition.

In scope assets also include €436 million (2019 – €462 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 to the consolidated financial statements – reputationally-committed limits were also included in the scope of the IFRS 9 ECL framework. These are no out of scope off balance exposures. For 2019, out of scope balance was €38 million primarily related to facilities that, if drawn, would not be classified as amortised cost or FVOCI, or undrawn limits relating to financial assets exclusions. Total contingent liabilities (including financial guarantees) and commitments within IFRS 9 ECL scope were €7,005 million (2019 – €8,502 million), comprised Stage 1 €5,939 million (2019 – €8,481 million); Stage 2 €1,040 million (2019 – €19 million); and Stage 3 €26 million (2019 – €2 million).

Credit risk – Banking activities continued

Portfolio summary

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

	2020 **€m**	2019 €m
Loans - amortised cost and FVOCI		
Stage 1	**832**	1,997
Stage 2	**343**	117
Stage 3	**72**	79
Inter-Group (1)	**436**	462
Total	**1,683**	2,655
ECL provisions		
Stage 1	**1**	2
Stage 2	**41**	2
Stage 3	**69**	74
Total	**111**	78
ECL provisions coverage (2,3)		
Stage 1 (%)	**0.12**	0.10
Stage 2 (%)	**11.95**	1.71
Stage 3 (%)	**95.83**	93.67
Total	**6.60**	3.56
Other financial assets - Gross exposure	**5,285**	3,698
Other financial assets - ECL provisions	**—**	—
Impairment losses		
ECL charge - third party	**42**	(1)
ECL loss rate - annualised (basis points) (3)	**337**	(5)
Amounts written-off	**5**	1

Notes:

(1) NWM N.V. Group's intercompany assets were classified in Stage 1. The ECL for these loans was €0.3 million (2019 – €0.1 million).

(2) ECL provisions coverage is calculated as ECL provisions divided by loans - amortised cost and FVOCI.

(3) ECL provisions coverage and ECL loss rates are calculated on third party loans and related ECL provisions and charge respectively. ECL loss rate is calculated as annualised third party ECL charge divided by loans - amortised cost and FVOCI.

(4) The table shows gross loans only and excludes amounts that are outside the scope of the ECL framework. Refer to page 31 for Financial instruments within the scope of the IFRS 9 ECL framework for further details. Other financial assets within the scope of the IFRS 9 ECL framework were cash and balances at central banks totalling €4.5 billion (2019 – €3.2 billion) and debt securities of €0.8 billion (2019 – €0.5 billion).

(5) NWM N.V. Group held collateral against third party loans in Stage 3 of €3 million (2019 – €3 million) and against Stage 1 and Stage 2 third party loans of €51 million (2019 – €72 million). Inter-group loans were uncollateralised.

Key points

- The banking portfolio exposures remained of high quality, with the vast majority of risk in Stage 1.
- Of the €42 million ECL charge for the year, €36 million related to a single client.

Credit risk – Banking activities continued

Portfolio summary – sector analysis

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

2020	Property €m	Corporate €m	FI €m	Sovereign €m	Total €m
Loans by geography	32	716	499	—	1,247
- Netherlands	*32*	*1*	*45*	—	*78*
- Other Europe	—	*574*	*346*	—	*920*
- RoW	—	*141*	*108*	—	*249*
Loans by asset quality (1)	32	716	499	—	1,247
- AQ1	—	—	*32*	—	*32*
- AQ2	—	—	—	—	—
- AQ3	—	*80*	*2*	—	*82*
- AQ4	—	*344*	*183*	—	*527*
- AQ5	*32*	*166*	*106*	—	*304*
- AQ6	—	—	—	—	—
- AQ7	—	*3*	—	—	*3*
- AQ8	—	*51*	—	—	*51*
- AQ9	—	—	*176*	—	*176*
- AQ10	—	*72*	—	—	*72*
Loans by stage	32	716	499	—	1,247
- Stage 1	—	*514*	*318*	—	*832*
- Stage 2	*32*	*130*	*181*	—	*343*
- Stage 3	—	*72*	—	—	*72*
Weighted average life* - ECL measurement (years)	4	3	4	—	4
Weighted average 12 months PDs*	—	—	—	—	—
- IFRS 9 (%)	*0.36*	*1.14*	*16.11*	*0.23*	*7.43*
- Basel (%)	*0.64*	*1.06*	*14.71*	*0.23*	*6.86*
ECL provisions by geography	—	73	38	—	111
- Netherlands	—	—	*1*	—	*1*
- Other Europe	—	*37*	*37*	—	*74*
- RoW	—	*36*	—	—	*36*
ECL provisions by stage	—	73	38	—	111
- Stage 1	—	*1*	—	—	*1*
- Stage 2	—	*3*	*38*	—	*41*
- Stage 3	—	*69*	—	—	*69*
ECL provisions coverage (%)	—	10.20	7.62	—	8.90
- Stage 1 (%)	—	*0.19*	—	—	*0.12*
- Stage 2 (%)	—	*2.31*	*20.99*	—	*11.95*
- Stage 3 (%)	—	*95.83*	—	—	*95.83*
ECL charge - Third party	—	7	35	—	42
ECL loss rate (%)	—	0.98	7.01	—	3.37
Amounts written-off	—	4	1	—	5
Other financial assets by asset quality (1)	44	—	243	4,998	5,285
- AQ1-AQ4	—	—	—	*4,996*	*4,996*
- AQ5-AQ8	*44*	—	*243*	*2*	*289*
Off-balance sheet	341	5,603	1,061	—	7,005
- Loan commitments	*341*	*5,583*	*587*	—	*6,511*
- Financial guarantees	—	*20*	*474*	—	*494*
Off-balance sheet by asset quality (1)	341	5,603	1,061	—	7,005
- AQ1-AQ4	*323*	*4,804*	*908*	—	*6,035*
- AQ5-AQ8	*18*	*777*	*149*	—	*944*
- AQ10	—	*22*	*4*	—	*26*

*Not within audit scope.

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

Credit risk – Banking activities continued
Portfolio summary – sector analysis

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.

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

Key points

- Asset quality remained high with the majority being investment grade and Stage 1 exposures.
- The increase in ECL in Stage 1 and Stage 2 was primarily due to the deterioration in the economic outlook scenarios, causing both PDs and LGDs to increase.
- The updated economic scenarios also resulted in a migration of assets from Stage 1 to Stage 2 with a consequential increase from a 12 month ECL to a lifetime ECL.

Credit risk – Banking activities continued

Portfolio summary – sector analysis

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

	Loans - amortised cost & FVOCI				Off-balance sheet		ECL provisions			
	Stage 1	Stage 2	Stage 3	Total	Loan commitments	Contingent liabilities	Stage 1	Stage 2	Stage 3	Total
2020	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Wholesale	832	343	72	1,247	6,511	494	1	41	69	111
Property	—	32	—	32	341	—	—	—	—	—
Financial institutions	318	181	—	499	587	474	—	38	—	38
Corporate	514	130	72	716	5,583	20	1	3	69	73
Of which:										
Airlines and aerospace	—	*25*	—	*25*	*200*	—	—	*1*	—	*1*
Automotive	—	—	—	—	*716*	—	—	—	—	—
Land transport and logistics	*95*	—	*1*	*96*	*502*	—	—	—	—	—
Leisure	—	*56*	—	*56*	*129*	—	—	*1*	—	*1*
Oil and gas	*12*	—	*37*	*49*	*328*	—	—	—	*35*	*35*
Retail	—	—	—	—	*380*	—	—	—	—	—
Total	832	343	72	1,247	6,511	494	1	41	69	111
2019										
Wholesale	1,997	117	79	2,193	7,513	989	2	2	74	78
Property	93	—	—	93	473	1	—	—	—	—
Financial institutions	1,170	2	—	1,172	863	964	1	—	2	3
Sovereign	1	—	—	1	—	—	—	—	—	—
Corporate	733	115	79	927	6,177	24	1	2	72	75
Of which:										
Airlines and aerospace	—	—	—	—	*294*	—	—	—	—	—
Automotive	*3*	—	—	*3*	*759*	—	—	—	—	—
Health	—	—	—	—	*30*	—	—	—	—	—
Land transport and logistics	*74*	—	*1*	*75*	*396*	—	—	—	—	—
Leisure	—	*56*	—	*56*	*182*	—	—	*1*	—	*1*
Oil and gas	*80*	—	*37*	*117*	*118*	—	—	—	*36*	*36*
Retail	*21*	—	—	*21*	*426*	—	—	—	—	—
Total	1,997	117	79	2,193	7,513	989	2	2	74	78

Key point

- The exposure was well diversified across the sectors with limited exposure to travel, leisure and transport, the sectors hit hardest by COVID-19.

Flow statement

The flow statement that follows 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, 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 any debt sale activity.

	Stage 1		Stage 2		Stage 3		Total	
NWM 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 2020	**5,619**	**2**	**123**	**2**	**80**	**74**	**5,822**	**78**
Currency translation and other adjustments	**(406)**	**—**	**(18)**	**1**	**(42)**	**(3)**	**(466)**	**(2)**
Transfers from Stage 1 to Stage 2	**(1,140)**	**(4)**	**1,140**	**4**	**—**	**—**	**—**	**—**
Transfers from Stage 2 to Stage 1	**646**	**7**	**(646)**	**(7)**	**—**	**—**	**—**	**—**
Transfers to Stage 3	**—**	**—**	**(7)**	**(1)**	**7**	**1**	**—**	**—**
Net re-measurement of ECL on stage transfer		**(6)**		**32**		**3**		**29**
Changes in risk parameters (model inputs)		**—**		**17**		**(1)**		**16**
Other changes in net exposure	**1,592**	**2**	**(204)**	**(7)**	**33**	**1**	**1,421**	**(4)**
Other P&L only items		**—**		**1**		**—**		**1**
Income statement (releases)/charges		**(4)**		**43**		**3**		**42**
Amounts written-off	**—**	**—**	**—**	**—**	**(6)**	**(6)**	**(6)**	**(6)**
At 31 December 2020	**6,311**	**1**	**388**	**41**	**72**	**69**	**6,771**	**111**
Net carrying amount	**6,310**		**347**		**3**		**6,660**	
At 1 January 2019	641	—	68	4	46	33	755	37
2019 movements	4,978	2	55	(2)	34	41	5,067	41
At 31 December 2019	5,619	2	123	2	80	74	5,822	78
Net carrying amount	5,617		121		6		5,744	

Stage 2 decomposition by a significant increase in credit risk trigger

The tables below show Stage 2 decomposition.

	Property		Corporate		FI		Total	
2020	**Loans €m**	**ECL €m**	**Loans €m**	**ECL €m**	**Loans €m**	**ECL €m**	**Loans €m**	**ECL €m**
Wholesale								
Currently up-to-date	**32**	**—**	**130**	**3**	**181**	**38**	**343**	**41**
- PD deterioration	***32***	***—***	***129***	***3***	***181***	***38***	***342***	***41***
- Other driver (adverse credit, forbearance etc)	***—***	***—***	***1***	***—***	***—***	***—***	***1***	***—***
Total Stage 2	**32**	**—**	**130**	**3**	**181**	**38**	**343**	**41**

	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

Key points

- The increase in ECL in Stage 1 and Stage 2 was primarily due to the deterioration in the economic outlook, causing both PDs and LGDs to increase.
- The updated economics also resulted in a migration of assets from Stage 1 to Stage 2 with a consequential increase from a 12 month ECL to a lifetime ECL.
- Movements in the overall balance sheet were driven by the combined effect of strategic client exits and asset migrations to NWM N.V. as part of Brexit preparations.

Credit risk – Trading activities

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

Derivatives

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.

	2020							2019		
	Notional									
	GBP	USD	EUR	Other	Total	Assets	Liabilities	Notional	Assets	Liabilities
	€bn	€bn	€bn	€bn	€bn	€m	€m	€bn	€m	€m
Gross exposure						3,967	7,079		2,491	3,603
IFRS offset						—	—		(5)	(5)
Carrying value	639	55	1,547	33	2,274	3,967	7,079	1,862	2,486	3,598
Of which:										
Interest rate (1)										
Interest rate swaps						2,233	4,735		1,414	2,123
Options purchased						248	—		318	—
Options written						—	118		—	324
Total	625	10	1,508	12	2,155	2,481	4,853	1,780	1,732	2,447
Exchange rate										
Spot, forwards and futures						996	1,551		591	605
Currency swaps						436	583		128	525
Options purchased						54	—		35	—
Options written						—	86		—	13
Total	14	45	39	21	119	1,486	2,220	82	754	1,143
Credit	—	—	—	—	—	—	6	—	—	8
Carrying value					2,274	3,967	7,079	1,862	2,486	3,598
Counterparty mark-to-market netting						(2,486)	(2,486)		(1,400)	(1,400)
Cash collateral						(983)	(3,230)		(587)	(1,280)
Securities collateral						(56)	(942)		(105)	—
Net exposure						442	421		394	918
Of which outside netting arrangements						*68*	*91*		*66*	*918*
Net exposure - intercompany						(83)	139		443	21
Banks (2)						16	29		3	6
Other financial institutions (3)						282	147		254	720
Corporate (4)						140	244		136	192
Government (5)						4	1		1	—
Net exposure						442	421		394	918
UK						15	2		115	714
Europe						386	419		200	186
US						9	—		41	18
RoW						32	—		38	—
Net exposure						442	421		394	918
Asset quality of uncollateralised derivative assets										
AQ1-AQ4						401			386	
AQ5-AQ9						41			8	
Net exposure						442			394	

Notes:

(1) The notional amount of interest rate derivatives includes €2,073 billion (2019 – €1,734 billion) in respect of contracts cleared through central clearing counterparties.

(2) Transactions with certain counterparties with which 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.

Credit risk – Trading activities continued

Derivatives: settlement basis and central counterparties

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

	Notional				Asset		Liability	
		Traded over the counter						
2020	Traded on recognised exchanges €bn	Settled by central counterparties €bn	Not settled by central counterparties €bn	Total €bn	Traded on recognised exchanges €m	Traded over the counter €m	Traded on recognised exchanges €m	Traded over the counter €m
Interest rate	**—**	**2,073**	**82**	**2,155**	**—**	**2,481**	**—**	**4,853**
Exchange rate	**—**	**—**	**119**	**119**	**—**	**1,486**	**—**	**2,220**
Credit	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**6**
Total	**—**	**2,073**	**201**	**2,274**	**—**	**3,967**	**—**	**7,079**
2019								
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

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 subsidiaries and its staff towards customers – or in the markets in which it operates – leads to unfair or inappropriate customer outcomes and results in reputational damage, financial loss or both.

Sources of risk

Compliance and conduct risks exist across all stages of 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. As set out in Note 24 to the consolidated financial statements, NWM N.V. Group and certain members of staff are party to legal proceedings and are subject to investigation and other regulatory action in the UK, the US and other jurisdictions.

Key developments in 2020

- A customer-focused COVID-19 response was mobilised, which included prioritised resource and operational capacity and participation in relevant government schemes.
- In-life monitoring of customer outcomes was extended to ensure treatment strategies remained timely, relevant and consistent, as a result of the continued economic uncertainty arising from COVID-19 and Brexit.
- Specialist training was delivered to support the continuous oversight of ring-fencing embeddedness.
- Work to develop a Digitised Rules Mapping platform was a significant management focus across NatWest Group. The platform aims to facilitate risk-based rules mapping to regulatory obligations. This will enable more efficient risk management of regulatory compliance matters.

Governance

NatWest Group defines appropriate standards of compliance and conduct and ensures adherence to those standards through the 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 & Controls Committee and to the NWM N.V. Group Managing Board.

Risk appetite

Risk appetite statements articulate the levels of risk that legal entities, businesses and functions work within when pursuing their strategic objectives and business plans.

A range of controls is operated to ensure the business delivers good customer outcomes and is conducted in accordance with legal and regulatory requirements. A suite of policies addressing compliance and conduct risks set appropriate standards across NWM N.V. Group. Continuous monitoring and targeted assurance is carried out as appropriate.

Monitoring and measurement

Compliance and conduct risks are measured and managed through continuous assessment and regular reporting to the NWM N.V. Group Risk & Controls 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. Compliance and conduct risk management is also integrated into NatWest Group's strategic planning cycle.

Mitigation

Activity to mitigate the most-material compliance and conduct risks is carried out across NWM N.V. Group with specific areas of focus in the customer-facing businesses. 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 NWM N.V. Group level.

Financial crime risk

Definition

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

Sources of risk

Financial crime risk may be presented if NWM N.V. Group's customers, employees 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 lines of business.

Key developments in 2020

- Continued improvements were made to transaction monitoring alert processes, including the use of risk-based artificial intelligence to facilitate focus on activity of higher concern.
- NWM N.V. Group's Financial Crime CDD uplifts were overhauled to reflect changes to the regulatory environment and the expectations of the regulators.

Governance

The Financial Crime Risk Committee, which is chaired by the Money Laundering Reporting Officer 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 NatWest 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 Financial Crime Committee, the NWM N.V. Group Risk & Controls 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. The 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.

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

Monitoring and measurement

Financial crime risks are identified and reported through continuous risk management and regular monthly reporting to the Risk & Controls Committee and the 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.

Financial crime risk continued

Mitigation

Through the financial crime framework, relevant policies, systems, processes and controls are used to mitigate financial crime risk. This includes the use of dedicated screening and monitoring controls to identify people, organisations, transactions and behaviours that may require further investigation or other actions. Centralised expertise is available to detect and disrupt threats to 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.

Climate-related risk

Definition

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

Sources of risk

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

Transition risks may arise from the process of adjustment towards a low-carbon economy. Changes in policy, technology and sentiment could prompt reassessment of customers' financial risk and may lead to falls in the value of a large range of assets. 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 it and its customers. Potential indirect effects include the erosion of NWM N.V. Group's competitiveness, profitability, or reputation damage.

Key developments in 2020

- Climate-related risk was elevated to a principal risk. In line with NatWest Group's risk management framework, the elevation will see the implementation of a dedicated risk policy, risk appetite statement and risk appetite measures.
- Climate-related risk was included as a factor in setting sector oversight classifications, which drive the frequency and level at which sector credit risk appetite is reviewed.
- Guidance was issued to ensure appropriate consideration of climate-related risk in internal risk and control assessments.
- Enhancements have been made to the Environmental, Social & Ethical risk management framework to mitigate reputational risk from carbon intensive sectors and support the transition to a lower carbon economy.

Risk governance

NatWest Group Board is responsible for the implementation of a NatWest Group wide climate-related strategy including the risk framework. NWM N.V. Group's representatives are participating in various NatWest Group and NWM Group committees to ensure outcomes are meeting NWM N.V. Group's requirements. When relevant, climate-related risk topics are discussed by the NWM N.V. Group Risk & Controls Committee.

Risk appetite

NatWest Group's stated purpose is to reduce the climate impact of its financing activity by at least 50% by 2030 and to do what is necessary to achieve alignment with the 2015 Paris Agreement.

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.

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

Operational risk

Definition

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

Sources of risk

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

Key developments in 2020

- The impact of COVID-19 led to significant disruption and heightened the operational risk profile as NWM N.V. Group adapted to new ways of working, particularly due to lockdown protocols. The control environment was continually monitored to ensure the resulting challenges were safely addressed.
- A NatWest Group-wide response was mobilised – supported by additional reporting on client needs, people, processes and systems – to ensure the Board and senior management were regularly updated and to facilitate decision-making as COVID-19 evolved.
- Operational resilience remained a key focus. A series of scenarios – setting out the crystallisation of severe but plausible combinations of significant risks – were developed in order to support planning and appropriate forward-looking risk management strategies.
- Despite the impact of COVID-19, the security threat was not significantly changed. The potential for cyber attacks on NWM N.V. Group's supply chain remained a focus. Significant enhancements in managing such incidents and the broader security control environment were made.
- Brexit resulted in regulatory uncertainty until the end of 2020 due to extended political negotiations. The client migrations and operational readiness activities were managed as part of a programme structure with operational risk management oversight and challenge in place.

Governance

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

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

Operational risk continued

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. NWM N.V. Group's operational risk appetite statement encompasses the full range of operational risks faced by its legal entities, businesses and functions.

Mitigation

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

CEC covers material risks and the underlying key controls, including financial, operational and compliance controls, as well as supporting risk management frameworks. The CEC outcomes are reported to NWM N.V. Group's Board Risk Committee.

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

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

Monitoring and measurement

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

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

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 Pillar 2A capital requirement.

Scenario analysis is used to assess how severe 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 assessment methodology. This is underpinned by setting and monitoring risk indicators and performance metrics for key business services. Progress continues on the response to regulator expectations on operational resilience, with involvement in a number of industry-wide operational resilience forums. This enables a more holistic view the operational resilience risk profile and the pace of ongoing innovation and change, both internally and externally.

Event and loss data management

The operational risk event and loss data management process ensures 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 in NatWest Group's Annual Report and Accounts.

Model risk

Definition

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

Sources of risk

NWM N.V. Group uses a variety of models in the course of its business activities. Examples include the use of model outputs to support measuring and assessing risk exposures (including credit and market risk), as well as for valuation of positions and for calculating regulatory capital and liquidity requirements. 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 2020

- Enhanced model risk appetite measures, key performance indicators, and key risk indicators were approved and monitored, with any required remediation plans actively managed.
- All models impacting NWM N.V. Group are now recorded within a single model inventory, providing increased transparency.

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. Two roles are key to this – Model Risk Owners and Model Risk Officers. Model Risk Owners, in the first line, are responsible for model approval and ongoing performance monitoring. Model Risk Officers, in the second line, are responsible for oversight, including ensuring that models are independently validated prior to use and on an ongoing basis aligned to the model's risk rating. Escalations are made to senior management through the NWM Model Risk Committee. The committee also considers whether a model can be approved for use. Additionally, model risk is discussed as required by the NWM N.V. Supervisory Board, Managing Board and Risk & Controls Committee. Models used for regulatory reporting may additionally require regulatory approval before implementation. Further escalation can also be made to the NatWest Group Model Risk Oversight Committee.

Risk appetite

Model risk appetite is set in order to limit the level of model risk that NWM N.V. Group is willing to accept in the course of its business activities. NWM N.V. Group has defined limits and triggers that are specific to NWM N.V. Group and that align with NatWest Group's model risk appetite statement. Model performance is monitored against appetite on a model level by the first line model owners. Risk appetite defined at an aggregate level is monitored by the NWM N.V. Group Risk and Control Committee. Remediation for positions outside appetite is carried out by NWM Plc, to which this work has been outsourced.

Model risk continued

Risk controls

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

Risk monitoring and measurement

The level of risk relating to an individual model is assessed through a model risk rating that is based on the model's materiality and validation ratings. This approach provides the basis for model risk appetite measures and enables model risk to be robustly monitored and managed across NWM N.V. Group.

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

Risk mitigation

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

Reputational risk

Definition

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

Sources of risk

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

Key developments in 2020

- Reputational risks arising from COVID-19 remained a key focus from Q1 onwards.
- A review of the reputational risk framework and policy began in 2020. This was required to reflect the purpose, capture a more complete view of reputation at a strategic level and align with more progressive industry leaders.
- The correlation between reputational risk and climate change issues remained a significant area of focus, supported by work to enhance the consideration of such issues within the reputational risk framework.

Governance

A reputational risk policy supports reputational risk management across NWM N.V. Group. NWM N.V. Group representatives participate in the NWM Group Reputational Risk Committee to review relevant issues and discuss cases, issues, sectors and themes that represent a material reputational risk. These subjects may also be discussed in the NWM N.V. Group Risk & Controls Committee.

Risk appetite

NWM N.V. Group manages and articulates its appetite for reputational risk through a qualitative reputational risk appetite statement. NWM N.V. Group seeks continuous improvement in the identification, assessment and management of customers, transactions, products and issues that present a material reputational risk and will discuss these matters in the NWM Group Reputational Risk Committee and the NWM N.V. Group Risk & Controls Committee.

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

Monitoring and measurement

Relevant internal and external factors are monitored through regular reporting to NWM Group Reputational Risk Committee and escalated, where appropriate, to NatWest Group's Reputational Risk Committee, Board Risk Committee or Sustainable Banking Committee.

Mitigation

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

Corporate governance

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 its 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.). NatWest Group plc is 'the ultimate holding company'. The term 'NatWest Group' comprises NatWest Group plc and its subsidiary and associated undertakings.

NWM N.V. is a licenced bank regulated by both the De Nederlandsche Bank ('Dutch Central Bank') and the Autoriteit Financiele Markten ("AFM").

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 the requirements under the Code Banken. A further explanation on compliance with the updated Code Banken is provided on page 47 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 as a whole. Furthermore, a separate Risk Committee and a separate Audit Committee have been set up to support the Supervisory Board during 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. During 2020, the EBA launched a consultation to update the mentioned guidelines. Any updates to the code will be assessed for impact on the set up of the NWM NV Group.

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 on the remuneration policy can be found in NatWest Group's 2020 Annual Report and Accounts, available at natwestgroup.com.

Approval of Annual Report

The Managing Board approved the Annual Report at its meeting on 18 February 2021. The Supervisory Board approved the Annual Report at its meeting on 18 February 2021. NWM N.V. Group has proposed to its Shareholder that it adopts the 2020 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 2020.

In 2017, NatWest Group's NatWest Markets business (NWM 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 following the loss of EU passporting after the UK's departure from the EU.

NWM Plc and NWM N.V. Group have been working together to ensure the banking licence is maintained and NWM N.V. Group is operational. NWM N.V. started trading on the 25th of March 2019 and continued to do so in 2020.

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 2020.

The composition of the Supervisory Board was discussed during all meetings in 2020.

On 19 December 2019, Chris Marks and Richard Place stepped down as Chief Executive Officer and Chief Financial Officer of NWM Plc and, as a result, have also stepped down as NWM N.V. Supervisory Board members. Robert Begbie has been appointed Chief Executive Officer of NWM Plc and joined NWM N.V. as Chairman of the Supervisory Board on the 1st of April 2020. Until Robert Begbie's appointment to the Supervisory Board, Maarten Klessens has performed the role of Acting Chairman of the Supervisory Board.

Following the confirmation of the appointment of Mr Begbie, Mr Klessens continued in his role as Vice-Chairman in addition to his role as Chairman of both the Board Risk Committee and Audit Committee.

In addition, regulatory approval for the appointment of David King as a member of the Supervisory Board was received in December 2020 and his appointment came into effect on the 1 February 2021.

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 NatWest Group's 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 2020, 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 the NatWest Group and NWM Plc Remuneration Committees 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 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 2020. 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 18 February 2021 are as follows:

		Date of first appointment	Date for re-election
Robert Begbie (Chairman)	(59, British, male)	1 April 2020	1 April 2024
Maarten Klessens (Vice-Chairman)	(62, Dutch, male)	2 September 2015	30 August 2023
Annelies van der Pauw	(60, Dutch, female)	3 March 2019	3 March 2023
Anne Snel	(52, Irish, female)	25 March 2019	25 March 2023
David King	(52, British, male)	1 February 2021	1 February 2025

Corporate Governance

Robert Begbie
Chairman of the Supervisory Board

Mr Begbie was appointed CEO of NWM Plc and joined the executive management team of NatWest Group in December 2019. NWM Plc supports corporate and institutional customers, helping them to manage their risk and access international capital markets. Mr Begbie was appointed as the Chairman of the NMW N.V. Supervisory Board on 1 April 2020.

Mr Begbie has been with NatWest Group for 40 years and has extensive experience in treasury and capital markets. During his career, he has built successful capital markets businesses across fixed income, derivatives, asset management and cash markets and led teams in the UK, Europe, Asia and the US. After spending 20 years in our Markets business, Mr Begbie joined NatWest Group Treasury in 2009 where he was instrumental in transforming the NatWest Group balance sheet. In 2017 Mr Begbie was appointed as NatWest Group Treasurer with responsibilities for all aspects of Treasury and the management of the bank's balance sheet. He holds an MBA from CASS Business School and is a former president of The Chartered Institute of Bankers in Scotland (London Branch).

Maarten Klessens
Vice-Chairman of the Supervisory Board and Chairman of the Board Risk and 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 2016 he joined the Supervisory Board of Bank of Africa Holding S.A. and in 2017 he joined 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 NatWest 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 Masters 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 was a partner of the international law firm Allen & Overy LLP (A&O) until 2020 and has chaired the Amsterdam corporate practice group of A&O since 2006. In her practice, Ms Van der Pauw focused 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 was also the co-chair of the A&O global corporate responsibility programme for many years 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. Presently Ms Van der Pauw continues to hold various non-executive board memberships in the private and public sector.

Anne Snel

Ms Snel was appointed as an independent member of the Supervisory Board on 25 March 2019.

Ms Snel is currently Partner Risk, Legal 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 Supervisory Relations and Regulatory Oversight 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. Ms Snel is also a member of the Supervisory Board of NN Bank N.V.

David King

Mr King joined the Supervisory Board of NWM N.V. on 1 February 2021. Mr King is the Chief Financial Officer of NWM Plc, which he joined in July 2020.

As a member of the NatWest Markets Management Team and an Executive Director of the NatWest Markets Board, he is collectively responsible for the long-term success of NatWest Markets and the delivery of sustainable shareholder value. Prior to joining NWM Plc Mr King was CEO at MUFG Securities, where he was previously CFO. He has held senior finance roles at Lloyds, HBOS and Halifax, and worked in the RBS Financial Markets Finance team between 1995 and 2001. Mr King has a bachelor's degree in Mathematics from the University of Surrey.

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 46 of this report.

Composition of the Managing Board

The members of the Managing Board as at 19February 2021 are as follows:

		Date of first appointment	Date for re-election
Harm Bots (Chairman)	(48, Dutch, male)	1 November 2017	1 November 2021
Cornelis Visscher	(55, Dutch, male)	18 July 2013	18 July 2021
Marije Elkenbracht	(52, Dutch, female)	15 February 2019	15 February 2023
Angelique Slach	(49, Dutch, female)	18 March 2019	18 March 2023

Harm Bots

Chairman of the Managing Board

Mr Bots was appointed as Head of Strategy for NWM Plc 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 NatWest 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 NatWest 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 NatWest 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 NatWest 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 a 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; 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, 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 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

NatWest 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 www.natwestgroup.com>About us>Our values, or upon request by contacting Company Secretariat at the telephone number listed on page 102. 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 NatWest 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 2020, NWM N.V. Group employed approximately 200 people 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

NatWest 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 60 of NatWest Group's 2020 Annual Report and Accounts and on the Sustainable Banking pages at natwestgroup.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. NatWest 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 NatWest Group

NWM N.V.'s ultimate parent company is NatWest 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 NatWest Group with the aim to align all businesses within the wider NatWest 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 an executive of NatWest 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.

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 NatWest 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 12 to 15 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, NWM Plc, who in turn reports to the Chair of the Audit Committee of NWM 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.

Remuneration

This section contains a number of disclosures which are required in accordance with Article 450 of the Capital Requirements Regulation, the Basel Committee on Banking Supervision Pillar 3 disclosure requirements and the EBA guidelines on sound remuneration policies. This section should be read in conjunction with NatWest Group's Pillar 3 Report for 2020 which contains a number of quantitative remuneration disclosures and can be found on natwestgroup.com.

Remuneration policy for all colleagues

As NWM N.V. Group is an indirectly owned subsidiary of NatWest Group, its remuneration policy is fully aligned to NatWest Group's remuneration policy principles with amendments only to comply with Dutch remuneration rules, as set down in regulation Book 1 of the FSA. The NWM N.V. Group's remuneration policy is annually reviewed and approved by the Supervisory Board, lastly at its meeting on 11 February 2021.

The remuneration policy supports the business strategy and is designed to promote the long-term success of NWM N.V. Group. It aims to reward the delivery of good performance provided this is achieved in a manner consistent with NWM N.V. Group's values and within acceptable risk parameters.

The remuneration policy applies the same principles to everyone who is working on its behalf, including Material Risk Takers (MRTs), with some minor adjustments to the policy where necessary to comply with local regulatory requirements. The remuneration policy is compliant with CRD IV, UK and Dutch regulatory requirements. The key elements of the policy are set out below.

Base salary

The purpose is to provide a competitive level of fixed cash remuneration.

Operation

Base salaries are reviewed annually and should reflect the talents, skills and competencies that the individual brings to the business.

Role-based allowance

Certain MRT roles receive a role-based allowance. The purpose is to provide fixed pay that reflects the skills and experience required for the role.

Operation

Role-based allowances are fixed allowances which form an element of overall fixed remuneration for regulatory purposes and are based on the role the individual performs.

They are delivered in cash and/or shares depending on the level of the allowance and the seniority of the recipient. Shares are subject to a three-year retention period.

Benefits and pension

The purpose is to provide a range of flexible and competitive benefits.

Operation

In most jurisdictions, benefits or a cash equivalent are provided from a flexible benefits account.

Pension funding forms part of fixed remuneration and NWM N.V. Group does not actively provide discretionary pension benefits.

Annual bonus

The purpose is to support a culture where individuals recognise the importance of serving customers well and are rewarded for superior performance.

Operation

The annual bonus pool is based on a balanced scorecard of measures including Customer, People & Culture, Financial & Business Delivery, and Risk & Control measures. Allocation from the pool depends on performance of the business area and the individual.

Individual performance assessment is supported by a structured performance management framework. This is designed to assess performance against longer term business requirements across a range of financial and non-financial metrics as well as an evaluation of adherence to internal controls and risk management. A balanced scorecard is used to align with the business strategy. Each individual will have defined measures of success appropriate to their role.

Risk and conduct performance is also taken into account. Control functions are assessed independently of the business units that they oversee, with the objectives and remuneration being set according to the priorities of the control area, not the targets of the businesses they support. The NWM N.V. Group Chief Risk Officer and the Head of Internal Audit have the authority to escalate matters to Board level if management do not respond appropriately.

Independent control functions exist in NWM N.V., with dual solid reporting lines into both the NWM N.V. CEO and the NWM Plc Control Function Head.

The variable remuneration of colleagues who work the majority of their time in the Netherlands will, as a rule, 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.

For awards made in respect of the 2020 performance year, immediate cash awards continue to be limited to a maximum of the EUR equivalent of £2,000. In line with regulatory requirements, a significant proportion of annual bonus awards for more senior roles is deferred and includes partial delivery in shares. Deferral of annual bonus awards ranges from a three to seven year period 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 the case of a variable pay component of £500,000 (or EUR equivalent) or more, at least 60% of the total amount is deferred; at least 50% is delivered in NatWest Group shares and all shares are subject to a 12 month retention period.

In certain circumstances NatWest 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 other individuals are subject to a clawback period of five years from the date NatWest Group or NWM N.V. Group becomes aware of information that should result in clawback.

The fifth Capital Requirements Directive (CRD V) took effect on 28 December 2020 which will impact remuneration requirements for the 2021 performance year. This includes extending the minimum deferral period from three to four years for MRTs and also some changes to the criteria for identifying MRTs. Further details will be included in next year's report.

Criteria for identifying MRTs

The EBA has issued criteria for identifying MRT roles, which captures those staff whose activities have a material influence over NatWest 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).

In 2020, MRTs were identified for eleven key 'institutions' within NatWest Group, which included NWM N.V. Group, to bring greater focus on MRT identification across subsidiary entities. The MRT criteria are applied for each of these institutions, and consequently some MRTs are identified in relation to more than one of these entities.

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 of the relevant institution for 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, NatWest Group has applied its own minimum standards to identify roles that are considered to have a material influence over its risk profile.

Personal hedging strategies

The conditions attached to discretionary share-based awards prohibit the use of any personal hedging strategies to lessen the impact of a reduction in value of such awards. These conditions are explicitly acknowledged and accepted by recipients when any share-based awards are granted.

Risk in the remuneration process

NatWest Group's and NWM N.V. Group's approach to remuneration promotes effective risk management through having a clear distinction between fixed remuneration, which reflects the role undertaken by an individual, and variable remuneration, which is directly linked to performance and can be risk-adjusted. Fixed pay is set at an appropriate level to discourage excessive risk-taking, and at a level which would allow NatWest Group and NWM N.V. Group to pay zero variable pay.

Focus on risk is achieved through clear risk input into performance goals, performance reviews, the determination of variable pay pools, incentive plan design and the application of malus and clawback.

A robust process is used to assess risk performance. A range of measures are considered, specifically capital, liquidity and funding risk, credit risk, market risk, pension risk, compliance & conduct risk, financial crime, operational risk, business risk and reputational risk. Consideration is also given to overall risk culture.

Remuneration arrangements are in line with regulatory requirements and the steps taken to ensure appropriate and thorough risk adjustment are also fully disclosed and discussed with regulators where appropriate.

Variable pay determination

For the 2020 performance year, NatWest Group operated a robust multi-step process, which is control function led, to assess performance and determine the appropriate bonus pool by business area and function. At multiple points throughout the process, reference is made to Group-wide business performance (from both affordability and appropriateness perspectives) and the need to distinguish between go-forward and resolution activities.

The process considers a balanced scorecard of performance assessments at the level of each business area or function, across financial, customer and people measures. Risk and conduct assessments at the same level are then undertaken to ensure that performance achieved without appropriate consideration of risk, risk culture and conduct controls, is not inappropriately rewarded.

NatWest Group Board Risk Committee (BRC) reviews any material risk and conduct events and, if appropriate, an underpin may be applied to the individual business and function bonus pools or to the overall bonus pool. BRC may recommend a reduction of a bonus pool if it considers that risk and conduct performance is unacceptable or that the impact of poor risk management has yet to be fully reflected in the respective inputs.

Following further review against overall performance and conduct, and taking into account affordability, the CEO of NatWest Group will make a final recommendation to the NatWest Group Performance and Remuneration Committee (RemCo), informed by all the previous steps in the process and her strategic view of the business. RemCo will then make an independent decision on the final bonus pool taking all of these earlier steps into account.

Bonus funding is allocated by the NatWest Group RemCo at a franchise level which in the case of NWM N.V. will be at the NWM Plc parent entity level. The allocation for NWM N.V. is determined by the NatWest Markets Subsidiary RemCo in cooperation with the NatWest Markets CEO. The NWM N.V. Supervisory Board have the opportunity to review the allocation to ensure it is fit for purpose for the entity and to ensure it meets capital adequacy requirements at the N.V. level.

Remuneration and culture

NatWest Group continues to assess conduct and its impact on remuneration as part of the annual Group-wide bonus pool process and also via the accountability review framework. NatWest Group has taken steps in recent years to remove incentives for colleagues where this could drive unintended behaviours.

The governance of culture is clearly laid out with Senior Management Function roles having clearly defined accountabilities, which is taken into account in their pay decisions. The NatWest Group Board and Sustainable Banking Committee also play key roles in building cultural priorities. Frameworks are in place to measure progress.

Accountability review process and malus/clawback

The accountability review process was introduced in 2012 to identify any material risk management, control and general policy breach failures, and to ensure accountability for those events.

This allows NatWest Group and NWM N.V Group to respond to instances where new information would change the variable pay decisions made in previous years and/or the decisions to be made in the current year. Potential outcomes under the accountability review process are:

- Malus - to reduce (to zero if appropriate) the amount of any unvested variable pay awards prior to payment;
- Clawback - to recover awards that have already vested; and
- In-year bonus reductions - to adjust variable pay that would have otherwise been awarded for the current year.

As part of the acceptance of variable pay awards, MRTs must agree to terms that state that malus and clawback may be applied. Any variable pay awarded to MRTs in respect of the 2014 performance year onwards is subject to clawback for seven years from the date of grant.

For awards made in respect of the 2016 performance year onwards, this period can be extended to ten years for MRTs who perform a 'senior management function' under the Senior Managers Regime where there are outstanding internal or regulatory investigations at the end of the normal seven year clawback period.

The circumstances in which malus, clawback or in-year bonus reduction may be applied include:

- conduct which results in significant financial losses;
- the individual failing to meet appropriate standards of fitness and propriety;
- an individual's misbehaviour or material error;
- NatWest Group or the individual's business unit suffering a material failure of risk management; and
- for malus and in-year bonus reduction only, circumstances where there has been a material downturn in financial performance.

The above list of circumstances is not exhaustive, and NatWest Group may consider any further circumstances as it deems appropriate

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 2020 Annual Report and Accounts, including risk and capital management on pages 11 to 42, 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 2020, NWM N.V. Group's internal control over financial reporting is effective.

Managing Board
Amsterdam, 18 February 2021

Management's report on the 2020 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 2020 and their state of affairs during 2020; and the 2020 Annual Report and Accounts describes the material risks that NWM N.V. Group is facing.

Managing Board
Amsterdam, 18 February 2021

Financial statements

Consolidated income statement for the year ended 31 December 2020

	Note	2020 €m	2019 €m
Interest receivable		**54**	62
Interest payable		**(64)**	(80)
Net interest income	1	**(10)**	(18)
Fees and commissions receivable		**205**	129
Fees and commissions payable		**(46)**	(26)
Income from trading activities		**(15)**	8
Other operating income (1)		**17**	656
Non-interest income	2	**161**	767
Total income		**151**	749
Staff costs		**(55)**	(35)
Premises and equipment		**(7)**	(4)
Other administrative expenses		**(27)**	(47)
Depreciation and amortisation		**(4)**	(2)
Operating expenses	3	**(93)**	(88)
Profit before impairment (losses)/releases		**58**	661
Impairment (losses)/releases	12	**(42)**	1
Operating profit before tax		**16**	662
Tax charge	6	**(10)**	(28)
Profit for the year		**6**	634
Attributable to:			
Ordinary shareholders		**(8)**	626
AT1 capital securities		**14**	8
		6	634

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 2020

	2020 €m	2019 €m
Profit for the year	**6**	634
Items that do not qualify for reclassification		
Loss on fair value of credit in financial liabilities designated at FVTPL due to own credit risk	**(27)**	(120)
FVOCI financial assets	**2**	—
Tax	**—**	—
	(25)	(120)
Items that do qualify for reclassification		
FVOCI financial assets	**1**	6
Currency translation	**(3)**	30
Tax	**—**	—
	(2)	36
Other comprehensive loss after tax	**(27)**	(84)
Total comprehensive (loss)/income for the year	**(21)**	550
Attributable to:		
Ordinary shareholders	**(35)**	542
AT1 capital securities	**14**	8

The accompanying notes on pages 60 to 86, the accounting policies on pages 56 to 59 and the audited sections of the Financial review and Risk and capital management on pages 1 to 42 form an integral part of these financial statements.

Consolidated balance sheet as at 31 December 2020

	Note	2020 €m	2019 €m
Assets			
Cash and balances at central banks	9	**4,452**	3,191
Trading assets	7	**4,380**	3,155
Derivatives	8	**6,935**	3,898
Settlement balances		**358**	141
Loans to banks - amortised cost	9	**190**	738
Loans to customers - amortised cost	9	**946**	1,374
Amounts due from holding companies and fellow subsidiaries	9	**3,540**	1,368
Other financial assets	14	**896**	562
Other assets	15	**47**	67
Total assets		**21,744**	14,494
Liabilities			
Bank deposits	9	**52**	59
Customer deposits	9	**1,258**	1,447
Amounts due to holding companies and fellow subsidiaries	9	**3,551**	3,021
Settlement balances		**943**	209
Trading liabilities	7	**1,512**	1,832
Derivatives	8	**9,309**	4,588
Other financial liabilities	16	**2,200**	240
Subordinated liabilities	17	**655**	642
Other liabilities	18	**91**	248
Total liabilities		**19,571**	12,286
Total equity		**2,173**	2,208
Total liabilities and equity		**21,744**	14,494

The accompanying notes on pages 60 to 86, the accounting policies on pages 56 to 59 and the audited sections of the Financial review and Risk and capital management on pages 1 to 42 form an integral part of these financial statements.

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

	2020 **€m**	2019 €m
Share capital and share premium account - at 1 January (1)	**1,700**	7,024
Capital injection (2)	**—**	53
Distribution (3)	**—**	(1,166)
Capital restructuring (4)	**—**	(4,211)
At 31 December	**1,700**	1,700
AT1 capital securities - at 1 January	**250**	—
Securities issued during the year (5)	**—**	250
At 31 December	**250**	250
Fair value through other comprehensive income - at 1 January	**4**	(2)
Unrealised gains	**1**	14
Realised gains/(losses)	**2**	(8)
Tax	**—**	—
At 31 December	**7**	4
Foreign exchange reserve - at 1 January	**12**	(18)
Gains arising during the year	**4**	1
Reclassification of foreign currency losses included in the income statement	**—**	29
Tax	**—**	—
Recycled to profit or loss on disposal of business	**(7)**	—
At 31 December	**9**	12
Retained earnings - at 1 January	**242**	(3,771)
Profit attributable to controlling interests	**6**	634
Ordinary dividends paid	**—**	(657)
AT1 capital securities dividends paid	**(14)**	(7)
Acquisition of Western European branches	**—**	(19)
Changes in fair value of credit in financial liabilities designated at FVTPL		
- gross	**(27)**	(120)
- tax	**—**	—
Distribution (6)	**—**	(29)
Capital restructuring (4)	**—**	4,211
At 31 December	**207**	242
Equity attributable to controlling interests	**2,173**	2,208

Notes:

(1) Includes Ordinary share capital of €50,000 (2019 - €50,000) – Refer to Note 19 for further details.

(2) In 2019 a capital injection of €53 million from RFS Holdings B.V. reflects amounts received by RFS Holdings from Santander.

(3) 2019 includes 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 NatWest Group plc (via RFSH B.V.) in June 2019.

(6) 2019 includes a €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 60 to 86 the accounting policies on pages 56 to 59 and the audited sections of the Financial review and Risk and capital management on pages 1 to 42 form an integral part of these financial statements.

Consolidated cash flow statement for the year ended 31 December 2020

	Note	2020 €m	2019 €m
Operating activities			
Operating profit before tax		**16**	662
Adjustments for:			
Impairment losses		**42**	(1)
Depreciation, amortisation and impairment of other assets		**4**	2
Change in fair value taken to profit or loss of other financial assets		**2**	(19)
Change in fair value taken to profit or loss on other financial liabilities and subordinated liabilities		**48**	93
Elimination of foreign exchange differences		**(12)**	85
Other non-cash items		**4**	25
Income receivable on other financial assets		**(10)**	(21)
Loss /(profit) on sale of other financial assets		**2**	(3)
Profit on sale of subsidiaries and associates		**(5)**	(516)
Interest payable on MRELs and subordinated liabilities		**22**	24
(Charge)/release on provisions		**(5)**	2
Net cash flows from trading activities		**108**	333
(Increase)/decrease in trading assets		**(1,091)**	1,868
Increase in derivative assets		**(3,037)**	(254)
Increase in settlement balance assets		**(217)**	(141)
Decrease/(increase) in loans to customers		**387**	(345)
(Increase)/decrease in amounts due from holding companies and fellow subsidiaries		**(1,050)**	1,196
Decrease in other financial assets		**5**	56
Decrease in other assets		**22**	56
(Decrease)/increase in bank deposits		**(7)**	15
(Decrease)/increase in customer deposits		**(189)**	1,386
Increase in amounts due to holding companies and fellow subsidiaries		**531**	2,453
Increase in settlement balance liabilities		**734**	209
Decrease in trading liabilities		**(320)**	(2,298)
Increase in derivative liabilities		**4,721**	138
Increase/(decrease) in other financial liabilities		**1,932**	(9)
Decrease in other liabilities		**(119)**	(109)
Changes in operating assets and liabilities		**2,302**	4,221
Income taxes paid		**(48)**	(83)
Net cash flows from operating activities (1)		**2,362**	4,471
Investing activities			
Sale and maturity of other financial assets		**428**	149
Purchase of other financial assets		**(768)**	(308)
Income received on other financial assets		**10**	21
Net movement in business interests	25	**16**	558
Purchase of property, plant and equipment		**—**	(1)
Net cash flows from investing activities		**(314)**	419
Financing activities			
Movement in subordinated liabilities		**(35)**	(187)
Dividends paid		**(14)**	(664)
Issue of other equity instruments and additional Tier 1 notes		**—**	250
Net cash flows from financing activities		**(49)**	(601)
Effects of exchange rate changes on cash and cash equivalents		**(10)**	8
Net increase in cash and cash equivalents		**1,989**	4,297
Cash and cash equivalents at 1 January		**5,297**	1,000
Cash and cash equivalents at 31 December	27	**7,286**	5,297

Note:
(1) Includes interest received of €54 million (2019 - €18 million, 2018 - €25 million) and interest paid of €66 million (2019 - €83 million, 2018 - €41 million).

The accompanying notes on pages 60 to 86, the accounting policies on pages 56 to 59 and the audited sections of the Financial review and Risk and capital management on pages 1 to 42 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 Claude Debussylaan 94, 1082 MD 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 NatWest Group plc (formerly The Royal Bank of Scotland Group plc. NatWest Group plc is incorporated in the UK and registered at 36 St. Andrew Square, Edinburgh, Scotland. NatWest Group plc is the ultimate parent company of NWM N.V.. The consolidated accounts of NWM N.V. are included in the consolidated accounts of NatWest Group plc. The consolidated accounts of NWM N.V. Group incorporate financial information of NWM N.V., its controlled entities and interest in associates and joint ventures. The consolidated accounts were signed and authorised for issue by the Managing Board on 18 February 2021 and by the Supervisory Board on 18 February 2021. The right to request an amendment of the accounts 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 accounts.

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 NatWest Group; have prepared the accounts on a going concern basis. The consolidated accounts 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 17, the accounts are presented on a historical cost basis.

Accounting policy changes effective 1 January 2020

Amendments to IFRS 3 Business Combinations (IFRS 3) - Changes to the definition of a business

The IASB amended IFRS 3 to provide additional guidance on the definition of a business. The amendment aims to help entities when determining whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendments are in line with current accounting policy and therefore did not affect the accounts.

Definition of material – Amendments to IAS 1 – Presentation of Financial Statements (IAS 1) and IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors (IAS 8)

The IASB clarified the definition of 'material' and aligned the definition of material used in the Conceptual Framework and in other IFRS standards. The amendments clarify that materiality will depend on the nature or magnitude of information. Under the amended definition of materiality, an entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the accounts. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. NWM N.V. Group's definition and application of materiality is in line with the definition in the amendments.

Interest Rate Benchmark Reform (IBOR reform) Phase 1 amendments to IFRS 9 and IAS 39

The IASB issued 'Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)' as a first reaction to the potential effects the IBOR reform could have on financial reporting. The amendments focused on hedge accounting and allow hedge relationships affected by the IBOR reform to be accounted for as continuing hedges. Amendments are effective for annual reporting periods beginning on or after 1 January 2020 with early application permitted. NWM N.V. Group early adopted these amendments for the annual period ending on 31 December 2019.

Interest Rate Benchmark Reform (IBOR reform) Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

Phase 2 of the IASB's IBOR project (published in August 2020) addresses the wider accounting issues arising from the IBOR reform. The amendments are effective for annual reporting periods beginning on or after 1 January 2021 with early application permitted. As NWM N.V. Group early adopted these amendments for the annual period ending on 31 December 2020, which have been endorsed by the EU and UK in January 2021, NWM N.V. Group has applied International Accounting Standards, which have been adopted for use within the UK. NWM N.V. Group's IBOR transition program remains on-track and key milestones have been met. Conversion from rates subject to reform to alternative risk-free rates (RFRs) is expected to increase as RFR-based products become more widely available and key market-driven conversion events occur.

3. Basis of consolidation

The consolidated accounts incorporate the accounts 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 NatWest Group company, the assets, liabilities and IFRS reserves, such as the cash flow hedging reserve, are recognised at their inherited values taken from the consolidated accounts of NatWest Group 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.

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 NatWest plc shares. NWM N.V. Group operates a number of share-based compensation schemes under which it awards NatWest 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 contractual occupancy costs, such as rates.

Contingent liabilities are possible obligations arising from past events, whose existence will be confirmed only by uncertain future events, or present obligations arising from past events that are not recognised because either an outflow of economic benefits is not probable or the amount of the obligation cannot be reliably measured. Contingent liabilities are not recognised but information about them is disclosed unless the possibility of any outflow of economic benefits in settlement is remote.

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 the carrying amount for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent their recovery is probable.

Deferred tax is not recognised on temporary differences that arise from initial recognition of an asset or a liability in a transaction (other than a business combination) that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is calculated using tax rates expected to apply in the periods when the assets will be realised or the liabilities settled, based on tax rates and laws enacted, or substantively enacted, at the balance sheet date.

Deferred tax assets and liabilities are offset where 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.

Business model assessment of assets is made at portfolio level, being the level at which they are managed to achieve a predefined business objective. This is expected to result in the most consistent classification of assets because it aligns with the stated objectives of the portfolio, its risk management, manager's remuneration and the ability to monitor sales of assets from a portfolio.

Financial assets which are managed under a 'held to collect' business model, and have contractual cash flows that comprise solely payments of principal and interest are measured at amortised cost.

Other financial assets which are managed under a business model of both 'held to collect and sell' and have contractual cash flows comprising solely of payments of principal and interest are measured at fair value through other comprehensive income ('FVOCI').

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

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

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

10. Impairment: expected credit losses (ECL)

At each balance sheet date each financial asset or portfolio of loans measured at amortised cost or at fair value through other comprehensive income, issued financial guarantee and loan commitment is assessed for impairment and presented as impairments in the income statement. Loss allowances are forward-looking, based on 12 month ECL where there has not been a significant increase in credit risk rating, otherwise allowances are based on lifetime expected losses. Loss allowances for lease receivables are always measured on a lifetime expected loss basis.

ECL are a probability-weighted estimate of credit losses. The probability is determined by the risk of default which is applied to the cash flow estimates. In the absence of a change in credit rating, allowances are recognised when there is a reduction in the net present value of expected cash flows. On a significant increase in credit risk, allowances are recognised without a change in the expected cash flows, although typically expected cash flows do also change; and ECL are adjusted from 12 month to lifetime expectations.

Judgement is exercised as follows:

- Models – in certain low default portfolios, Basel parameter estimates are also applied for IFRS 9.
- Non-modelled portfolios - use a standardised capital requirement under Basel II. Under IFRS 9, they have bespoke treatments for the identification of significant increase in credit risk. Benchmark 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 to recognise fees receivable in profit or loss over the period of the guarantee.

12. Loan commitments

Provision is made for ECL on loan commitments, other than those classified as held-for-trading. Syndicated loan commitments in excess of the level of lending under the commitment approved for retention by 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.

16. Capital instruments

NWM N.V. Group classifies a financial instrument that it issues as a liability if it is a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities on potentially unfavourable terms and as equity if it evidences a residual interest in the assets of NWM N.V. Group after the deduction of liabilities. The components of a compound financial instrument issued by NWM N.V. Group are classified and accounted for separately as financial assets, financial liabilities or equity as appropriate. Incremental costs and related tax that are directly attributable to an equity transaction are deducted from equity.

17. 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 10 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.

18. 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 accounts. Dutch company law and IFRS require the directors, in preparing NWM N.V. Group's accounts, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent. In the absence of an applicable standard or interpretation, IAS 8 ‘Accounting Policies, Changes in Accounting Estimates and Errors’, requires management to develop and apply an accounting policy that results in relevant and reliable information in the light of the requirements and guidance in IFRS dealing with similar and related issues and the IASB's ’Conceptual Framework for Financial Reporting’. The judgements and assumptions involved in 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. During 2020, estimation uncertainty has been affected by the COVID-19 pandemic. The COVID-19 pandemic has continued to cause significant economic and social disruption during 2020. Key financial estimates are based on management's latest five-year revenue and cost forecasts. Measurement of deferred tax and expected credit losses are highly sensitive to reasonably possible changes in those anticipated conditions. Other reasonably possible assumptions about the future include a prolonged financial effect of the COVID-19 pandemic on the economy of The Netherlands and other countries. Changes in judgements and assumptions could result in a material adjustment to those estimates in the next reporting periods. Consideration of this source of estimation uncertainty has been set out in the notes below (as applicable).

Critical accounting policy	Note
Tax	6
Fair value - financial instruments	10
Loan impairment provision	12

Future accounting developments International Financial Reporting Standards

COVID-19 amendments on lease modifications – Amendments to IFRS 16 – Leases (IFRS 16)

The IASB published 'amendments to IFRS 16 covering COVID-19-Related Rent Concessions’. These provide lessees with an exemption from assessing whether a COVID-19 related rent concession is a lease modification. The amendment is effective for annual reporting periods beginning on or after 1 June 2020. The effect of the amendment on N.V. Group’s accounts is immaterial and will be adopted from 1 January 2021.

Other new standards and amendments that are effective for annual periods beginning after 1 January 2022, with earlier application permitted, are set out below.

Effective 1 January 2022

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37).
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).
- Reference to Conceptual Framework (Amendments to IFRS 3).
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1).
- Fees in the “10 per cent” test for Derecognition of Financial Liabilities (Amendments to IFRS 9).

Effective 1 January 2023

- IFRS 17 Insurance Contracts (Amendments to IFRS 17 Insurance Contracts).

The NWM N.V. Group is assessing the effect of adopting these standards and amendments on its financial statements but do not expect the effect to be material.

Notes to the consolidated financial statements

1 Net interest income

	2020 €m	2019 €m
Loans and advances to banks	**1**	—
Loans and advances to customers	**42**	17
Amounts due from holding companies and fellow subsidiaries	**10**	24
Other financial assets	**1**	21
Interest receivable	**54**	62
Balances with banks	**—**	12
Customer deposits	**23**	5
Amounts due to holding companies and fellow subsidiaries	**9**	6
Subordinated liabilities	**31**	43
Internal funding of trading businesses	**1**	14
Interest payable	**64**	80
Net interest income	**(10)**	(18)

Interest income on financial instruments measured at amortised cost and debt instruments classified as FVOCI is measured using the effective interest rate which allocates the interest income or interest expense over the expected life of the asset or liability at the rate that exactly discounts all estimated future cash flows to equal the instrument's initial carrying amount. Calculation of the effective interest rate takes into account fees payable or receivable that are an integral part of the instrument's yield, premiums or discounts on acquisition or issue, early redemption fees and transaction costs. All contractual terms of a financial instrument are considered when estimating future cash flows.

2 Non-interest income

	2020 €m	2019 €m
Net fees and commissions (1)	**159**	103
Foreign exchange	**(11)**	(17)
Interest rate	**(4)**	24
Equities and other	**—**	1
Income from trading activities	**(15)**	8
Changes in the fair value of financial assets and liabilities designated at fair value through profit or loss (2)	**3**	19
Foreign exchange losses related to recycling of foreign exchange reserve (3)	**—**	(29)
(Loss)/profit on sale of securities	**(2)**	3
Profit on sale of subsidiaries and associates (3)	**5**	532
Share of results of associated entities	**—**	(2)
Release of IBNER reserve (4)	**4**	112
Other income (5)	**7**	21
Other operating income	**17**	656
Non-interest income	**161**	767

Notes:

(1) Net fees and commissions includes transfer pricing income from NWM Plc of €125 million (2019 – €87 million), refer to Note 29 for further details.

(2) Including related derivatives

(3) In 2019 a gain of €516 million was recognised on completion of the Alawwal bank merger. This includes recycling of foreign exchange reserve in relation to Alawwal bank.

(4) Review of insurance liabilities pertaining to claims resulted in a €4 million release (2019 – €112 million).

(5) Other income relates to other claims reserves release of €7 million. 2019 included insurance recoveries of €21 million. In addition, includes income from activities other than banking.

Notes to the consolidated financial statements

3 Operating expenses

	2020 €m	2019 €m
Staff costs	**53**	33
Temporary and contract costs	**2**	2
Premises and equipment	**7**	4
Other administrative expenses (1)	**31**	49
Operating expenses	**93**	88

Note:
(1) Other administrative expenses include €26 million of cost recharges from NatWest Group companies (2019 – €25 million).

There were 200 people employed (rounded to the nearest ten) in continuing operations at 31 December 2020 (2019 – 190). The average number of persons employed in continuing operations during the year was 200 (2019 - 100).

There were 94 people employed in the Netherlands in continuing operations at 31 December 2020 (2019 – 96).

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.

2020	Netherlands €m	RoW €m	Total €m
Interest income	**51**	**3**	**54**
Interest expenses	**(64)**	**—**	**(64)**
Net fees and commissions	**100**	**59**	**159**
Income from trading activities (dealing profits)	**(6)**	**(9)**	**(15)**
Other operating income	**4**	**13**	**17**
Total income	**85**	**66**	**151**
Operating profit before tax	**8**	**8**	**16**
Total assets	**21,035**	**709**	**21,744**
Total liabilities	**19,237**	**334**	**19,571**
Contingent liabilities and commitments	**7,005**	**—**	**7,005**
2019			
Interest income	57	5	62
Interest expenses	(80)	—	(80)
Net fees and commissions	72	31	103
Income from trading activities (dealing profits)	(12)	20	8
Other operating income (1)	518	138	656
Total income	555	194	749
Operating profit before tax	499	163	662
Total assets	13,520	974	14,494
Total liabilities	12,038	248	12,286
Contingent liabilities and commitments	8,387	1	8,388

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

	2020 €m	2019 €m
Fees and commissions receivable		
- Lending and financing	**18**	9
- Brokerage	**8**	6
- Underwriting fees	**18**	11
- Other (1)	**161**	103
Total	**205**	129
Fees and commissions payable	**(46)**	(26)
Net fees and commissions	**159**	103

Note:
(1) Fees and commissions receivable – other includes transfer pricing income from NWM Plc of €125 million (2019 - €87 million). Refer to Note 29 for further details.

Notes to the consolidated financial statements

5 Auditor's remuneration

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

	2020 €m	2019 €m
Fees for the audit of NWM N.V. Group's annual accounts	**1.0**	0.9
Audit related services (1)	**0.8**	0.7
Total audit and audit related services	**1.8**	1.6

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 NatWest Group plc.

6 Tax

	2020 €m	2019 €m
Current tax		
Charge for the year	**(10)**	(68)
(Under)/over provision in respect of prior periods	**(6)**	11
	(16)	(57)
Deferred tax		
Credit for the year	**6**	29
Tax charge for the year	**(10)**	(28)

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:

	2020 €m	2019 €m
Expected tax charge	**(4)**	(165)
Non-taxable items (including recycling of foreign exchange reserve) (1)	**(1)**	126
Foreign profits taxed at other rates	**2**	15
Losses in year not recognised	**(1)**	—
Losses brought forward and utilised	**—**	7
Increase in carrying value of tax liability in respect of associates	**—**	(22)
Adjustments in respect of prior years (2)	**(6)**	11
Actual tax charge	**(10)**	(28)

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.

	2020 €m	2019 €m
Deferred tax liability	**9**	15
Net deferred tax liability	**9**	15

	Revaluations/ deferred gains €m	Other €m	Total €m
At 1 January 2019	29	15	44
Charge to income statement	(29)	—	(29)
At 1 January 2020	**—**	**15**	**15**
Charge to income statement	**—**	**(6)**	**(6)**
At 31 December 2020	**—**	**9**	**9**

Judgment and estimate – The existence of unused tax losses is strong evidence that future taxable profit may not be available. 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 the consequences of Brexit 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 2020.

Unrecognised deferred tax - Deferred tax assets of €803 million (2019 - €845 million) have not been recognised in respect of tax losses and tax credits of €3,213 million (2019 - €3,380 million). Of the losses nil will expire in one year, €1,040 million within five years and €325 million thereafter. The tax credits have no expiry date.

Notes to the consolidated financial statements

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.

	2020	2019
Assets	€m	€m
Loans		
- Reverse repos	**908**	1,176
- Collateral given	**3,417**	1,637
- Other loans	**—**	11
Total loans	**4,325**	2,824
Securities (1)	**55**	331
Total	**4,380**	3,155
Liabilities		
Deposits		
- Repos	**306**	330
- Collateral received	**1,067**	660
- Other deposits	**5**	5
Total deposits	**1,378**	995
Short positions	**134**	837
Total	**1,512**	1,832

Note:
(1) Securities are primarily non-domestic in both periods.

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

	2020			2019		
	Notional	Assets	Liabilities	Notional	Assets	Liabilities
	€bn	€m	€m	€bn	€m	€m
Exchange rate contracts	**273**	**4,429**	**4,438**	199	2,141	2,121
Interest rate contracts	**2,320**	**2,506**	**4,865**	1,888	1,757	2,457
Credit derivatives	**—**	**—**	**6**	2	—	10
		6,935	**9,309**		3,898	4,588

Refer to Note 9 for amounts due from/to fellow NatWest 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 €m	FVOCI €m	Amortised cost €m	Other assets €m	Total €m
Assets					
Cash and balances at central banks			4,452		4,452
Trading assets	4,380				4,380
Derivatives	6,935				6,935
Settlement balances			358		358
Loans to banks - amortised cost			190		190
Loans to customers - amortised cost			946		946
Amounts due from holding companies and fellow subsidiaries	3,103		436	1	3,540
Other financial assets	1	850	45		896
Other assets				47	47
31 December 2020	14,419	850	6,427	48	21,744
Cash and balances at central banks			3,191		3,191
Trading assets	3,155				3,155
Derivatives	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

	Held-for-trading €m	DFV €m	Amortised cost €m	Other liabilities €m	Total €m
Liabilities					
Bank deposits			52		52
Customer deposits			1,258		1,258
Amounts due to holding companies and fellow subsidiaries	2,404		1,141	6	3,551
Settlement balances			943		943
Trading liabilities	1,512				1,512
Derivatives	9,309				9,309
Other financial liabilities		886	1,314		2,200
Subordinated liabilities (1)		414	241		655
Other liabilities (2)			12	79	91
31 December 2020	13,225	1,300	4,961	85	19,571
Bank deposits			59		59
Customer deposits			1,447		1,447
Amounts due to holding companies and fellow subsidiaries	1,530		1,487	4	3,021
Settlement balances			209		209
Trading liabilities	1,832				1,832
Derivatives	4,588				4,588
Other financial liabilities			240		240
Subordinated liabilities (1)		382	260		642
Other liabilities (2)			9	239	248
31 December 2019	7,950	382	3,711	243	12,286

Notes:

(1) The cumulative own credit adjustment, representing a reduction of the subordinated liability value, was €51 million (2019 - €78 million) as subordinated bond spreads tightened during the year.

(2) Includes lease liabilities of €10 million (2019 - €9 million) held at amortised cost.

Judgment: classification of financial assets

Classification of financial assets between amortised cost and fair value through other comprehensive income requires a degree of judgement in respect of business models and contractual cashflows.

- The business model criteria is assessed at a portfolio level to determine whether assets are classified as held to collect or held to collect and sell. Information that is considered in determining the applicable business model includes the portfolio's policies and objectives, how the performance and risks of the portfolio are managed, evaluated and reported to management; and the frequency, volume and timing of sales in prior periods, sales expectation for future periods, and the reasons for sales.
- The contractual cash flow characteristics of financial assets are assessed with reference to whether the cash flows represent SPPI. A level of judgement is made in assessing terms that could change the contractual cash flows so that it would not meet the condition for SPPI are considered, including contingent and leverage features, non-recourse arrangements and features that could modify the time value of money.

Notes to the consolidated financial statements

9 Financial instruments – classification continued

	2020 €m	2019 €m
Reverse repos		
Trading assets	**908**	1,176
Repos		
Trading liabilities	**306**	330

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

	2020			2019		
	Holding companies €m	Fellow subsidiaries €m	Total €m	Holding companies €m	Fellow subsidiaries €m	Total €m
Assets						
Trading assets	**3,103**	**—**	**3,103**	896	—	896
Loans to banks - amortised cost	**281**	**31**	**312**	33	150	183
Loans to customers - amortised cost	**124**	**—**	**124**	136	146	282
Other assets	**—**	**1**	**1**	7	—	7
Amounts due from holding companies and fellow subsidiaries	**3,508**	**32**	**3,540**	1,072	296	1,368
Derivatives (1)	**2,968**	**—**	**2,968**	1,412	—	1,412
Liabilities						
Trading liabilities	**2,404**	**—**	**2,404**	1,530	—	1,530
Bank deposits - amortised cost	**973**	**16**	**989**	942	340	1,282
Customer deposits - amortised cost	**—**	**—**	**—**	—	53	53
Other financial liabilities - subordinated liabilities	**150**	**—**	**150**	150	—	150
Other liabilities	**6**	**2**	**8**	2	4	6
Amounts due to holding companies and fellow subsidiaries	**3,533**	**18**	**3,551**	2,624	397	3,021
Derivatives (1)	**2,230**	**—**	**2,230**	990	—	990

Note:

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

9 Financial instruments – classification continued

Interest rate benchmark reform

In 2020 NatWest Group continued to implement its entity-wide LIBOR programme with the view of being ready for the various transition events that are expected to occur prior to the cessation of the vast majority of the IBOR benchmark rates at the end of 2021 and the USD LIBOR in 2023. In the UK, regulators, most notably the Bank of England (BoE) and the Financial Conduct Authority (FCA), have issued guidance on how market participants are expected to approach transition as well as the regulatory expectations in relation to the credit adjustment spread calculation methodologies, conversion strategies amongst, existence of products referencing IBOR benchmark rates amongst other items.

The group-wide programme continued to address the key areas that will be affected by the IBOR reform most notably:

- Client stratification, engagement and education;
- Contract fall-back remediation;
- Transition on an economically equivalent basis;
- Effect of modifications to existing terms beyond those that are attributable to the IBOR reform;
- Funding and liquidity management, planning and forecast;
- Risk management;
- Financial reporting and valuation; and,
- Changes to processes and systems covering front-end, risk and finance systems.

NatWest Group continued to develop new products across its different segments that reference the new alternative risk-free rates and worked with clients to assess their readiness and ability to adopt new products or transition existing products. A comprehensive review of the effect of IBOR reform on funding, liquidity and risk management has also been conducted. This is expected to be fully implemented over the course of 2021. NatWest Group will continue to adapt its key systems, methodologies and processes to meet the requirements of the new risk-free rates. This is expected to be concluded in advance of the LIBOR cessation date at the end of 2021.

NatWest Group also remained engaged with regulators, standard setters and other market participants on key matters related to the IBOR reform and an open dialogue is expected throughout 2021. It is expected that the programme will meet all timelines set by the regulators.

The table below provides an overview of IBOR related exposure by currency and nature of financial instruments. Non-derivative financial instruments are presented on the basis of their carrying amounts excluding expected credit losses while derivative financial instruments are presented on the basis of their notional amount.

	Rates subject to IBOR reform				Balances not subject to IBOR reform	Expected credit losses	Total
	GBP LIBOR	USD IBOR (1)	EUR IBOR	EONIA and Other IBOR			
	€m	€m	€m	€m	€m	€m	€m
Trading assets	—	—	—	—	4,380	—	4,380
Loans to banks - amortised cost	—	—	—	—	190	—	190
Loans to customers - amortised cost	127	151	423	7	347	(109)	946
Other financial assets	—	—	56	—	840	—	896
Amounts due from holding companies and fellow subsidiaries	—	—	—	588	2,952	—	3,540
Bank deposits	—	—	—	—	52		52
Customer deposits	—	—	—	—	1,258		1,258
Amounts due to holding companies and fellow subsidiaries	—	—	1,082	530	1,932		3,544
Trading liabilities	—	—	—	—	1,512		1,512
Other financial liabilities	—	—	—	—	2,200		2,200
Subordinated liabilities	—	—	—	—	655		655
Loan commitments (2)	102	134	5,325	—	854		6,415
Derivatives notional (€bn)	332.7	15.1	891.5	120.5	1,232.9		2,592.7

Notes:
(1) USD LIBOR is now expected to convert to alternative risk free rates in mid-2023.
(2) Certain loan commitments are multi-currency facilities. Where these are fully undrawn, they are allocated to the principal currency of the facility. Where the facilities are partly drawn, the remaining loan commitment is allocated to the currency with the largest drawn amount.

Included within the table above for derivatives were currency swaps with corresponding legs also subject to IBOR reform of USD IBOR of €2.0 billion with GBP LIBOR €0.4 billion, EUR IBOR €1.2 billion and EONIA and other IBOR €0.4 billion. Currency swaps of EUR IBOR of €3.4 billion with GBP Libor €1.7 billion, USD IBOR €1.2 billion and EONIA and other IBOR €0.5 billion. Currency swaps of EONIA and other IBOR of €0.2 billion with EUR IBOR.

Additionally, included above are basis swaps for GBP LIBOR of €30.0 billion, USD IBOR of €0.3 billion, EUR IBOR of €16.4 billion and EONIA and other IBOR of €11.5 billion.

AT1 issuances

NWM N.V. has issued a capital instrument (AT1) which are included within equity (€250 million EURIBOR) under which coupons are linked to IBOR rates subject to reform.

Notes to the consolidated financial statements

9 Financial instruments – classification continued

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					
2020	**Gross €m**	**IFRS offset €m**	**Balance sheet €m**	**Effect of master netting and similar arrangements €m**	**Cash collateral €m**	**Securities 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	**13,753**	**(6,886)**	**6,867**	**(4,735)**	**(1,721)**	**(56)**	**355**	**68**	**6,935**
Derivative liabilities	**13,449**	**(4,231)**	**9,218**	**(4,735)**	**(3,230)**	**(942)**	**311**	**91**	**9,309**
Net position (1)	**304**	**(2,655)**	**(2,351)**	**—**	**1,509**	**886**	**44**	**(23)**	**(2,374)**
Trading reverse repos	**662**	**(56)**	**606**	**—**	**—**	**(606)**	**—**	**302**	**908**
Trading repos	**362**	**(56)**	**306**	**—**	**—**	**(306)**	**—**	**—**	**306**
Net position	**300**	**—**	**300**	**—**	**—**	**(300)**	**—**	**302**	**602**
2019									
Derivative assets*	7,876	(4,044)	3,832	(2,369)	(587)	(105)	771	66	3,898
Derivative liabilities*	6,742	(3,074)	3,668	(2,369)	(1,280)	—	19	920	4,588
Net position (1)	1,134	(970)	164	—	693	(105)	752	(854)	(690)
Trading reverse repos	925	(54)	871	(5)	—	(866)	—	305	1,176
Trading repos	384	(54)	330	(5)	—	(325)	—	—	330
Net position	541	—	541	—	—	(541)	—	305	846

*2019 adjusted to correctly reflect the Gross and IFRS offset (€4,039 million on derivative assets and €3,069 million on derivative liabilities). There is no impact on the balance sheet totals.

Note:

(1) The net IFRS offset balance of €2,655 million (2019 – €970 million) relates to variation margin netting reflected on other balance sheet lines.

10 Financial instruments – valuation

Critical accounting policy: Fair value - financial instruments

In accordance with Accounting policies 9 and 17, 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.

	2020				2019			
	Level 1 €m	Level 2 €m	Level 3 €m	Total €m	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Assets								
Trading assets								
Loans	—	4,325	—	4,325	—	2,824	—	2,824
Securities	52	—	3	55	181	147	3	331
Derivatives	—	6,805	130	6,935	—	3,682	216	3,898
Amounts due from holding companies and fellow subsidiaries	—	3,103	—	3,103	—	896	—	896
Other financial assets - securities	378	473	—	851	285	243	—	528
Total financial assets held at fair value	430	14,706	133	15,269	466	7,792	219	8,477
Liabilities								
Amounts due to holding companies and fellow subsidiaries	—	2,404	—	2,404	—	1,530	—	1,530
Trading liabilities								
Deposits	—	1,378	—	1,378	—	995	—	995
Short positions	—	134	—	134	736	101	—	837
Derivatives	—	9,250	59	9,309	—	4,524	64	4,588
Other financial liabilities - deposits	—	886	—	886	—	—	—	—
Subordinated liabilities	—	414	—	414	—	382	—	382
Total financial liabilities held at fair value	—	14,466	59	14,525	736	7,532	64	8,332

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 entity is liquid or illiquid.

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.

10 Financial instruments – valuation continued

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), Euro Interbank Offered Rate (EURIBOR) and Overnight Index Swap rate (OIS) and other quoted interest rates in the swap, bond and futures market.

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, 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 the quality hierarchy of the independent data. If the size of the difference exceeds defined thresholds then valuation adjustments are made reflecting the independent levels.

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

The Model Risk Oversight Committee sets the policy for model documentation, testing and review, and prioritises models with significant exposure being reviewed by the Model Risk team. NWM

The Group Model Risk Oversight Committee sets the policy for model documentation, testing and review, and prioritises models with significant exposure being reviewed by the Model Risk team. The NatWest Markets Valuation Committees are made up of valuation specialists and senior business representatives from various functions. The committees meet monthly to review pricing, reserving and valuation issues along with methodology changes. The NatWest Group Executive Valuation Committee meets quarterly to address key material and subjective valuation issues across NatWest Group, including, items escalated by the NatWest Markets Valuation Committees.

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.

Valuation Adjustments

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

	2020 **€m**	2019 €m
Funding – FVA	**(21)**	(18)
Credit – CVA	**126**	111
Bid offer	**1**	2
Product and deal specific	**1**	1
	107	96

The increase in net valuation reserves was on account of increased CVA reserves driven by an increase in subordinated derivative exposures.

10 Financial instruments – valuation continued

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, where appropriate.

Credit valuation adjustments (CVA)

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

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

Collateral held under a credit support agreement is factored into the CVA calculation. In such cases where 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. 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.

Notes to the consolidated financial statements

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

				2020		2019	
Financial instruments	Valuation techniques	Unobservable inputs	Units	Low	High	Low	High
Trading assets and other financial assets							
Equity shares	Price-based	Price	EUR	**1**	**5,705**	1	1,020
Derivative assets and liabilities							
Credit derivatives	Credit derivative pricing	Constant prepayment rate	bps	**—**	**—**	5	5
		Recovery rate	%	**40**	**40**	40	40
Interest rate & FX derivatives	Option pricing	Correlation	%	**(27)**	**98**	(27)	75
		Volatility	%	**17**	**43**	40	50
		Constant prepayment rate	bps	**7**	**18**	5	15
		Mean reversion	%	**—**	**10**	—	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. For example, an increase in the credit spread of a bond would be favourable for the issuer but unfavourable for the note holder.

(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.

	2020			2019		
	Level 3	Favourable	Unfavourable	Level 3	Favourable	Unfavourable
Assets	€m	€m	€m	€m	€m	€m
Trading assets - securities	3	—	—	3	—	—
Derivatives	130	10	(10)	216	20	(20)
Total financial assets held at fair value	133	10	(10)	219	20	(20)
Liabilities						
Derivatives	59	—	—	64	10	(10)
Total financial liabilities held at fair value	59	—	—	64	10	(10)

Financial instruments – valuation: level 3 sensitivities

The level 3 sensitivities presented above are calculated at a trade or low level portfolio basis. They are not calculated on an overall portfolio basis and therefore do not reflect the likely potential uncertainty on the portfolio as a whole. The figures are aggregated and do not reflect the correlated nature of some of the sensitivities. In particular, for some of the portfolios the sensitivities may be negatively correlated where a downwards movement in one asset would produce an upwards movement in another, but due to the additive presentation of the above figures this correlation cannot be displayed. The actual potential downside sensitivity of the total portfolio may be less than the non-correlated sum of the additive figures as shown in the above table.

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

Alternative assumptions are determined with reference to all available evidence including consideration of the following: quality of independent pricing information taking into account consistency between different sources, variation over time, perceived tradability or otherwise of available quotes; consensus service dispersion ranges; volume of trading activity and market bias (e.g. one-way inventory); day 1 profit or loss arising on new trades; number and nature of market participants; market conditions; modelling consistency in the market; size and nature of risk; length of holding of position; and market intelligence.

Other considerations

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

Level 3

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

	2020				2019			
	Trading assets (2) €m	Other financial assets (3) €m	Total assets €m	Total liabilities €m	Trading assets (2) €m	Other financial assets (3) €m	Total assets €m	Total liabilities €m
At 1 January	219	—	219	64	146	—	146	152
Amount recorded in the income statement (1)	(74)	—	(74)	1	(15)	—	(15)	70
Amount recorded in the statement of comprehensive income	—	(2)	(2)	—				
Level 3 transfers in	—	174	174	2	7	37	44	120
Level 3 transfers out	(6)	—	(6)	(8)	(5)	—	(5)	(107)
Purchases	80	—	80	22	191	—	191	188
Settlements	(72)	(172)	(244)	(10)	(70)	(37)	(107)	(269)
Sales	(7)	—	(7)	(12)	(42)	—	(42)	(93)
Foreign exchange and other	(7)	—	(7)	—	7	—	7	3
At 31 December	133	—	133	59	219	—	219	64
Amounts recorded in the income statement in respect of balances held at year end - unrealised	(74)	—	(74)	1	(19)	—	(19)	11

Notes:
(1) There were €75 million net losses on trading assets and liabilities (2019 - €85 million) 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 to the consolidated financial statements

10 Fair value of financial instruments measured at amortised cost

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

				Fair value hierarchy level	
2020	**Items where fair value approximates carrying value €m**	**Carrying value €m**	**Fair value €m**	**Level 2 €m**	**Level 3 €m**
Financial assets					
Cash and balances at central banks	**4,452**				
Settlement balances	**358**				
Loans to banks	**2**	**188**	**188**	**59**	**129**
Loans to customers		**946**	**929**	**—**	**929**
Amounts due from holding companies and fellow subsidiaries		**436**	**436**	**—**	**436**
Other financial assets		**45**	**45**	**—**	**45**
Financial liabilities					
Bank deposits	**2**	**50**	**50**	**—**	**50**
Customer deposits	**2**	**1,256**	**1,256**	**—**	**1,256**
Amounts due to holding companies and fellow subsidiaries	**29**	**1,112**	**1,112**	**150**	**962**
Settlement balances	**943**				
Other financial liabilities		**1,314**	**1,314**	**949**	**365**
Subordinated liabilities		**241**	**351**	**351**	**—**
2019					
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

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

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.

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.

Notes to the consolidated financial statements

11 Financial instruments - maturity analysis

Remaining maturity

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

	2020			2019		
	Less than 12 months €m	**More than 12 months €m**	**Total €m**	Less than 12 months €m	More than 12 months €m	Total €m
Assets						
Cash and balances at central banks	**4,452**	**—**	**4,452**	3,191	—	3,191
Trading assets	**4,328**	**52**	**4,380**	2,816	339	3,155
Derivatives	**3,372**	**3,563**	**6,935**	1,507	2,391	3,898
Settlement balances	**358**	**—**	**358**	141	—	141
Loans to banks - amortised cost	**190**	**—**	**190**	738	—	738
Loans to customers - amortised cost	**36**	**910**	**946**	144	1,230	1,374
Amounts due from holding companies and fellow subsidiaries (1)	**2,669**	**870**	**3,539**	1,085	276	1,361
Other financial assets	**580**	**316**	**896**	231	331	562
Liabilities						
Bank deposits	**52**	**—**	**52**	9	50	59
Customer deposits	**1,225**	**33**	**1,258**	863	584	1,447
Amounts due to holding companies and fellow subsidiaries (2)	**1,847**	**1,698**	**3,545**	1,822	1,195	3,017
Settlement balances	**943**	**—**	**943**	209	—	209
Trading liabilities	**1,377**	**135**	**1,512**	994	838	1,832
Derivatives	**3,351**	**5,958**	**9,309**	1,412	3,176	4,588
Other financial liabilities	**2,000**	**200**	**2,200**	240	—	240
Subordinated liabilities	**—**	**655**	**655**	13	629	642
Lease liabilities	**2**	**8**	**10**	1	8	9

Notes:

(1) Amounts due from holding companies and fellow subsidiaries relating to non-financial instruments of €1 million (2019 - €7 million) have been excluded from the table.

(2) Amounts due to holding companies and fellow subsidiaries relating to non-financial instruments of €6 million (2019 – €4 million) 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 €14.4 billion (2019 - €8 billion) and HFT liabilities of €13.2 billion (2019 - €8 billion) have been excluded from the following tables.

2020	**0 - 3 months €m**	**3 - 12 months €m**	**1 - 3 years €m**	**3 - 5 years €m**	**5 - 10 years €m**	**10 - 20 years €m**
Assets by contractual maturity						
Cash and balances at central banks	**4,452**	**—**	**—**	**—**	**—**	**—**
Settlement balances	**358**	**—**	**—**	**—**	**—**	**—**
Loans to banks - amortised cost	**190**	**—**	**—**	**—**	**—**	**—**
Loans to customers - amortised cost	**3**	**54**	**501**	**434**	**7**	**—**
Amounts due from holding companies and fellow subsidiaries (1)	**313**	**—**	**—**	**—**	**—**	**—**
Other financial assets (2)	**10**	**570**	**136**	**61**	**60**	**—**
	5,326	**624**	**637**	**495**	**67**	**—**

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

Notes to the consolidated financial statements

11 Financial instruments - maturity analysis continued

2020	0 - 3 months €m	3 - 12 months €m	1 - 3 years €m	3 - 5 years €m	5 - 10 years €m	10 - 20 years €m
Liabilities by contractual maturity						
Bank deposits	2	50	—	—	—	—
Customer deposits	852	372	25	—	—	20
Amounts due to holding companies and fellow subsidiaries (3)	37	16	327	761	—	—
Settlement balances	943	—	—	—	—	—
Subordinated liabilities	—	—	137	—	—	—
Other financial liabilities	365	1,634	201	—	—	—
Lease liabilities	—	2	4	2	2	—
	2,199	2,074	694	763	2	20
Guarantees and commitments notional amount						
Guarantees (4)	493	—	—	—	—	—
Commitments (5)	6,415	—	—	—	—	—
	6,908	—	—	—	—	—

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	—	—	—	—	—
Loans to customers - amortised cost	119	61	461	797	42	—
Amounts due from holding companies and fellow subsidiaries (1)	334	—	—	—	—	136
Other financial assets (2)	19	212	150	122	9	—
	4,542	273	611	919	51	136

2019						
Liabilities by contractual maturity						
Bank deposits	9	—	50	—	—	—
Customer deposits	305	562	576	—	—	20
Amounts due to holding companies and fellow subsidiaries (3)	208	356	254	665	2	—
Settlement balances	209	—	—	—	—	—
Subordinated liabilities	—	13	—	157	—	—
Other financial liabilities	—	240	—	—	—	—
Lease liabilities	—	—	7	2	—	—
	731	1,171	887	824	2	20
Guarantees and commitments notional amount						
Guarantees (4)	1,040	—	—	—	—	—
Commitments (5)	7,343	—	—	—	—	—
	8,383	—	—	—	—	—

Notes:
(1) Amounts due from holding companies and fellow subsidiaries relating to non-financial instruments have been excluded from the tables.
(2) Other financial assets excludes equity shares.
(3) Amounts due to holding companies and fellow subsidiaries relating to non-financial instruments have been excluded from the tables.
(4) 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.
(5) 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 measures within the scope of ECL framework.

	2020 **€m**	2019 €m
Loans - amortised cost		
Stage 1	**832**	1,997
Stage 2	**343**	117
Stage 3	**72**	79
Inter-Group (1)	**436**	462
Total	**1,683**	2,655
ECL provisions		
Stage 1	**1**	2
Stage 2	**41**	2
Stage 3	**69**	74
Total	**111**	78
ECL provisions coverage (2,3)		
Stage 1 (%)	**0.12**	0.10
Stage 2 (%)	**11.95**	1.71
Stage 3 (%)	**95.83**	93.67
Total	**6.60**	3.56
Other financial assets - Gross exposure	**5,285**	3,698
Other financial assets - ECL provision	**—**	—
Impairment losses		
ECL charge - third party	**42**	(1)
ECL loss rate (%) - third party (3)	**337**	(5)
Amounts written off	**5**	1

Notes:
(1) NWM N.V. Group's intercompany assets were classified in Stage 1. The ECL for these loans was €0.3 million (2019 – €0.1 million).
(2) ECL provisions coverage is calculated as ECL provisions divided by loans - amortised cost and FVOCI.
(3) ECL provisions coverage and ECL loss rates are calculated on third party loans and related ECL provisions and charge respectively. ECL loss rate is calculated as annualised third party ECL charge divided by loans - amortised cost and FVOCI.
(4) The table shows gross loans only and excludes amounts that are outside the scope of the ECL framework. Refer to page 31 for Financial instruments within the scope of the IFRS 9 ECL framework for further details. Other financial assets within the scope of the IFRS 9 ECL framework were cash and balances at central banks totalling €4.5 billion (2019 – €3.2 billion and debt securities of €0.8 billion (2019 – €0.5 billion).
(5) NWM N.V. Group held collateral against third party loans in Stage 3 of €3 million (2019 – €3 million) and against Stage 1 and Stage 2 third party loans of €51 million (2019 – €72 million). Inter-group loans were uncollateralised.

Credit risk enhancement and mitigation

For information on Credit risk enhancement and mitigation held as security, refer to Risk and capital management – Credit risk enhancement and mitigation section.

Critical accounting policy: Loan impairment provisions

The loan impairment provisions have been established in accordance with IFRS 9. Accounting policy 10 sets out how the expected loss approach is applied. At 31 December 2020, customer loan impairment provisions amounted to €111 million (2019 - €78 million). A loan is impaired when there is objective evidence that the cash flows will not occur in the manner expected when the loan was advanced. Such evidence includes, changes in the credit rating of a borrower, the failure to make payments in accordance with the loan agreement, significant reduction in the value of any security, breach of limits or covenants, and observable data about relevant macroeconomic measures.

The impairment loss is the difference between the carrying value of the loan and the present value of estimated future cash flows at the loan's original effective interest rate. The measurement of credit impairment under the IFRS expected loss model depends on management's assessment of any potential deterioration in the creditworthiness of the borrower, its modelling of expected performance and the application of economic forecasts. All three elements require judgments that are potentially significant to the estimate of impairment losses. For further information and sensitivity analysis, refer to Risk and capital management – Measurement uncertainty and ECL sensitivity analysis section.

IFRS 9 ECL model design principles

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

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

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

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

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

Approach for multiple economic scenarios (MES)

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

13 Business transfers

During 2020 and 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.

During 2020 €1.6 billion of assets and €1.8 billion of liabilities were transferred from NWM Plc to NWM N.V. These transfers included trading assets of €0.8 billion, derivative assets of €0.8 billion, trading liabilities of €0.1 billion and derivative liabilities of €1.7 billion.

During 2019 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.

In 2020, an amount of €0.9 billion on contingent liabilities and commitments were transferred from NatWest Bank Plc to NWM N.V. in relation to the Western European Corporate Portfolio. This was partly offset with an amount of €0.4bn billion on contingent liabilities and commitments that were transferred from NWM N.V. to NatWest Bank Plc.

During 2019 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						
	Central and local government						
2020	**UK €m**	**US €m**	**Other central and and local government €m**	**Other debt €m**	**Total €m**	**Equity shares €m**	**Total €m**
Mandatory fair value through profit or loss	**—**	**—**	**—**	**—**	**—**	**1**	**1**
Fair value through other comprehensive income	**116**	**81**	**158**	**433**	**788**	**62**	**850**
Amortised cost	**—**	**—**	**—**	**45**	**45**	**—**	**45**
Total	**116**	**81**	**158**	**478**	**833**	**63**	**896**
2019							
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

15 Other assets

	2020 €m	2019 €m
Property and equipment	**35**	35
Other assets	**12**	32
	47	67

16 Other financial liabilities

	2020 €m	2019 €m
Customer deposits - designated as at fair value through profit or loss	**886**	—
Debt securities in issue - amortised cost	**1,314**	240
	2,200	240

Notes to the consolidated financial statements

17 Subordinated liabilities

	2020 €m	2019 €m
Dated loan capital	**655**	642

Note:
(1) Excludes amounts due to holding company and fellow subsidiaries of €150 million (2019 – €150 million).

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	2020 €m	2019 €m
€15 million 6.00% notes 2020	Tier 2	**13**	—
€250 million floating rate notes 2019	Tier 2	**—**	158
US$25 million floating rate notes 2019	Tier 2	**—**	11
US$72 million 5.98% notes 2019	Tier 2	**—**	65
		13	234

Note:
(1) There were no issuances in 2020 or 2019.

Subordinated liabilities held at 31 December:

Dated loan capital	Capital treatment	2020 €m	2019 €m
€170 million floating rate notes 2041	Tier 2	**414**	369
€15 million 6.00% notes 2020	Tier 2	**—**	13
US$136 million 7.75% notes 2023	Tier 2	**117**	124
US$150 million 7.13% notes 2093	Tier 2	**124**	136
		655	642

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	2020 €m	2019 €m
€150 million 1.72% notes 2029 (callable 2024)	Tier 2	**150**	150

18 Other liabilities

	2020 **€m**	2019 €m
Lease liabilities	**10**	9
Provisions for liabilities and charges	**8**	11
Accruals	**8**	80
Deferred income	**11**	15
Current tax	**32**	68
Deferred tax	**9**	15
Insurance reserves (1)	**1**	16
Other liabilities	**12**	34
	91	248

Note:
(1) Review of Insurance reserves pertaining to claims resulted in a €15 million decrease compared with 2019.

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 €8 million (2019 - €11 million), of which litigation provisions are €2 million (2019 - €6 million) and restructuring provisions of nil (2019 - 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 2020 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 2020 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

No dividends were paid in 2020 (2019 - €657 million).

Notes to the consolidated financial statements

20 Leases

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

Lessees

Amounts recognised in consolidated income statement	2020 €m	2019 €m
Depreciation	**(3)**	(1)

Amounts recognised in consolidated balance sheet	2020 €m	2019 €m
Right of use assets included in property, plant and equipment	**11**	11
Additions to right of use assets	**3**	9
Lease liabilities (1)	**(12)**	(11)

The total cash outflow for leases is €2 million (2019: €1 million), including payment of principal amount of €2 million (2019: €nil), which are included in the operating activities in cash flow statement.

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

Lease liabilities include amounts due to fellow subsidiaries of €2 million (2019 - €2 million) which are included in operating activities in cash flow statement.

Lessor

Acting as a lessor, NWM N.V. holds investment property, renting them to customers under operating lease arrangements.

Investment properties are leased out on operating lease for €21 million (2019 - €18 million) and had lease income for €2 million (2019 - €2 million).

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 interest in unconsolidated structured entities is analysed below.

	2020			2019		
	Asset backed securitisation vehicles €m	Investment funds and other €m	Total €m	Asset backed securitisation vehicles €m	Investment funds and other €m	Total €m
Trading assets and derivatives						
Trading assets	**2**	**—**	**2**	2	—	2
Non-trading assets						
Loans to customers	**176**	**96**	**272**	194	122	316
Other financial assets	**45**	**—**	**45**	34	—	34
Total	**221**	**96**	**317**	228	122	350
Liquidity facilities/loan commitments	**—**	**65**	**65**	—	8	8
Maximum exposure	**223**	**161**	**384**	230	130	360

.

22 Asset transfers

Transfers that do not qualify for derecognition

NWM N.V. Group enters into securities repurchase and securities lending agreements in accordance with normal market practice which includes the provision of additional collateral if necessary. Under standard terms in the UK and US markets, the recipient has an unrestricted right to sell or repledge collateral, subject to returning equivalent securities on maturity of the transaction.

Securities sold under repurchase transactions and transactions with the substance of securities repurchase agreements are not derecognised if NWM N.V. Group retains substantially all the risks and rewards of ownership. Securities received as collateral under reverse repurchase agreements were €2.6 billion (2019 - €1.9 billion) of which €2.2 billion (2019 - €1.2 billion) had been sold or repledged as collateral of the NWM N.V. Group's own transactions.

The following assets have failed derecognition	**2020** **€m**	2019 €m
Trading assets	**51**	189

Note:
(1) Associated liabilities were €51 million (2019 - €185 million).

Assets pledged as collateral

NWM N.V. Group pledges collateral with its counterparties in respect of derivative liabilities. There were €3.4 billion of assets pledged against liabilities in 2020 (2019 - €1.6 billion).

23 Capital resources

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

	2020 **€m**	2019 €m
Tier 1		
Controlling interests	**1,923**	1,958
Adjustment for:		
- Other regulatory adjustments (1)	**(285)**	(319)
Common equity Tier 1	**1,638**	1,639
Hybrid capital	**250**	250
Additional Tier 1	**250**	250
Total Tier 1	**1,888**	1,889
Tier 2		
Subordinated debt	**325**	365
Deductions from Tier 2 capital	**(122)**	(134)
Total Tier 2 capital	**203**	231
Total regulatory capital	**2,091**	2,120

Note:
(1) Includes reversal of own credit risk of €51 million (2019 - €78 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.

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 2020. 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	2020 €m	2019 €m
Contingent liabilities and commitments (1)				
Guarantees and assets pledged as collateral security	**19**	**474**	**493**	1,040
Other contingent liabilities	**1**	**—**	**1**	5
Standby facilities, credit lines and other commitments	**6,463**	**48**	**6,511**	7,343
	6,483	**522**	**7,005**	8,388

Note:
(1) Related parties balance included within contingent liabilities and commitments as at 31 December 2020 is nil (2019 - €56 million).

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. established limited risk-sharing arrangements that facilitated 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 2020 the deposits amounted to €0.9 billion and the guarantee fees in the year were €8.5 million.
- The provision of funded and unfunded guarantees by NWM Plc in respect of NWM N.V.'s legacy portfolio. At 31 December 2020 the exposure at default covered by the guarantees was approximately €0.3 billion (of which €0.1 billion was cash collateralised). The guarantee fees in the year were €13.2 million.

Obligations with ABN AMRO Bank N.V.

Included within guarantees and assets pledged as collateral security as at 31 December 2020 is €0.5 billion (2019 - €0.7 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..

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 and regulatory matters

NWM N.V. and certain members of NatWest Group are party to legal proceedings and involved in regulatory matters, including as the subject of investigations and other regulatory and governmental action ('Matters') in the 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 of these Matters, it is not possible to determine whether any loss is probable or to estimate reliably the amount of any loss, either as a direct consequence of the relevant proceedings and regulatory matters or as a result of adverse impacts or restrictions on 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 regulatory matters, 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.

24 Memorandum items continued

Litigation and regulatory matters

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.

NatWest Group is involved in ongoing litigation and regulatory matters (including investigations and customer redress programmes) that are not described below but are described on pages 315 to 319 in NatWest Group's Annual Report & Accounts 2020. NatWest 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 NatWest 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 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. In March 2020, the bankruptcy court denied the trustee's request for leave to amend its complaint to include additional allegations against NWM N.V., holding that, even with the proposed amendments, the complaint would fail as a matter of law to state a valid claim against NWM N.V. The trustee has commenced an appeal of the bankruptcy court's decision, which has been stayed pending the result of appeals in different proceedings, against different defendants, that involve similar issues. In the second action, filed in October 2011, the trustee seeks to recover an additional US$21.8 million. This action has been stayed pending the result of the appeal in the primary action.

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 NatWest 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 NatWest Group companies for lack of personal jurisdiction in November 2018, but plaintiffs filed an amended complaint. In 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. The claims against non-dismissed defendants (including NWM Plc) are now proceeding in discovery.

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, including NWM N.V. and NWM Plc, 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. is defending the claim in the Florence courts, where notwithstanding anticipated resolution of a preliminary matter, the case proceeds.

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. NWM Plc is also a defendant in some of these cases.

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. In 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 Court for the Southern District of New York in 2017, was dismissed in March 2019 on similar grounds, but remains subject to appeal to the United States Court of Appeals for the Second Circuit. Other follow-on actions that are substantially similar to the two that have now been dismissed are pending in the same courts.

Regulatory matters (including investigations)

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. NatWest 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, investment advice, business conduct, competition/anti-trust, VAT recovery, 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, offering of securities, the setting of benchmark rates and related derivatives trading, conduct in the foreign exchange market, product mis-selling 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, or lead to material additional provisions being taken.

Notes to the consolidated financial statements

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

Acquisitions and disposals	2020 €m	2019 €m
Fair value given for business acquired	—	(235)
Net outflow of cash in respect of purchases	—	(235)
Net assets sold	16	793
Net inflow of cash in respect of disposals	16	793
Net inflow	16	558

26 Analysis of changes in financing during the year

	Share capital and AT1		Subordinated liabilities	
	2020 €m	2019 €m	2020 €m	2019 €m
At 1 January	1,950	7,024	792	746
Issue of ordinary shares	—	250		
Redemption of subordinated liabilities			(13)	(162)
Interest on subordinated liabilities			(22)	(25)
Net cash inflow/(outflow) from financing	—	250	(35)	(187)
Effects of foreign exchange			(22)	116
Changes in fair value of subordinated liabilities			48	93
Interest on subordinated liabilities			22	24
Other adjustments	—	(5,324)	—	—
At 31 December	1,950	1,950	805	792

27 Analysis of cash and cash equivalents

	2020 €m	2019 €m
At 1 January		
- cash	3,191	336
- cash equivalents	2,106	664
	5,297	1,000
Cash net inflow	1,989	4,297
At 31 December	7,286	5,297
Comprising:		
Cash and balances at central banks	4,452	3,191
Trading assets	645	493
Loans to banks including intragroup balances - amortised cost (1)	2,189	1,613
Cash and cash equivalents	7,286	5,297

Note:
(1) Cash collateral posted with bank counterparties in respect of derivative liabilities is €504 million (2019 - €349 million).

The NWM N.V. Group had mandatory reserve deposits with De Nederlandsche Bank N.V of €81 million (2019 - €47 million).

28 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
(4) A. Slach

Members receive pension benefits through their employment in NatWest Group.

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

	2020 **€000**	2019 €000
Salaries and short-term benefits	**1,682**	1,604
Pensions	**301**	285
Profit sharing and bonus payments	**236**	348
Total	**2,219**	2,237

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 NatWest Group will normally be subject to the satisfaction of financial and non-financial performance conditions. The performance conditions will be set by the NatWest 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) R. Begbie (from 1 April 2020)
(2) M. Klessens
(3) A. van der Pauw
(4) A. Snel

The Supervisory Board included members employed elsewhere within NatWest Group. The Supervisory Board members from NatWest 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.

	2020 **€000**	2019 €000
Remuneration (1)	**144**	123

Note:

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

29 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 NatWest Group 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 2020 and 2019.

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.

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, (hurdle rate of) return on equity or revenue split. Under the 2020 transfer pricing arrangements, NWM N.V. reported income of €125 million (2019 - €87 million) for the activities it performed for European customers as part of the NWM Plc post Brexit operating model. The at arm's length nature of the transfer pricing arrangements is confirmed by transfer pricing documentation which has been prepared by an external expert.

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 €13 million to €112 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 €17 million to €142 million.

Business transfers

For business transfers with NWM Plc and NWB Plc refer to Note 13.

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 2020 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 28 for further details of remuneration of the Managing and Supervisory Boards.

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

	2020 **€m**	2019 €m
Interest receivable	**11**	22
Interest payable	**(9)**	(4)
Fees and commissions receivable	**155**	104
Fees and commissions payable	**(34)**	(19)
	123	103

30 Post balance sheet events

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

Parent company Financial Statements

Presentation of accounts

NWM N.V. financial statements 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 NWM N.V. financial statements are the same as those applied in the consolidated financial statements on pages 56 to 59.

Interest in subsidiaries are accounted for using the equity method.

The financial statements are presented in euros, which is the presentation currency of the company. Refer to Accounting policy 3 on the consolidated accounts for further information on going concern.

Company income statement for the year ended 31 December 2020

	Note	**2020 €m**	2019 €m
Interest receivable		**52**	70
Interest payable		**(64)**	(91)
Net interest income	1	**(12)**	(21)
Income from subsidiaries and associates	12	**4**	136
Fees and commissions receivable (1)		**205**	129
Fees and commissions payable		**(47)**	(27)
Net fees and commissions income	2	**158**	102
Results from financial transactions	2	**(2)**	(11)
Other income (2)	2	**(1)**	531
Total income		**147**	737
Staff costs	3	**(55)**	(35)
Other expenses		**(31)**	(51)
Depreciation and amortisation		**(4)**	(2)
Operating expenses before impairment (losses)/releases		**(90)**	(88)
Impairment (losses)/releases	11	**(42)**	1
Operating expenses including impairment (losses)/releases		**(132)**	(87)
Operating profit before tax		**15**	650
Tax charge	5	**(9)**	(16)
Profit for the year		**6**	634
Attributable to:			
Ordinary shareholders		**(8)**	626
AT1 capital securities		**14**	8

Notes:
(1) Fees and commissions is mainly driven by transfer pricing income from NWM Plc of €125 million (2019 - €87 million).
(2) 2019 includes a gain of €516 million on completion of the Alawwal bank merger.

The accompanying notes on pages 90 to 101 form an integral part of these financial statements.

Parent Company Financial Statements

Company balance sheet as at 31 December 2020 (before appropriation of result)

	Note	**2020 €m**	2019 €m
Assets			
Cash and balances at central banks	8	**4,452**	3,191
Short term government paper		**148**	201
Loans to banks (1), (2)	4,8,11	**4,227**	2,275
Loans to customers (3), (4)	4,8,11	**4,752**	4,003
Derivatives (5)	7	**6,934**	3,898
Debt securities	6	**493**	362
Equity securities		**3**	3
Investment in subsidiaries	12	**439**	441
Property and equipment	15	**13**	14
Other assets	14	**369**	182
Total assets		**21,830**	14,570
			.
Bank deposits (6)	8	**4,330**	3,552
Customer deposits (7)	8	**2,737**	1,929
Derivatives (8)	7	**9,309**	4,588
Debt securities in issue	6	**1,314**	240
Other liabilities	18	**1,128**	1,193
Provisions	18	**34**	68
Subordinated liabilities (9)	17	**805**	792
Total liabilities		**19,657**	12,362
Share capital and share premium account		**1,700**	1,700
Revaluation reserves		**7**	4
Legal reserves		**19**	22
Other reserves		**191**	(402)
AT1 capital securities (10)		**250**	250
Unappropriated results		**6**	634
Total equity	20	**2,173**	2,208

Notes:

(1) Loans to banks includes Amounts due from holding company and fellow subsidiaries of €3,415 million (2019 - €1,060 million).

(2) Loans to banks includes Amounts held for trading of €3,748 million (2019 - €1,385 million). Of this €1,796 million Reverse Repos (2019 - €874 million). Collateral Given €504 million (2019 - €349 million). Other Loans €1,448 million (2019 - €162 million).

(3) Loans to customers includes Amounts due from holding company and fellow subsidiaries of €124 million (2019 - €299 million).

(4) Loans to customers includes Amounts held for trading of €3,681 million (2019 - €2,330 million). Of this €768 million Reverse Repos (2019 - €1,032 million). Collateral Given €2,913 million (2019 - €1,287 million). Other Loans €nil million (2019 - €11 million).

(5) Derivative assets include Amounts due from holding company and fellow subsidiaries of €2,968 million (2019 - €1,412 million).

(6) Bank deposits includes Amounts due to holding company and fellow subsidiaries of €3,493 million (2019 - €2,880 million).

(7) Customer deposits includes Amounts due to holding company and fellow subsidiaries of €0 million (2019 - €100 million).

(8) Derivative liabilities include Amounts due to holding company and fellow subsidiaries of €2,230 million (2019 - €1,711 million).

(9) Subordinated liabilities includes Amounts due to holding company and fellow subsidiaries of €150 million (2019 - €150 million).

(10) AT1 capital notes totaling €250 million issued to NatWest Group plc (via RFSH B.V.) in June 2019.

(11) As at 31 December 2020 contingent liabilities and commitments were €7,129 million (2019 - €8,383 million).

The accompanying notes on pages 90 to 101 form an integral part of these financial statements.

Parent Company Financial Statements

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

	2020 €m	2019 €m
Share capital and share premium account (1)		
At 1 January	**1,700**	7,024
Capital injection (2)	**—**	53
Distribution (3)	**—**	(1,166)
Capital restructuring (4)	**—**	(4,211)
At 31 December	**1,700**	1,700
Revaluation reserves		
At 1 January	**4**	(4)
Changes in equity securities and debt securities at fair value through other comprehensive income	**3**	8
At 31 December	**7**	4
Legal reserves		
At 1 January	**22**	1,150
Changes in foreign exchange reserve	**(3)**	28
Changes in non-distributable profit participations	**—**	(1,156)
At 31 December	**19**	22
Other reserves		
At 1 January	**(402)**	(5,208)
Transfer from unappropriated results	**634**	271
Ordinary dividends paid	**—**	(657)
AT1 capital securities dividends paid	**(14)**	(7)
Acquisition of Western European branches	**—**	(19)
Changes in fair value of credit in financial liabilities designated at fair value	**(27)**	(120)
Distribution (5)	**—**	(29)
Capital restructuring (4)	**—**	4,211
Changes in non-distributable profit participations	**—**	1,156
Other changes	**—**	—
At 31 December	**191**	(402)
AT1 capital securities		
At 1 January	**250**	—
Securities issued during the year (6)	**—**	250
At 31 December	**250**	250
Unappropriated results		
At 1 January	**634**	271
Transfer to other reserves	**(634)**	(271)
Net result for the year	**6**	634
At 31 December	**6**	634
Total equity	**2,173**	2,208

Notes:
(1) Includes Ordinary share capital of €50,000 (2019 - €50,000) – refer to Note 19 on the consolidated accounts for further details.
(2) In 2019 a capital injection of €53 million from RFS Holdings B.V. reflects amounts received by RFS Holdings from Santander.
(3) 2019 includes 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 on the consolidated accounts for further details.
(5) 2019 includes a €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 totaling €250 million issued to NatWest Group plc (via RFSH B.V.) in June 2019.

The accompanying notes on pages 90 to 101 form an integral part of these financial statements.

Parent Company Financial Statements

1 Net interest income

	2020 €m	2019 €m
Loans to customers	**40**	16
Loans to banks	**1**	—
Amounts due from holding companies and fellow subsidiaries	**11**	36
Debt securities	**—**	18
Interest receivable	**52**	70
Balances with banks	**—**	4
Customer deposits	**22**	6
Amounts due to holding companies and fellow subsidiaries	**10**	24
Subordinated liabilities	**31**	41
Other financial liabilities	**—**	2
Internal funding of trading businesses	**1**	14
Interest payable	**64**	91
	(12)	(21)

2 Non-interest income

	2020 €m	2019 €m
Fees and commissions receivable	**205**	129
Fees and commissions payable	**(47)**	(27)
Net fees and commissions (1)	**158**	102
Foreign exchange	**—**	(16)
Interest rate	**(2)**	4
Equities and other	**—**	1
Results from financial transactions	**(2)**	(11)
Other operating income (2)	**(1)**	531

Notes:
(1) Fees and commissions is mainly driven by transfer pricing income from NWM Plc of €125 million (2019 - €87 million).
(2) 2019 includes a gain of €516 million on completion of the Alawwal bank merger.

3 Operating expenses

	2020 €m	2019 €m
Wages and salaries	**46**	27
Social security costs	**5**	4
Pension costs	**4**	4
- defined benefit schemes	**3**	3
- defined contribution schemes	**1**	1
Staff costs	**55**	35

There were 200 persons employed (full time equivalent rounded to the nearest ten) in continuing operations at 31 December 2020 (2019 – 190). The average number of persons employed in continuing operations during the year was 200 (2019 – 100).

This includes 94 persons which were employed in the Netherlands at 31 December 2020 (2019 – 96). The average number of persons employed in the Netherlands during the year was 100 (2019 - 84).

Refer to Note 5 on the consolidated accounts for details on auditor's remuneration.

4 Segmental analysis

The geographical analyses in the tables below have been compiled on the basis of location of the counterparty.

	United Kingdom	Netherlands	Rest of Europe	RoW	Total
2020	**€m**	**€m**	**€m**	**€m**	**€m**
Loans - amortised cost and FVOCI	10	78	895	249	1,232
2019					
Loans - amortised cost and FVOCI	70	99	1,177	829	2,175

Refer to Note 4 on the consolidated accounts for further details on segments.

5 Tax

Refer to Note 6 on the consolidated accounts for further details.

6 Debt securities

Debt securities - assets

	Debt securities					
	Central and local government					
	UK	US	Other	Financial institutions	Other debt	Total
2020	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**
Mandatory fair value through profit or loss	**52**	**—**	**—**	**—**	**—**	**52**
Fair value through other comprehensive income	**116**	**81**	**—**	**200**	**—**	**397**
Amortised cost	**—**	**—**	**—**	**—**	**44**	**44**
Total	**168**	**81**	**—**	**200**	**44**	**493**
2019						
Mandatory fair value through profit or loss	—	—	181	147	—	328
Amortised cost	—	—	—	—	34	34
Total	—	—	181	147	34	362

Debt securities in issue - liabilities

Debt securities in issue include nil (2019 - nil) of listed instruments and €1,314 million (2019 - €240 million) of unlisted instruments. Refer to Note 16 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.

	2020			2019		
	Notional	**Assets**	**Liabilities**	Notional	Assets	Liabilities
	€bn	**€m**	**€m**	€bn	€m	€m
Exchange rate contracts	**273**	**4,428**	**4,438**	199	2,141	2,121
Interest rate contracts	**2,320**	**2,506**	**4,865**	1,888	1,757	2,457
Credit derivatives	**—**	**—**	**6**	2	—	10
		6,934	**9,309**		3,898	4,588

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 €m	FVOCI €m	Amortised cost €m	Other assets €m	Total €m
Assets					
Cash and balances at central banks			**4,452**		**4,452**
Short term government paper		**148**			**148**
Loans to banks (1)	**3,748**		**479**		**4,227**
Loans to customers (1)	**3,681**		**1,071**		**4,752**
Derivatives	**6,934**				**6,934**
Debt securities	**52**	**397**	**44**		**493**
Equity securities	**3**				**3**
Investment in subsidiaries				**439**	**439**
Property and equipment				**13**	**13**
Other assets			**358**	**11**	**369**
31 December 2020	**14,418**	**545**	**6,404**	**463**	**21,830**
Cash and balances at central banks			3,191		3,191
Short term government paper		201			201
Loans to banks (1)	1,385		890		2,275
Loans to customers (1)	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
Property and equipment				14	14
Other assets			141	41	182
31 December 2019	7,944	201	5,929	496	14,570

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

8 Financial instruments – classification continued

	Held-for-trading €m	DFV €m	Amortised cost €m	Other liabilities €m	Total €m
Liabilities					
Bank deposits (2)	**3,190**		**1,140**		**4,330**
Customer deposits (2)	**593**	**886**	**1,258**		**2,737**
Derivatives	**9,309**				**9,309**
Debt securities in issue			**1,314**		**1,314**
Other liabilities (3)	**134**		**957**	**37**	**1,128**
Provisions				**34**	**34**
Subordinated liabilities		**414**	**391**		**805**
31 December 2020	**13,226**	**1,300**	**5,060**	**71**	**19,657**
Bank deposits (2)	2,143		1,409		3,552
Customer deposits (2)	382		1,547		1,929
Derivatives	4,588				4,588
Debt securities in issue			240		240
Other liabilities (3)	837		220	136	1,193
Provisions				68	68
Subordinated liabilities		382	410		792
31 December 2019	7,950	382	3,826	204	12,362

Notes:

(1) Includes reverse repos of €1,796 million (2019 - €874 million) in loans to banks, and €768 million (2019 - €1,032 million) in loans to customers.

(2) Includes repos of €1,025 million (2019 - €939 million) in bank deposits, and €188 million (2019 - €95 million) in customer deposits.

(3) Includes lease liabilities of €12 million (2019 - €11 million) held at amortised cost.

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					
2020	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	**13,753**	**(6,886)**	**6,867**	**(4,735)**	**(1,721)**	**(56)**	**355**	**67**	**6,934**
Derivative liabilities	**13,449**	**(4,231)**	**9,218**	**(4,735)**	**(3,230)**	**(942)**	**311**	**91**	**9,309**
Net position (1)	**304**	**(2,655)**	**(2,351)**	**—**	**1,509**	**886**	**44**	**(24)**	**(2,375)**
Trading reverse repos	**662**	**(56)**	**606**	**—**	**—**	**(606)**	**—**	**302**	**908**
Trading repos	**362**	**(56)**	**306**	**—**	**—**	**(306)**	**—**	**—**	**306**
Net position	**300**	**—**	**300**	**—**	**—**	**(300)**	**—**	**302**	**602**
2019									
Derivative assets*	7,876	(4,044)	3,832	(2,369)	(587)	(105)	771	66	3,898
Derivative liabilities*	6,742	(3,074)	3,668	(2,369)	(1,280)	—	19	920	4,588
Net position	1,134	(970)	164	—	693	(105)	752	(854)	(690)
Trading reverse repos	925	(54)	871	(5)	—	(866)	—	305	1,176
Trading repos	384	(54)	330	(5)	—	(325)	—	—	330
Net position	541	—	541	—	—	(541)	—	305	846

*2019 adjusted to correctly reflect the Gross and IFRS offset (€4,039 million on derivative assets and €3,069 million on derivative liabilities). There is no impact on the balance sheet totals.

Note:

(1) The net IFRS offset balance of €2,655 million (2019 – €970 million) relates to variation margin netting reflected on other balance sheet lines.

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.

	2020				2019			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
	€m	**€m**	**€m**	**€m**	€m	€m	€m	€m
Assets								
Short term government paper	**100**	**48**	**—**	**148**	201	—	—	201
Loans to banks	**—**	**3,748**	**—**	**3,748**	—	1,385	—	1,385
Loans to customers	**—**	**3,681**	**—**	**3,681**	—	2,330	—	2,330
Derivatives	**—**	**6,804**	**130**	**6,934**	—	3,682	216	3,898
Debt securities	**249**	**200**	**—**	**449**	181	147	—	328
Equity securities	**—**	**—**	**3**	**3**	—	—	3	3
Total financial assets held at fair value	**349**	**14,481**	**133**	**14,963**	382	7,544	219	8,145
Liabilities								
Bank deposits	**—**	**3,190**	**—**	**3,190**	—	2,143	—	2,143
Customer deposits	**—**	**1,479**	**—**	**1,479**	—	382	—	382
Derivatives	**—**	**9,250**	**59**	**9,309**	—	4,524	64	4,588
Other liabilities	**—**	**134**	**—**	**134**	736	101	—	837
Subordinated liabilities	**—**	**414**	**—**	**414**	—	382	—	382
Total financial liabilities held at fair value	**—**	**14,467**	**59**	**14,526**	736	7,532	64	8,332

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.

	Items where fair value approximate carrying value	**Carrying value**	**Fair value**	**Fair value hierarchy level**	
				Level 2	**Level 3**
2020	**€m**	**€m**	**€m**	**€m**	**€m**
Financial assets					
Cash and balances at central banks	**4,452**				
Loans to banks	**2**	**477**	**477**	**58**	**419**
Loans to customers		**1,071**	**1,053**	**—**	**1,053**
Debt securities		**44**	**44**	**—**	**44**
Other assets - settlement balances	**358**				
Financial liabilities					
Bank deposits	**28**	**1,112**	**1,112**	**—**	**1,112**
Customer deposits	**2**	**1,256**	**1,256**	**—**	**1,256**
Debt securities in issue		**1,314**	**1,314**	**—**	**1,314**
Other liabilities - settlement balances	**957**				
Subordinated liabilities		**391**	**501**	**501**	**—**
2019					
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

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.

2020

	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	**4,452**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Short term government paper	**—**	**—**	**—**	**148**	**—**	**—**	**—**	**—**	**—**
Loans to banks	**728**	**2,060**	**4**	**680**	**9**	**229**	**61**	**456**	**—**
Loans to customers	**2,838**	**342**	**500**	**13**	**25**	**136**	**767**	**131**	**—**
Derivatives	**—**	**1,154**	**1,128**	**641**	**447**	**396**	**763**	**2,405**	**—**
Debt securities	**—**	**—**	**—**	**—**	**397**	**—**	**—**	**96**	**—**
Equity securities	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**3**
Other assets (1)	**—**	**358**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Liabilities									
Bank deposits	**703**	**1,488**	**528**	**50**	**12**	**434**	**921**	**194**	**—**
Customer deposits	**407**	**539**	**500**	**1,017**	**40**	**225**	**—**	**9**	**—**
Derivatives	**—**	**1,147**	**1,148**	**634**	**423**	**310**	**620**	**5,027**	**—**
Debt securities in issue	**—**	**156**	**210**	**322**	**626**	**—**	**—**	**—**	**—**
Other liabilities (2)	**—**	**943**	**—**	**1**	**1**	**2**	**4**	**4**	**134**
Subordinated liabilities	**—**	**—**	**—**	**—**	**—**	**—**	**267**	**538**	**—**

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 - amortised cost	1,194	733	208	—	—	2	29	109	—
Loans to customers - amortised cost	1,463	1,085	41	38	—	63	1,125	188	—
Derivatives	—	614	418	185	289	217	545	1,630	—
Debt securities	—	—	—	—	—	—	34	328	—
Equity securities									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	—

Notes:

(1) Includes settlement balances of €358 million (2019 - €141 million).

(2) Includes settlement balances of €943 million (2019 - €209 million), short positions of €134 million (2019 - €837 million) and lease liabilities of €12 million (2019 - €11 million).

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.

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.

The maturity of guarantees and commitments is based on the earliest possible date they would be drawn in order to evaluate NWM N.V.'s liquidity position.

MFVTPL assets of €14.4 billion (2019 - €7.9 billion) and HFT liabilities of €13.2 billion (2019 - €8.0 billion) have been excluded from the following tables.

2020	0-3 months €m	3-12 months €m	1-3 years €m	3-5 years €m	5-10 years €m	10-20 years €m
Assets by contractual maturity						
Cash and balances at central banks	4,452	—	—	—	—	—
Short dated government papers	—	148	—	—	—	—
Loans to banks	479	—	—	—	—	—
Loans to customers	4	54	501	434	7	—
Debt securities	—	396	—	—	45	—
Other assets	358	—	—	—	—	—
	5,293	598	501	434	52	—

2020	0-3 months €m	3-12 months €m	1-3 years €m	3-5 years €m	5-10 years €m	10-20 years €m
Liabilities by contractual maturity						
Bank deposits	136	66	327	611	—	—
Customer deposits	851	1,058	226	—	—	20
Debt securities in issue	365	949	—	—	—	—
Other liabilities	944	2	4	2	2	—
Subordinated liabilities	—	—	137	150	—	—
	2,296	2,075	694	763	2	20
Guarantees and commitments notional amount						
Guarantees (1)	493	—	—	—	—	—
Commitments (2)	6,415	—	—	—	—	—
	6,908	—	—	—	—	—

For notes to this table refer to the following page.

10 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
Assets by contractual maturity						
Cash and balances at central banks	3,191	—	—	—	—	—
Short dated government papers	—	201	—	—	—	—
Loans to banks	890	—	—	—	—	—
Loans to customers	281	62	461	797	42	136
Debt securities	—	—	34	—	—	—
Other assets	141	—	—	—	—	—
	4,503	263	495	797	42	136

2019						
Liabilities by contractual maturity						
Bank deposits	234	356	304	515	—	—
Customer deposits	404	562	576	—	—	20
Debt securities in issue	—	240	—	—	—	—
Other liabilities	210	—	6	2	2	—
Subordinated liabilities	—	13	—	307	—	—
	848	1,171	886	824	2	20
Guarantees and commitments notional amount						
Guarantees (1)	1,040	—	—	—	—	—
Commitments (2)	7,343	—	—	—	—	—
	8,383	—	—	—	—	—

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 24 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 Loan impairment provisions

	31 December 2020									
	Loans - amortised cost & FVOCI				Off-balance sheet		ECL provisions			
	Stage 1 €m	Stage 2 €m	Stage 3 €m	Total €m	Loan commitments €m	Contingent liabilities €m	Stage 1 €m	Stage 2 €m	Stage 3 €m	Total €m
Wholesale	819	341	72	1,232	6,511	494	1	41	69	111
Property	—	32	—	32	341	—	—	—	—	—
Financial institutions	305	179	—	484	587	474	—	38	—	38
Corporate	514	130	72	716	5,583	20	1	3	69	73
Of which:										
Airlines and aerospace	*—*	*25*	*—*	*25*	*200*	*—*	*—*	*1*	*—*	*1*
Automotive	*—*	*—*	*—*	*—*	*716*	*—*	*—*	*—*	*—*	*—*
Land transport and logistics	*95*	*—*	*1*	*96*	*502*	*—*	*—*	*—*	*—*	*—*
Leisure	*—*	*56*	*—*	*56*	*129*	*—*	*—*	*1*	*—*	*1*
Oil and gas	*12*	*—*	*37*	*49*	*328*	*—*	*—*	*—*	*35*	*35*
Retail	*—*	*—*	*—*	*—*	*380*	*—*	*—*	*—*	*—*	*—*
Shipping	*—*	*—*	*—*	*—*	*—*	*1*	*—*	*—*	*—*	*—*
Total	819	341	72	1,232	6,511	494	1	41	69	111

11 Loan impairment provisions continued

	31 December 2019									
	Loans - amortised cost				Off-balance sheet		ECL provisions			
	Stage 1	Stage 2	Stage 3	Total	Loan commitments	Contingent liabilities	Stage 1	Stage 2	Stage 3	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Wholesale	1,981	115	79	2,175	7,513	989	2	2	74	78
Property	93	—	—	93	473	1	—	—	—	—
Financial institutions	1,154	0	—	1,154	863	964	1	—	2	3
Sovereign	1	—	—	1	—	—	—	—	—	—
Corporate	733	115	79	927	6,177	24	1	2	72	75
Of which:										
Airlines and aerospace	*—*	*—*	*—*	*—*	*294*	*—*	*—*	*—*	*—*	*—*
Automotive	*3*	*—*	*—*	*3*	*759*	*1*	*—*	*—*	*—*	*—*
Health					*30*	*—*				
Land transport and logistics	*74*	*—*	*1*	*75*	*396*	*—*	*—*	*—*	*—*	*—*
Leisure	*—*	*56*	*—*	*56*	*182*	*—*	*—*	*1*	*—*	*1*
Oil and gas	*80*	*—*	*37*	*117*	*118*	*—*	*—*	*—*	*36*	*36*
Retail	*21*	*—*	*—*	*21*	*426*	*—*	*—*	*—*	*—*	*—*
Shipping	*—*	*—*	*—*	*—*	*14*	*4*	*—*	*—*	*—*	*—*
Total	1,981	115	79	2,175	7,513	989	2	2	74	78

Refer to Note 12 on the consolidated accounts for further details.

12 Investment in Group undertakings

The parent company's subsidiary undertakings, participating interests and branches at 31 December 2020 are shown below:

Group interest 100%	Notes	Group interest <100%	Notes
Alcover A.G.	*i, (1)*	Eris Finance S.R.L	*ii, (6)*
Alternative Investment Fund B.V.	*i, (2)*	German Public Sector Finance B.V.	*iii, (7)*
KEB Investors, L.P.	*i, (3)*	Maja Finance S.R.L	*iv, (6)*
RBS Hollandsche N.V.	*i, (2)*		
RBS Investments (Ireland) Ltd	*i, (4)*	Actively being dissolved or liquidated	Notes
RBS Nominees (Ireland) Ltd	*i, (4)*	AA Merchant Services B.V.	*i, (2)*
RBS Nominees (Netherlands) B.V.	*i, (2)*	RBS Asia Holdings B.V.	*i, (2)*
RBS WCS Holding Company	*i, (5)*		

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 97.87%

Notes	Registered addresses	Country of incorporation
(1)	Tirolerweg 8, Zug, CH-6300	Switzerland
(2)	Claude Debussylaan 94, 1082 MD, Amsterdam	Netherlands
(3)	Clarendon House, Two Church Street, Suite 104, Reid Street, Hamilton, HM 11	Bermuda
(4)	Ulster Bank Group Centre, George's Quay, Dublin 2, D02 VR98	RoI
(5)	1209, Orange Street, Wilmington, Delaware, 19801	USA
(6)	Via Vittorio Alfieri 1, Conegliano TV, IT-TN 31015	Italy
(7)	De entree 99 -197, 1101 HE Amsterdam Zuidoost	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 Investment in Group undertakings continued

Changes in investments in subsidiaries

	2020 €m	2019 €m
At 1 January	**441**	325
Income from subsidiaries	**4**	136
Capital repatriation/dividends received	**(9)**	(39)
Other changes	**3**	19
At 31 December	**439**	441

Changes in interest in associates

	2020 €m	2019 €m
At 1 January	**—**	1,319
Disposals (1)	**—**	(1,345)
Exchange rate differences	**—**	26
At 31 December	**—**	—

Note:

(1) 2019 includes the disposal of the 40% interest in the equity of Alawwal bank.

13 Financial assets – other

Credit risk impairments - refer to Note 12 on the consolidated accounts and the Risk and capital management - Credit risk section for further details.

Non-traded market risk - refer to the Risk and capital management - Non-traded market risk section for details on structural foreign exchange exposure.

14 Other assets

	2020 €m	2019 €m
Settlement balances	**358**	141
Prepaid expenses	**1**	—
Accrued income	**2**	5
Other	**8**	36
	369	182

15 Property and equipment

	2020		
	Right-of-use €m	Computer equipment €m	Total €m
Cost or valuation			
At 1 January 2020	**12**	**4**	**16**
Additions	**3**	**—**	**3**
At 31 December 2020	**15**	**4**	**19**
Accumulated impairment, depreciation and amortisation			
At 1 January 2020	**1**	**1**	**2**
Charge for the year	**3**	**1**	**4**
At 31 December 2020	**4**	**2**	**6**
Net book value at 31 December	**11**	**2**	**13**
Cost or valuation			
At 1 January 2019	—	2	2
Implementation of IFRS 16 on 1 January 2019	3	—	3
Additions	9	2	11
At 31 December 2019	12	4	16
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

16 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 2020. 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**	**2020 €m**	2019 €m
Contingent liabilities and commitments				
Guarantees and assets pledged as collateral security	**19**	**474**	**493**	1,040
Standby facilities, credit lines and other commitments	**6,464**	**48**	**6,512**	7,343
	6,483	**522**	**7,005**	8,383

17 Subordinated liabilities

Refer to Note 17 on the consolidated accounts for further details.

18 Other liabilities and provisions

	2020 €m	2019 €m
Short positions in securities	**134**	837
Settlement balances	**943**	209
Accruals	**13**	80
Deferred Income	**11**	15
Other financial liabilities	**—**	6
Other liabilities	**27**	46
	1,128	1,193

Provisions for liabilities and charges	**2020 €m**	2019 €m
Litigation and other regulatory	**2**	6
Taxation	**26**	57
Other	**6**	5
	34	68

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 2020 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.

19 Asset transfers

Refer to Note 22 on the consolidated accounts for further details.

20 Share capital and reserves

Share capital and share premium account

NWM N.V.'s share capital at 31 December 2020 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.

Revaluation reserves

The Revaluation reserves consist of €3 million equity securities at fair value through other comprehensive income (2019 - €2 million) and €4 million debt securities at fair value through other comprehensive income (2019 - €2 million).

Legal reserves

The Legal reserves consist of €10 million non-distributable reserve shares (2019 - €10 million) and €9 million foreign exchange reserve (2019 - €12 million).

AT1 Capital securities

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.

Dividends

No ordinary dividends were paid in 2020 (2019 - €657 million).

21 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:

	2020 €m	2019 €m
Addition to reserves	**6**	634

Parent Company Financial Statements

22 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.

23 Remuneration of the Managing Board and Supervisory Board

Refer to Note 28 on the consolidated accounts for further details.

24 Related parties

Refer to Note 29 on the consolidated accounts for further details.

25 Post balance sheet events

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

The publication of these accounts was approved by the Supervisory Board on 18 February 2021. 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, 18 February 2021

Supervisory Board	**Managing Board**
Robert Begbie	Harm Bots
Maarten Klessens	Cornelis Visscher
Annelies van der Pauw	Angelique Slach
Anne Snel	Marije Elkenbracht
David King	

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 2020 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 NatWest Group's website, natwestgroup.com, and will be provided to any person without charge, upon request, by contacting Company Secretariat on the telephone number listed below.

Important addresses

Corporate Governance & Regulatory Affairs

Claude Debussylaan 94
1082 MD Amsterdam
The Netherlands
Telephone: + 31 20 464 26 99
Email: NVCorporateGovernance&Secretariat@natwestmarkets.com

Investor Relations

250 Bishopsgate
London EC2M 4AA
Telephone: +44 (0)207 672 1758
Email: investor.relations@natwest.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 shareholder and supervisory board of NatWest Markets N.V.

Report on the audit of the financial statements 2020 included in the Annual Report and Accounts

Our opinion

We have audited the financial statements 2020 of NatWest Markets N.V. (NWM N.V., the Company or the group) based in Amsterdam. The financial statements comprise the consolidated and parent 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 2020 and of its result and its cash flows for 2020 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 parent company financial statements give a true and fair view of the financial position of NWM N.V. as at 31 December 2020 and of its result for 2020 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 2020
- the following statements for 2020: the consolidated income statement, the consolidated statements of comprehensive income, changes in equity and consolidated cash flow statement
- the notes comprising a summary of the significant accounting policies and other explanatory information.

The parent company financial statements comprise:

- the company balance sheet as at 31 December 2020
- the company income statement for the year ended 2020
- 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 which operates as an investment banking firm serving corporates and financial institutions in the European Economic Area ('EEA') . 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 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.

In 2020 we were forced to perform our procedures to a greater extent remotely due to the COVID-19 measures. This limits our observation and increases the risk of missing certain signals. In order to compensate for the limitations related to physical contact and direct observation, we performed alternative procedures to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Materiality

Materiality	€22 million (2019: €32 million)
Benchmark applied	1% of total equity (2019: 1.5%)
Explanation	Based on our professional judgement, a benchmark of 1% of total equity is an appropriate quantitative indicator of materiality and it best reflects the focus of users of the financial statements on the financial position of the company, while earnings are highly volatile following the start of new business transferred from NWM Plc in 2019. We have lowered the percentage from 1.5% to 1% based on our re-assessment.

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 €1.1 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.

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 has insurance services which is in run-off.

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.

Our audit scope resulted in a nearly full coverage of total equity and total assets.

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, transfer pricing and have made use of our own experts in the areas of valuations of derivatives, expected credit losses and insurance liabilities.
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.

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.

In our process of identifying fraud risks, we considered whether the COVID-19 pandemic gives rise to specific fraud risk factors resulting from management overrides and workarounds for internal control or reporting procedures, management being under pressure to meet financial targets, to demonstrate that the actions to limit exposure to losses have been successful, or to meet certain KPIs. Conversely, we also consider whether management has over-provided in their expected credit losses in the current period when expecting poor results with a view to release excess provisions in future periods. We refer to the key audit matters "impairment on loans", "valuation of financial instruments with higher risk characteristics including related income from trading activities" and "IT systems and controls impacting financial reporting" below for our procedures performed and observations over the fraud risk factors associated to the impact of COVID-19 pandemic.

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. Our audit procedures to address the assessed fraud risks did not result in a specific key audit matter.

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 “specifically about the procedures management performs to be compliant with the banking regulation, 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

We performed the following procedures 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. Management made a specific assessment of the company’s ability to continue as a going concern and to continue its operations for at least the next 12 months. We discussed and evaluated the assessment with management exercising professional judgment and maintaining professional skepticism and specifically focusing on the process followed by management to make the assessment, management bias that could represent a risk, the impact of current events and conditions have on the company’s operations and forecasted cash flows, with a focus on whether the company will have sufficient liquidity to continue to meet its obligations as they fall due. We reviewed the budget and liquidity forecasts prepared by management, evaluated capital ratios as disclosed within the financial statements. We also inspected board and committee meeting minutes, outcome of the Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Assessment Process and the recovery plan.

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.

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 judgment, 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 “transfer of derivatives and Western Europe Corporate Portfolio” which was included in our last year’s auditor’s report, is not considered a key audit matter for this year as the volume of these transfers decreased in 2020.

Following the increase of credit exposure, the impact of COVID-19 pandemic on both asset quality and key accounting estimates used in the impairment measurement of loans, a new key audit matter “impairment of loans” has been defined.

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.

Independent auditor’s report

Risk	Our response to the risk
Impairment of loans	
At 31 December 2020 NWM N.V. reported total gross loans of €1,683 million (2019: €2,655 million) and €111 million of expected credit loss (hereafter: “ECL”) provisions under IFRS 9 (2019: €78 million). Impairment losses were €42 million compared with releases of €1 million in 2019. Management’s judgements and estimates are especially subjective due to significant uncertainty associated with the assumptions used. Uncertainty associated with COVID-19 and its implications on default and recovery assumptions and the impact of government intervention has increased the level of judgement required to calculate ECL. Management’s estimates in respect of the timing and measurement of ECL which required significant judgement include: • Allocation of assets to stage 1, 2, or 3 using criteria in accordance with IFRS 9 considering the impact of COVID-19 pandemic and related support measures on customer behaviours and the identification of underlying significant deterioration in credit risk; • Accounting interpretations, modelling assumptions and data used to build and run the models that calculate the ECL considering the economic impact of COVID-19 on model performance; • Inputs and assumptions used to estimate the impact of multiple economic scenarios particularly those impacted by COVID-19; • Appropriateness, completeness and valuation of model adjustments including any COVID-19 specific adjustments; • Measurement of individual provisions including the assessment of multiple scenarios considering the impact of COVID-19 on exit strategies, collateral valuation and time to collect; and • The completeness, presentation and preparation of disclosures considering the key judgments and sources of data. Reference is made to ‘Credit Risk’ section of the ‘Risk and capital management’ section, ‘Accounting policies’ to the consolidated financial statements and Note 12 ‘Loan impairment provisions‘.	We evaluated the design and operating effectiveness of controls across the processes relevant to ECL, including the judgements and estimates noted, involving specialists to assist us in performing our procedures where appropriate. These controls, among others, included controls over the allocation of assets into stages including management’s monitoring of stage effectiveness, model monitoring including the need for both in-model and post model adjustments, model validation, data accuracy and completeness, credit monitoring, and application of multiple economic scenarios, individual provisions and production of journal entries and disclosures. In evaluating the governance process, we observed the Group Provisions Committee meetings where the inputs, assumptions and adjustments to the ECL were discussed and approved. We performed an overall assessment of the ECL provision levels by stage to determine if they were reasonable by considering the overall credit quality of NWM N.V.’s portfolio, risk profile, credit risk management practices, assessment of the impact of the COVID-19 pandemic on the identification of high-risk sectors and the macroeconomic environment by considering trends in the economy and industries to which NWM N.V. is exposed. We evaluated the criteria used to allocate a financial asset to stage 1, 2 or 3 in accordance with IFRS 9. We recalculated the assets in stage 1, 2 and 3 to assess if they were allocated to the appropriate stage. To test credit monitoring, which drives the probability of default estimates used in the staging calculation, we recalculated the risk ratings for a sample of performing loans and focused our testing on high risk industries impacted by COVID-19. We also assessed the timing of the credit reviews performed by management on each sample loan exposure to evaluate whether it appropriately considered COVID-19 risk factors by considering independent publicly available information . We performed a risk assessment on all models used in the calculation of ECL to select a sample of models to test. We involved modelling specialists to assist us to test this sample of ECL models by testing the assumptions, inputs and formulae used. This included a combination of assessing the appropriateness of model design and formulae used, alternative modelling techniques, recalculating the Probability of Default, Loss Given Default and Exposure at Default, and model implementation. We also considered the results of internal model validation results. To evaluate data quality, we agreed a sample of ECL calculation data points to source systems. To test credit monitoring, we recalculated the risk ratings for a sample of performing loans. We involved economic specialists to assist us to evaluate the base case and alternative economic scenarios, including evaluating probability weights and comparing to other scenarios from a variety of external sources, as well as EY internally developed forecasts. We considered the latest developments related to COVID-19 pandemic and assessed whether forecasted macroeconomic variables were appropriate, such as GDP, unemployment rate and interest rates. With the support of our modelling specialists we assessed the correlation and the overall impact of the macroeconomic factors to the ECL. We tested material in-model and post-model adjustments including those which were applied as a result of COVID-19. With our modelling specialists, we assessed the completeness of these adjustments and their appropriateness by considering the data, judgments, methodology, sensitivities, and governance of these adjustments as well as considering model shortcomings. We recalculated a sample of individual provisions including the alternative scenarios and evaluating probability weights assigned. The sample was based on a number of factors, including higher risk sectors and materiality. In assessing the appropriateness of the provision we also considered the impact of the COVID-19 pandemic on individual scenarios and weightings, payment recoverability and collateral valuations. We tested the data flows used to populate the disclosures and assessed the adequacy of disclosures for compliance with the accounting standards including expectations of COVID-19 specific disclosures.

Key observations

We are satisfied that provisions for the impairment of loans were reasonable and recognised in accordance with IFRS 9. We concur with the related disclosures in the financial statements.

Independent auditor's report

Risk	**Our response to the risk**
Valuation of financial instruments with higher risk characteristics including related income from trading activities	
As reported in note 10 to the financial statements, as at 31 December 2020 NWM N.V. held financial instruments that did not trade in active markets. This included level 3 assets of €133 million (2019: €219 million) and level 3 liabilities of €59 million (2019: €64 million) whose valuation is dependent upon unobservable inputs. 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. The valuation of those financial instruments when there is higher degree of estimation involves both significant judgement and the risk of inappropriate recognition of income from trading activities through incorrect pricing as outlined 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. Management's estimates which required significant judgement include: • Valuation of complex modelled products, which include interest rate swaps linked to pre-payment behaviour and interest rate and foreign exchange options with exotic features such as those having multiple call dates and variable notional amounts; • Pricing inputs and calibrations for financial instruments which are illiquid and traded infrequently. Additionally, the discount rates applied to derivative cash flows in determining fair value which reflect underlying complex collateral agreements; • The appropriateness and completeness of fair value adjustments made to derivatives including Funding Valuation Adjustments (FVA) and Credit Valuation Adjustments (CVA) relating to derivative counterparties whose credit spread is not directly market observable, and product and deal specific manual adjustments where system generated valuations do not accurately recover market price; • The impact of COVID-19 on the valuation of different financial instrument portfolios. Reference is made to 'Accounting policies' to the consolidated financial statements and Note 10 'Financial instruments - valuation'.	We evaluated the design and operating effectiveness of controls relating to financial instrument valuation and related income statement measurement including independent price verification, model review and approval, collateral management, and income statement analysis. We also observed the Natwest Group Executive Valuation and NWM NV Valuation Committees where valuation inputs, assumptions and adjustments were discussed and approved. Among other procedures, we involved our financial instrument valuation and modelling specialists to assist us in performing procedures including the following: • 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.; • Independently re-pricing instruments that had been valued using illiquid pricing inputs, using alternative pricing sources to evaluate management's valuation; • Comparing fair value adjustment methodologies to current market practice and assessing the completeness of the valuation adjustment framework in light of emerging market practice; and • Revaluing a sample of counterparty level FVA and CVAs, comparing funding spreads to third party data and independently challenging illiquid CVA inputs. We also assessed whether there were any indicators of aggregate bias in financial instrument valuation. Throughout the year we considered the impact of the COVIDE-19 pandemic on the valuation of the different financial instrument portfolios, particularly where markets were affected by heightened volatility. Wherever this resulted in changes in management's valuation approach we assessed the reasonableness of these changes as well as the design and operating effectiveness of associated key controls. We 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 also obtained management's estimate of 2021 budgeted losses in respect of asset disposals and risk reduction transactions and considered any impacts on fair values at year-end. We performed analysis of significant disagreements with counterparty collateral calls in terms of potential impact on the fair value of the underlying (and similar) financial instruments.

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 EU-IFRS. We concur with the related disclosures in the financial statements.

Risk	**Our response to the risk**
Transfer pricing arrangements, uncertain tax positions and deferred tax asset recognition	
As part of the commencement of new business in the first half of 2019, NWM N.V. designed a new transfer pricing framework, including a set of profit allocation models for its activities based on cost plus, return on equity and revenue split. The application of local regulations on income tax is complex and requires compliance of the transfer pricing agreements related to intergroup transactions and services. The adequacy of the methodology depends on the underlying business and suitability of the transfer pricing arrangement and is therefore subject to judgement and pending the approval of tax authorities creates uncertainty. Furthermore, uncertainties regarding the future profitability of NWM N.V. remain present due to the ongoing uncertainties around the impact of the Brexit arrangements and the effect thereof on the wider strategic business plan of the NWM franchise. Consequently, the recognition and measurement of income from transfer pricing agreements and corporate income tax require NWM N.V. to use significant assumptions in estimating future revenue and tax positions as per 31 December 2020. In consideration of the uncertainties in respect of the consequences of Brexit and future strategy of the Company, management did not recognise deferred tax assets as at 31 December 2020. Deferred tax assets may be misstated due to incorrect management assumptions on the utilization of carry forward tax losses and tax credits. Reference is made to the 'Accounting Policies' to the consolidated financial statements, Note 2 'Non-interest income', Note 6 Tax and Note 29 Related Parties.	We tested the design and implementation of internal controls across the processes relevant to transfer pricing adjustments, uncertain tax positions 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 adjustments in compliance with EU-IFRS requirements, including critical assumptions and estimates used.
Key observations	
We are satisfied that the models and assumptions used by management to determine transfer pricing income and deferred tax assets are reasonable. The related disclosures in the financial statements is considered adequate and appropriate and meet the requirements under EU-IFRS.	

Risk	Our response to the risk
IT systems and controls impacting financial reporting	
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. The risk is also impacted by the greater dependency on other NatWest Group entities and third-parties, decommissioning of legacy systems, and migration to new systems. In our audit approach, we rely 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 within NatWest Group and third party service providers.	We evaluated the design and operating effectiveness of IT controls over the applications, operating systems and databases that are relevant to financial reporting. During the planning and test of design phases of our audit, we performed procedures to assess the cybersecurity program within NWG/NWM and how management evaluates cyber risks and to determine whether the ongoing global Covid-19 pandemic had caused material changes in IT processes or controls and noted no such changes that would result in an increased IT risk. 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 NWM N.V.
Key observations	
We are satisfied that IT controls impacting financial reporting are designed and operating effectively.	

Independent auditor's report

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 Managing board report, consisting of Financial review, Risk and capital management and Corporate governance
- The report of the Supervisory Board
- Other information as required by Part 9 of Book 2 of the Dutch Civil Code
- Risk factors
- 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 of the Dutch Civil Code

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 managing board report 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.

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 management 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 management 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 judgment and have maintained professional skepticism 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, 18 February 2021

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 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 and the risk and capital management section. They should not be regarded as a complete and comprehensive statement on its own of all potential risks and uncertainties facing NWM N.V. Group. The current COVID-19 pandemic may exacerbate any of the risks described below.

Risks relating to the COVID-19 pandemic

The effects of the COVID-19 pandemic on the UK, Dutch, European and global economies and financial markets and NWM N.V. Group's customers, as well as its competitive environment may continue to have a material adverse effect on NWM N.V. Group's business, results of operations and outlook.

In March 2020, the World Health Organization declared the spread of the COVID-19 virus a pandemic. Since then, many countries, including the UK (NatWest Group's most significant market) and The Netherlands have at times imposed strict social distancing measures, restrictions on non-essential activities and travel quarantines, in an attempt to slow the spread and reduce the impact of the COVID-19 pandemic.

The Dutch economy, as well as the economy in most countries, went into recession in 2020 as measures were introduced to reduce the spread of the COVID-19 virus. Towards the end of 2020 and at the start of 2021 many restrictions were re-introduced and the Dutch Central Bank ((*De Nederlandsche Bank*) ('DNB')) forecasted that the COVID-19 pandemic in the coming years is likely to lead to higher unemployment, lower economic growth and a significantly increased government deficit. The COVID-19 pandemic has caused significant reductions in levels of personal and commercial activity, reductions in consumer spending, increased levels of corporate debt and, for some customers, personal debt, increased unemployment and significant market volatility in asset prices, interest rates and foreign exchange rates. It has also caused physical disruption and slow-down to global supply chains and working practices, all of which have affected NWM N.V. Group's customers.

Further waves of infection may result in further restrictions in affected countries and regions, including in The Netherlands. While vaccine treatment is currently being deployed, the pace of deployment and ultimate effectiveness is uncertain, and vaccines may fail to achieve immunisation that is significant within the population. Therefore, significant uncertainties remain as to how long the COVID-19 pandemic will last. Even when restrictions are relaxed, they may be re-imposed, sometimes at short notice if either immunisation is insufficient or new strains of the COVID-19 virus or other diseases develop into new epidemics or pandemics. Significant uncertainties continue as to the extent of the economic contraction and the path and length of time required to achieve economic recovery.

In response to the COVID-19 pandemic, central banks, governments, regulators and legislatures in the UK, in The Netherlands and elsewhere have announced historic levels of support and various schemes for impacted businesses and individuals including forms of financial assistance and legal and regulatory initiatives, including further reductions in interest rates. Whether or not these measures effectively mitigate the negative impacts of the COVID-19 pandemic on NWM N.V. Group, some of these measures, or further measures, such as negative interest rates, may also have a material adverse effect on NWM N.V. Group's business and performance.

There is no certainty as to how long such financial assistance and legal and regulatory initiatives may last, how they may evolve in the future and, how consumers and businesses may react to such initiatives. NWM N.V. Group's clients may be negatively impacted when such support schemes are scaled back and ultimately ended, which in turn could expose NWM N.V. Group to increased credit and counterparty risk.

In addition, the COVID-19 pandemic related uncertainties and the range of prudential regulatory support has made reliance on analytical models, planning and forecasting for NWM N.V. Group more complex and may result in uncertainty impacting the risk profile of NWM N.V. Group and/or that of the wider banking industry. The medium and long-term implications of the COVID-19 pandemic for NWM N.V. Group customers, and the UK, Dutch and global economies and financial markets remain uncertain and may continue to have a material adverse effect on NWM N.V. Group's business, results of operations and outlook.

The adverse impact of the COVID-19 pandemic on the credit quality of NWM N.V. Group's counterparties has increased NWM N.V. Group's exposure to counterparty risk, which may adversely affect its business, results of operations and outlook.

The effects of the COVID-19 pandemic have adversely affected (and may further affect) the credit quality of many of NWM N.V. Group's borrowers and other counterparties. As a result, NWM N.V. Group experienced (and may continue to experience) elevated exposure to credit risk and demands on its funding from, for example, customers and borrowers drawing down upon committed credit facilities.

If borrowers or counterparties default or suffer deterioration in credit quality, this increases impairment charges, credit reserves, write-downs and regulatory expected loss. An increase in drawings upon committed credit facilities may also increase NWM Plc's and/or its subsidiaries' – including NWM N.V. Group – risk weighted assets ('RWA'). If the NWM N.V. Group experiences losses and a reduction in future profitability, this is likely to affect the recoverable value of fixed assets, including deferred taxes, which may lead to further write-downs and, in turn, have a material adverse effect on NWM N.V. Group's business, results of operations and outlook.

NWM N.V. Group has applied an internal analysis of multiple economic scenarios (MES) together with the determination of specific overlay adjustments to inform its IFRS 9 ECL (Expected Credit Loss). The recognition and measurement of ECL is complex and involves the use of significant judgment and estimation. This includes the formulation and incorporation of multiple forward-looking economic scenarios into ECL to meet the measurement objective of IFRS 9. The ECL provision is sensitive to the model inputs and economic assumptions underlying the estimate. Going forward, NWM N.V. Group anticipates observable credit deterioration of a proportion of assets resulting in a systematic uplift in defaults, which is mitigated by those economic assumption scenarios being reflected in the Stage 2 ECL across portfolios, along with a combination of post model overlays in both wholesale and retail portfolios reflecting the uncertainty of credit outcomes. See also, 'Risk and capital management — Credit Risk'. A credit deterioration would also lead to RWA increases. Furthermore, the assumptions and judgments used in the MES and ECL assessment at 31 December 2020 may not prove to be adequate resulting in incremental ECL provisions for the NWM N.V. Group. As government support schemes reduce, defaults are expected to rise with more ECLs cases moving from Stage 2 to Stage 3.

Any of the above could have a material adverse effect on NWM Group's business, results of operations and outlook.

The COVID-19 pandemic may adversely affect NWM N.V. Group's strategy and impair its ability to meet its targets and to achieve its strategic objectives.

In February 2020, NatWest Group outlined a Purpose-led Strategy (as defined below) which requires changes in the business of NWM Group and NWM N.V. Group, including reductions in capital allocated to NWM Plc or its subsidiaries, including NWM N.V., its cost base and complexity. As part of the NWM Refocusing (as defined below), NWM Group has been setting a number of financial, capital and operational targets and expectations. The sudden and profound economic and social impact of the COVID-19 pandemic, and the revised economic outlook challenge many of the fundamental assumptions behind its targets, especially on impairment levels and the impact of IFRS 9 (Financial Instruments) ('IFRS 9'), RWA reductions, loan growth and cost reductions, such that the relevant targets and expectations may no longer be achievable as planned and/or on the timelines projected, or at all. For example, the COVID-19 pandemic caused significant market volatility which temporarily increased NWM Group's (including NWM N.V. Group's) market risk and has caused RWA inflation, which may increase in the future.

Whilst NWM N.V. Group as part of NatWest Group, remains committed to its cost reduction targets, achieving the planned reductions in an environment affected by the COVID-19 pandemic will be more challenging and may require additional savings to be made in a manner that may increase certain operational risks and could impact productivity and competitiveness within NWM N.V. Group and which may have a material adverse effect on NWM Group's and NWM N.V. Group's business, results of operations and outlook.

It is uncertain as to how the broader macroeconomic business environment and societal norms may be impacted by the COVID-19 pandemic which is already resulting in several significant wider societal changes. For example, one of the most visible effects of the COVID-19 pandemic has been the impact on the most vulnerable groups of society, and concerns about systemic racial biases and social inequalities.

In addition, the COVID-19 pandemic has accelerated existing economic trends that may radically change the way businesses are run and people live their lives. These trends include digitalisation, decarbonisation, automation, e-commerce, and agile working, each of which has resulted in significant market volatility in asset prices. There is also increasing investor, regulatory and customer adapt these changes and related climate, environmental, social, governance and other sustainability issues including workplace health, safety and wellbeing, diversity and inclusion, data privacy, workforce management, human rights and supply chain management. Any failure or delay by NWM N.V. Group to adopt its business strategy and to establish and maintain effective governance, procedures, systems and controls in response to these changes and to manage emerging climate, environmental, social and other sustainability-related risks and opportunities may have a material adverse effect on NWM N.V. Group's reputation, business, results of operations and outlook and the value of NWM N.V. Group's securities. See also, 'Any failure by NWM N.V. Group to implement effective and compliant climate change resilient systems, controls and procedures could adversely affect NWM N.V. Group's ability to manage climate-related risks' and 'A failure to adapt NWM N.V. Group's business strategy, governance, procedures, systems and controls to manage emerging sustainability-related risks and opportunities may have a material adverse effect on NWM N.V. Group's reputation, business, results of operations and outlook'.

The COVID-19 pandemic may also result in unexpected developments or changes in financial markets, the fiscal, tax and regulatory frameworks and consumer customer and corporate client behaviour, which could intensify competition in the financial services industry. If NWM N.V. Group is not able to adapt or compete effectively, it could experience loss of business, which in turn could adversely affect its business, results of operations and outlook.

The COVID-19 pandemic has heightened NWM N.V. Group's operational risks as many of its employees are working remotely which may also adversely affect NWM N.V. Group's ability to maintain effective internal controls.

Due to the COVID-19 pandemic, as at 31 January 2021, many of NWM N.V. Group's employees have started, and continue to work remotely. This has increased reliance on NWM N.V. Group's IT systems that enable remote working and increased exposure to fraud, conduct, operational and other risks and may place additional pressure on NWM N.V. Group's ability to maintain effective internal controls and governance frameworks. The IT systems that enable remote working interface with third-party systems, and NWM N.V. Group could experience service denials or disruptions if such systems exceed capacity or if a third-party system fails or experiences any interruptions, all of which could result in business and customer interruption and related reputational damage, significant compensation costs, regulatory sanctions and/or a breach of applicable regulations. See also, 'NWM N.V. Group's operations are highly dependent on its complex IT systems (including those that enable remote working), and any IT failure could adversely affect NWM N.V. Group'.

Sustained periods of remote working may also negatively affect workplace morale. Whilst NWM N.V. Group has taken measures seeking to maintain the health, wellbeing and safety of its employees during the COVID-19 pandemic, these measures may be ineffective and could result in increased expenses and widespread illness could negatively affect staffing within certain functions, businesses or geographies. Certain areas of NWM N.V. Group also continue to experience workloads that are heavier than usual as a result of increased client requirements, or other related direct and indirect effects. Resources have been diverted from certain ordinary course activities, and regulatory and other change projects, including the implementation of NWM Refocusing, which may have implications for the execution of related deliverables and meeting regulatory and other deadlines (for example the DNB requires banks to incorporate climate-related risk into their governance and risk management arrangements). Operational difficulties as a result of the COVID-19 pandemic, which may affect NWM N.V. Group's external stakeholders (including clients), may result in challenges in managing daily cash and liquidity. As a result of the COVID-19 pandemic, compliance and conduct risk may also be heightened both as a result of internal and external factors. The economic impact of the COVID-19 pandemic may also necessitate changes in the remuneration of NWM N.V. Group employees, in particular at a senior level. For example, the European Banking Authority (EBA) issued a call to banks to assess their remuneration policies in line with the risks stemming from the economic situation caused by the COVID-19 pandemic and the European Central Bank ('ECB') recommended banks to be extremely moderate with regard to variable compensations (which recommendation was supported by the DNB).

Any of the above could impair NWM N.V. Group's ability to hire, retain and engage well qualified employees, especially at a senior level, which in turn may adversely impact NWM N.V. Group's ability to serve its clients efficiently, and impact productivity across NWM Group, including NWM N.V. Group. This could have a material adverse effect on NWM N.V. Group's reputation and competitive position and its ability to retain and attract critical staff or to retain and grow its business.

Any of the above could have a material adverse effect on NWM N.V. Group's business, results of operations and outlook.

The effects of the COVID-19 pandemic could affect NWM N.V. Group's ability to access sources of liquidity and funding, which may result in higher funding costs and failure to comply with regulatory capital, funding and leverage requirements.

Depending on the severity and duration of market volatility resulting from COVID-19 pandemic related uncertainties and the impact on capital and RWAs, NWM N.V. Group may be required to adapt its funding plan in order to satisfy its capital and funding requirements, which may have a material adverse effect on NWM N.V. Group. In addition, impairments or other losses as well as increases to capital deductions may result in a decrease to NWM Plc's capital base, and/or that of its subsidiaries (including NWM N.V.). In response to the COVID-19 pandemic, there have been relaxations on certain countercyclical buffer requirements and stress tests, as well as the calculation of RWAs and leverage, which may be reinstated in the future.

In addition, increased income as a result of higher levels of customer flow activity and balance sheet growth (as a result of increases in corporate deposits and derivative valuations) may not be sustained in the future. Furthermore, market volatility may result in increases to leverage exposure.

Any downgrading to the credit ratings and/or outlooks assigned to NatWest Group plc, NWM Plc, NWM N.V. or certain other NatWest Group entities and their respective debt securities as a result of the economic impact of the COVID-19 pandemic could exacerbate funding and liquidity risk, and further changes may be possible and are uncertain in nature, which could have a material adverse effect on NWM N.V. Group's business, results of operations and outlook.

Strategic risk

NatWest Group is in the process of implementing its Purpose-led Strategy, which requires changes in the business and strategy of NWM Group and NWM N.V. Group, and entails material execution, commercial and operational risks for NWM N.V. Group.

In February 2020, NatWest Group announced a new strategy, focused on becoming a Purpose-led business designed to champion potential, and to help individuals, families and businesses to thrive. NatWest Group aims to deliver this strategy, referred to as its 'Purpose-led Strategy', through: (i) four strategic priorities: 'supporting customers at every stage of their lives;' 'powered by innovation and partnerships;' 'simple to deal with'; and 'sharpened capital allocation;' and (ii) three areas of focus: climate change, enterprise and learning. This strategy requires changes in NWM Group's business, including an increased focus on serving NatWest Group's corporate and institutional customer base. NWM Group intends to achieve this by simplifying its operating model and technology platform, as well as reducing its cost base and capital requirements. Together, these initiatives are referred to as the 'NWM Refocusing'. The implementation of the Purpose-led Strategy is highly complex, and the changes required for both the Purpose-led Strategy and the NWM Refocusing are substantial, will be implemented over several years, and may not result in the expected outcome within the timeline and in the manner contemplated.

As part of its Purpose-led Strategy, NatWest Group has set a number of financial, capital and operational targets and expectations, both for the short term and throughout the implementation period. In addition to the NWM Refocusing, NatWest Group will require significant reductions to its wider cost base. In addition to requiring additional cost reductions within NWM Group, this could affect the cost and scope of NatWest Group's provision of services to NWM Group, which individually and collectively may impact NWM N.V. Group's competitive position and its ability to meet its other targets.

A part of the NWM Refocusing is the intended reduction in NWM Plc's level of risk RWAs through accelerating the exit of exposures and an optimisation of inefficient capital across NWM Group. The NWM Refocusing entails significant commercial, operational, legal and execution risks and is based on certain material assumptions that may prove to be incorrect should, for example, RWAs take longer to exit or are more costly to reduce than anticipated or not possible to exit at all. In addition, it is anticipated that NWM Group will generate operating losses over the course of the transition plan period and therefore NWM Group's capital levels will also decline. Moreover, it is anticipated that NWM Plc's capital ratios will be maintained, as the level of RWAs is anticipated to fall more quickly than capital levels. However, capital levels could decline at a faster pace than expected (with a corresponding effect on the capital ratios), should RWA exit costs 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 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 NWM Group or NatWest Group may be triggered, which may adversely affect NWM N.V. Group. The implementation of the NWM Refocusing is also expected to result in material costs for NWM Group and NWM N.V. Group, and could be materially higher than anticipated, including due to material uncertainties and factors outside of NWM Group's and NWM N.V. Group's control, or could be phased or could progress in a manner other than currently expected.

The NWM Refocusing is highly complex and NWM Group and NWM N.V. Group may not be able to successfully implement all aspects of it or reach any or all of the related targets or expectations within the timeframes contemplated, or at all. More generally, the targets and expectations that accompany the NWM Refocusing are based on management plans, projections and models, and are subject to a number of key assumptions and judgments, any of which may prove to be inaccurate. The scale and scope of the intended changes present material and increased operational, IT system, culture, conduct, business and financial risks to NWM Group, including NWM N.V. Group, especially during the planning and implementation period. The NWM Refocusing may also create increased people risk through the loss of key staff, the recalibration of roles and loss of institutional knowledge. This, combined with the prolonged COVID-19 pandemic, may impact NWM N.V. Group's culture and morale. The NWM Refocusing is resource-intensive and disruptive, and will divert management resources, adding to the challenge for the new senior management team of NWM Group and NWM N.V. Group. In addition, the scale of changes being concurrently implemented will require the implementation and application of robust governance and controls frameworks and robust IT systems. There is a risk that NWM N.V. Group may not be successful in doing so.

The focus on meeting cost reduction targets requires head-count reductions and may also result in limited investment in other areas which could affect NWM Group's (including NWM N.V. Group) long-term prospects, product offering or competitive position and its ability to meet its other targets and commitments. 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 NWM N.V. Group's products and services offering or office locations, reputation with customers or business model and adversely impact NWM Group's (including NWM N.V. Group) ability to deliver its strategy and meet its targets and guidance, any of which could in turn have a material adverse impact on NWM N.V. Group's business, results of operations and outlook. The NWM Refocusing envisages a smaller scaled business and its successful implementation expected to result in substantially lower revenues.

As a result, there can be no certainty that the NWM Refocusing will be successfully executed, that NWM N.V. Group will meet targets and expectations, or that the refocused NWM N.V. Group will be a viable, competitive business aligned to NatWest Group's corporate and institutional customer offering.

NWM Group (including NWM N.V. Group) may not be able to successfully implement the NWM Refocusing and it may not achieve its targets and NWM Group (including NWM N.V. Group) may not ultimately result in a viable, competitive business.

As part of the NWM Refocusing, NWM Group has set a number of financial, capital and operational targets and expectations including for 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 implementation of the NWM Refocusing is currently underway but is highly complex and NWM N.V. Group's 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 NatWest Group's, NWM Group's and 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 also depends on how the NWM Refocusing is perceived by NWM N.V. Group, its customers, regulators, rating agencies, stakeholders and the wider market, how that impacts its business, and 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. The orderly run-down of certain of NWM Group's (including NWM N.V. Group's) portfolios and the targeted reduction of its risk-weighted assets will be accompanied by the recognition of disposal losses which may be higher than anticipated, including due to future stresses which may place NWM N.V.'s capital ratios under pressure. Furthermore, regulatory pressures or changes in the economic and political and regulatory environment in which NWM N.V. Group operates or regulatory uncertainty or economic volatility, including (but not limited to) as a result of the effects of the COVID-19 pandemic and continued uncertainty surrounding the terms of the UK's future trading arrangements with the EU, or changes in the scale and timing of policy responses on climate change, may require NWM N.V. Group to adjust aspects of the NWM Refocusing or the timeframe for its implementation.

NWM 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 NWM Group's business model 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 due to the COVID-19 pandemic, 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 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 NWM N.V. Group and negatively impact NWM N.V. Group's liquidity position.

Should NWM Group not be able to implement or execute the NWM Refocusing as contemplated, it may negatively impact revenues for 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 NatWest Group. Such changes and revisions could have an adverse effect on NWM N.V. Group and may affect its ability to be a viable and competitive business.

Economic and political risk

NWM N.V. Group faces market risk as a result of increased political and economic risks and uncertainty in the UK, European and global markets.

NatWest Group faces political uncertainty in Scotland as a result of a possible second Scottish independence referendum. Independence may impact NatWest Group plc and other NatWest Group entities (including NWM Plc being the parent company of NWM N.V.) being headquartered and/or incorporated in Scotland. Any changes to Scotland's relationship with the UK and/or the EU (as an indirect result of Brexit or other developments) would impact the environment in which NatWest Group and its subsidiaries operate, and may require further changes to NatWest Group (including the structure of NWM Group and NWM N.V. Group), independently or in conjunction with other mandatory or strategic structural and organisational changes which could adversely impact NWM Group and NWM N.V. Group.

The value of 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 NWM N.V. Group's financial instruments, particularly during periods of market displacement. This could cause a decline in the value of NWM N.V. Group's financial instruments. This may have an adverse effect on NWM N.V. Group's results of operations in future periods or cause inaccurate carrying values for certain financial instruments. Similarly, NWM N.V. Group trades a considerable amount of financial instruments (including derivatives) and volatile market conditions could result in a significant decline in 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 NWM N.V. Group's counterparty risk. NWM N.V. Group's risk management and monitoring processes seek to quantify and mitigate NWM N.V. Group's exposure to more extreme market moves. However, severe market events have historically been difficult to predict and NWM N.V. Group could realise significant losses if extreme market events were to occur.

The outlook for the global economy over the medium-term remains uncertain due to a number of factors including: the COVID-19 pandemic, resulting societal inequalities and changes, trade barriers and the increased possibility and/or continuation of trade wars, widespread political instability (including as a result of populism and nationalism, which may lead to protectionist policies), an extended period of low inflation and low (or negative) interest rates, climate, environmental, social and other sustainability-related risks and global regional variations in the impact and responses to these factors. These conditions could be worsened by a number of factors including macro-economic deterioration, increased instability in the global financial system and concerns relating to further financial shocks or contagion (for example, due to economic concerns in emerging markets), market volatility or fluctuations in the value of, 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 NWM N.V. Group serves, increasing inequalities or rapid change to the economic environment due to the adoption of technology and artificial intelligence. Any of the above developments could adversely impact 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 NWM N.V. Group's clients and their banking needs).

In addition, 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 current COVID-19 pandemic and any future epidemics or pandemics, state and privately sponsored cyber and terrorist acts or threats, and the responses to them by governments and markets, could negatively affect the business and performance of NWM N.V. Group including as a result of the indirect effect on regional or global trade and/or on NWM N.V. Group's customers.

Continuing uncertainty regarding the effects of the UK's withdrawal from the European Union may continue to adversely affect NWM Plc (NWM N.V.'s parent company) and its operating environment and NatWest Group plc (NWM N.V.'s ultimate parent company) and may have an indirect effect on NWM N.V. Group.

After the 2016 EU Referendum, the UK ceased to be a member of the EU and the European Economic Area ('EEA') on 31 January 2020 ('Brexit'). The 2020 EU-UK Trade and Cooperation Agreement ('TCA') ended the transition period on 31 December 2020 and provides for free trade between the UK and EU with zero tariffs and quotas on all goods that comply with the appropriate rules of origin. The TCA provides for minimal coverage for financial services; UK-incorporated financial services providers no longer have EU passporting rights and there is no mutual recognition regime. Financial services may largely be subject to individual equivalence decisions by relevant regulators. A number of temporary equivalence decisions have been made that cover all services offered by NWM Group (NWM N.V Group's parent). The EU's equivalence regime does not cover most lending and deposit taking, and determinations in respect of third countries have not, to date, covered the provision of investment services. In addition, equivalence determinations do not guarantee permanent access rights and can be withdrawn with short notice. The TCA is accompanied by a Joint Declaration on financial services, which sets out an intention for the EU and UK to cooperate on matters of financial regulation and to agree a Memorandum of Understanding by March 2021. There is no certainty, however, as to the form, scope and timing of any such Memorandum of Understanding.

NatWest Group has engaged in significant and costly Brexit planning and contingency planning. NatWest Group continues to monitor regulatory developments, and NatWest Group continues to seek advice on any transitional regimes being introduced by individual EU countries, including The Netherlands. It is updating its operating model accordingly. NatWest Group also continues to assess where NatWest Group companies can obtain bilateral regulatory permissions to permit business to continue from its UK entities, transferring what cannot be continued to be rendered from the UK to an EEA subsidiary. Where such regulatory permissions are temporary or are withdrawn, a different approach may need to be taken or may result in a change in operating model or some business being ceased. Not all NatWest Group entities have applied for bilateral regulatory permissions and instead intend to move EEA business to an EEA licenced subsidiary. There is a risk that such EEA licences may not be granted, and where these permissions are not obtained, further changes to the NatWest Group's operating model may be required or some business may need to be ceased. In addition, failure to obtain regulatory permissions in one part of the NatWest Group may impact other parts of the NatWest Group (including NWM N.V. Group) adversely. Certain permissions are required in order to maintain the ability to clear euro payments and others will allow NatWest Group to continue to serve non-UK EEA customers. Furthermore, transferring business to an EEA based subsidiary is a complex exercise and involves legal, regulatory and executional risks, and could result in a loss of business, customers or greater than expected costs. The changes to NatWest Group's operating model have been costly and further changes to its business operations, product offering and customer engagement could result in further costs. Any of the above could, in turn, negatively impact NWM N.V. Group. NatWest Group previously announced that it had transferred the client relationship coverage of its Western European corporate portfolio to NWM N.V. Group. This was accompanied by the transfer of certain term funding and revolving credit facilities from NWB Plc to NWM N.V. Group. In light of NatWest Group's most recent Brexit planning and consistent with NatWest Group and NWM Group's – including NWM N.V. Group - strategies, NWM N.V. Group currently expects that certain parts of NatWest Group's Western European corporate portfolio may remain in NatWest Holdings Group and not be transferred to NWM Group and/or NWM N.V. Group. In addition, some or all of this portfolio already held in NWM N.V. Group may be transferred back to NatWest Holdings Group.

The timing and quantum of any such transfers is uncertain and NWM N.V. Group can give no assurance as to the full impact of such transactions on its go-forward results of operations. As a result, NWM N.V. Group's business, results of operations and outlook could be adversely affected.

The effects of the UK's exit from the EU and the EEA are expected to continue to affect many aspects of the business and operating environment of NatWest Group, including NWM Group and NWM N.V. Group, including as described elsewhere in these risk factors, and may be material and/or cause a near-term impact on impairments.

The long-term effects of Brexit on the operating environment of NatWest Group, including NWM Group and NWM N.V. Group, are difficult to predict. They may be impacted by wider global macro-economic trends and events, particularly COVID-19 pandemic related uncertainties, which may significantly impact NWM N.V. Group and its customers and counterparties who are themselves dependent on trading with the UK or personnel from the UK. They may exacerbate the economic impacts of the COVID-19 pandemic on the UK, The Netherlands, the Republic of Ireland ('ROI') and the rest of EU/EEA.

Significant uncertainty remains as to the extent to which EU/EEA laws will diverge from UK law (including bank regulation), whether and what equivalence determinations will be made by the various regulators and therefore what respective legal and regulatory arrangements will be, under which NWM Group and its subsidiaries (including NWM N.V. Group) will operate. The legal and political uncertainty and any actions taken as a result of this uncertainty, as well as new or amended rules, could have a significant adverse impact on NWM Group's businesses and non-UK operations and/or legal entity structure, including NWM N.V. Group, including attendant operating, compliance and restructuring costs, level of impairments, capital requirements, regulatory environment and tax implications and as a result may adversely impact the profitability, competitive position, business model and product offering of NWM Group and NWM N.V. Group.

Changes in interest rates have affected and will continue to affect NWM N.V. Group's business and results.

Interest rate risk exists for NWM N.V. Group. Monetary policy has been accommodative in recent years including initiatives implemented by the ECB such as its corporate sector purchase programme (CSPP), which helped to support demand at a time of pronounced fiscal tightening and balance sheet repair. However, there remains considerable uncertainty as to the future direction of interest rates and pace of change (as set by the ECB) and other major central banks) including as a result of the COVID-19 pandemic and its effect on the UK and Dutch economy as well as the general Dutch political or economic climate. Further decreases in interest rates and/or continued sustained low or negative interest rates would be expected to continue to put further pressure on NWM N.V. Group's interest income and profitability. Conversely, while increases in interest rates may support NWM N.V. Group interest income, sharp increases in interest rates could have macroeconomic effects that lead to adverse outcomes for NWM N.V. Group's business. For example, they could lead to generally weaker than expected growth, or even contracting GDP, reduced business confidence and higher levels of unemployment or underemployment, all of which could adversely affect the business and performance of NWM N.V. Group.

HM Treasury (or UKGI on its behalf) could exercise a significant degree of influence over NatWest Group and NWM N.V. Group is ultimately controlled by NatWest Group 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 NatWest Group plc. As such, NatWest Group plc is the ultimate parent company of NWM N.V.

In its March 2020 Budget, the UK Government announced its intention to continue the process of privatisation of NatWest Group plc and to carry out a programme of sales of NatWest Group plc ordinary shares with the objective of selling all of its remaining shares in NatWest Group plc by 2025. On 6 February 2019, NatWest Group plc obtained shareholder authority to make off-market purchases of its ordinary shares from HM Treasury under the terms of a directed buyback contract. The authority provided by this contract was renewed at NatWest Group's Annual General Meeting on 29 April 2020. As of 31 December 2020, the UK Government held 61.9% of the issued ordinary share capital of NatWest Group plc. There can be no certainty as to the continuation of the sell-down process or the timing or extent of such sell-downs.

HM Treasury has indicated that it intends to respect the commercial decisions of NatWest Group and that NatWest Group entities (including NWM N.V. Group) will continue to have its own independent board of directors and management team determining their own strategy. However, HM Treasury, as majority shareholder, and UK Government Investments Limited ('UKGI'), as manager of HM Treasury's shareholding, could exercise a significant degree of influence over the election of directors and appointment of senior management, NatWest Group's (including NWM N.V. Group's) capital strategy, dividend policy, remuneration policy or the conduct of NatWest Group's (including NWM N.V. Group's) operations and other things. HM Treasury or UKGI's approach depends on government policy, which could change, including as a result of a general election. The exertion of such influence over NatWest Group could in turn have an adverse effect on the governance or business strategy of NWM N.V. Group.

In addition, as a wholly owned subsidiary of NWM Plc (and ultimately NatWest Group plc), NWM Plc and NatWest Group plc control NWM N.V. Group's board of directors, corporate policies and strategic direction. The interests of NatWest Group plc as an equity holder and as NWM N.V. Group's ultimate parent may differ from the interests of NWM N.V. Group or of potential investors in NWM N.V. Group's securities.

Financial resilience risk

NWM Group, including NWM N.V. Group, may not meet the targets it communicates to the market, generate returns or implement its strategy effectively.

NWM N.V. Group is subject to transfer pricing arrangements with NWM Plc (NWM N.V.'s its parent company). 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 and/or assessment 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 NWM N.V. Group's profitability.

As part of NatWest Group's Purpose-led Strategy and the NWM Refocusing, NWM N.V. Group has set a number of internal and external financial, capital and operational targets including in respect of: balance sheet and cost reductions, CET1 ratio targets, (for NWM Plc and NWM N.V.) leverage ratio targets, targets in relation to local regulation, funding plans and requirements, management of risk weighted assets (RWAs) and the timing thereof, employee engagement, diversity and inclusion as well as environmental, social and customer satisfaction targets.

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, the impact of the COVID-19 pandemic, 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 NWM N.V. Group's business model and strategy (including risks associated with climate, environmental, social, governance and other sustainability-related issues) and the NWM Refocusing. See also, 'NatWest Group is in the process of implementing its Purpose-led Strategy, which requires changes in the business and strategy of NWM Group and NWM N.V. Group, and entails material execution, commercial and operational risks for NWM N.V. Group' and 'NWM Group (including NWM N.V. Group) may not be able to successfully implement the NWM Refocusing and it may not achieve its targets and NWM Group (including NWM N.V. Group) may not ultimately result in a viable, competitive business'.

A number of factors, including the economic and other effects of the COVID-19 pandemic, may impact NWM Plc and NWM N.V.'s ability to maintain their current CET1 ratio targets, including impairments, the extent of organic capital generation or the reduction of RWAs. NWM N.V. may incur disposal losses as part of the process of exiting positions to reduce RWAs. Some of these losses may be recognised ahead of the actual disposals, and the losses overall may be higher than currently anticipated.

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 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.

In addition, challenging trading conditions may have an adverse impact on NWM N.V. Group's business and may adversely affect its ability to meet its targets and expectations and successfully execute its strategy and become a viable, competitive or profitable banking business.

There is a risk that NWM N.V. Group's strategy may not be successfully executed, that it will not meet its targets and expectations, or that it will not be a viable, competitive or profitable banking business.

NWM Group has undergone significant structural and other change, including as a result of the UK ring-fencing regime, acquisition of NatWest Markets N.V. and the implementation of NatWest Group's Purpose-led strategy (including the NWM Refocusing).

Prior to the implementation of the UK ring-fencing regime, NWM Plc (NWM N.V. being a wholly-owned subsidiary of NWM Plc) was NatWest Group's principal operating subsidiary. As a result of the implementation of the UK ring-fencing regime and the acquisition of NWM N.V., NWM Plc is now the principal operating company for most of NatWest Group's operations, including NWM N.V. Group, outside the ring-fence (excluding RBS International). The implementation of the UK ring-fencing regime had a significant impact on NWM Plc an NWM N.V. and required them to adapt their strategy, structure and business model and adopt processes and structures for, among other things, financial reporting, risk management and corporate governance. Ongoing compliance with the UK ring-fencing rules is required.

NatWest Group is currently in the process of implementing its Purpose-led Strategy, which includes the NWM Refocusing. The implementation of this strategy has required and is expected to continue to require changes to the business and operations of NWM Group and NWM N.V. Group in the medium and long term and entails material execution, commercial and operational risks for NWM N.V. Group. Additional changes to NWM N.V. Group's business and structure may be required. See also, 'NatWest Group is in the process of implementing its Purpose-led Strategy, which requires changes in the business and strategy of NWM Group and NWM N.V. Group, and entails material execution, commercial and operational risks for NWM N.V. Group' and 'NWM Group (including NWM N.V. Group) may not be able to successfully implement the NWM Refocusing and it may not achieve its targets and NWM Group (including NWM N.V. Group) may not ultimately result in a viable, competitive business'.

NWM N.V. Group has implemented a shared services model with the ring-fenced entities for certain services, the execution of which is subject to various internal and external factors and risks, including the implementation of the NWM Refocusing. Moreover, NWM N.V. Group has entered into revenue share agreements and cost recharge agreements with some entities within NatWest Group's ring-fenced sub-group (including NatWest Bank Plc and Ulster Bank Ireland DAC) as well as with a non-ring-fenced entity (RBS International). It has also entered into certain transfer pricing arrangements, funded guarantee agreements and revenue sharing agreements with NWM Plc in relation to certain EEA customer transfers and Western European transfers. See also, 'NWM Group, including NWM N.V. Group, may not meet the targets it communicates to the market, generate returns or implement its strategy effectively'.

Following NWM Plc's acquisition of RBS Holdings N.V. and its wholly-owned subsidiary, NatWest Markets N.V. in 2019, these entities are now part of NWM Group, introducing additional risks, including in respect of: foreign exchange exposure, counterparty and borrower risk, Brexit risk (due to potential changes in regulatory approach following Brexit), operational and business risk.

There can be no certainty that NWM N.V. Group will be a viable, competitive or profitable banking business.

NWM N.V. is NatWest Group's banking and trading entity located in The Netherlands. NWM N.V. has recently repurposed its banking licence, and NWM N.V. Group may be subject to further changes.

As part of NatWest Group's strategy, NWM N.V. is NatWest 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 DNB. Approval from the DNB is required for material changes to NWM N.V.'s operating model. In addition, although the head office for NWM N.V. is located in Amsterdam, NWM N.V. Group also operates branches in UK, France, Germany, Ireland, Italy, Spain and Sweden.

As a subsidiary of NWM Plc (and ultimately NatWest Group plc), NWM N.V. utilises a number of NWM Group and NatWest 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. In addition, the products that NWM N.V. offers are based on those offered by NWM Plc. See also, 'Operational risks (including reliance on third party suppliers and outsourcing of certain activities) are inherent in NWM N.V. Group's businesses'. As such, any changes made to systems, policies, frameworks or products of NatWest Group or NWM Group may have a corresponding adverse effect on NWM N.V.

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.

NWM N.V. may not meet the prudential regulatory requirements for capital and liquidity.

NWM N.V. Group is required by the DNB to maintain adequate financial resources. Adequate capital also gives NWM N.V. Group financial flexibility in the face of turbulence and uncertainty in the global economy and specifically in the core UK and European operations, such as in The Netherlands.

NWM N.V.'s 2021 target CET1 ratio is based on expected regulatory requirements, internal modelling and risk appetite (including under stress), taking into account the anticipated extent of transfers of certain parts of NatWest Group's Western European corporate portfolio. See also, 'Continuing uncertainty regarding the effects of the UK's withdrawal from the European Union may continue to adversely affect NWM Plc (NWM N.V.'s parent company) and its operating environment and NatWest Group plc (NWM N.V.'s ultimate parent company) and may have an indirect effect on NWM N.V. Group'.

As at 31 December 2020, NWM N.V. Group's CET1 ratio (on a consolidated basis) was 30.6%. NWM N.V.'s current capital strategy is based on the management of risk weighted assets (RWAs) and other capital management initiatives.

Other factors that could influence NWM N.V.'s CET1 ratio include, amongst other things (see also, 'NatWest Group is in the process of implementing its Purpose-led Strategy, which requires changes in the business and strategy of NWM Group and NWM N.V. Group, and entails material execution, commercial and operational risks for NWM N.V. Group'):

- a depletion of NWM N.V.'s capital resources through losses (which would in turn impact retained earnings) and may result from revenue attrition or 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 continued 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 developments of prudential regulation (for example, finalisation of Basel 3 standards), which will impact various areas including the approach to

calculating credit risk, market risk, leverage ratio, capital floors and operational risk RWAs, as well as continued regulatory uncertainty on the details thereto;
- further losses (including as a result of extreme one-off incidents such as cyberattack, 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 capital optimisation activity or legacy entities owned by NWM Plc and NWM N.V.

Any capital management actions taken under a stress scenario may affect, among other things, NWM N.V. Group's product offering, its credit ratings, its ability to operate its businesses and pursue its current strategies and strategic opportunities, any of which may negatively impact investor confidence and the value of 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 'NatWest 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)'.

NWM N.V. may not be able to adequately access sources of liquidity and funding.
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). As at 31 December 2020 NWM N.V. Group held EUR 1.3 billion in deposits from banks and customers. The level of deposits and wholesale funding may fluctuate due to factors outside NWM N.V. Group's control. These factors include: loss of investor confidence (including in individual NWM N.V. Group entities, the European banking sector or the banking sector as a whole), sustained low or negative interest rates, increasing competitive pressures for bank funding or the reduction or cessation of deposits and other funding by counterparties, any of which could result in a significant outflow of deposits or reduction in wholesale funding within a short period of time. See also, 'NWM N.V. Group has significant exposure to counterparty and borrower risk.'

An inability to grow, roll-over, or any material decrease in, 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 NWM N.V. Group's ability to satisfy its liquidity needs.

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 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 NWM N.V. Group balance sheet, then unsecured funding from other sources would be required to replace such financing. There is a risk that NWM N.V. Group would be 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 NWM N.V. Group's business, results of operations and outlook. In addition, because 'fee base borrow' transactions are conducted off-balance sheet (due to the collateral being borrowed) investors may find it more difficult to gauge NWM N.V. Group's creditworthiness, which may be affected if these transactions were to be unwound in a stress scenario. Any lack of or perceived lack of creditworthiness may adversely affect NWM N.V. Group.

As at 31 December 2020, NWM N.V. Group reported a liquidity coverage ratio of 356% on a solo basis. If its liquidity position were to come under stress and if 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. This would mean that NWM N.V. Group might be unable to: meet deposit withdrawals on demand or satisfy, buy back requests, repay borrowings as they mature, meet its obligations under committed financing facilities, comply with regulatory funding requirements, undertake certain capital and/or debt management activities, or fund new loans, investments and businesses. 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 or trigger the execution of certain management actions or recovery options. This could also lead to higher funding costs and/or changes to NWM N.V. Group's funding plans. In a time of reduced liquidity, or market stress, 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 NWM N.V. Group's results.

NWM N.V. Group independently manages liquidity risk on a stand-alone basis, including through holding its own liquidity portfolio. It has restricted access to liquidity or funding from other NatWest Group entities. As a result, NWM N.V.'s liquidity position could be adversely affected, which may also require unencumbered assets to be liquidated or may result in higher funding costs which may adversely impact NWM N.V. Group's margins and profitability. NWM N.V.'s management of its own liquidity portfolio and the structure of capital support are subject to operational and execution risk, as NWM N.V. is required to meet its own liquidity and capital requirements.

The risks described in the paragraphs above may have a negative effect on NWM N.V. Group's access to liquidity and funding, which could mean that NWM N.V. Group is required to adapt its funding plan and could adversely affect NWM N.V. Group.

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 I and II ('BRRD'), as implemented in UK and The Netherlands, 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, liquidity or funding requirements would trigger consideration of NWM N.V.'s recovery plan, and in turn may prompt consideration of NatWest Group's recovery plan. If, under stressed conditions, the liquidity, capital or leverage ratio were to decline, there are a range of recovery management actions (focused on risk reduction and mitigation) that NWM N.V. could undertake that may or may not be sufficient to restore adequate liquidity, capital and leverage ratios. Additional management options relating to existing capital issuances, asset or business disposals, capital payments and dividends from NWM Plc to its parent, could also be undertaken to support NWM N.V.'s capital and leverage requirements. NatWest 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 FMSA have been met. NatWest Group's and/or NWM N.V.'s regulator may also request that 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 NatWest Group. However, under certain conditions set forth in the BRRD, as implemented by the FMSA, as the Dutch resolution authority, the DNB also has the power to execute the 'bail-in' of certain securities of NWM N.V. Group, which may include any notes, without further action at NatWest Group level.

Any capital management actions taken under a stress scenario may affect, among other things, 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 NWM N.V. Group's securities. See also, 'NatWest 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)'. 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 NWM N.V. Group's operating performance.

Any reduction in the credit rating and/or outlooks assigned to NatWest Group 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 NWM N.V. Group, reduce NWM N.V. Group's liquidity position and increase the cost of funding.
Rating agencies regularly review NatWest Group plc, NWM Plc, NWM N.V. and other NatWest Group entity credit ratings and outlooks, which could be negatively affected by a number of factors that can change over time, including: the credit rating agency's assessment of NWM N.V. Group's strategy and management's capability; its financial condition including in respect of profitability, asset quality, capital, funding and liquidity; the

level of political support for the industries in which 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 in NWM N.V. Group's key markets, including the impact of the COVID-19 pandemic, Brexit and any further Scottish independence referendum; any reduction of the UK's sovereign credit rating and market uncertainty.

In addition, credit ratings agencies are increasingly taking into account sustainability-related factors, including climate, environmental, social and governance related risk, as part of the credit ratings analysis, as are investors in their investment decisions.

Any reductions in the credit ratings of NatWest Group plc, NWM Plc, NWM N.V. or of certain other NatWest 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 NWM N.V. Group's (and, in particular, NWM N.V.'s) cost of funding and its access to capital markets which could limit the range of counterparties willing to enter into transactions with NWM N.V. Group (and, in particular, with NWM N.V.). This could in turn adversely impact NWM N.V. Group's competitive position and threaten its prospects in the short to medium-term.

NWM N.V. Group operates in markets that are highly competitive, with increasing competitive pressures and technology disruption.

The markets in which NWM N.V. Group operates are highly competitive, and competition may intensify in response to the economic effects of the COVID-19 pandemic and other changes. These include 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 NWM N.V. Group are, and will become, more technology intensive. NWM N.V. Group's ability to develop such services which also comply with applicable and evolving regulations has become increasingly important to retaining and growing NWM N.V. Group's client businesses across its geographical footprint. There can be no certainty that 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) will be successful or that it will allow NWM N.V. Group to continue to grow such services in the future.

In addition, certain of 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.

These competitors may be better able to attract and retain clients and key employees, may have better IT systems, 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 NWM N.V. Group. As mentioned above, NWM N.V. operates a shared services model in relation to technology and innovation. Although NWM N.V. Group invests in new technologies and participates in industry and research-led initiatives aimed at developing new technologies, such investments may be insufficient or ineffective, especially given NWM N.V. Group's focus on its cost savings targets. This may limit additional investment in areas such as financial innovation and could therefore affect NWM N.V. Group's offering of innovative products or technologies for delivering products or services to clients and its competitive position. NWM Group and 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. The development of innovative products depends on NWM Group and NWM N.V. Group's ability to produce underlying high-quality data, failing which its ability to offer innovative products may be compromised.

If NWM N.V. Group is unable to offer competitive, attractive and innovative products that are also profitable and timely, it will lose share, incur losses on some or all of its activities and lose opportunities for growth. In this context, 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 NWM N.V. Group's current solutions. There can be no certainty that such initiatives will deliver the expected cost savings and investment in automated processes will likely also result in increased short-term costs for NWM N.V. Group.

In addition, the implementation of the NWM Refocusing and NatWest Group's Purpose-led Strategy (including NatWest Group's acquisitions, divestments, reorganisations, restructurings and partnerships, its climate ambition), cost-reduction measures, as well as employee remuneration constraints, may also have an impact on NWM N.V. Group's ability to compete effectively and intensified competition from incumbents, challengers and new entrants could affect NWM N.V. Group's ability to provide satisfactory returns.

Moreover, activist investors have increasingly become engaged and interventionist in recent years, which may pose a threat to NatWest Group's strategic initiatives. Furthermore, continued consolidation or technological or other developments in certain sectors of the financial services industry could result in 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, each of which can adversely affect NWM N.V. Group's business and results of operations.

NWM N.V. Group is reliant on access to the capital markets to meet its funding requirements. The inability to do so may adversely affect NWM N.V. Group.

NWM N.V. Group's is 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 above in 'NWM N.V. Group faces market risk as a result of increased political and economic risks and uncertainty in the UK, European and global markets', 'Continuing uncertainty regarding the effects of the UK's withdrawal from the EU may continue to adversely affect NWM Plc (NWM N.V.'s parent company) and its operating environment and NatWest Group plc (NWM N.V.'s ultimate parent company) and may have an indirect effect on NWM N.V. Group.' and 'Any reduction in the credit rating and/or outlooks assigned to NatWest Group 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 NWM N.V. Group, reduce NWM N.V. Group's liquidity position and increase the cost of funding'.

In addition, NWM N.V. receives capital and funding from NatWest Group plc and NWM N.V. is therefore reliant on the willingness of NatWest Group plc to fund its internal capital targets. NWM N.V. Group has set target levels for different tiers of capital as percentages of its RWAs, being a minimum CET1 capital ratio of more than 15% and a minimum CRR leverage ratio of more than 4%. 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 NWM N.V. Group to adequately access the capital markets, to manage its balance sheet in line with assumptions in its funding plans, may adversely affect NWM N.V. Group's, such that NWM N.V. Group may not constitute a viable banking business and/or NWM N.V. may fail to meet its regulatory capital requirements (at present, NWM N.V. does not yet have its own MREL requirements).

NWM N.V. Group may be adversely affected if NatWest Group fails to meet the requirements of regulatory stress tests.

NatWest Group is subject to annual stress tests by its regulator in the UK and is also subject to stress tests by European regulators with respect to NatWest Group plc, NWM N.V. and Ulster Bank Ireland DAC. Stress tests are designed to assess the resilience of banks to potential adverse economic or financial developments and ensure that they have robust, forward-looking capital planning processes that account for the risks associated with their business profile. If the stress tests reveal that a bank's existing regulatory capital buffers are not sufficient to absorb the impact of the stress, then it is possible that NatWest Group and/or NWM Group may need to take action to strengthen their capital positions.

Failure by NatWest Group to meet its quantitative and qualitative requirements of the stress tests set forth by its UK regulators or those elsewhere may result in: NatWest Group's regulators requiring NatWest Group to generate additional capital, reputational damage, increased supervision and/or regulatory sanctions and/or loss of investor confidence.

NWM N.V. Group has significant exposure to counterparty and borrower risk.

NWM N.V. Group, which NWM Plc acquired in late 2019, has a portfolio of loans and loan commitments to Western European corporate customers. As a result, through the NWM N.V. business and NWM Group's other activities, NWM 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 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.

NWM N.V. Group is also 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 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, 'Risk and capital management – Credit Risk'.

Any negative developments in the activities listed above may negatively impact NWM N.V. Group's clients and credit exposures, which may, in turn, adversely impact NWM N.V. Group's profitability.

The credit quality of NWM N.V. Group's borrowers and other counterparties is impacted by prevailing economic and market conditions (including those caused by the COVID-19 pandemic) and by the legal and regulatory landscape in 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 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 NWM N.V. Group. In addition, the value of collateral may be correlated with the probability of default by the relevant counterparty ('wrong way risk'), which could increase NWM N.V. Group's potential loss. This systemic risk may also adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with which NWM N.V. Group interacts on a daily basis. See also 'NWM N.V. Group is reliant on access to the capital markets to meet its funding requirements. The inability to do so may adversely affect NWM N.V. Group'.

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 NWM N.V. Group and an inability to engage in routine funding transactions.

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 NWM N.V. Group's exposure to the financial industry, it also has exposure to shadow banking entities (i.e., 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 of such exposure. If 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 business, results of operations, and outlook of NWM N.V. Group.

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 NWM N.V. Group's business, strategy and capital requirements, 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 NatWest Group's mandated stress testing). In addition, 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. 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.

As models analyse scenarios based on assumed inputs and a conceptual approach, model outputs therefore remain uncertain and should not be relied on. Failure of models, (including due to errors in model design) or new data inputs, including to accurately reflect changes in the micro and macroeconomic environment in which NWM N.V. Group operates (for example to account for the impact of the COVID-19 pandemic), to capture risks and exposures at the subsidiary level, and to update for changes to NWM N.V. Group's current business model or operations, or for findings of deficiencies by NatWest Group (and in particular NWM Group's) or NWM N.V. Group's regulators (including as part of NatWest Group's mandated stress testing) may result in increased capital requirements, or require management action. 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.

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. While estimates, judgments and assumptions take into account historical experience and other factors (including market practice and expectations of future events that are believed to be reasonable under the circumstances), actual results may differ due to the inherent uncertainty in making estimates, judgments and assumptions (particularly those involving the use of complex models).

The accounting policies deemed critical to 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 59 of the 2020 Financial Statements. New accounting standards and interpretations that have been issued by the International Accounting Standards Board but which have not yet been adopted by NWM N.V. Group are discussed in 'Future accounting developments International Financial Reporting Standards' on page 59 of the 2020 Financial Statements.

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 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 NWM N.V. Group.

NWM N.V. Group's trading assets amounted to EUR 4,380 as at 31 December 2020. 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, 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 these circumstances, NWM N.V. Group's internal valuation models require 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 NWM N.V. Group to recognise fair value losses, which may have an adverse effect on NWM N.V. Group's income generation and financial position.

NatWest 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 directive providing for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms (2014/59/EU) (‘**BRRD**’) establishes a common approach within the EU for the recovery and resolution of banks. In the EU UK and The Netherlands the BRRD has been implemented via national legislation which grants powers to a national resolution authority (‘**NRA**’). The UK implementation of the BRRD remains in force now that the Brexit transition period has ended. In Europe (which for the avoidance of doubt excludes 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 – NatWest Group plc and its UK affiliates

HM Treasury, the Bank of England and the Prudential Regulatory Authority (the ‘PRA’) (the prudential regulator of NWM Plc the parent company of NWM N.V.) and Financial Conduct Authority (the ‘FCA’) (together, the ‘Authorities’) are granted substantial powers to resolve and stabilise UK-incorporated financial institutions.

Five stabilisation options exist: (i) transfer of all of the business of a relevant entity or the shares of the relevant entity to a private sector purchaser; (ii) transfer of all or part of the business of the relevant entity to a ‘bridge bank’ wholly-owned by the Bank of England; (iii) transfer of part of the assets, rights or liabilities of the relevant entity to one or more asset management vehicles for management Of the transferor’s assets, rights or liabilities; (iv) the ‘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. These tools may be applied to 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 NatWest Group 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, there are modified insolvency and administration procedures for relevant entities, and the UK Authorities have the power to modify or override certain contractual arrangements in certain circumstances and amend the law for the purpose of enabling their powers to be used effectively and may apply promulgate provisions with retrospective applicability. Similar powers may also be exercised in The Netherlands by the relevant Dutch regulatory authorities.

Under the UK 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 their powers including the determination of actions undertaken in relation to the ordinary shares and other securities of NatWest Group plc (and certain of its affiliates) which may depend on factors outside of NatWest Group plc's control. Moreover the UK Banking Act provisions 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 NatWest Group is at or is approaching the point of non-viability such that regulatory intervention is required, there may correspondingly be an adverse effect on the business, results of operations and outlook NWM N.V. Group.

NatWest Group is subject to Bank of England oversight in respect of resolution, and NWM N.V. Group could be adversely affected should the Bank of England deem NatWest Group's preparations to be inadequate.

NatWest Group is subject to regulatory oversight by the Bank of England, and is required (under the PRA rulebook) to carry out an assessment of its preparations for resolution, submit a report of the assessment to the PRA and disclose a summary of this report. The initial report is due to be submitted to the PRA on 1 October 2021 and the Bank of England's assessment of NatWest Group's preparations is scheduled to be released on 10 June 2022. The form and substance of the June publication is yet to be established.

NatWest Group has dedicated significant resources towards the preparation of NatWest Group for a potential resolution scenario. However, if the assessment reveals that NatWest Group is not adequately prepared to be resolved, or does not have adequate plans in place to meet resolvability requirements by 1 January 2022, NatWest Group may be required to take action to enhance its preparations to be resolvable, resulting in additional cost and the dedication of additional resources. These actions may adversely affect NatWest Group and/or 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. This may also result in reputational damage and/or loss of investor confidence.

Risk factors

Climate and sustainability-related risks

NWM N.V. Group and its customers may face significant climate-related risks, including in transitioning to a low-carbon economy, which may adversely impact NWM N.V. Group.

Climate-related risks and uncertainties are subject to increasing national and international prudential and regulatory, political and societal scrutiny.

Financial and non-financial risks from climate change arise through physical and transition risks. Furthermore, NWM N.V. Group may face a variety of climate-related legal risks, both physical and transition, from potential litigation and contract liability. See also, 'NWM N.V. Group may be subject to potential climate, environmental and other sustainability-related litigation, enforcement proceedings, investigations and conduct risk'. It is very difficult to predict how and when the physical risks from climate change will manifest. They include more extreme and frequent weather events, rising sea levels, flooding and subsidence, heat waves and long-lasting wildfires, reductions in biodiversity and resource scarcity. Damage to NWM N.V. customers' properties and operations could disrupt business, impair asset values and negatively impact creditworthiness leading to increased default rates, delinquencies, write-offs and impairment charges in NWM N.V. Group's portfolios. In addition, NWM N.V. Group may itself suffer damage to premises and disruption to operations leading to increased costs and negatively affecting business continuity.

The timing and pace of the transition to a low-carbon economy is also uncertain and may be near term, gradual and orderly or delayed, rapid and disorderly. Widespread levels of adjustment to a low-carbon economy across all sectors of the economy and markets in which NWM N.V. Group operates will be required by several multilateral agreements, in particular the 2015 Paris Agreement and the Dutch Government's commitment to cutting The Netherlands' carbon emissions with 95% by 2050, compared to 1990 levels, and by proposals stemming from the EU Sustainable Finance Action Plan. The impact of the extensive commercial, technological, policy and regulatory changes required to achieve transition remains uncertain, but it is expected to be significant and may be disruptive across the global economy and markets. Some sectors within NWM N.V. Group's customer base (including oil and gas, automotive and transport, for example) are expected to be particularly impacted.
If NWM N.V. Group fails to timely adapt its business and operating model to the climate-related risks and opportunities and changing market expectations, or to appropriately identify, measure, manage and mitigate climate change related physical and transition risks and opportunities that NWM N.V. Group and its customers face, NWM N.V. Group's reputation, business, results of operations and outlook may be impacted adversely.

NatWest Group's Purpose-led Strategy includes one area of focus on climate change that is likely to require material changes to the business and operating model of NWM N.V. Group and entails significant execution risk.

NatWest Group has announced its ambition to become the leading bank on climate in the UK and ROI and set itself the challenge to at least halve the climate impact of its financing activity by 2030 Agreement ('Climate Ambition') and to do what is necessary to achieve alignment with the 2015 Paris Agreement.

NatWest Group's Climate Ambition may require NWM N.V. Group to significantly reduce its own financed emissions and its exposure to customers that do not align with a transition to a low-carbon economy or do not have a credible transition plan. Those reductions, together with the active management of climate-related risks and regulatory, policy and market changes, are likely to necessitate material and accelerated changes to NWM N.V. Group's business and operating model. This may have a material adverse effect on NWM N.V. Group's ability to achieve financial targets and generate sustainable returns.

To understand and measure the climate impact of emissions related to NWM N.V. Group's financing activities and alignment to the 2015 Paris Agreement objectives will require significant resources. There is currently no single standard approach or methodology exist to measure such emissions and to provide a scenario-based model for alignment with the objectives of the 2015 Paris Agreement and the data, methodologies and assumptions on which emissions estimates and targets are based are also subject to change. Accordingly, NatWest Group, including NWM N.V. Group, must continue to define and develop its approach to setting and publishing comprehensive sector-specific and climate impact scenario-based targets and plans by 2022 and to benchmarking its climate impact to measure and demonstrate its progress towards its Climate Ambition by 2030.
NWM N.V. Group's ability to contribute to achieving NatWest Group's Climate Ambition through its own specific targets and commitments will depend greatly on many external factors such as the macroeconomic environment, the extent and pace of climate change, including the timing and manifestation of physical and transition risks and the effectiveness of actions of governments, legislators, regulators, businesses, investors, customers and other stakeholders to adapt and/or mitigate the impact of climate-related risks. See also, 'NatWest Group is in the process of implementing its Purpose-led Strategy, which requires changes in the business and strategy of NWM N.V. Group, and entails material execution, commercial and operational risks for NWM N.V. Group'.

Any delay or failure to meet those climate-related targets and commitments and may have a material adverse impact on NWM N.V. Group's reputation, business, results, outlook, market and competitive position.

Any failure by NWM N.V. Group to implement effective and compliant climate change resilient systems, controls and procedures could adversely affect NWM N.V. Group's ability to manage climate-related risks.

Legislative and regulatory authorities in the UK and in the European Union are publishing expectations as to how banks should prudently manage and transparently disclose climate-related and environmental risks. In November 2020, the European Central Bank published its 'Guide on climate-related and environmental risks' and in April 2019, the PRA published a supervisory statement 'Enhancing banks' and insurers' approaches to managing the financial risks from climate change' (the 'SS 3/19').
In April 2020, the DNB published its 'Good Practices on Integration of Climate Risks for Banks' document in which it sets out the supervisory expectation that banks (including NWM N.V.) should incorporate climate-related risks into their governance and risk management arrangements in line with the principle of proportionality. In order to achieve this, the DNB provides several non-binding 'good practices' that banks could adhere to, including:

(2) incorporating an organisation-wide strategic approach toward climate-related risks, along with the integration of climate-related considerations in policy framework;
(3) embedding the identification, assessment, mitigation and monitoring of climate change related risks in banks' risk management framework; and
(4) disclosing the carbon footprint of lending and investment portfolio in the annual report.

In addition, the DNB has confirmed that it will perform more stress tests to assess the impact of climate change on the financial sector.
In June 2020, the Dutch Authority for the Financial Markets in The Netherlands (*Stichting Autoriteit Financiële Markten* ('AFM')) published its position paper on sustainability. In this position paper the AFM describes what it expects from market parties when it comes to sustainability and how the AFM will be supervising this. The AFM confirms, amongst others, that:

(5) a sustainable economy and society is a supervisory priority of the AFM and is increasingly becoming an integral part of its supervision strategy; and
(6) it expects market participants to integrate sustainability aspects in a responsible and careful manner in their financial products and services.

The Bank of England will use the 2021 biennial exploratory scenario launching in June 2021 to stress test the resilience of the current business models of the largest banks, insurers and the financial system to the physical and transition risks from climate change under a number of climate scenarios (the 'Climate Biennial Explanatory Scenario' or 'CBES'). In December 2020 the Bank of England confirmed that the 2021 CBES will be exploratory in nature and will not be used to set capital requirements. However, in future, regulators may require financial institutions such as NatWest Group (including NWM N.V. Group) to hold additional capital to enhance their resilience against systemic and/or institution specific vulnerabilities to climate-related risks, including potential asset devaluation shocks.

Any failure of NWM N.V. Group to fully and timely embed the climate-related risks into its risk management practices in line with applicable legal and regulatory requirements and expectations may have a material and adverse impact on NWM N.V. Group's regulatory compliance, prudential capital requirements, liquidity position, reputation, business, results of operations and outlook.

There are significant uncertainties inherent in accurately modelling the impact of climate-related risks.

Significant risks, uncertainties and variables are inherent in the assessment, measurement and mitigation of climate-related risks. These include data quality gaps and limitations, the pace at which climate science, greenhouse gas accounting standards and carbon capture and other emissions reduction solutions develop. In addition, multiple climate change scenarios dependent on a range of variable factors could unfold over the coming two or three decades, which timeframes are considerably longer than NWM N.V. Group's historical strategic, financial, resilience and investment planning horizons and which will affect how and when climate-related risks manifest.

As a result, it is very difficult to predict and model the impact of climate-related risks into precise financial and economic outcomes and impacts. Climate-related risks present significant methodological challenges due to their forward-looking nature, the lack of historical testing capabilities, the quality, lack of standardisation and incompleteness of emissions and other climate and sub-sector related data and the immature nature of risk measurement and modelling methodologies. The evaluation of climate-related risk exposure and the development of associated potential risk mitigation techniques largely depend on the choice of climate scenario modelling methodology and the assumptions made.

Risks and uncertainties of climate scenario modelling include (but are not limited to):

(7) lack of specialist expertise in banks such that NWM N.V. Group needs to rely on third party advice, modelling, and data;

(8) immaturity of modelling of and data on the impact of climate-related risks on financial assets which will evolve rapidly in the coming years;

(9) the number of variables and forward-looking nature of climate scenarios which makes them challenging to back test and benchmark;

(10) the significant uncertainty as to how the climate will evolve over time, how and when governments, regulators, businesses, investors and customers respond and how those responses impact the economy, asset valuations, land systems, energy systems, technology, policy and wider society.

Capabilities within NWM N.V. Group to appropriately assess, model and manage climate-related risks are developing. Even when those capabilities are developed, the high level of uncertainty and subjectivity around assumptions, the highly subjective nature of risk measurement and mitigation techniques, and data quality issues may lead to inadequate risk management information and frameworks, ineffective business adaptation or mitigation strategies, which may have a material adverse impact on NWM N.V. Group's regulatory compliance, reputation, business, results of operations and outlook.

A failure to adapt NWM N.V. Group's business strategy, governance, procedures, systems and controls to manage emerging sustainability-related risks and opportunities may have a material adverse effect on NWM N.V. Group's reputation, business, results of operations and outlook.

Investors, customers, international organisations, regulators and other stakeholders are increasingly focussing on identification, management and mitigation of 'sustainability-related' risks and opportunities such as environmental (including biodiversity and loss of natural capital); social (such as tackling inequality, inclusion, human rights and working conditions); and governance (such as board diversity, ethics, executive compensation and management structure) and on long term sustainable value creation. In addition to climate-related risks, sustainability-related risks may also adversely affect economic activity, asset pricing and valuations of issuers' securities and, in turn, the wider financial system and together with climate-related risks, may combine to generate even greater adverse effects. Sustainability-related risks may impact economic activities directly or indirectly and may affect the viability or resilience of business models over the medium to longer term. In addition, sustainability-related risks can trigger further losses stemming directly or indirectly from legal claims (liability risks) and reputational damage as a result of the public, customers, counterparties and/or investors associating the NWM N.V. Group or its customers with adverse sustainability-related issues, as well as exacerbate existing risks. Failure to adapt NWM N.V. Group's business strategy and to establish and maintain effective governance, procedures, systems and controls to manage emerging sustainability-related risks and opportunities may have a material adverse effect on NWM N.V. Group's reputation, liquidity position, business, results of operations and outlook.

Any reduction in the ESG ratings of NatWest Group (including NWM N.V. Group) could have a negative impact on NatWest Group's (including NWM N.V. Group) reputation and on investors' and customers risk appetite.

Unsolicited ESG ratings from agencies and data providers that rate how NatWest Group (including NWM N.V. Group) manages environmental, social and governance risks are increasingly influencing investment decisions. Changes to those ESG ratings can arise from factors outside NatWest Group's (including NWM N.V. Group) control (e.g. change in rating methodology). Any reduction in ESG ratings of NatWest Group could have a negative impact on NWM N.V. Group's reputation and influence investors' risk appetite for NWM N.V. Group's and/or its subsidiaries' securities and affect whether customers wish to deal with NWM N.V. Group.

Increasing levels of climate, environmental and sustainability-related laws, regulation and oversight may adversely affect NWM N.V. Group's business and expose NWM N.V. Group to increased costs of compliance, regulatory sanction and reputational damage.

There are an increasing number of EU, Dutch and other regulatory and legislative initiatives to address issues around climate, environmental and sustainability risks and opportunities and to promote the transition to a more sustainable low-carbon economy, affecting the financial sector and the real economy. Many focus on disclosure, developing standardised definitions for green and sustainable criteria of assets and liabilities and integrating climate change and sustainability into decision-making to improve transparency and access to green and sustainable financial products and services. This may significantly impact the services provided by NWM N.V. Group and its associated credit, market and financial risk profile as well as its recognition of its climate financing activity, in turn adversely affecting NatWest Group's (including NWM N.V. Group) achievement of its Climate Ambition. In addition, NWM N.V. Group will continue to be subject to an increasing array of the EU/EEA climate and sustainability-related legal and regulatory requirements, such as the EU Taxonomy and EU Green Bond Standards.

For example, DNB and the AFM are also increasingly focused on climate change sustainability have recently announced good practices and supervisory expectations relating to these topics.

In addition, NWM N.V. will be subject to increasing entity wide climate and other non-financial disclosures requirements with varying objectives and scopes, including the requirement to provide climate-related disclosures consistent with the Task Force on Climate-related Financial Disclosure ('TCFD') recommendations. The FCA will also consult on expanding its proposed new stock exchange listing rules for a wider scope of listed issuers, including NWM Group (the parent of NWM N.V. Group), as the UK moves towards mandatory TCFD reporting across the UK economy by 2025.

NatWest Group (including NWM Group and NWM N.V. Group) is also participating in various voluntary carbon reporting and other standard setting initiatives for disclosing climate and sustainability-related information.

Compliance with these developing requirements is likely to require NWM N.V. Group to implement significant changes to its business, operations, internal controls over financial reporting, disclosure controls, modelling capability and risk management systems, which may increase the cost of doing business, entail additional change risk and compliance costs.
Failure to implement and comply with these requirements or emerging best practice expectations may have a material adverse effect on NWM N.V. Group's regulatory compliance and may result in regulatory sanction and reputational damage.

NWM N.V. Group may be subject to potential climate, environmental and other sustainability-related litigation, enforcement proceedings, investigations and conduct risk.

The increasing number of new climate and sustainability-related laws and regulations, growing demand from investors and customers for environmentally sustainable products and services, and regulatory scrutiny exposes financial institutions, including NWM N.V. Group, to increasing litigation, conduct, enforcement and contract liability risks. Furthermore, there is the risk that shareholders, campaign groups, customers and other interest groups could seek to take legal action against NWM N.V. Group for financing, underwriting or contributing to climate change and environmental degradation. These potential, litigation, conduct, enforcement and contract liability risks may have a material adverse effect on NWM N.V. Group's ability to deliver its strategy, reputation, business, results of operations and outlook.

Operational and IT resilience risk

Operational risks (including reliance on third party suppliers and outsourcing of certain activities) are inherent in 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. It has come under increasing regulatory focus in recent years. NWM N.V. Group operates in many countries, offering a diverse range of products and services supported by 200 employees as at 31 December 2020; 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 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 NWM N.V. Group outsources certain activities, including with respect to the implementation of new technologies, innovation and responding to regulatory and market changes.

There is no certainty that the suppliers selected by NWM N.V. Group deliver on their contractual obligations or that such suppliers are able to provide the functions for which they have been contracted which could adversely affect the operations of NWM N.V. Operational risks continue to be heightened as a result of the implementation of the NWM Refocusing and NatWest Group's Purpose-led Strategy, NWM N.V. Group's current cost-reduction measures and conditions affecting the financial services industry generally (including Brexit and other geo-political developments) and in particular the legal and regulatory uncertainty resulting therefrom. It is unclear as to how the future ways of working may evolve, including in respect of how working practices may develop, or how NWM N.V. Group will evolve to best serve its customers. Any of the above may place significant pressure on NWM N.V. Group's ability to maintain effective internal controls and governance frameworks.

As part of the NWM Refocusing, NWM Group (including NWM N.V. Group) has materially increased its dependence on NatWest Bank Plc for numerous critical services and operations, including without limitation, property, finance, accounting, treasury risk, regulatory compliance and reporting, human resources, and certain other support and administrative functions. In addition, NWM N.V. Group has materially increased its dependence on NWM Plc for numerous critical services similar to those outlined above. A failure by NatWest Bank Plc or NWM Plc to adequately supply these services may expose NWM N.V. Group to critical business failure risk, increased costs and other liabilities. These and any increases in the cost of these services may adversely impact NWM N.V. Group's business, results of operations and outlook.

The effective management of operational risks is critical to meeting customer service expectations and retaining and attracting client business. Although NWM N.V. Group has implemented risk controls and mitigation actions, with resources and planning having been devoted to mitigating operational risk, such measures may not be effective in controlling each of the operational risks faced by NWM N.V. Group. Ineffective management of such risks could adversely affect NWM N.V. Group.

NWM N.V. Group is subject to increasingly sophisticated and frequent cyberattacks.

NWM N.V. Group experiences a constant threat from cyberattacks across the entire NatWest Group (including NWM N.V. Group) and against NatWest Group and NWM N.V. Group's supply chain, reinforcing the importance of due diligence of close working relationship with, the third parties on which NWM N.V. Group relies. NWM N.V. Group is reliant on technology, against which there is a constantly evolving series of attacks, that are increasing in terms of frequency, sophistication, impact and severity. As cyberattacks evolve and become more sophisticated, NWM N.V. Group is required to continue to invest in additional capability designed to defend against emerging threats.

In 2020, 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 manage the impact of the attacks and sustain availability of services for NWM N.V. Group's customers. NWM N.V. Group continues to invest significant resources in the development and evolution of cyber security controls that are designed to minimise the potential effect of such attacks.

Hostile attempts are made by third parties to gain access to, introduce malware (including ransomware) into and exploit vulnerabilities of NWM N.V. Group's IT systems, and to exploit vulnerabilities. NWM N.V. Group has information and cyber security controls in place to minimise the impact of any attack, which are subject to review on a continuing basis, but given the nature of the threat, there can be no assurance that such measures will prevent all attacks in the future. See also, 'NWM N.V. Group's operations are highly dependent on its complex IT systems (including those that enable remote working), and any IT failure could adversely affect NWM N.V. Group'.

Any failure in NatWest Group's and NWM Group's (and therefore 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 NWM N.V. Group's ability to retain and attract clients. Regulators in the UK, US, Europe and Asia 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 NWM N.V. Group's systems to disclose sensitive information in order to gain access to NWM N.V. Group's data or that of 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 NWM N.V. Group's employees or third parties, including third party providers, or may result from accidental technological failure.

NWM N.V. Group expects greater regulatory engagement, supervision and enforcement to continue at a high level 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 the scope, cost, consequence and pace of change, which could negatively impact NWM N.V. Group. Due to 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 NWM N.V. Group.

In accordance with the General Data Protection Regulation ('**GDPR**') and the European Banking Authority (EBA) Guidelines on ICT and Security Risk Management, 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 NWM N.V. Group, its clients and its employees. In order to meet this requirement, 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 NWM N.V. Group interacts. A failure to monitor and manage data in accordance with the GDPR and the EBA requirements of the applicable legislation may result in financial losses, regulatory fines and investigations and associated reputational damage. In addition, whilst NWM N.V. Group takes measures to prevent, detect and minimise attacks, NWM N.V. Group's systems, and those of third party providers, are subject to frequent cyberattacks.

NWM N.V. Group operations and strategy are highly dependent on the accuracy and effective use of data.

NWM N.V. Group relies on the effective use of accurate data to support, monitor, evaluate, manage and enhance its operations and deliver its strategy. The availability of current, detailed, accurate and, wherever possible, machine-readable customer segment and sub-sector data is fast becoming a critical strategic asset. Failure to have current high-quality data and/or the ineffective use of such data could result in a failure to manage and report important risks and opportunities or satisfy customers' expectations including the inability to deliver innovative products and services. This could also result in a failure to deliver NWM N.V. Group’s strategy and could place NWM N.V. Group at a competitive disadvantage by increasing its costs, inhibiting its efforts to reduce costs or its ability to improve its systems, controls and processes which could result in a failure to deliver NWM N.V. Group’s strategy. These data limitations or the unethical or inappropriate use of data and/or non-compliance with customer data and privacy protection laws could give rise to conduct and litigation risks and may increase the risk of operational events, losses or other adverse consequences due to inappropriate models, systems, processes, decisions or other actions.

NWM N.V. Group relies on attracting, retaining, developing and remunerating senior management and skilled personnel (such as market trading specialists), and is required to maintain good employee relations.

NWM N.V. Group's success depends on its ability to attract, retain, develop and remunerate highly skilled and qualified personnel, including senior management, directors, market trading specialists and key employees, especially for technology-focused roles, in a highly competitive market, in an era of strategic change (including a recent change in executive management) and under internal cost reduction pressures. NWM N.V. Group’s ability to do this may be more difficult due to the implementation of the NWM Refocusing, the Dutch compensation regulations and heightened regulatory oversight of banks and the increasing scrutiny of, and (in some cases) restrictions placed upon, employee compensation arrangements, in particular those of banks in receipt of government support such as NatWest Group. This increases the cost of hiring, training and retaining skilled personnel. In addition, certain economic, market and regulatory conditions and political developments (including Brexit) may reduce the pool of candidates for key management and non-executive roles, including non-executive directors with the right skills, knowledge and experience, or increase the number of departures of existing employees. The NWM Refocusing has also reduced NWM N.V. Group’s ability to engage in succession planning for critical roles given the recent reduction in headcount. This has placed increased risk on employee turnover within revenue generating areas.

Any reduction of compensation as a result of calls or recommendations form supervisors and/or regulators to mitigate the adverse effects of the COVID-19 pandemic could have an adverse effect on NatWest Group’s ability to hire, retain and engage well qualified employees, especially at a senior level, which may have a material adverse impact on the financial position and prospects of NWM Group and NWM N.V. Group. See also, ‘The COVID-19 pandemic has heightened NWM N.V. Group’s operational risks as many of its employees are working remotely which may also adversely affect NWM N.V. Group’s ability to maintain effective internal controls'.

Some of NWM N.V. Group's employees are represented by employee representative bodies, including a workers’ council. Engagement with its employees and such bodies is important to NWM N.V. Group in maintaining good employee relations. Any breakdown of these relationships could affect NWM N.V. Group's business, reputation, results of operations and outlook.

NWM N.V. Group's operations are highly dependent on its complex IT systems (including those that enable remote working), and any IT failure could adversely affect NWM N.V. Group.

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 proper functioning of NatWest Group’s including 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 (some of which are owned and operated by other entities in NatWest Group or third parties) is critical to 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 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 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 most of NWM N.V. Group’s employees are working remotely as a result of the COVID-19 pandemic, as it outsources certain functions and as it continues to innovate and offer new digital solutions to its clients as a result of the trend towards online and digital product offerings.

NWM N.V. Group continued to make considerable investments to further simplify, upgrade and improve its IT and technology capabilities (including migration of certain services to cloud platforms). As part of the NWM Refocusing, NWM Group, including NWM N.V. Group, also continues to develop and enhance digital services for its customers and seeks to improve its competitive position through enhancing controls and procedures and strengthening the resilience of services including cyber security. Any failure of these investment and rationalisation initiatives to achieve the expected results due to cost challenges or otherwise, could negatively affect NWM Group's operations, its reputation and ability to retain or grow its client business or adversely impact its competitive position, thereby negatively impacting NWM N.V. Group's business, results of operations and outlook. See also, ‘NatWest Group is in the process of implementing its Purpose-led Strategy, which requires changes in the business and strategy of NWM Group and NWM N.V. Group, and entails material execution, commercial and operational risks for NWM N.V. Group’.

A failure in NWM N.V. Group's risk management framework could adversely affect NWM N.V. Group, including its ability to achieve its strategic objectives.

Risk management is an integral part of all of NWM N.V. Group's activities and includes the definition and monitoring of NWM N.V. Group's risk appetite and reporting on NWM N.V. Group's risk exposure and the potential impact thereof on NWM N.V. Group's financial condition. NWM N.V.'s risk management framework is based on the framework of NatWest Group and 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 NWM N.V. Group's reputation or its relationship with its regulators, clients, shareholders or other stakeholders.

NWM N.V. Group's operations are inherently exposed to conduct risks, which include business decisions, actions or reward mechanisms that are not responsive to or aligned with NWM N.V. Group's regulatory obligations, client needs or do not reflect NWM N.V. Group's customer-focused strategy, ineffective product management, unethical or inappropriate use of data, information asymmetry, implementation and utilisation of new technologies, outsourcing of customer service and product delivery, the possibility of mis-selling of financial products and mishandling of customer complaints. Some of these risks have materialised in the past and ineffective management and oversight of conduct risks may lead to further remediation and regulatory intervention or enforcement. 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 NWM N.V. Group. These risks may be exacerbated when most of NWM N.V. Group's employees work remotely as a result of the COVID-19 pandemic, which places additional pressure on NWM N.V. Group's ability to maintain effective internal controls and governance frameworks.

As part of the NWM Refocusing, NWM N.V. Group is seeking to embed a strong risk culture across the organisation and has implemented policies and allocated new resources across all levels of the organisation to manage and mitigate conduct risk and expects to continue to invest in its risk management framework. However, such efforts may not insulate NWM N.V. Group from future instances of misconduct and no assurance can be given that NWM N.V. Group's strategy and control framework will be effective. See also, 'NatWest Group is in the process of implementing its Purpose-led Strategy, which requires changes in the business and strategy of NWM Group and NWM N.V. Group, and entails material execution, commercial and operational risks for NWM N.V. Group'.

There is also the risk that the risk management frameworks, as developed by NatWest 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 NWM N.V. head office is located in Amsterdam (where 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 NWM N.V. branches (where there is less direct supervision) there could be an adverse impact on NWM N.V.

Any failure in NWM Group's risk management framework could negatively affect NWM 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.

NWM N.V. Group's operations are subject to inherent reputational risk.
Reputational risk relates to stakeholder and public perceptions of 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 NWM N.V. Group, its employees or those with whom NWM N.V. Group is associated. This includes brand damage, which may be detrimental to 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 NWM N.V. Group's ability to attract and retain clients. In particular, 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 NWM N.V. Group or any other member of NatWest Group conducts or modifies its business activities and operations, media coverage (whether accurate or otherwise), employee misconduct, 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 NatWest Group plc, or the actual or perceived practices in the banking and financial industry in general, or a wide variety of other factors.

Modern technologies, in particular online social networks and other broadcast tools that facilitate communication with large audiences in short time frames and with minimal costs, may also significantly increase and accelerate the impact of damaging information and allegations.

Although 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, NWM N.V. Group cannot be certain that it will be successful in avoiding damage to its business from reputational risk.

Legal, regulatory and conduct risk

NWM N.V. Group's businesses are subject to substantial regulation and oversight, which are constantly evolving and may adversely affect NWM N.V. Group.
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, particularly as EU/EEA and UK laws may become more divergent and fragmented now that the Brexit transition period has ended. See also, 'Continuing uncertainty regarding the effects of the UK's withdrawal from the European Union may continue to adversely affect NWM Plc (NWM N.V.'s parent company) and its operating environment and NatWest Group plc (NWM N.V.'s ultimate parent company) and may have an indirect effect on NWM N.V. Group'.

In particular, NWM N.V. Group is subject to (i) direct prudential supervision by the DNB and indirect prudential supervision of the ECB; (ii) direct market conduct supervision by the AFM and indirect market conduct supervision by European Securities and Markets Authority (ESMA); and (iii) supervision by DNB, as home state supervisor, in respect of NWM N.V. Group's branch offices in France, Germany, Ireland, Italy, Spain and Sweden, and to supervision by local regulators in these jurisdictions, as host state supervisors, in respect of certain regulatory aspects of NWM N.V. Group's branch offices' operations that are subject to host state supervision (e.g. anti-money laundering laws). NWM N.V. Group expects government and regulatory intervention in the financial services industry to remain high for the foreseeable future.

Prudential regulatory requirements:
In recent years, regulators and governments have focused on reforming the prudential regulation of the financial services industry and the manner in which the business of financial services is conducted. Amongst others, measures have included: enhanced capital, liquidity and funding requirements, implementation of the UK ring-fencing regime, implementation and strengthening of the recovery and resolution framework applicable to financial institutions in The Netherlands, the UK, the EU and the US, financial industry reforms (including in respect of MiFID II), corporate governance requirements, restrictions on the compensation of senior management and other employees, enhanced data privacy and IT resilience requirements, 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 and disputes regimes, outsourcing, anti-corruption, anti-money laundering, anti-corruption, anti-bribery, anti-tax evasion, financial crime, swap dealers payment systems, sanctions and anti-terrorism laws and regulations. This has resulted in 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 competition authorities of the EU and the competition authorities of the jurisdictions which NWM N.V. Group operates in. 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.

Competition authorities, including the CMA, are currently also looking at and focusing more on how they can support competition and innovation in digital markets.

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, NWM N.V. Group's product offering and business models. For example, NWM N.V. Group is required to ensure operational continuity in resolution; the steps required to ensure such compliance entail significant costs, and also impose significant operational, legal and execution risks. Material consequences could arise should NWM N.V. Group be found to be non-compliant with these regulatory requirements.

Such changes may also result in an increased number of regulatory investigations and proceedings and have increased the risks relating to 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.

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 NWM N.V. Group include, but are not limited to:

- general changes in government, central bank, regulatory or competition policy, or changes in regulatory regimes that may influence investor decisions in the jurisdictions in which NWM N.V. Group operates;
- rules relating to foreign ownership, expropriation, nationalisation and confiscation of assets;
- new or increased regulations relating to customer data and privacy protection as well as IT controls and resilience, including the GDPR and the impact of the recent Court of Justice of the EU (CJEU) decision (known as Schrems II), in which the CJEU ruled that Privacy Shield (an EU/US data transfer mechanism) is now invalid, leading to more onerous due diligence requirements for the Group prior to sending personal data of its EU customers and employees to non-EEA countries, including the UK and the US;
- the introduction of, and changes to, taxes, levies or fees applicable to NWM N.V. Group's operations, such as the Dutch Withholding Tax Act 2021 (Wet bronbelasting 2021), the imposition of a financial transaction tax, changes in the scope and administration of the Dutch bank levy (bankenbelasting) levied pursuant to the Dutch Bank Levy Act (Wet bankenbelasting), changes in tax rates, increases in the bank corporation tax surcharge in the UK, restrictions on the tax deductibility of interest payments require increased payments of tax.

These and other recent regulatory changes, proposed or future developments and heightened levels of public and regulatory scrutiny in the UK, The Netherlands, the EU and the US have resulted in increased capital, funding and liquidity requirements, changes in the competitive landscape, changes in other regulatory requirements and increased operating costs, and have impacted, and will continue to impact, product offerings and business models. Any of these developments (including any failure to comply with new rules and regulations) could also have a significant impact on NWM N.V. Group's authorisations and licences, the products and services that NWM N.V. Group may offer, its reputation and the value of its assets, NWM N.V. Group's operations or legal entity structure, and the manner in which NWM N.V. Group conducts its business. Material consequences could arise should NWM N.V. Group be found to be non-compliant with these regulatory requirements. Regulatory developments may also result in an increased number of regulatory investigations and proceedings and have increased the risks relating to 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. See also, 'NWM N.V. Group and NWM Plc are subject to various litigation matters, regulatory and governmental actions and investigations as well as remedial undertakings, the outcomes of which are inherently difficult to predict, and which could have an adverse effect on 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 NWM N.V. Group to comply with such laws, rules and regulations, may adversely affect NWM N.V. Group's business, results of operations and outlook. In addition, uncertainty and insufficient international regulatory coordination as enhanced supervisory standards are developed and implemented may adversely affect NWM N.V. Group's ability to engage in effective business, risk and capital management planning.

NWM N.V. Group and NWM Plc are subject to various litigation matters, regulatory and governmental actions and investigations as well as remedial undertakings, the outcomes of which are inherently difficult to predict, and which could have an adverse effect on NWM N.V. Group.

NWM N.V. Group's operations are diverse and complex and it operates in legal and regulatory environments that expose it to potentially significant legal proceedings, and civil, criminal, regulatory and governmental actions. 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.

NWM N.V. Group and /or NWM Plc are currently involved in a number of significant legal and regulatory actions, including criminal and civil investigations and proceedings and ongoing reviews (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, VAT recovery and various other compliance issues. Legal and regulatory actions are subject to many uncertainties, and their outcomes, including the timing, amount of fines or settlements or the form of any settlements, which may be material and in excess of any related provisions, are often difficult to predict, particularly in the early stages of a case or investigation. NWM N.V. Group's expectation for resolution may change and substantial additional provisions and costs may be recognised in respect of any matter. For additional information relating to this and other legal and regulatory proceedings and matters to which NWM Group is currently exposed, see 'Litigation and regulatory matters' of Note 24 to the consolidated accounts on pages 82 and 83 for details of these matters.

Adverse outcomes or resolution of current or future legal or regulatory actions could have material collateral consequences for NWM N.V. Group's business and result in restrictions or limitations on NWM N.V. Group's operations. This in turn and/or the fines, settlement payments or penalties could adversely impact NWM N.V. Group's capital position or its ability to meet regulatory capital adequacy requirements.
Failure to comply with undertakings made by NWM N.V. Group to its regulators may result in additional measures or penalties being taken against NWM N.V. Group.

NWM N.V. Group may not effectively manage the transition of LIBOR and other IBOR rates to alternative risk free rates.

UK, Dutch, and other European and global regulators are driving the transition from the use of interbank offer rates (IBORs), including LIBOR, to alternative risk free rates (RFRs). Interest rate benchmark reform is a key priority of the Financial Stability Board, and working groups have been established in a number of jurisdictions to support the transition. In the UK, the FCA indicated that the availability of LIBOR beyond the end of 2021 cannot be guaranteed, major central banks and regulators, including the FCA, the Bank of England, the DNB and the AFM and the US Federal Reserve, have strongly urged market participants to transition to RFRs. NWM N.V. Group has exposure to IBORs, and continues to reference it in certain products, primarily derivatives and cash products. NWM N.V. Group has started to phase out its use of IBOR and has embedded appropriate fall-back mechanisms in most new IBOR activities, either through bilateral contract documentation, or under the ISDA fall-backs protocol. NWM N.V., along with many of its major counterparties, has already adhered to the ISDA IBOR fall-backs supplement and protocol, which establishes a clear, industry accepted, contractual process to manage the transition from IBORs to RFRs for derivative products.

NWM N.V. Group is actively engaged with customers and industry working groups to manage the risks relating to this exposure and explore ways to transition IBOR exposures to RFRs to the extent possible. Any economic impacts will be dependent on, inter alia, the establishment of deep and liquid RFR markets, the establishment of clear and consistent market conventions for all replacement products, as well as counterparties' willingness to accept, and transition to, these conventions. Furthermore, certain IBOR obligations may not be able to be changed thus resulting in fundamentally different economic outcomes than originally intended. The uncertainties around the timing and manner of transition to RFRs expose NWM N.V. Group, its clients and the financial services industry more widely to risk.

Examples of these risks may include: (i) legal risks relating to documentation for new and the majority of existing transactions (including, but not limited to, changes, lack of changes, or unclear contractual provisions); (ii) financial risks from any changes in valuation of financial instruments linked to impacted IBORs that may impact NWM N.V. Group's performance, including its cost of funds, and its risk management related financial models;

(iii) pricing, interest rate or settlement risks, such as changes to benchmark rates could impact pricing, interest rate or settlement mechanisms on certain instruments; (iv) operational risks due to the requirement to adapt IT systems, trade reporting infrastructure and operational processes; and (v) conduct and litigation risks arising from communication regarding the potential impact on customers, and engagement with customers during the transition period, or non-acceptance by customers of replacement rates.

It is therefore difficult to determine to what extent the changes will affect 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, the take up of alternative reference rates or other reforms including the potential continuation of the publication of LIBOR, may adversely affect financial instruments using LIBOR as benchmarks. The implementation of any alternative RFRs may be impossible or impracticable under the existing terms of certain financial instruments and could have an adverse effect on the value of, return on and trading market for, certain financial instruments and on 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 the outcome of certain rules (as approved by the IASB) are still dependent on how the actual transition process is implemented.

Additional information

Major shareholders

NatWest Markets N.V. is 100% owned by RBS Holdings N.V.. In turn, RBS Holdings N.V. is a 100% subsidiary of NatWest Markets Plc.

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 19 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.

Cautionary statement regarding forward-looking statements

This document contains forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995, such as statements that include, without limitation, the words 'expect', 'estimate', 'project', 'anticipate', 'commit', 'believe', 'should', 'intend', 'will', 'plan', 'could', 'probability', 'risk', 'Value-at-Risk (VaR)', 'target', 'goal', 'objective', 'may', 'endeavour', 'outlook', 'optimistic', 'prospects' and similar expressions or variations on these expressions. These statements concern or may affect future matters, such as NWM N.V. Group's future economic results, business plans and current strategies. In particular, this document may include forward-looking statements relating to NWM N.V. Group in respect of, but not limited to: the impact of the COVID-19 pandemic, NWM N.V.'s regulatory capital position and related requirements, its financial position, profitability and financial performance (including financial, capital, cost savings and operational targets), the NWM Group refocusing and implementation of NatWest Group's Purpose-led strategy, its ESG and climate-related targets, its access to adequate sources of liquidity and funding, increasing competition from new incumbents and disruptive technologies, its exposure to third party risks and ensuring operational continuity in resolution, its credit exposures under certain specified scenarios, substantial regulation and oversight, ongoing legal, regulatory and governmental actions and investigations, the transition of LIBOR and other IBOR rates to alternative risk free rates and NWM N.V. Group's exposure to economic and political risks (including with respect to Brexit and climate change), operational risk, conduct risk, cyber and IT risk, key person risk and credit rating risk. Forward-looking statements are subject to a number of risks and uncertainties that might cause actual results and performance to differ materially from any expected future results or performance expressed or implied by the forward-looking statements. Factors that could cause or contribute to differences in current expectations include, but are not limited to: the impact of the COVID-19 pandemic, the outcome of legal, regulatory and governmental actions and investigations, legislative, political, fiscal and regulatory developments, accounting standards, competitive conditions, technological developments, interest and exchange rate fluctuations, general economic and political conditions and the impact of climate-related risks and the transitioning to a low-carbon economy. These and other factors, risks and uncertainties that may impact any forward-looking statement or the NWM N.V. Group's actual results are discussed in NWM N.V. Group's 2020 Annual Report and Accounts (ARA) and other public filings. The forward-looking statements contained in this document speak only as of the date of this document and NWM N.V. Group does not assume or undertake any obligation or responsibility to update any of the forward-looking statements contained in this document, whether as a result of new information, future events or otherwise, except to the extent legally required.