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NatWest Markets Plc 19 February 2021  
 Annual Report and Accounts 2020

A copy of the Annual Report and Accounts 2020 for NatWest Markets Plc has been submitted to the National Storage Mechanism and will shortly be available for inspection [at https://data.fca.org.uk/#/nsm/nationalstoragemechanism](https://data.fca.org.uk/#/nsm/nationalstoragemechanism). The document will be available on NatWest Group plc's website at <https://investors.natwestgroup.com/reports-archive>

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For the purpose of compliance with the Disclosure Guidance and Transparency Rules, this announcement also contains risk factors extracted from the Annual Report and Accounts 2020 in full unedited text. Page references in the text refer to page numbers in the Annual Report and Accounts 2020.

### Principal Risks and Uncertainties

Set out below are certain risk factors that could adversely affect NWM Group's future results, its financial condition and prospects and cause them to be materially different from what is forecast or expected, and directly or indirectly impact the value of its securities in issue. These risk factors are broadly categorised and should be read in conjunction with other sections of this annual report, including the forward-looking statements section, the strategic report and the risk and capital management section. They should not be regarded as a complete and comprehensive statement on its own of all potential risks and uncertainties facing NWM Group. The current COVID-19 pandemic may exacerbate any of the risks described below.

### Risks relating to the COVID-19 pandemic

**The effects of the COVID-19 pandemic on the UK, global economies and financial markets and NWM Group's customers, as well as its competitive environment may continue to have a material adverse effect on NWM 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) have at times imposed strict social distancing measures, restrictions on non-essential activities and travel quarantines, in an attempt to slow the spread and reduce the impact of the COVID-19 pandemic.

The UK economy, as well as most countries, went into recession in 2020 as measures were introduced to reduce the spread of the virus. UK economic output fell again in November 2020, according to estimates from the Office for National Statistics, as many restrictions were re-introduced towards the end of 2020 and at the start of 2021. The COVID-19 pandemic has caused significant reductions in levels of personal and commercial activity, reductions in consumer spending, increased levels of corporate debt and, for some customers, personal debt, increased unemployment and significant market volatility in asset prices, interest rates and foreign exchange rates. It has also caused physical disruption and slow-down to global supply chains and working practices, all of which have affected NWM Group's customers.

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

Significant uncertainties continue as to the extent of the economic contraction and the path and length of time required to achieve economic recovery.

In response to the COVID-19 pandemic, central banks, governments, regulators and legislatures in the UK and elsewhere have announced historic levels of support and various schemes for impacted businesses and individuals, including forms of financial assistance and legal and regulatory initiatives, including further reductions in interest rates. Whether or not these measures effectively mitigate the negative impacts of the COVID-19 pandemic on NWM Group, some of these measures, or further measures, such as negative interest rates, may also have a material adverse effect on NWM Group's business and performance. It is uncertain as to how long such financial assistance and legal and regulatory initiatives may last, how they may evolve in the future or how consumers and businesses may react to such initiatives. NWM Group's clients may be negatively impacted when such support schemes are scaled back and ultimately ended, which in turn could expose NWM 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 Group more complex and may result in uncertainty impacting the risk profile of NWM Group and/or that of the wider banking industry. The medium and long-term implications of the COVID-19 pandemic for NWM Group customers, and the UK and global economies and financial markets remain uncertain and may continue to have a material adverse effect on NWM Group's business, results of operations and outlook.

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

The effects of the COVID-19 pandemic have adversely affected the credit quality of many of NWM Group's borrowers and other counterparties. As a result, NWM 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, 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' RWAs. If the NWM 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 Group's business, results of operations and outlook.

NWM Group has applied an internal analysis of multiple economic scenarios (MES) together with the determination of specific overlay adjustments to inform its IFRS 9 ECL (Expected Credit Loss). The recognition and measurement of ECL is complex and involves the use of significant judgement and estimation. This includes the formulation and incorporation of multiple forward-looking economic scenarios into ECL to meet the measurement objective of IFRS 9. The ECL provision is sensitive to the model inputs and economic assumptions underlying the estimate. Going forward, NWM 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 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 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, which requires changes in the NWM Group's business, including reductions in capital allocated to NWM Plc or its subsidiaries, its cost base and complexity. As part of the NWM Refocusing, the 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 IFRS9, 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 market risk and has caused RWA inflation, which may increase in the future.

Whilst NWM 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 Group and which may have a material adverse effect on NWM 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 scrutiny regarding how businesses address these changes and related climate, environmental, social, governance and other sustainability issues including workplace health, safety and wellbeing, diversity and inclusion, data privacy, workforce management, human rights and supply chain management. Any failure or delay by NWM 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 Group's reputation, business, results of operations and outlook and the value of NWM Group's securities. See also, 'Any failure by NWM Group to implement effective and compliant climate change resilient systems, controls and procedures could adversely affect NWM Group's ability to manage climate-related risks' and 'A failure to adapt NWM 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 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 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 Group's operational risks as many of its employees are working remotely which may also adversely affect NWM Group's ability to maintain effective internal controls.**

Due to the COVID-19 pandemic, as at 31 January 2021, many of NWM Group's employees continue to work remotely. This has increased reliance on NWM 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 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 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 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 Group'.

Sustained periods of remote working may also negatively affect workplace morale. Whilst NWM 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 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. Operational difficulties as a result of the COVID-19 pandemic, which may affect NWM 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 Group employees, in particular at a senior level. For example, in March 2020 the PRA requested that bank boards in response to the COVID-19 pandemic should consider taking appropriate actions with regard to the accrual, payment and vesting of variable remuneration. Any of the above could impair NWM Group's ability to hire, retain and engage well-qualified employees, especially at a senior level, which in turn may adversely impact NWM Group's ability to serve its clients efficiently, and impact productivity across NWM Group. This could have a material adverse effect on NWM Group's reputation and competitive position and its ability to grow its business.

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

**The effects of the COVID-19 pandemic could affect NWM 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 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 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. If NatWest Group plc is unable to issue securities externally as planned as a result of the COVID-19 pandemic, this may have a negative impact on NWM Plc's current and forecasted MREL position, particularly if NatWest Group plc is unable to downstream capital and/or funding to NWM Plc. 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.

Furthermore, significant fluctuation in foreign currency exchange rates may affect capital deployed in NWM Plc's foreign subsidiaries, branches and joint arrangements, securities issued by NWM Plc and/or its subsidiaries in foreign currencies or the respective values of assets, liabilities, income, RWAs, capital base, expenses and reported earnings.

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 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 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 NWM Group's business and strategy, and entails material execution, commercial and operational risks for NWM 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 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 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. The implementation of the NWM Refocusing is also expected to result in material costs for NWM Group and could be materially higher than anticipated, including due to material uncertainties and factors outside of NWM 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 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, 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 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. 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 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 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 Group's products and services offering or office locations, reputation with customers or business model and adversely impact NWM Group's ability to deliver its strategy and meet its targets and guidance, any of which could in turn have a material adverse impact on NWM Group's business, results of operations and outlook. The NWM Refocusing envisages a smaller scaled business and its successful implementation is 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 Group will meet targets and expectations, or that the refocused NWM Group will be a viable, competitive business aligned to NatWest Group's corporate and institutional customer offering.

**NWM Group may not be able to successfully implement the NWM Refocusing and it may not achieve its targets and NWM 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. 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 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 and NWM 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 its customers, regulators, rating agencies, stakeholders and the wider market, how that impacts its business, and NWM 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 its portfolios and the targeted reduction of its RWAs will be accompanied by the recognition of disposal losses, which may be higher than anticipated, including due to future stresses which may place NWM Plc's capital ratios under pressure. Furthermore, regulatory pressures or changes in the economic and political and regulatory environment in which NWM 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 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 Group and negatively impact NWM 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 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 Group and may affect its ability to be a viable and competitive business.

### **Economic and political risk**

#### **NWM Group faces market risk as a result of increased political and economic risks and uncertainty in the UK and global markets.**

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

The value of NWM 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 Group's financial instruments, particularly during periods of market displacement. This could cause a decline in the value of NWM Group's financial instruments. This may have an adverse effect on NWM Group's results of operations in future periods, or cause inaccurate carrying values for certain financial instruments. Similarly, NWM Group trades a considerable amount of financial instruments (including derivatives) and volatile market conditions could result in a significant decline in NWM 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 Group's counterparty risk. NWM Group's risk management and monitoring processes seek to quantify and mitigate NWM Group's exposure to more extreme market moves. However, severe market events have historically been difficult to predict and NWM 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 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 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 Group directly (for example, as a result of credit losses) or indirectly (for example, by impacting global economic growth and financial markets and NWM Group's clients and their banking needs).

In addition, NWM Group is exposed to risks arising out of geopolitical events or political developments, such as exchange controls, and other measures taken by sovereign governments that may hinder economic or financial activity levels. Furthermore, unfavourable political, military or diplomatic events, including secession movements or the exit of other member states from the EU, armed conflict, pandemics and widespread public health crises (including the current COVID-19 pandemic and any future epidemics or pandemics), state and privately sponsored cyber and terrorist acts or threats, and the responses to them by governments and markets, could negatively affect the business and performance of NWM Group, including as a result of the indirect effect on regional or global trade and/or NWM Group's customers.

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

After the 2016 EU Referendum, the UK ceased to be a member of the EU and the European Economic Area ('EEA') on 31 January 2020 ('Brexit'). The 2020 EU-UK Trade and Cooperation Agreement ('TCA') ended the transition period on 31 December 2020 and provides for free trade between the UK and EU with zero tariffs and quotas on all goods that comply with the appropriate rules of origin, with minimal coverage, however, for financial services; UK-incorporated financial services providers no longer have EU passporting rights and there is no mutual recognition regime. Financial services may largely be subject to individual equivalence decisions by relevant regulators. A number of temporary equivalence decisions have been made that cover all services offered by NWM Group. The EU's equivalence regime does not cover most lending and deposit taking, and determinations in respect of third countries have not, to date, covered the provision

of investment services. In addition, equivalence determinations do not guarantee permanent access rights and can be withdrawn with short notice. The TCA is accompanied by a Joint Declaration on financial services, which sets out an intention for the EU and UK to cooperate on matters of financial regulation and to agree a Memorandum of Understanding by March 2021. There is no certainty, however, as to the form, scope and timing of any such Memorandum of Understanding.

NatWest Group has engaged in significant and costly Brexit planning and contingency planning. NatWest Group continues to monitor regulatory developments, and NatWest Group continues to seek advice on any transitional regimes being introduced by individual EU countries. It is updating its operating model accordingly. NatWest Group also continues to assess where NatWest Group companies can obtain bilateral regulatory permissions to permit business to continue from its UK entities, transferring what cannot be continued to be rendered from the UK to an EEA subsidiary. Where such regulatory permissions are temporary or are withdrawn, a different approach may need to be taken or may result in a change in operating model or some business being ceased. Not all NatWest Group entities have applied for bilateral regulatory permissions and instead intend to move EEA business to an EEA licenced subsidiary. There is a risk that such EEA licences may not be granted, and where these permissions are not obtained, further changes to NatWest Group's operating model may be required or some business may need to be ceased. In addition, failure to obtain regulatory permissions in one part of NatWest Group may impact other parts of NatWest Group adversely. Certain permissions are required in order to maintain the ability to clear euro payments and others will allow NatWest Group to continue to serve non-UK EEA customers. Furthermore, transferring business to an EEA based subsidiary is a complex exercise and involves legal, regulatory and executional risks, and could result in a loss of business, customers or greater than expected costs. The changes to NatWest Group's operating model have been costly and further changes to its business operations, product offering and customer engagement could result in further costs. Any of the above could, in turn, negatively impact NWM Group.

NatWest Group previously announced that it had transferred the client relationship coverage of its Western European corporate portfolio to NWM Group. This was accompanied by the transfer of certain term funding and revolving credit facilities from NWB Plc to NWM Group. In light of NatWest Group's most recent Brexit planning and consistent with NatWest Group and NWM Group's strategies, NWM 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. In addition, some or all of this portfolio already held in NWM Group may be transferred back to NatWest Holdings Group. The timing and quantum of any such transfers is uncertain and NWM Group can give no assurance as to the full impact of such transactions on its go-forward results of operations. As a result, NWM 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 NWM Group's business and operating environment, including as described elsewhere in these risk factors, and may be material and/or cause a near-term impact on impairments.

The long-term effects of Brexit on NWM Group's operating environment are difficult to predict. They may be impacted by wider global macro-economic trends and events, particularly COVID-19 pandemic related uncertainties, which may significantly impact NWM Group and its customers and counterparties who are themselves dependent on trading with the EU or personnel from the EU. They may exacerbate the economic impacts of the COVID-19 pandemic on the UK, the Republic of Ireland ('ROI') and the rest of 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 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 attendant operating, compliance and restructuring costs, level of impairments, capital requirements, regulatory environment and tax implications and as a result may adversely impact NWM Group's profitability, competitive position, business model and product offering.

#### **Changes in interest rates have affected and will continue to affect NWM Group's business and results.**

Interest rate risk exists for NWM Group. Monetary policy has been accommodative in recent years including initiatives implemented by the Bank of England and HM Treasury, which have helped to support demand at a time of pronounced fiscal tightening and balance sheet repair. However, there remains considerable uncertainty as to the future direction of interest rates and pace of change (as set by the Bank of England and other major central banks) including as a result of COVID-19 pandemic and its effect on the UK economy as well as the general UK political or economic climate. Further decreases in interest rates and/or continued sustained low or negative interest rates would be expected to continue to put further pressure on NWM Group's interest income and profitability. Zero or negative interest rates will require investment spend to implement a strategic solution to allow a potential pass-through of those interest rates in certain systems to relevant customer segments.

Conversely, while increases in interest rates may support NWM Group interest income, sharp increases in interest rates could have macroeconomic effects that lead to adverse outcomes for the business. For example, they could lead to generally weaker than expected growth, or even contracting GDP, reduced business confidence and higher levels of unemployment or underemployment, all of which could adversely affect the business and performance of NWM Group.

**Changes in foreign currency exchange rates may affect NWM Group's results and financial position.**

Decisions of major central banks (including the Bank of England, the European Central Bank and the US Federal Reserve) and political or market events which are outside NWM Group's control, may lead to sharp and sudden variations in foreign exchange rates.

As part of NatWest Group's strategy, NWM Group has become the markets business for NatWest Group, and is engaged principally in providing financing, risk management and trading solutions to global customers across Europe, the USA and Asia. NWM Group entities issue instruments in foreign currencies that assist in meeting their respective capital and/or MREL requirements. In addition, NWM Plc's acquisition of NWM N.V. from NatWest Group increased NWM Group's exposure to euro movements. NWM N.V. holds a significant loan portfolio denominated in euros (see also, 'Risk and capital management - Credit Risk'). In its day-to-day operations, NWM Group maintains policies and procedures designed to manage the impact of exposures to fluctuations in currency rates. Nevertheless, changes in currency rates, particularly in the sterling-US dollar and euro-sterling exchange rates, can adversely affect the value of assets, liabilities (including the total amount of MREL eligible instruments), foreign exchange dealing activity, income and expenses, RWAs and hence the reported earnings and financial condition of NWM Group.

**HM Treasury (or UKGI on its behalf) could exercise a significant degree of influence over NatWest Group and NWM Group is controlled by NatWest Group.**

In its March 2020 Budget, the UK Government announced its intention to continue the process of privatisation of NatWest Group plc and to carry out a programme of sales of NatWest Group plc ordinary shares with the objective of selling all of its remaining shares in NatWest Group plc by 2025. On 6 February 2019, NatWest Group plc obtained shareholder authority to make off-market purchases of its ordinary shares from HM Treasury under the terms of a directed buyback contract. The authority provided by this contract was renewed at NatWest Group's Annual General Meeting on 29 April 2020. As 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 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 Group's) capital strategy, dividend policy, remuneration policy or the conduct of NatWest 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 Group.

In addition, NWM Plc is a wholly owned subsidiary of NatWest Group plc, and NatWest Group plc therefore controls NWM Group's board of directors, corporate policies and strategic direction. The interests of NatWest Group plc as an equity holder and as NWM Group's parent may differ from the interests of NWM Group or of potential investors in NWM Group's securities.

**Financial resilience risk**

**NWM Group may not meet the targets it communicates to the market, generate returns or implement its strategy effectively.**

As part of NatWest Group's Purpose-led Strategy and the NWM Refocusing, NWM 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 (for NWM Plc and NWM N.V.), targets in relation to local regulation, funding plans and requirements, management of RWAs and the timing thereof, employee engagement, diversity and inclusion as well as environmental, social and customer satisfaction targets.

NWM 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 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 NWM Group's business and strategy, and entails material execution, commercial and operational risks for NWM Group' and 'NWM Group may not be able to successfully implement the NWM Refocusing and it may not achieve its targets and NWM 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 Plc 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 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 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 Group's business and may adversely affect its ability to achieve its targets and execute its strategy.

There is a risk that NWM 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 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 outside the ring-fence (excluding RBS International). The implementation of the UK ring-fencing regime had a significant impact on NWM Plc and required it to adapt its 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 NWM Group's business and operations in the medium and long term and entails material execution, commercial and operational risks for NWM Group. Additional changes to NWM 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 NWM Group's business and strategy, and entails material execution, commercial and operational risks for NWM Group' and 'NWM Group may not be able to successfully implement the NWM Refocusing and it may not achieve its targets and NWM Group may not ultimately result in a viable, competitive business'.

NWM 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 Group has entered into Revenue Share Agreements with some entities within NatWest Group's ring-fenced sub-group (including NatWest Bank Plc, The Royal Bank of Scotland Plc and Ulster Bank Ireland DAC) as well as a non-ring-fenced entity (RBS International). It has also entered into certain transfer pricing arrangements, a funded guarantee and revenue sharing agreements with NWM N.V. in relation to certain EEA customer transfers and Western European transfers.

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 Group will be a viable, competitive or profitable banking business.

**NWM Plc and/or its regulated subsidiaries may not meet the prudential regulatory requirements for capital.**

NWM Group is required by regulators in the UK, the EU and other jurisdictions in which it undertakes regulated activities to maintain adequate financial resources. Adequate capital also gives NWM Group financial flexibility in the face of turbulence and uncertainty in the global economy and specifically in its core UK and European operations.

NWM Plc's target CET1 ratio is based on regulatory requirements, internal modelling and risk appetite (including under stress). NWM N.V.'s target CET1 ratio is based on expected regulatory requirements, internal modelling and risk appetite (including under stress).

As at 31 December 2020, NWM Plc's solo CET1 ratio was 21.7%. NWM Plc's current capital strategy is based on the management of RWAs and other capital management initiatives (including the reduction of RWAs and the periodic payment of dividends to NatWest Group plc, NWM Plc's parent company).

Other factors that could influence NWM Plc and NWM N.V.'s CET1 ratios include, amongst other things (See also, 'NatWest Group is in the process of implementing its Purpose-led Strategy, which requires changes in NWM Group's business and strategy, and entails material execution, commercial and operational risks for NWM Group'):

- a depletion of NWM Plc or 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 Plc's or 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 (and increase the amount of internal MREL required for NWM Plc);
- changes in prudential regulatory requirements including the Total Capital Requirement for NWM Plc (as regulated by the PRA) or NWM N.V. (as regulated by the De Nederlandsche Bank ('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.

NWM Plc has a Capital Support Deed in place, which facilitates capital support amongst the participating entities in NWM Group.

Any capital management actions taken under a stress scenario may affect, among other things, NWM 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 Group's securities. See also, 'NWM Plc and/or its regulated subsidiaries may not manage their capital, liquidity or funding effectively which could trigger the execution of certain management actions or recovery options' and 'NatWest Group (including NWM Group) may become subject to the application of UK statutory stabilisation or resolution powers which may result in, among other actions, the write-down or conversion of NWM Group entities' Eligible Liabilities'.

#### **NWM Plc may not be able to adequately access sources of liquidity and funding.**

NWM 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 Group held £4.4 billion in deposits from banks and customers. The level of deposits and wholesale funding may fluctuate due to factors outside NWM Group's control. These factors include: loss of investor confidence (including in individual NWM Group entities or the UK 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 Group has significant exposure to counterparty and borrower risk'.

An inability to grow, roll-over, or any material decrease in, NWM 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 Group's ability to satisfy its liquidity needs.

NWM 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 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 Group balance sheet, then unsecured funding from other sources would be required to replace such financing. There is a risk that NWM 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 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 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 Group.

As at 31 December 2020, NWM Group reported a liquidity coverage ratio of 268%. If its liquidity position were to come under stress and if NWM 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 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 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 Group's funding plans. In a time of reduced liquidity or market stress, NWM 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 Group's results.

NWM Group entities independently manage liquidity risk on a stand-alone basis, including through holding their own liquidity portfolios. They have restricted access to liquidity or funding from other NatWest Group entities. NWM Group entities management of their own liquidity portfolios and the structure of capital support are subject to operational and execution risk, as NWM group entities take steps to meet their own liquidity and capital requirements.

**NWM Plc and/or its regulated subsidiaries may not manage their capital, liquidity or funding effectively which could trigger the execution of certain management actions or recovery options.**

Under the EU Bank Recovery and Resolution Directives I and II ('BRRD'), as implemented in the UK, NatWest Group must maintain a recovery plan acceptable to its regulator, such that a breach of NWM Plc's applicable capital or leverage, liquidity or funding requirements would trigger consideration of NWM Plc'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 Plc 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 Plc's capital and leverage requirements. NatWest Group may also address a shortage of capital in NWM Plc by providing parental support to NWM Plc. NatWest Group's (and NWM Plc's) regulator may also request that NWM 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 the UK resolution authority, the Bank of England also has the power to execute the 'bail-in' of certain securities of NWM Group without further action at NatWest Group level.

Any capital management actions taken under a stress scenario may affect, among other things, NWM 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 Group's securities. See also, 'NatWest Group (including NWM Group) may become subject to the application of UK statutory stabilisation or resolution powers which may result in, among other actions, the write-down or conversion of NWM Group entities' Eligible Liabilities'. In addition, if NWM Plc or 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 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 Group subsidiaries) or any of their respective debt securities could adversely affect the availability of funding for NWM Group, reduce NWM Group's liquidity position and increase the cost of funding.**

Rating agencies regularly review NatWest Group plc, NWM Plc and other NatWest Group entity credit ratings and outlooks, which could be negatively affected by a number of factors that can change over time including: the credit rating agency's assessment of NWM 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 Group operates; the implementation of structural reform; the legal and regulatory frameworks applicable to NWM 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 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 or of certain other NatWest Group entities, including, in particular, downgrades below investment grade, or a deterioration in the capital markets' perception of NWM Group's financial resilience could significantly affect NWM 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 Group's (and, in particular, NWM Plc's) cost of funding and its access to capital markets which could limit the range of counterparties willing to enter into transactions with NWM Group (and, in particular, with NWM Plc). This could in turn adversely impact NWM Group's competitive position and threaten its prospects in the short to medium-term.

**NWM Group operates in markets that are highly competitive, with increasing competitive pressures and technology disruption.**

The markets in which NWM 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 Group are, and will become, more technology intensive. NWM Group's ability to develop such services (which also comply with applicable and evolving regulations) has become increasingly important to retaining and growing NWM Group's client businesses across its geographical footprint. There can be no certainty that NWM Group's innovation strategy (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 Group to continue to grow such services in the future.

In addition, certain of NWM 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 Group. Although NWM 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 Group's focus on its cost savings targets. This may limit additional investment in areas such as financial innovation and could therefore affect NWM Group's offering of innovative products or technologies for delivering products or services to clients and its competitive position. NWM 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's ability to produce underlying high quality data, failing which its ability to offer innovative products may be compromised.

If NWM 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 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 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 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 Group's ability to compete effectively and intensified competition from incumbents, challengers and new entrants could affect NWM 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 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 Group's business and results of operations.

**NWM Group is reliant on access to the capital markets to meet its funding requirements, both directly, and indirectly through its parent for the subscription to its internal MREL. The inability to do so may adversely affect NWM Group.**

NWM Group 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 Group faces market risk as a result of increased political and economic risks and uncertainty in the UK and global markets', 'Continuing uncertainty regarding the effects of the UK's withdrawal from the European Union may continue to adversely affect NWM Group and its operating environment' and 'Any reduction in the credit rating and/or outlooks assigned to NatWest Group plc, any of its subsidiaries (including NWM Plc or NWM Group subsidiaries) or any of their respective debt securities could adversely affect the availability of funding for NWM Group, reduce NWM Group's liquidity position and increase the cost of funding'.

In addition, NWM Plc receives capital and funding from NatWest Group plc. NWM Plc has set target levels for different tiers of capital and for the internal minimum requirements for own funds and eligible liabilities ('MREL'), as percentages of its RWAs. The level of capital and funding required for NWM Plc to meet its internal targets is therefore a function of the level of RWAs and its leverage exposure in NWM Plc and this may vary over time.

NWM Plc's internal MREL comprises the regulatory value of capital instruments and loss-absorbing senior funding issued by NWM Plc to its parent, NatWest Group plc, in all cases with a residual maturity of at least one year. The Bank of England has identified that the preferred resolution strategy for NatWest Group is as a single point of entry. As a result, only NatWest Group plc is able to issue Group MREL eligible liabilities to third-party investors, using the proceeds to fund the internal capital and MREL targets and/or requirements of its operating entities, including NWM Plc. NWM Plc is therefore dependent not only on NatWest Group plc to fund its internal capital targets, but also on NatWest Group plc's ability to source appropriate funding. NWM Plc is also dependent on NatWest Group plc to continue to fund NWM Plc's internal MREL targets over time and its ability to issue and maintain sufficient amounts of external MREL liabilities to support this. In turn, NWM Plc is required to fund the internal capital and MREL requirements of its subsidiaries.

Any inability of NWM Group to adequately access the capital markets, to manage its balance sheet in line with assumptions in its funding plans, or to issue internal capital and MREL may adversely affect NWM Group, such that NWM Group may not constitute a viable banking business and/or NWM Plc or NWM N.V. may fail to meet their respective regulatory capital and/or MREL requirements (at present, NWM N.V. does not yet have its own MREL requirements).

#### **NWM 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 Group has significant exposure to counterparty and borrower risk.**

NWM N.V., 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 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 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 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 Group's clients and credit exposures, which may, in turn, adversely impact NWM Group's profitability.

The credit quality of NWM Group's borrowers and other counterparties is impacted by prevailing economic and market conditions (including those caused by the COVID-19 pandemic) and by the legal and regulatory landscape in the UK and 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 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 Group. In addition, the value of collateral may be correlated with the probability of default by the relevant counterparty ('wrong way risk'), which would increase NWM 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 Group interacts on a daily basis. See also, 'NWM Group is reliant on access to the capital markets to meet its funding requirements, both directly,



and indirectly through its parent for the subscription to its internal MREL. The inability to do so may adversely affect NWM 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 Group and an inability to engage in routine funding transactions.

NWM 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 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 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 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 Group.

#### **NWM 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 Group's business, strategy and capital requirements, NWM 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 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 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 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 Group's current business model or operations, or for findings of deficiencies by NatWest Group (and in particular, NWM Group's) regulators (including as part of NatWest Group's mandated stress testing) may result in increased capital requirements or require management action. NWM 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 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 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 97. New accounting standards and interpretations that have been issued by the International Accounting Standards Board but which have not yet been adopted by NWM Group are discussed in 'Accounting developments' on page 97.

#### **Changes in accounting standards may materially impact NWM 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 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 Group.

NWM Group's trading assets amounted to £68.7 billion 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 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 Group's internal valuation models require NWM 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 Group to recognise fair value losses, which may have an adverse effect on NWM Group's income generation and financial position.

**NatWest Group (including NWM Group) may become subject to the application of UK statutory stabilisation or resolution powers which may result in, among other actions, the write-down or conversion of NWM Group entities' Eligible Liabilities.**

HM Treasury, the Bank of England and the PRA and FCA (together, the 'Authorities') are granted substantial powers to resolve and stabilise UK-incorporated financial institutions. Five stabilisation options exist: (i) transfer of all of the business of a relevant entity or the shares of the relevant entity to a private sector purchaser; (ii) transfer of all or part of the business of the relevant entity to a 'bridge bank' wholly-owned by the Bank of England; (iii) transfer of part of the assets, rights or liabilities of the relevant entity to one or more asset management vehicles for management of the transferor's assets, rights or liabilities; (iv) the write-down, conversion, transfer, modification, or suspension of the relevant entity's equity, capital instruments and liabilities ('Eligible Liabilities'); and (v) temporary public ownership of the relevant entity. These tools may be applied to NatWest Group plc as the parent company or to NWM Group, as an affiliate, where certain conditions are met (such as, whether the firm is failing or likely to fail, or whether it is reasonably likely that action will be taken (outside of resolution) that will result in the firm no longer failing or being likely to fail). Moreover, there are modified insolvency and administration procedures for relevant entities, and the Authorities have the power to modify or override certain contractual arrangements in certain circumstances and amend the law for the purpose of enabling their powers to be used effectively and may promulgate provisions with retrospective applicability. Similar powers may also be exercised with respect to NWM N.V. in the Netherlands by the relevant Dutch regulatory authorities.

Under the UK Banking Act, the Authorities are generally required to have regard to specified objectives in exercising the powers provided for by the Banking Act. One of the objectives (which is required to be balanced as appropriate with the other specified objectives) refers to the protection and enhancement of the stability of the financial system of the UK. Moreover, the 'no creditor worse off' safeguard contained in the Banking Act (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 Authorities may exercise their powers including the determination of actions undertaken in relation to the ordinary shares and other securities of NatWest Group (including NWM Group), which may depend on factors outside of NWM Group's control. Moreover, the Banking Act provisions remain untested in practice.

If NatWest Group is at or is approaching the point of non-viability such that regulatory intervention is required, there may correspondingly be an adverse effect on the business, results of operations and outlook of NWM Group.

**NatWest Group is subject to Bank of England oversight in respect of resolution, and NatWest 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 Group, resulting in restrictions on maximum individual and aggregate exposures, a requirement to dispose of specified assets, a requirement to cease carrying out certain activities and/or maintaining a specified amount of MREL. This may also result in reputational damage and/or loss of investor confidence.

**Climate and sustainability-related risks**

**NWM Group and its customers may face significant climate-related risks, including in transitioning to a low-carbon economy, which may adversely impact NWM 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 Group may face a variety of climate-related legal risks, both physical and transition, from potential litigation and contract liability. See also, 'NWM 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 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 Group's portfolios. In addition, NWM 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. 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 Group's customer base (including oil and gas, automotive and transport, for example) are expected to be particularly impacted.

If NWM 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 Group and its customers face, NWM 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 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 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 Group's business and operating model. This may have a material adverse effect on NWM Group's ability to achieve financial targets and generate sustainable returns.

To understand and measure the climate impact of emissions related to NWM 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 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 progress towards its Climate Ambition by 2030.

NWM 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 NWM Group's business and strategy, and entails material execution, commercial and operational risks for NWM Group'.

Any delay or failure to meet those climate-related targets and commitments and may have a material adverse impact on NWM Group's reputation, business, results, outlook, market and competitive position.

**Any failure by NWM Group to implement effective and compliant climate change resilient systems, controls and procedures could adversely affect NWM 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 the SS 3/19 the PRA states that regulated entities must:

- fully embed the consideration of the financial risks from climate change in their governance arrangements;
- incorporate the financial risks from climate change into existing financial risk management practice;
- use (long term) scenario analysis to inform strategy setting and risk assessment and identification; and

- develop an approach to disclosure on the financial risks from climate change.

The PRA requires firms to embed fully their approaches to managing climate-related financial risks by the end of 2021. NatWest Group provided the PRA on 8 October 2020 with an updated delivery plan to its original plan submitted in October 2019 to meet these requirements, stating that the COVID-19 pandemic had disrupted delivery of some elements of NatWest Group's original plan and as a result, some near term activities have been delayed to 2021. This delay may increase execution risk. Further, the updated plan advised that it will require additional operating cycles reaching into 2022 and beyond to prove embedding.

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 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 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 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 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):

- lack of specialist expertise in banks such that NWM Group needs to rely on third party advice, modelling, and data;
- immaturity of modelling of and data on the impact of climate-related risks on financial assets which will evolve rapidly in the coming years;
- the number of variables and forward- looking nature of climate scenarios which makes them challenging to back test and benchmark;
- 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 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 Group's regulatory compliance, reputation, business, results of operations and outlook.

**A failure to adapt NWM 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 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 Group or its customers with adverse sustainability-related issues, as well as exacerbate existing risks.

Failure to adapt NWM 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 Group's reputation, liquidity position, business, results of operations and outlook.

**Any reduction in the ESG ratings of NatWest Group (including NWM Group) could have a negative impact on NatWest Group's (including NWM Group) reputation and on investors' and customers risk appetite.**

Unsolicited ESG ratings from agencies and data providers that rate how NatWest Group (including NWM 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 Group) control (e.g. change in rating methodology). Any reduction in ESG ratings of NatWest Group could have a negative impact on NWM Group's reputation and influence investors' risk appetite for NWM Group's and/or its subsidiaries' securities and affect whether customers wish to deal with NWM Group.

**Increasing levels of climate, environmental and sustainability-related laws, regulation and oversight may adversely affect NWM Group's business and expose NWM Group to increased costs of compliance, regulatory sanction and reputational damage.**

There are an increasing number of EU, UK 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 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 Group) achievement of its Climate Ambition.

In addition, NWM Group's EU subsidiaries will continue to be subject to an increasing array of the EU/EEA climate and sustainability-related legal and regulatory requirements. These requirements may be used as the basis for UK laws and regulations (such as the recently announced UK Green Taxonomy) or regarded by investors and regulators as best practice standards whether or not they apply to UK businesses. Any divergence between EU/EEA and UK climate and sustainability-related legal and regulatory requirements may result in NWM Group not meeting investors' expectations, increase the cost of doing business and may restrict access of NWM Group's UK business to the EU/EEA market. In addition, NWM Group and its subsidiaries 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, as the UK moves towards mandatory TCFD reporting across the UK economy by 2025.

NatWest Group (including NWM 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 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 Group's regulatory compliance and may result in regulatory sanction and reputational damage.

**NWM 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 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 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 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 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 Group operates in many countries, offering a diverse range of products and services supported by 2,100 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 Group relies on third-party suppliers or vendors to provide services to it or its clients, as is increasingly the case as NWM Group outsources certain activities, including with respect to the implementation of new technologies, innovation and responding to regulatory and market changes.

Operational risks continue to be heightened as a result of the implementation of the NWM Refocusing and NatWest Group's Purpose-led Strategy, NWM 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 Group will evolve to best serve its customers. Any of the above may place significant pressure on NWM Group's ability to maintain effective internal controls and governance frameworks.

As part of the NWM Refocusing, NWM 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. A failure by NatWest Bank Plc to adequately supply these services may expose NWM 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 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 Group has implemented risk controls and mitigation actions, with resources and planning having been devoted to mitigate operational risk, such measures may not be effective in controlling each of the operational risks faced by NWM Group. Ineffective management of such risks could adversely affect NWM Group.

#### **NWM Group is subject to increasingly sophisticated and frequent cyberattacks.**

NWM Group experiences a constant threat from cyberattacks across the entire NatWest Group (including NWM Group) and against NatWest Group and NWM Group's supply chain, reinforcing the importance of due diligence of close working relationship with, the third parties on which NWM Group relies. NWM 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 Group is required to continue to invest in additional capability designed to defend against emerging threats. In 2020, NWM 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 Group's customers. NWM 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 Group's IT systems, and to exploit vulnerabilities. NWM 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 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 Group'.

Any failure in NWM 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 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 Group's systems to disclose sensitive information in order to gain access to NWM Group's data or that of NWM 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 Group's employees or third parties, including third party providers, or may result from accidental technological failure.

NWM Group expects greater regulatory engagement, supervision and enforcement to continue at a high level 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 the pace of change, which could negatively impact NWM Group. Due to NWM 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 Group.

In accordance with the EU General Data Protection Regulation ('GDPR') and European Banking Authority ('EBA') Guidelines on ICT and Security Risk Management, NWM Group is required to ensure it implements timely appropriate and effective organisational and technological safeguards against unauthorised or unlawful access to data of NWM Group, its clients and its employees. In order to meet this requirement, NWM 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 Group interacts. A failure to monitor and manage data in accordance with the GDPR and EBA requirements of the applicable legislation may result in financial losses, regulatory fines and investigations and associated reputational damage.

**NWM Group operations and strategy are highly dependent on the accuracy and effective use of data.**

NWM 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 Group's strategy and could place the NWM 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 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 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 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 Group's ability to do this may be more difficult due to the implementation of the NWM Refocusing, 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 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 the PRA's request that bank boards consider taking further appropriate action regarding variable compensation, or negative economic developments, could have an adverse effect on 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.

Some of NWM Group's employees are represented by employee representative bodies, including trade unions. Engagement with its employees and such bodies is important to NWM Group in maintaining good employee relations. Any breakdown of these relationships could affect NWM Group's business, reputation, results of operations and outlook.

**NWM 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 Group.**

NWM 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 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 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 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 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 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 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 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 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 NWM Group's business and strategy, and entails material execution, commercial and operational risks for NWM Group'.

**A failure in NWM Group's risk management framework could adversely affect NWM Group, including its ability to achieve its strategic objectives.**

Risk management is an integral part of all of NWM Group's activities and includes the definition and monitoring of NWM Group's risk appetite and reporting on NWM Group's risk exposure and the potential impact thereof on NWM Group's financial condition. Financial risk management is highly dependent on the use and effectiveness of internal stress tests and models and ineffective risk management may arise from a wide variety of factors, including lack of transparency or incomplete risk reporting, unidentified conflicts or misaligned incentives, lack of accountability control and governance, lack of consistency in risk monitoring, risks related to unanticipated behaviour or performance in algorithmic trading and management or insufficient challenges or assurance processes. Failure to manage risks effectively could adversely impact NWM Group's reputation or its relationship with its regulators, clients, shareholders or other stakeholders.

NWM 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 Group's regulatory obligations, client needs or do not reflect NWM 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 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 Group. These risks may be exacerbated when most of NWM Group's employees work remotely as a result of the COVID-19 pandemic, which places additional pressure on NWM Group's ability to maintain effective internal controls and governance frameworks.

As part of the NWM Refocusing, NWM 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 Group from future instances of misconduct and no assurance can be given that NWM 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 NWM Group's business and strategy, and entails material execution, commercial and operational risks for NWM Group'. 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 Group's operations are subject to inherent reputational risk.**

Reputational risk relates to stakeholder and public perceptions of NWM 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 Group, its employees or those with whom NWM Group is associated. This includes brand damage, which may be detrimental to NWM 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 Group's ability to attract and retain clients. In particular, NWM 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 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 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 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 Group cannot be certain that it will be successful in avoiding damage to its business from reputational risk.

### Legal, regulatory and conduct risk

#### **NWM Group's businesses are subject to substantial regulation and oversight, which are constantly evolving and may adversely affect NWM Group.**

NWM 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 diverge now that the Brexit transition period has ended. NWM Group expects government and regulatory intervention in the financial services industry to remain high for the foreseeable future.

In recent years, regulators and governments have focused on reforming the prudential regulation of the financial services industry and the manner in which the business of financial services is conducted. Amongst others, measures have included: enhanced capital, liquidity and funding requirements, implementation of the UK ring-fencing regime, implementation and strengthening of the recovery and resolution framework applicable to financial institutions in the UK, the EU and the US, financial industry reforms (including in respect of MiFID II), corporate governance requirements, restrictions on the compensation of senior management and other employees, enhanced data privacy and IT resilience requirements, financial market infrastructure reforms (including 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, consumer protection and disputes regimes, anti-money laundering, anti-corruption, anti-bribery, anti-tax evasion, payment systems, sanctions and anti-terrorism laws and regulations.

In addition, there is significant oversight by competition authorities of the jurisdictions in which NWM Group operates. The competitive landscape for banks and other financial institutions in the UK, EU/EEA and the US 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. Recent regulatory changes, proposed or future developments and heightened levels of public and regulatory scrutiny in the UK, the EU and the US have resulted in increased capital, funding and liquidity requirements, changes in the competitive landscape, changes in other regulatory requirements and increased operating costs, and have impacted, and will continue to impact, product offerings and business models. For example, NWM 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 risk. Material consequences could arise should NWM 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 Group's ability to comply with the applicable body of rules and regulations in the manner and within the time frames required.

Other areas in which, and examples of where, governmental policies, regulatory and accounting changes and increased public and regulatory scrutiny could have an adverse impact (some of which could be material) on NWM 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 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 Group's operations, such as the imposition of a financial transaction tax, changes in the scope and administration of the Bank Levy, changes in tax rates, increases in the bank corporation tax surcharge in the UK, restrictions on the tax deductibility of interest payments or further restrictions imposed on the treatment of carry-forward tax losses that reduce the value of deferred tax assets and require increased payments of tax.

These and other recent regulatory changes, proposed or future developments and heightened levels of public and regulatory scrutiny in the UK, the EU and the US have resulted in increased capital, funding and liquidity requirements, changes in the competitive landscape, changes in other regulatory requirements and increased operating costs, and have

impacted, and will continue to impact, product offerings and business models. Any of these developments (including any failure to comply with new rules and regulations) could also have a significant impact on NWM Group's authorisations and licences, the products and services that NWM Group may offer, its reputation and the value of its assets, NWM Group's operations or legal entity structure, and the manner in which NWM Group conducts its business. Material consequences could arise should NWM 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 Group's ability to comply with the applicable body of rules and regulations in the manner and within the time frames required.

In 2019, the PRA published an industry-wide "Dear CEO" letter which confirmed the regulator's ongoing focus on the integrity of regulatory reporting and its intention to ask a selection of UK banks to commission reports from Skilled Persons under section 166 of the Financial Services and Markets Act 2000 to review the governance, controls and processes around the preparation of Common Reporting ('COREP') regulatory returns and to provide reasonable assurance opinions on whether the returns reviewed were properly prepared. NatWest Group was selected to participate in this review. The PRA delayed the start of this review in light of the COVID-19 pandemic and the Skilled Persons are now expected to complete their work in H1 2021.

Changes in laws, rules or regulations, or in their interpretation or enforcement, or the implementation of new laws, rules or regulations, including contradictory or conflicting laws, rules or regulations by key regulators or policymakers in different jurisdictions, or failure by NWM Group to comply with such laws, rules and regulations, may adversely affect NWM 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 Group's ability to engage in effective business, capital and risk management planning.

**NWM Group is 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 Group.**

NWM Group's operations are diverse and complex and it operates in legal and regulatory environments that expose it to potentially significant legal proceedings, and civil and criminal regulatory and governmental actions. NWM Group has settled a number of legal and regulatory actions over the past several years but continues to be, and may in the future be, involved in such actions in the US, the UK, Europe and other jurisdictions.

NWM Group is currently involved in a number of significant legal and regulatory actions, including criminal and civil investigations, proceedings and ongoing reviews (both formal and informal) by governmental law enforcement and other agencies and litigation proceedings, relating to, among other matters, the 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 Group's expectation for resolution may change and substantial additional provisions and costs may be recognised in respect of any matter.

NWM Group companies are currently responding to a criminal investigation by the United States Attorney for the District of Connecticut (USAO) and the United States Department of Justice (DoJ) concerning trading by certain NWM Plc former traders involving alleged spoofing, which activity occurred during the term of a non-prosecution agreement (NPA) that NWMSI entered into in connection with secondary trading in various forms of asset-backed securities, under which non-prosecution was conditioned on NWMSI and affiliated companies not engaging in conduct during the NPA that the USAO determines was a felony under federal or state law or a violation of the anti-fraud provisions of the United States securities law. The duration and outcome of this criminal investigation, which may include the extension, modification, or deemed violation of the NPA, remain uncertain. 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 26 to the consolidated accounts on pages 144 to 147 for details of these matters.

Adverse outcomes or resolution of current or future legal or regulatory actions (in particular, any finding of criminal liability by US authorities (including as a result of pleading guilty), as to the alleged spoofing or the conduct underlying the NPA) could have material collateral consequences for NWM Group's business and result in restrictions or limitations on NWM Group's operations. These may include consequences resulting from the need to reapply for various important licenses or obtain waivers to conduct certain existing activities of NWM Group, particularly but not solely in the US, which may take a significant period of time and the results of which are uncertain. Failure to obtain such licenses or waivers could adversely impact NWM Group's business, in particular in the US, including if it results in NWM Group being precluded from carrying out certain activities. This in turn and/or the fines, settlement payments or penalties could adversely impact NWM Group's capital position or its ability to meet regulatory capital adequacy requirements.



Failure to comply with undertakings made by NWM Group to its regulators may result in additional measures or penalties being taken against NWM Group.

**NWM Group may not effectively manage the transition of LIBOR and other IBOR rates to alternative risk free rates.**

UK and international regulators are driving the transition from the use of interbank offer rates (IBORs), including LIBOR, to alternative risk free rates (RFRs). Interest rate benchmark reform is a key priority of the Financial Stability Board, and working groups have been established in a number of jurisdictions to support the transition. Major central banks and regulators, including the FCA, the Bank of England, and the Federal Reserve, have strongly urged market participants to transition to RFRs, given the FCA have indicated that the availability of LIBOR beyond the end of 2021 cannot be guaranteed. NWM Group has a significant exposure to IBORs, and continues to reference it in certain products, primarily derivatives and cash products. NWM Group has started to phase out its use of IBOR in line with the Bank of England transition roadmap, and has embedded appropriate fall-back mechanisms in most new IBOR activities, either through bilateral contract documentation, or under the ISDA fall-backs protocol. NWM, 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 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 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 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 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 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.

**Changes in tax legislation or failure to generate future taxable profits may impact the recoverability of certain deferred tax assets recognised by NWM Group.**

In accordance with the accounting policies set out on page 94, NWM Group has recognised deferred tax assets on losses available to relieve future profits from tax only to the extent it is probable that they will be recovered. The deferred tax assets are quantified on the basis of current tax legislation and accounting standards and are subject to change in respect of the future rates of tax or the rules for computing taxable profits and offsetting allowable losses.

Failure to generate sufficient future taxable profits or further changes in tax legislation (including with respect to rates of tax) or accounting standards may reduce the recoverable amount of the recognised tax loss deferred tax assets, amounting to £62 million as at 31 December 2020. Changes to the treatment of certain deferred tax assets may impact NWM Group's capital position. In addition, NWM Group's interpretation or application of relevant tax laws may differ from those of the relevant tax authorities and provisions are made for potential tax liabilities that may arise on the basis of the amounts expected to be paid to tax authorities. The amounts ultimately paid may differ materially from the amounts provided depending on the ultimate resolution of such matters.

Legal Entity Identifier: RR3QWICWWIPCS8A4S074

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# **NatWest Markets Group 2020 Annual Results**

## Financial Review

NWM Group reported a loss for the year ended 31 December 2020 of £327 million compared with a loss of £121 million for the year ended 31 December 2019. Higher income from increased levels of customer activity as the market reacted to the COVID-19 pandemic was offset by Asset disposal/Strategic risk reduction losses following the strategic announcements in February 2020, higher operating expenses and impairment losses.

## Highlights

### Income, costs and legacy issues

- Income was £1,158 million in 2020, compared with £719 million in 2019, driven by increased levels of customer activity as the market reacted to the COVID-19 pandemic, although these levels eased in the second half of the year, and reflecting the impact of the consolidation of the full year results of NatWest Markets N.V. (NWM N.V.) following acquisition on 29 November 2019. In addition, income in 2019 was affected by challenging market conditions, particularly within Fixed Income due to elevated hedging costs caused by reduced liquidity and wider bid-offer spreads as the market experienced sustained curve flattening across global fixed income markets, most notably during Q3 2019.
- Operating expenses of £1,431 million were higher compared with £997 million in 2019, largely as a result of increased litigation and conduct costs and strategic costs, and the non-repeat of reimbursement under indemnification agreements with third parties and other one-off cost recoveries in Central items & other during 2019.
- Operating expenses for NatWest Markets segment, excluding litigation and conduct costs and strategic costs, of £1,106 million were £7 million higher than in 2019, reflecting the impact of the consolidation of the full year results of NWM N.V.; offset by cost reductions in the current year.
- Litigation and conduct costs of £134 million in 2020 relate primarily to historical trading activities of a joint venture subsidiary.
- Impairment losses were £42 million in 2020, compared with releases of £48 million in the prior year, largely due to the credit deterioration of an individual counterparty during the year, and the impact of expected credit losses recognised following the COVID-19 pandemic.

### Balance sheet, capital and risk-weighted assets (RWAs)

- NWM Group's total assets and liabilities increased by £7.0 billion and £7.6 billion to £273.1 billion and £263.8 billion respectively at 31 December 2020, compared with the prior year. The increases primarily reflect higher derivative fair values, driven by downward shifts in interest rate yields and FX rate fluctuation across major currencies during the year.
- NWM Plc issued £2.5 billion of term senior unsecured debt securities in benchmark and private placement formats during 2020, lower than the initial guidance of £3-5 billion due to ongoing risk reduction following the strategic announcements made in 2020.
- Total NWM Plc RWAs reduced to £25.6 billion at 31 December 2020 from £35.2 billion at 31 December 2019 reflecting lower levels of credit, counterparty credit and market risk which have trended downwards as the business seeks to reduce RWAs through the execution of capital optimisation actions, including strategic risk reduction transactions and exit activity.
- On 18th February 2021, the NWM Plc Board approved an interim dividend of £500 million, to be declared and payable to NatWest Group plc on 19 February 2021. There has been no adjustment to the year-end statutory financial statements, however a £500 million foreseeable dividend deduction has been applied to the year-end regulatory capital position.
- NWM Plc's Common Equity Tier 1 (CET1) ratio increased to 21.7% from 17.3% at 31 December 2019, primarily reflecting reserve movements in the year, the reduction in RWAs and the impact of the foreseeable dividend deduction to regulatory capital. The CRR leverage ratio increased to 5.2% (2019 - 5.1%).
- The total regulatory capital and CRR-compliant MREL for NWM Plc at 31 December 2020 was £12.7 billion, or 49.6% of RWAs.

### 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.
- The front office operating model was reorganised to focus on NatWest Group's customers, and some customer facing roles were transferred to NatWest Holdings Limited. A Capital Management Unit was established in Q3 2020 to safely manage the capital reduction and optimisation.
- As part of the transformation programme, some support functions including Risk and Treasury were transferred from NWM Group to NatWest Holdings Limited. Following transfer, the services performed by these functions are provided to NWM Group by way of intra-group agreements. NWM Plc's Board has approved key performance indicators by which to monitor delivery of the outsourced services for Risk and Treasury activity, which will be reported to NWM Plc Board at regular intervals in order to ensure proper oversight of service levels.

## The impact of COVID-19

### Business resilience

- Robust business continuity plans ensured that NWM 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 in the various regions where NWM Group operates, a small proportion of employees have returned to the workplace, primarily those in regulated roles and key oversight functions.

## Financial Review continued

### Capital, funding and liquidity

- NWM Plc RWAs decreased to £25.6 billion from £35.2 billion at 31 December 2019, reflecting lower levels of credit, counterparty credit and market risk which have trended downwards as the business seeks to reduce RWAs.
- Market risk capital requirements – 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 Plc. During the year, NWM Plc utilised a temporary approach offered by the PRA to mitigate the impact on market risk capital requirements. As at 31 December 2020, this temporary approach was no longer in force and NWM Plc instead utilised the provisions of Regulation (EU) 2020/873, which the European Parliament passed in June 2020 as an amended regulation to the CRR in response to the pandemic (“the CRR COVID-19 Amendment”). Under the provisions of this amendment, NWM Plc has been granted permission by the PRA to exclude back-testing exceptions that occurred on five days in March 2020 when calculating its minimum capital requirements for market risk. For more information, refer to the Market risk section in the NatWest Markets Plc 2020 Annual Report and Accounts.
- During 2020, the European Commission amended the prudent valuation Regulatory Technical Standard such that, due to the exceptional levels of market volatility, the aggregation factor was increased from 50% to 66% until 31 December 2020 inclusive. This has reduced NWM Plc’s Prudential Valuation Adjustment (PVA) deduction by c.£115 million.
- NWM Group was well-capitalised at 31 December 2020, with a NWM Plc CET1 ratio of 21.7%, within guidance of above 15%. The liquidity position was also strong, with NWM Plc’s liquidity portfolio of £19.4 billion and LCR of 268%.
- Capital, funding and liquidity remained closely monitored, with increased tracking and scenario analysis to ensure balance sheet strength.

### Fair value

- Valuation reserves, comprising credit valuation adjustments (CVA), funding valuation adjustments (FVA), bid-offer and product and deal specific reserves decreased to £803 million at 31 December 2020 from £953 million at 31 December 2019.
- FVA reserves decreased to £121 million at 31 December 2020 from £193 million at 31 December 2019, driven by a reduction in exposures, partly due to trade novation activity, together with reductions in both the level of initial margin posting requirements (driven by the NWM Plc rating upgrade) and the types of initial margin posting requirements assessed as part of FVA.
- Product and deal specific reserves decreased to £172 million at 31 December 2020 from £238 million at 31 December 2019, driven by a reduction in IFRS inception P&L reserves (due to time amortisation and trade unwind activity), certain negative exposures increasing (driven by interest rate and FX market moves) and a reallocation of reserves that are now included within modelled derivative trade valuations.
- CVA reserves increased to £388 million at 31 December 2020 from £384 million at 31 December 2019. CVA reserves increased significantly in Q1 2020 due to credit spreads widening at the outset of the crisis but have since reduced to levels comparable with 2019.

### 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 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 Group’s critical services.
- 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.
- Internal traded VaR for NWM Group was £26 million at peak and £16 million average during the year. Stressed VaR was £196 million at peak and £97 million on an average basis.

### 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 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.



## Financial Review continued

The table below sets out the performance key metrics and ratios.

	31 December 2020	31 December 2019
<b>Performance key metrics and ratios <sup>(1)</sup></b>		
Liquidity coverage ratio (LCR) (%) <sup>(2)</sup>	268	254
Liquidity portfolio (£bn) <sup>(2)</sup>	19.4	16.1
Stressed coverage ratio (%) <sup>(2)</sup>	207	153
Total wholesale funding (£bn) <sup>(3)</sup>	20.6	21.9
Total funding including repo (£bn)	75.9	85.0
Common Equity Tier (CET1) ratio (%)	21.7	17.3
CRR leverage ratio (%) <sup>(2)</sup>	5.2	5.1
Risk-weighted assets (RWAs) (£bn)	25.6	35.2
Total Capital ratio (%)	30.3	24.2
Total CRR-compliant MREL (£bn) <sup>(4)</sup>	12.7	13.5
Total MREL ratio (%)	49.6	38.4

Notes:

- (1) Capital, leverage and RWAs are based on the PRA transitional arrangements for NWM Plc. Regulatory capital is monitored and reported at NWM Plc level.
- (2) These liquidity metrics have been presented for NWM Plc as they are monitored and reported for regulatory purposes.
- (3) Excludes derivative cash collateral received, customer deposits, repo and intra-NatWest Group balances.
- (4) Includes senior internal debt instruments issued to NatWest Group plc with a regulatory value of £4.9 billion (31 December 2019 – £4.9 billion).

## Outlook<sup>(1,5)</sup>

NatWest Markets, like all companies, continues to deal with a range of significant risks and uncertainties in the external economic, political and regulatory environment. We will continue to actively monitor market conditions.

NatWest Markets continues to refocus the business in line with the strategy announced in February 2020. We expect NWM Group exit and disposal costs will be around £0.2 billion in 2021. NWM Group expects to achieve the majority of the remaining expected medium term RWA reduction in NWM Plc by the end of 2021.

NWM Plc is targeting the following in the medium-term:

Metric <sup>(2)</sup>	Estimate
CET1 ratio <sup>(3)</sup>	Above 15%
MREL ratio <sup>(4)</sup>	At least 30%
Leverage ratio	At least 4%

NWM Plc expects to have limited term senior unsecured issuance requirements in 2021, as it continues to refocus the business and reduce RWAs.

Notes:

- (1) This supersedes all prior guidance.
- (2) All metrics presented relate to NatWest Markets Plc.
- (3) NWM Plc expects to run above the 15% target on a solo basis in 2021.
- (4) Includes total regulatory capital, non-eligible capital plus downstreamed internal MREL.
- (5) The targets, expectations and trends discussed in this section represent management's current expectations and are subject to change, including as a result of the factors described in the "Risk Factors" section on pages 156 to 172 of NatWest Markets Plc 2020 Annual Report and Accounts. These statements constitute forward-looking statements. Refer to 'Forward-looking statements' in this announcement.

## Chief Executive's statement

2020 was a year like no other. We announced a new, refocused strategy before the pandemic took hold, then pivoted to very different ways of working while witnessing some of the most extreme and volatile market conditions we've ever seen. Throughout this uncertainty, and with the majority of our business working remotely, we have stayed true to our purpose, safely managed risk and delivered critical funding and financial markets access to our customers while supporting our colleagues in need with care and compassion.

Our business has remained resilient, our balance sheet robust, and we have delivered a strong income performance, making excellent progress to reshape our business and be better aligned with NatWest Group.

## Financial Performance

NatWest Markets delivered a strong income performance, demonstrating resilience across our core capabilities in Currencies, Fixed Income and Capital Markets, delivering total income (excluding asset disposals/strategic risk reduction and own credit adjustments) of £1.265 billion. The overall operating loss for the year was £315 million, primarily reflecting the costs associated with restructuring the business and strengthening the balance sheet in line with the new strategy.

Through discipline and focus, we strengthened our balance sheet throughout the year and significantly reduced RWAs by £9.6 billion down from £35.2 billion in 2019. This is reflected in the strong Common Equity Tier 1 ratio at 21.7% and Liquidity Coverage Ratio at 268% for the NatWest Markets Plc legal entity.

In 2020 Fitch upgraded the senior ratings of NatWest Markets Plc and NatWest Markets 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. entities were upgraded by two notches to A3 from Baa2, retaining positive outlook. This upgrade recognises the successful delivery of our transformation programme to date. It is also a further signal of confidence to our customers and stakeholders as we become a more sustainable business and are better placed to help them thrive.

We also mobilised and executed the next phase of our Brexit plan following on from 2019, ensuring we were able to support our customers and their businesses throughout through our fully functioning NatWest Markets N.V. (NWM N.V.) entity in the Netherlands.

## Response to the pandemic

As our customers navigated the uncertainty of the pandemic, we played a market-leading role in helping them achieve their financing, liquidity and risk management needs. We have delivered a number of important transactions - including the Debt Management Office's 2061 £7 billion gilt issuance and financing the construction of the first two phases of the Dogger Bank Wind Farm - and have continued to help corporates, banks, financial institutions, governments and the economies that we serve to rebuild. Through excellent partnership with NatWest Group's Commercial Banking business we were quick to support customers needing to access the COVID Corporate Financing Facility, delivering access to a total of £9.47 billion gross financing via this scheme.

During the height of the crisis, extensive and robust preparation ensured we were able to quickly mobilise business continuity plans and continue to support customers and protect colleagues, with the vast majority of our workforce working remotely throughout the year. Despite the significant change in ways of working, colleagues across our global locations responded quickly and have demonstrated exceptional resilience and determination throughout.

## Refocused strategy

We made excellent progress in delivering our refocused strategy to better serve NatWest Group's customers and create a more sustainable business as part of NatWest Group.

A key aspect of this strategy was sharpening our capital allocation and reducing RWAs. We exceeded our target for the year, reducing RWAs by £9.6 billion, alongside establishing a Capital Management Unit to further accelerate our efforts and ensure we maintain continued discipline around our capital allocation.

I made a number of leadership appointments during 2020 and have a new team to drive our refocused business forward. We changed how our customer-facing teams operate, creating a more customer-centric model better aligned to supporting NatWest Group's customers. We refined our product offering, building on our core capabilities and exiting a number of product lines to focus on the things we do best and that matter most to our customers. We also brought a number of our functional and services teams together with teams across NatWest Group, leveraging shared resources and promoting a One Bank approach to customers.

## Chief Executive's statement continued

### Climate

Climate and Environmental, Social and Corporate Governance (ESG) is a key component of our strategy and a critical focus for our business. During 2020, we made a significant contribution to NatWest Group's progress towards meeting its climate-related targets while collaborating across the industry to enhance understanding of climate considerations within financial markets.

Having lead managed £7.2 billion of green bond issuances and loans in 2020 with a total notional amount of £27.3 billion, I am pleased that NatWest Group is committed to reaching its £20 billion climate-related financing target during 2021. Our #1 ranking acting as lead manager for Green, Social and Sustainability (GSS) bonds issued by UK Corporates in 2020<sup>(1)</sup> is an outstanding achievement and a clear reflection of our commitment to support the UK's transition to a low-carbon economy.

Whether through COVID-19 response bonds, green securitisations or bespoke transition financing, 2020 has been pivotal in demonstrating the crucial role that ESG plays in repairing our economies and rebuilding better. I am excited to see our ESG capabilities and expertise develop as we support more customers to create a better and more sustainable future.

### A sustainable future

Our refocused business is now better placed to support our customers and colleagues and help them realise their potential. I am pleased with the outcome of our income performance, balance sheet resilience and transformation programme to date which wouldn't have been possible without the commitment, professionalism and resilience shown by my colleagues throughout this period – I am proud and inspired to work with such talented and dedicated people.

We now have a fantastic opportunity to build on these strong foundations. With a clear plan built around our priorities, I look forward to leading and building an increasingly sustainable, Purpose-led business as part of NatWest Group.

Robert Begbie  
CEO, NatWest Markets

Note:

(1) Source: Dealogic, 31 December 2020

## Business performance summary

The segmental analysis of NWM Group's key income statement lines is set out below. Commentary refers to the tables below as well as the consolidated income statement shown on page 12.

	Q4 2020			Q3 2020			Q4 2019		
	NatWest Markets £m	Central items & other £m	Total £m	NatWest Markets £m	Central items & other £m	Total £m	NatWest Markets £m	Central items & other £m	Total £m
<b>Income statement</b>									
Net interest income	(3)	-	(3)	(20)	2	(18)	11	-	11
Non-interest income	76	1	77	256	37	293	99	(3)	96
Total income	73	1	74	236	39	275	110	(3)	107
Strategic costs	(43)	(4)	(47)	(59)	27	(32)	(69)	(4)	(73)
Litigation and conduct costs	-	(7)	(7)	(2)	(12)	(14)	(15)	(45)	(60)
Other operating expenses	(272)	(27)	(299)	(224)	6	(218)	(280)	9	(271)
Operating expenses	(315)	(38)	(353)	(285)	21	(264)	(364)	(40)	(404)
Operating (loss)/profit before impairments	(242)	(37)	(279)	(49)	60	11	(254)	(43)	(297)
Impairment (losses)/releases	(2)	2	-	2	1	3	9	-	9
Operating (loss)/profit before tax	(244)	(35)	(279)	(47)	61	14	(245)	(43)	(288)
Tax credit/(charge)			46			21			(18)
(Loss)/profit for the period			(233)			35			(306)
<b>Income</b>									
Fixed Income (1,2,3)	(17)	-	(17)	125	-	125	92	-	92
Currencies (3)	121	-	121	126	-	126	84	-	84
Capital Markets (1,3)	90	-	90	75	-	75	68	-	68
Capital Management Unit & other (2,4)	(17)	1	(16)	1	39	40	(56)	(3)	(59)
Revenue share paid to other NWG segments	(53)	-	(53)	(45)	-	(45)	(56)	-	(56)
Income excluding asset disposals and OCA	124	1	125	282	39	321	132	(3)	129
Asset disposals/Strategic risk reduction (5)	(8)	-	(8)	(12)	-	(12)	-	-	-
Own credit adjustments (OCA)	(43)	-	(43)	(34)	-	(34)	(22)	-	(22)
Total income	73	1	74	236	39	275	110	(3)	107

### Notes:

- (1) Fixed Income comprises Rates and Credit trading. Rates income of £(17) million (Q3 2020: £107 million, Q4 2019: £83 million) was presented as a separate business in NWM Group results publications prior to the Q3 2020 Interim Management Statement. Credit trading and Capital Markets were previously reported as Financing.
- (2) Income of nil relating to business previously within Fixed Income has been reallocated to Capital Management Unit in Q4 2020. Comparatives have not been restated. The equivalent amounts were £(2) million in Q3 2020 and £(6) million in Q4 2019.
- (3) Income of £2 million and £11 million relating to business previously reported within Fixed Income has been reallocated to Capital Markets and Currencies respectively in Q4 2020. Comparatives have not been restated. The equivalent amounts were £3 million and £12 million in Q3 2020 and £4 million and £8 million in Q4 2019.
- (4) Capital Management Unit was set up in Q3 2020 to manage capital usage and optimisation across all parts of NatWest Markets. The income shown here relates to legacy assets. Other relates to income booked to the Central items & other operating segment.
- (5) Asset disposals/Strategic risk reduction in 2020 relates to the costs of exiting positions, and the impact of risk reduction transactions entered into, in respect of the strategic announcements of 14 February 2020. Prior to this date, disposal losses were primarily reflected in legacy and are presented within Capital Management Unit and Other in the table above.

## Business performance summary continued

- **Operating loss before tax** was £279 million compared with a £14 million operating profit in Q3 2020 and a £288 million loss in Q4 2019. Total income of £74 million was down compared to both Q3 2020 and Q4 2019, as activity levels in the Fixed Income business slowed towards the end of the year. Operating expenses of £353 million in Q4 2020 increased compared with Q3 2020 (£264 million), but were lower than Q4 2019 (£404 million).
- **Net interest income** was a net expense of £3 million in Q4 2020 compared with net expense of £18 million in Q3 2020 and net income of £11 million in Q4 2019.
- **Non-interest income** of £77 million decreased by £216 million compared with £293 million in Q3 2020, and by £19 million compared with £96 million in Q4 2019, driven by a weaker performance in the Fixed Income business amid lower levels of customer activity. Own credit adjustments of £(43) million in Q4 2020 were lower than Q3 2020 (£(34) million) and Q4 2019 (£(22) million) due to the tightening of spreads.
- **Operating expenses** were £353 million in Q4 2020, compared with £264 million in Q3 2020 and £404 million in Q4 2019. The increase of £89 million in Q4 2020 relative to Q3 2020 was partly due to lower strategic costs in Q3, and one-off costs recognised in other operating expenses in Q4, including the annual bank levy charge. Other operating expenses of £272 million within NatWest Markets segment were up £48 million from Q3 2020, but down £8 million from Q4 2020, reflecting progress on cost reductions in the year.
- **Impairments** were nil in Q4 2020, compared with impairment releases of £3 million in Q3 2020 and £9 million in Q4 2019.
- **NatWest Markets** operating loss before tax was £244 million compared with £47 million and £245 million in Q3 2020 and Q4 2019 respectively. Total income of £73 million was down compared to both Q3 2020 (£236 million) and Q4 2019 (£110 million). Operating expenses of £315 million increased relative to Q3 2020 (£285 million), due to one-off costs incurred in the quarter, but were lower compared to Q4 2019 (£364 million) reflecting progress on cost reductions following the strategic announcements in February 2020.
- **Central items & other** operating loss before tax was £35 million in Q4 2020 compared with operating profit of £61 million in Q3 2020 and £43 million loss in Q4 2019. The operating loss in Q4 2020 was largely driven by one-off costs within other operating expenses, whilst the operating profit in Q3 2020 was driven by income arising on the transfer of a service subsidiary to NatWest Holdings Limited and various expense credits. The loss in Q4 2019 was largely due to litigation and conduct costs.



## Business performance summary continued

	Year ended			Year ended		
	31 December 2020			31 December 2019		
	NatWest Markets £m	Central items & other £m	Total £m	NatWest Markets £m	Central items & other £m	Total £m
<b>Income statement</b>						
Net interest income	(62)	2	(60)	(160)	10	(150)
Non-interest income	1,180	38	1,218	850	19	869
Total income	1,118	40	1,158	690	29	719
Strategic costs	(207)	16	(191)	(162)	(9)	(171)
Litigation and conduct costs	(4)	(130)	(134)	(18)	112	94
Other operating expenses	(1,106)	-	(1,106)	(1,099)	179	(920)
Operating expenses	(1,317)	(114)	(1,431)	(1,279)	282	(997)
Operating (loss)/profit before impairments	(199)	(74)	(273)	(589)	311	(278)
Impairment (losses)/releases	(40)	(2)	(42)	48	-	48
Operating (loss)/profit before tax	(239)	(76)	(315)	(541)	311	(230)
Tax (charge)/credit			(12)			109
Loss for the year			(327)			(121)
<b>Income</b>						
Fixed Income (1,2,3,4)	511	-	511	415	-	415
Currencies (2,4)	583	-	583	427	-	427
Capital Markets (1,2,3,4)	384	-	384	344	-	344
Capital Management Unit & other (2,5)	(60)	40	(20)	(208)	29	(179)
Revenue share paid to other NWG segments	(193)	-	(193)	(208)	-	(208)
Income excluding asset disposals and OCA	1,225	40	1,265	770	29	799
Asset disposals/Strategic risk reduction (6)	(83)	-	(83)	-	-	-
Own credit adjustments (OCA)	(24)	-	(24)	(80)	-	(80)
Total income	1,118	40	1,158	690	29	719

### Notes:

- (1) Fixed Income comprises Rates and Credit trading. Rates income of £541 million (2019: £374 million) was presented as a separate business in NWM Group results publications prior to the Q3 2020 Interim Management Statement. Credit trading and Capital Markets were previously reported as Financing.
- (2) Income of £(42) million, £(8) million and £(14) million reported within Fixed Income, Currencies and Capital Markets respectively relates to business subsequently reallocated to Capital Management Unit during 2020. Comparatives have not been restated. The full year equivalent amounts for 2019 were £14 million, £(8) million and £8 million respectively.
- (3) Business that was reported within Fixed Income for 2019 was transferred to Capital Markets for Q1 2020 and Q2 2020, before returning to Fixed Income from Q3 2020. Income from this business reported within Capital Markets in 2020 was £33 million.
- (4) Income of £8 million and £59 million reported within Fixed Income relates to business that was subsequently transferred to Capital Markets and Currencies respectively during 2020. Comparatives have not been restated. The full year equivalent amounts for 2019 were £71 million and £77 million respectively.
- (5) Capital Management Unit was set up in Q3 2020 to manage the capital usage and optimisation across all parts of NatWest Markets. The income shown here relates to legacy assets. Other relates to income booked to the Central items & other operating segment.
- (6) Asset disposals/Strategic risk reduction in 2020 relates to the costs of exiting positions, and the impact of risk reduction transactions entered into, in respect of the strategic announcements of 14 February 2020. Prior to this date, disposal losses were primarily reflected in legacy and are presented within Capital Management Unit and Other in the table above.

## Business performance summary continued

- **Operating loss before tax** was £315 million compared with a loss of £230 million in 2019. Total income of £1,158 million was up by £439 million from 2019, driven by strong customer activity in response to the COVID-19 crisis, and lower trading income in challenging market conditions in the prior year. Operating expenses increased by £434 million to £1,431 million in 2020, largely as a result of increased litigation and conduct costs and strategic costs, and the non-repeat of reimbursement under indemnification agreements with third parties and other one-off cost recoveries in Central items & other during 2019.
- **Net interest income** was a net expense of £60 million compared with a net expense of £150 million in 2019. Net interest expenses largely represent funding costs of the business, offset partially by interest income from lending activity and capital hedges.
- **Non-interest income** increased by £349 million to £1,218 million, compared with £869 million in 2019. Income from trading activities increased to £1,088 million from £805 million in 2019, driven by strong customer activity in response to the COVID-19 crisis, and challenging trading conditions and elevated hedging costs in the prior year that particularly affected Fixed income. Asset disposals/Strategic risk reduction was a £83 million loss for the year, following the strategic announcements in February 2020. Own credit adjustments of £(24) million in 2020 (2019 - £(80) million) reflect the tightening of spreads.
- **Operating expenses** of £1,431 million were £434 million higher than in 2019. Litigation and conduct costs of £134 million for the year primarily related to historical trading activities of a joint venture subsidiary and were up £228 million from the credit of £94 million in 2019, which included £162 million reimbursement under indemnification agreements with third parties. Strategic costs increased by £20 million to £191 million in 2020, driven by the refocusing of NWM Group following the strategic announcements of 14 February 2020. Other operating expenses increased to £1,106 million from £920 million in 2019, largely due to the non-repeat of certain one-off cost recoveries.
- **Impairments** were a £42 million loss in 2020 compared with releases of £48 million in 2019, largely due to the credit deterioration of an individual counterparty during the year, and the impact of expected credit losses recognised following the COVID-19 pandemic.
- **NatWest Markets** operating loss before tax was £239 million compared with a loss of £541 million in 2019, driven by higher income of £428 million due to strong customer activity in response to the COVID-19 crisis and challenging market conditions in the prior year. Operating expenses increased by £38 million to £1,317 million in 2020, mainly due to increased strategic costs. Other operating expenses of £1,106 million were £7 million higher than 2019, reflecting the impact of consolidation of the full year results of NatWest Markets N.V., offset by cost reductions in the current year.
- **Central items & other** the operating loss before tax was £76 million compared with a profit of £311 million in 2019. Litigation and conduct costs of £130 million primarily related to historical trading activities of a joint venture subsidiary and were up £242 million compared with the credit of £112 million in 2019, which included £162 million in reimbursement under indemnification agreements with third parties. Other operating expenses of nil were £179 million higher than credits of £179 million in 2019, which included certain one-off cost recoveries.

## Business performance summary continued

The table below presents a segmental analysis of key balance sheet lines for NWM Group. Commentary refers to the table below as well as the consolidated balance sheet on page 13 for the period 31 December 2020 compared with 31 December 2019.

	31 December 2020			30 September 2020			31 December 2019		
	NatWest Markets £bn	Central items & other £bn	Total £bn	NatWest Markets £bn	Central items & other £bn	Total £bn	NatWest Markets £bn	Central items & other £bn	Total £bn
<b>Balance sheet</b>									
Funded assets	107.5	-	107.5	123.1	-	123.1	117.4	-	117.4
Derivative assets	165.6	-	165.6	163.2	-	163.2	148.7	-	148.7
Total assets	273.1	-	273.1	286.3	-	286.3	266.1	-	266.1
Liabilities excl. derivatives	106.5	-	106.5	119.0	-	119.0	112.1	-	112.1
Derivative liabilities	157.3	-	157.3	157.5	-	157.5	144.1	-	144.1
Total liabilities	263.8	-	263.8	276.5	-	276.5	256.2	-	256.2

- **Total assets and liabilities** increased by £7.0 billion and £7.6 billion to £273.1 billion and £263.8 billion respectively at 31 December 2020, compared with £266.1 billion and £256.2 billion at 31 December 2019. **Funded assets**, which exclude derivatives, decreased by £9.9 billion to £107.5 billion at 31 December 2020.
- **Cash and balances at central banks** of £15.8 billion at 31 December 2020 were up by £3.1 billion compared with £12.7 billion in 2019, reflecting surplus liquidity following a reduction in trading assets in 2020.
- **Trading assets** which primarily relate to client-led activity as well as derivative cash collateral posted, decreased to £68.7 billion at 31 December 2020 from £76.5 billion at 31 December 2019, driven by a reduction in reverse repos as the balance sheet was managed within limits, and a decrease in derivative cash collateral posted. **Trading liabilities** decreased by £1.5 billion to £72.3 billion at 31 December 2020 (2019 - £73.8 billion).
- **Settlement balance assets and liabilities** decreased to £2.3 billion and £2.2 billion respectively, reflecting lower year end trading volumes (2019 – £4.3 billion and £4.0 billion respectively).
- **Derivative assets and derivative liabilities** were up £16.9 billion to £165.6 billion and £13.2 billion to £157.3 billion respectively compared with year end 2019. The increases in mark-to-market were driven by a downward shift in interest rate yields and FX rate fluctuation across major currencies during the year.
- **Other financial assets** decreased by £3.3 billion to £9.0 billion at 31 December 2020 (2019 - £12.3 billion). **Other financial liabilities** decreased to £18.2 billion (2019 - £18.4 billion) and includes £12.8 billion of medium term notes issued.

## Capital and leverage ratios

Capital resources, RWAs and leverage based on the PRA transitional arrangements for NWM Plc are set out below.

	31 December 2020 %	30 September 2020 %	31 December 2019 %
<b>Capital adequacy ratios</b>			
CET1	21.7	22.3	17.3
Tier 1	25.2	25.5	19.9
Total	30.3	30.9	24.2
<b>Capital (1)</b>			
	£m	£m	£m
CET1	5,547	6,293	6,097
Tier 1	6,433	7,189	7,003
Total	7,753	8,715	8,501
<b>Risk-weighted assets</b>			
Credit risk	6,902	8,581	9,825
Counterparty credit risk	8,130	9,133	11,060
Market risk	8,150	8,075	11,229
Operational risk	2,382	2,382	3,039
<b>Total RWAs</b>	<b>25,564</b>	<b>28,171</b>	<b>35,153</b>
<b>Leverage (2)</b>			
CRR leverage exposure (£m) (3)	123,927	133,177	136,505
Tier 1 capital (£m)	6,433	7,189	7,003
CRR leverage ratio (%)	5.2	5.4	5.1

Notes:

- (1) CRR end-point for UK banks set by the PRA is 10.5% minimum total capital ratio, with a minimum CET1 ratio of 7.0%.
- (2) Leverage exposure is broadly aligned to the accounting value of on and off-balance sheet exposures albeit subject to specific adjustments for derivatives, securities financing positions and off-balance sheet exposures.
- (3) CRR leverage exposure at 31 December 2020 and 30 September 2020 includes netting of regular way deals pending settlement in line with CRR amendments that came into effect in June 2020. 31 December 2019 has not been restated.

## Consolidated income statement for the period ended 31 December 2020

	Year ended		Quarter ended		
	31 December 2020 £m	31 December 2019 £m	31 December 2020 £m	30 September 2020 £m	31 December 2019 £m
Interest receivable	531	697	103	152	201
Interest payable	(591)	(847)	(106)	(170)	(190)
<b>Net interest income</b>	<b>(60)</b>	<b>(150)</b>	<b>(3)</b>	<b>(18)</b>	<b>11</b>
Fees and commissions receivable	386	324	(25)	134	61
Fees and commissions payable	(287)	(337)	61	(146)	(57)
Income from trading activities	1,088	805	62	250	84
Other operating income	31	77	(21)	55	8
<b>Non-interest income</b>	<b>1,218</b>	<b>869</b>	<b>77</b>	<b>293</b>	<b>96</b>
<b>Total income</b>	<b>1,158</b>	<b>719</b>	<b>74</b>	<b>275</b>	<b>107</b>
Staff costs	(670)	(691)	(151)	(142)	(154)
Premises and equipment	(107)	(111)	(19)	(13)	(36)
Other administrative expenses	(629)	(177)	(175)	(106)	(208)
Depreciation and amortisation	(25)	(18)	(8)	(3)	(6)
<b>Operating expenses</b>	<b>(1,431)</b>	<b>(997)</b>	<b>(353)</b>	<b>(264)</b>	<b>(404)</b>
<b>Operating (loss)/profit before impairments</b>	<b>(273)</b>	<b>(278)</b>	<b>(279)</b>	<b>11</b>	<b>(297)</b>
Impairment (losses)/releases	(42)	48	-	3	9
<b>Operating (loss)/profit before tax</b>	<b>(315)</b>	<b>(230)</b>	<b>(279)</b>	<b>14</b>	<b>(288)</b>
Tax (charge)/credit	(12)	109	46	21	(18)
<b>(Loss)/profit for the period</b>	<b>(327)</b>	<b>(121)</b>	<b>(233)</b>	<b>35</b>	<b>(306)</b>
<b>Attributable to:</b>					
Ordinary shareholders	(328)	(181)	(249)	17	(321)
Paid-in equity holders	68	60	17	17	15
Non-controlling interests	(67)	-	(1)	1	-
	<b>(327)</b>	<b>(121)</b>	<b>(233)</b>	<b>35</b>	<b>(306)</b>

## Consolidated statement of comprehensive income for the period ended 31 December 2020

	Year ended		Quarter ended		
	31 December 2020 £m	31 December 2019 £m	31 December 2020 £m	30 September 2020 £m	31 December 2019 £m
<b>(Loss)/profit for the period</b>	<b>(327)</b>	<b>(121)</b>	<b>(233)</b>	<b>35</b>	<b>(306)</b>
<b>Items that do not qualify for reclassification</b>					
Remeasurement of retirement benefit schemes	(21)	(50)	(18)	-	(50)
(Loss)/profit on fair value of credit in financial liabilities designated as at FVTPL due to own credit risk	(52)	(13)	(72)	(63)	37
FVOCI financial assets	(210)	(122)	(58)	24	58
Tax	42	32	25	14	9
	<b>(241)</b>	<b>(153)</b>	<b>(123)</b>	<b>(25)</b>	<b>54</b>
<b>Items that do qualify for reclassification</b>					
FVOCI financial assets	2	5	9	11	7
Cash flow hedges	92	28	(40)	(22)	(88)
Currency translation	62	(152)	(112)	(84)	(257)
Tax	(28)	(4)	10	4	22
	<b>128</b>	<b>(123)</b>	<b>(133)</b>	<b>(91)</b>	<b>(316)</b>
<b>Other comprehensive loss after tax</b>	<b>(113)</b>	<b>(276)</b>	<b>(256)</b>	<b>(116)</b>	<b>(262)</b>
<b>Total comprehensive loss for the period</b>	<b>(440)</b>	<b>(397)</b>	<b>(489)</b>	<b>(81)</b>	<b>(568)</b>
<b>Attributable to:</b>					
Ordinary shareholders	(459)	(458)	(508)	(100)	(583)
Paid-in equity holders	68	60	17	17	15
Non-controlling interests	(49)	1	2	2	-
	<b>(440)</b>	<b>(397)</b>	<b>(489)</b>	<b>(81)</b>	<b>(568)</b>



## Consolidated balance sheet as at 31 December 2020

	31 December 2020 £m	30 September 2020 £m	31 December 2019 £m
<b>Assets</b>			
Cash and balances at central banks	15,771	16,692	12,729
Trading assets	68,689	70,602	76,540
Derivatives	165,619	163,221	148,696
Settlement balances	2,296	10,946	4,339
Loans to banks - amortised cost	1,003	1,210	1,088
Loans to customers - amortised cost	8,444	10,054	8,361
Amounts due from holding company and fellow subsidiaries	1,587	1,719	1,231
Other financial assets	9,041	11,215	12,305
Other assets	688	631	847
<b>Total assets</b>	<b>273,138</b>	<b>286,290</b>	<b>266,136</b>
<b>Liabilities</b>			
Bank deposits	1,808	2,425	2,089
Customer deposits	2,618	4,725	3,703
Amounts due to holding company and fellow subsidiaries	8,134	8,725	8,300
Settlement balances	2,248	9,839	4,022
Trading liabilities	72,252	72,952	73,836
Derivatives	157,332	157,499	144,142
Other financial liabilities	18,170	18,972	18,445
Other liabilities	1,234	1,327	1,689
<b>Total liabilities</b>	<b>263,796</b>	<b>276,464</b>	<b>256,226</b>
<b>Equity</b>			
Owners' equity	9,388	9,874	9,907
Non-controlling interests	(46)	(48)	3
<b>Total equity</b>	<b>9,342</b>	<b>9,826</b>	<b>9,910</b>
<b>Total liabilities and equity</b>	<b>273,138</b>	<b>286,290</b>	<b>266,136</b>

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

	Year ended		Quarter ended		
	31 December 2020	31 December 2019	31 December 2020	30 September 2020	31 December 2019
	£m	£m	£m	£m	£m
Called up share capital - at beginning and end of period	400	400	400	400	400
Share premium account - at beginning and end of period	1,759	1,759	1,759	1,759	1,759
Paid-in equity - at 1 January	904	749	904	904	749
Securities issued during the year	-	155	-	-	155
At 31 December	904	904	904	904	904
FVOCI reserve - at 1 January	(134)	134	(228)	(326)	(204)
Unrealised (losses)/gains	(221)	(126)	(53)	28	52
Realised losses/(gains) (2)	389	(151)	315	73	19
Tax	-	9	-	(3)	(1)
At 31 December	34	(134)	34	(228)	(134)
Cash flow hedging reserve - at 1 January	137	114	230	246	203
Amount recognised in equity	18	98	(52)	(40)	(18)
Amount transferred from equity to earnings	74	(70)	12	18	(70)
Tax	(28)	(5)	11	6	22
At 31 December	201	137	201	230	137
Foreign exchange reserve - at 1 January	77	230	236	321	334
Retranslation of net assets	98	(180)	(117)	(69)	(256)
Foreign currency (losses)/gains on hedges of net assets	(31)	27	2	2	(1)
Tax	-	-	-	-	-
Recycled to profit or loss on disposal of businesses	(23)	-	-	(18)	-
At 31 December	121	77	121	236	77
Retained earnings - at 1 January	6,764	5,701	6,573	6,649	5,248
Implementation of IFRS 16 on 1 January 2019	-	(6)	-	-	-
(Loss)/profit attributable to ordinary shareholders and other equity owners	(260)	(121)	(232)	34	(306)
Ordinary dividends paid	-	(500)	-	-	-
Paid-in equity dividends paid	(68)	(60)	(17)	(17)	(15)
Capital contribution (1)	22	1,845	-	-	1,845
Realised (losses)/gains on FVOCI equity shares (2)	-	-	-	-	-
- gross	(376)	160	(311)	(66)	(6)
- tax	35	-	27	8	-
Remeasurement of the retirement benefit schemes	-	-	-	-	-
- gross	(21)	(50)	(18)	-	(50)
- tax	(1)	4	(12)	-	4
Changes in fair value of credit in financial liabilities designated at FVTPL	-	-	-	-	-
- gross	(52)	(13)	(72)	(63)	37
- tax	8	20	9	7	6
Share based payments	(42)	(216)	22	21	1
Distribution	(40)	-	-	-	-
At 31 December	5,969	6,764	5,969	6,573	6,764

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

	Year ended		Quarter ended		
	31 December 2020	31 December 2019	31 December 2020	30 September 2020	31 December 2019
	£m	£m	£m	£m	£m
<b>Owners' equity at 31 December</b>	<b>9,388</b>	9,907	<b>9,388</b>	9,874	9,907
Non-controlling interests - at 1 January	3	2	(48)	(50)	3
Currency translation adjustments and other movements	18	1	3	1	-
(Loss)/gain attributable to non-controlling interests	(67)	-	(1)	1	-
At 31 December	(46)	3	(46)	(48)	3
<b>Total equity at 31 December</b>	<b>9,342</b>	9,910	<b>9,342</b>	9,826	9,910
Attributable to:					
Ordinary shareholders	8,484	9,003	8,484	8,970	9,003
Paid-in equity holders	904	904	904	904	904
Non-controlling interests	(46)	3	(46)	(48)	3
	<b>9,342</b>	9,910	<b>9,342</b>	9,826	9,910

### Notes:

- (1) A capital contribution of £1,845 million was received from NatWest Group on 29 November 2019 to facilitate the acquisition of RBS Holdings N.V..
- (2) During the year NWM Plc sold its entire equity holding in Saudi British Bank (SABB) leading to a realised loss of £337 million after tax which was recognised through other comprehensive income and reclassified to retained earnings.

## Consolidated cash flow statement for the period ended 31 December 2020

	31 December 2020	31 December 2019
	£m	£m
<b>Operating activities</b>		
Operating loss before tax	(315)	(230)
Adjustments for non-cash items	(354)	719
<b>Net cash outflow from trading activities</b>	<b>(669)</b>	489
Changes in operating assets and liabilities	(3,248)	(1,127)
<b>Net cash flows from operating activities before tax</b>	<b>(3,917)</b>	(638)
Income taxes (paid)/received	(73)	315
<b>Net cash flows from operating activities</b>	<b>(3,990)</b>	(323)
<b>Net cash flows from investing activities</b>	<b>3,271</b>	3,014
<b>Net cash flows from financing activities</b>	<b>(785)</b>	(822)
Effects of exchange rate changes on cash and cash equivalents	841	(953)
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(663)</b>	916
Cash and cash equivalents at beginning of year	27,043	26,127
<b>Cash and cash equivalents at end of year</b>	<b>26,380</b>	27,043

## Notes

### 1. Basis of preparation

NWM Group's consolidated financial statements should be read in conjunction with the NatWest Markets Plc 2020 Annual Report and Accounts which were prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and with International Financial Reporting Standards (IFRS) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

### Going concern

Having reviewed NWM Group's forecasts, projections, the potential impact of COVID-19 and other relevant evidence, the directors have a reasonable expectation that NWM Group will continue in operational existence for the foreseeable future. Accordingly, the results for the year ended 31 December 2020 have been prepared on a going concern basis.

### 2. Accounting policies

NWM Group's principal accounting policies are as set out on pages 93 to 97 of the NatWest Markets Plc 2020 Annual Report and Accounts. From 1 January 2020, the accounting policies have been updated to reflect the adoption of the below.

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

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

#### 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 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 Group early adopted these amendments for the year ended 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 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 Group has applied International Accounting Standards, which have been adopted for use within the UK. NWM 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.

#### Critical accounting policies and key sources of estimation uncertainty

The judgements and assumptions that are considered to be the most important to the portrayal of NWM Group's financial condition are those relating to deferred tax, fair value of financial instruments, loan impairment provisions and provisions for liabilities and charges. These critical accounting policies and judgements are described on page 97 of the NatWest Markets Plc 2020 Annual Report and Accounts. Estimation uncertainty has been affected by the COVID-19 pandemic during the year. 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 UK and other countries. Changes in judgements and assumptions could result in a material adjustment to those estimates in the next reporting periods. Management's consideration of this source of uncertainty is outlined in the relevant sections of the NatWest Markets Plc 2020 Annual Report and Accounts, including the ECL estimate for the period in the Risk and capital management section contained in the NatWest Markets Plc 2020 Annual Report and Accounts.

## Notes

### 2. Accounting policies continued

#### Information used for significant estimates

The COVID-19 pandemic has continued to cause significant economic and social disruption during year ended 31 December 2020. Key financial estimates are based on management's latest five-year revenue and cost forecasts. Measurement of valuation reserves and expected credit losses are highly sensitive to reasonably possible changes in economic outlook assumptions. Refer to further information under 'The impact of COVID-19' section in the Risk and capital management section of the NatWest Markets Plc 2020 Annual Report and Accounts. Changes in judgements and assumptions could result in a material adjustment to those estimates in the next reporting periods (refer to Risk factors in the NatWest Markets Plc 2020 Annual Report and Accounts).

### 3. Trading assets and liabilities

Trading assets and liabilities comprise assets and liabilities held at fair value in trading portfolios.

	31 December 2020 £m	31 December 2019 £m
<b>Assets</b>		
Loans		
- Reverse repos	19,404	24,095
- Collateral given	18,459	20,467
- other loans	1,611	1,854
<b>Total loans</b>	<b>39,474</b>	<b>46,416</b>
Securities		
Central and local government		
- UK	4,184	4,897
- US	5,149	5,458
- other	16,436	14,902
Financial institutions and Corporate	3,446	4,867
<b>Total securities</b>	<b>29,215</b>	<b>30,124</b>
<b>Total</b>	<b>68,689</b>	<b>76,540</b>
<b>Liabilities</b>		
Deposits		
- Repos	19,036	27,885
- Collateral received	23,226	21,506
- other deposits	1,803	1,496
<b>Total deposits</b>	<b>44,065</b>	<b>50,887</b>
Debt securities in issue	1,408	1,762
Short positions	26,779	21,187
<b>Total</b>	<b>72,252</b>	<b>73,836</b>

### 4. Other financial liabilities

	31 December 2020 £m	31 December 2019 £m
Customer deposits - designated as at fair value through profit or loss	796	-
Debt securities in issue		
- designated as at fair value through profit or loss	1,607	2,256
- amortised cost	14,662	15,053
Subordinated liabilities		
- designated as at fair value through profit or loss	793	724
- amortised cost	312	412
<b>Total</b>	<b>18,170</b>	<b>18,445</b>

### 5. Amounts due to holding company and fellow subsidiaries

	31 December 2020 £m	31 December 2019 £m
<b>Liabilities</b>		
Bank deposits - amortised cost	145	424
Customer deposits - amortised cost	144	74
CRR-compliant internal MREL instruments issued to NatWest Group plc	5,181	5,120
Trading liabilities	636	491
Other financial liabilities - subordinated liabilities	1,753	2,020
Other liabilities	275	171
<b>Total</b>	<b>8,134</b>	<b>8,300</b>



## Notes

### 6. Related parties

#### UK Government

The UK Government, bodies controlled or jointly controlled by the UK Government and bodies over which it has significant influence are related parties of NWM Group. NWM Group enters into transactions with many of these bodies. NWM Group's other transactions with the UK Government include the payment of taxes, principally UK corporation tax and value added tax; national insurance contributions; local authority rates; and regulatory fees and levies (including the bank levy and FSCS levies).

#### Bank of England facilities

In the ordinary course of business, NWM Group may from time to time access market-wide facilities provided by the Bank of England.

#### Other related parties

(a) In their roles as providers of finance, NWM Group companies provide development and other types of capital support to businesses. These investments are made in the normal course of business. In some instances, the investment may extend to ownership or control over 20% or more of the voting rights of the investee company. However, these investments are not considered to give rise to transactions of a materiality requiring disclosure under IAS 24.

(b) In accordance with IAS 24, transactions or balances between NWM Group entities that have been eliminated on consolidation are not reported.

(c) The captions in the primary financial statements of the parent company include amounts attributable to subsidiaries. These amounts have been disclosed in aggregate in the relevant notes to the financial statements.

Full details of NWM Group's related party transactions for the year ended 31 December 2020 are included in the NatWest Markets Plc 2020 Annual Report and Accounts.

### 7. Litigation and regulatory matters

NWM Plc and certain members of NWM Group are party to legal proceedings and involved in regulatory matters, including as the subject of investigations and other regulatory and governmental action ("Matters") in the United Kingdom (UK), the United States (US), the European Union (EU) and other jurisdictions. Note 26 in the NatWest Markets Plc 2020 Annual Report and Accounts, issued on 19 February 2021 and available at [nwm.com](http://nwm.com) ("Note 26"), discusses the Matters in which NWM Group is currently involved and developments to those matters. Other than the Matters discussed in Note 26, no member of NWM Group is or has been involved in governmental, legal, or regulatory proceedings (including those which are pending or threatened) that are expected to be material, individually or in aggregate. Recent developments in the Matters identified in Note 26 that have occurred since the Q3 2020 Interim Management Statement was issued on 29 October 2020, include, but are not limited to, those set out below.

#### Litigation

##### London Interbank Offered Rate (LIBOR) and other rates litigation

NWM Plc is a defendant in a class action relating to alleged manipulation of Swiss Franc LIBOR that was dismissed by the district court but is currently on appeal to the United States Court of Appeals for the Second Circuit. NWM Plc and the plaintiffs reached a settlement in principle of this matter in February 2021. The amount of the settlement, which remains subject to final documentation and court approval, is covered by an existing provision.

#### FX litigation

In November 2020, proceedings were issued in the High Court of Justice of England and Wales against NWM Plc by a claimant who seeks an account of profits or damages in respect of alleged historic FX trading misconduct. The claimant has also issued similar proceedings against a number of other banks. The claim against NWM Plc makes allegations of fraud, deceit and dishonesty, as well as breaches of contract, fiduciary duties, duties of confidence and other matters, in respect of FX services provided by NWM Plc during the period 2006 to 2010. NWM Plc awaits service of the claim.

#### Regulatory matters

##### US investigations relating to fixed-income securities

In December 2020, RBS Financial Products, Inc. agreed to pay US\$18.2 million to resolve the State of Maryland's investigation of NatWest Group's issuance and underwriting of residential mortgage-backed securities. RBS Financial Products, Inc. has paid the settlement amount, which was covered by an existing provision.

### 8. Post balance sheet events

On 18 February 2021, the NWM Plc Board approved an interim dividend of £500 million, or £1.25 per share, to be declared and payable to NWG plc on 19 February 2021. There has been no adjustment to the 31 December 2020 statutory financial statements. For regulatory reporting purposes, a £500 million foreseeable dividend deduction has been applied to the year-end regulatory capital position.

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.

## Non-IFRS measures

As described in the Accounting policies, NatWest Markets Group prepares its financial statements in accordance with the basis set out in the accounting policies, page 16 which constitutes a body of generally accepted accounting principles (GAAP). This document contains a number of adjusted or alternative performance measures, also known as non-GAAP or non-IFRS performance measures. These measures are adjusted for certain items which management believes are not representative of the underlying performance of the business and which distort period-on-period comparison. The non-IFRS measures provide users of the financial statements with a consistent basis for comparing business performance between financial periods and information on elements of performance that are one-off in nature. The non-IFRS measures also include the calculation of metrics that are used throughout the banking industry. These non-IFRS measures are not measures within the scope of IFRS and are not a substitute for IFRS measures. These measures include:

- Management analysis of the operating expenses shows strategic costs and litigation and conduct costs in separate lines on pages 6 and 8. These amounts are included in staff, premises and equipment and other administrative expenses in the statutory analysis.
- Funded assets defined as total assets less derivative assets.
- Management view of income by business, including separate itemisation of own credit adjustments, asset disposals/strategic risk reduction and income excluding asset disposals and own credit adjustments. Asset disposals/strategic risk reduction includes the costs of exiting positions and the impact of risk reduction transactions entered into as part of the optimisation of the entity's capital usage, following the strategic announcements of 14 February 2020. Own credit adjustments are applied to positions where it is believed that the counterparties would consider NWM Group's creditworthiness when pricing trades. The fair value of certain issued debt securities, including structured notes, is adjusted to reflect the changes in own credit spreads and the resulting gain or loss recognised in income.

## Operating expenses analysis

### Statutory analysis <sup>(1,2)</sup>

	Year ended		Quarter ended		
	31 December 2020	31 December 2019	31 December 2020	30 September 2020	31 December 2019
	£m	£m	£m	£m	£m
<b>Operating expenses</b>					
Staff costs	670	691	151	142	154
Premises and equipment	107	111	19	13	36
Other administrative expenses	629	177	175	106	208
Depreciation and amortisation	25	18	8	3	6
<b>Total operating expenses</b>	<b>1,431</b>	<b>997</b>	<b>353</b>	<b>264</b>	<b>404</b>

### Non-statutory analysis

	Year ended							
	31 December 2020				31 December 2019			
	Strategic costs	Litigation and conduct costs	Other expenses	Statutory operating expenses	Strategic costs	Litigation and conduct costs	Other expenses	Statutory operating expenses
<b>Operating expenses</b>								
Staff costs	121	-	549	670	90	-	601	691
Premises and equipment	19	-	88	107	8	-	103	111
Other administrative expenses	51	134	444	629	73	(94)	198	177
Depreciation and amortisation	-	-	25	25	-	-	18	18
<b>Total</b>	<b>191</b>	<b>134</b>	<b>1,106</b>	<b>1,431</b>	<b>171</b>	<b>(94)</b>	<b>920</b>	<b>997</b>

	Quarter ended							
	31 December 2020				30 September 2020			
	Strategic costs	Litigation and conduct costs	Other expenses	Statutory operating expenses	Strategic costs	Litigation and conduct costs	Other expenses	Statutory operating expenses
<b>Operating expenses</b>								
Staff costs	29	-	122	151	34	-	108	142
Premises and equipment	1	-	18	19	(4)	-	17	13
Other administrative expenses	17	7	151	175	2	14	90	106
Depreciation and amortisation	-	-	8	8	-	-	3	3
<b>Total</b>	<b>47</b>	<b>7</b>	<b>299</b>	<b>353</b>	<b>32</b>	<b>14</b>	<b>218</b>	<b>264</b>

	Quarter ended			
	31 December 2019			
	Strategic costs	Litigation and conduct costs	Other expenses	Statutory operating expenses
<b>Operating expenses</b>				
Staff costs	39	-	115	154
Premises and equipment	3	-	33	36
Other administrative expenses	31	60	117	208
Depreciation and amortisation	-	-	6	6
<b>Total</b>	<b>73</b>	<b>60</b>	<b>271</b>	<b>404</b>

Notes:

(1) On a statutory, or GAAP, basis, strategic costs are included within staff, premises and equipment and other administrative expenses. Strategic costs relate to restructuring provisions, related costs and projects that are transformational in nature.

(2) On a statutory, or GAAP, basis, litigation and conduct costs are included within other administrative expenses.

## Statement of directors' responsibilities

The responsibility statement below has been prepared in connection with NWM Group's full Annual Report and Accounts for the year ended 31 December 2020.

We, the directors listed below, confirm that to the best of our knowledge:

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

By order of the Board

Frank Dangeard  
Chairman

Robert Begbie  
Chief Executive Officer

David King  
Chief Financial Officer

18 February 2021

### Board of directors

#### Chairman

Frank Dangeard

#### Executive directors

Robert Begbie  
David King

#### Non-executive directors

Vivek Ahuja  
Brendan Nelson  
Tamsin Rowe  
Anne Simpson  
Sarah Wilkinson

## Presentation of information

NatWest Markets Plc ('NWM Plc') is a wholly-owned subsidiary of NatWest Group plc or 'the ultimate holding company'. The NatWest Markets Group ('NWM Group') comprises NWM Plc and its subsidiary and associated undertakings. The term 'NatWest Group' comprises NatWest Group plc and its subsidiary and associated undertakings. The term 'NWH Group' refers to NatWest Holdings Limited ('NWH') and its subsidiary and associated undertakings. The term 'NatWest Bank Plc' or 'NWB Plc' refers to National Westminster Bank Plc.

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

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

## Western European corporate portfolio

In order to best serve its customers in an efficient manner and in light of Brexit planning, and consistent with its strategy, NWM Group expects that NatWest Group's Western European corporate portfolio, principally including term funding and revolving credit facilities, may remain in NatWest Bank Plc and not be transferred to NWM Group. Some or all of the portfolio already held in NWM Group may be transferred to NatWest Bank Plc. The timing and quantum of such transfers is uncertain.

## NatWest Markets Group legal entity disclosures

There is a distinction between the disclosure of the NatWest Markets operating segment performance in the NatWest Group's Annual Report and Accounts and the NatWest Markets Group's results presented in this document, with differences primarily as follows:

- NatWest Markets Group's results include its part of the Central items & other segment.
- NatWest Group's 2020 results reports the NatWest Markets segment excluding Central items & other.

## MAR – Inside Information

This announcement contains information that qualified or may have qualified as inside information for NatWest Markets Plc, for the purposes of Article 7 of the Market Abuse Regulation (EU) 596/2014 (MAR) as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 for NatWest Markets Plc. This announcement is made by Paul Pybus, Head of Investor Relations for NatWest Markets Plc.

## Non-IFRS financial measures

As described in the Accounting policies, NatWest Markets Group prepares its financial statements in accordance with the basis set out in the accounting policies, page 16 which constitutes a body of generally accepted accounting principles (GAAP). This document contains a number of adjusted or alternative performance measures, also known as non-GAAP or non-IFRS performance measures, see page 19 for further details.

## Statutory results

Financial information contained in this document does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006 ("the Act"). The statutory accounts for the year ended 31 December 2020 will be filed with the Registrar of Companies. The report of the auditor on those statutory accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498(2) or (3) of the Act.

## Contact

Paul Pybus

NatWest Group Investor Relations

+44 (0) 7769161183

## Forward-looking statements

### Cautionary statement regarding forward-looking statements

Certain sections in this document contain 'forward-looking statements' as that term is defined in the United States Private Securities Litigation Reform Act of 1995, such as statements that include the words 'expect', 'estimate', 'project', 'anticipate', 'commit', 'believe', 'should', 'intend', '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. In particular, this document includes forward-looking statements relating, but not limited to: the COVID-19 pandemic and its impact on NWM Group; future profitability and performance, including financial performance targets (such as RoTE); ESG and climate-related targets, including in relation to sustainable financing and financed emissions; planned cost savings; implementation of NatWest Group's and NWM Group's strategy, including in relation to the digitisation of their operations and services; the timing and outcome of litigation and government and regulatory investigations; balance sheet reduction, including the reduction of RWAs; capital, liquidity and leverage ratios and requirements, including CET1 Ratio, RWAs, Pillar 2 and other regulatory buffer requirements and MREL; funding plans and credit risk profile; capitalisation; portfolios; net interest margin; customer loan and income growth and market share; impairments and write-downs; restructuring and remediation costs and charges; NWM Group's exposure to political risk, economic risk, climate, environmental and sustainability risk, operational risk, conduct risk, cyber and IT risk and credit rating risk and to various types of market risks, including interest rate risk, foreign exchange rate risk and commodity and equity price risk; customer experience, including our Net Promoter Score (NPS); employee engagement and gender balance in leadership positions.

### Limitations inherent to forward-looking statements

These statements are based on current plans, expectations, estimates, targets and projections, and are subject to significant inherent risks, uncertainties and other factors, both external and relating to NatWest Group's and NWM Group's strategy or operations, which may result in NWM Group being unable to achieve the current plans, expectations, estimates, targets, projections and other anticipated outcomes expressed or implied by such forward-looking statements. In addition, certain of these disclosures are dependent on choices relying on key model characteristics and assumptions and are subject to various limitations, including assumptions and estimates made by management. By their nature, certain of these disclosures are only estimates and, as a result, actual future results, gains or losses could differ materially from those that have been estimated. Accordingly, undue reliance should not be placed on these statements. The forward-looking statements contained in this document speak only as of the date we make them and we expressly disclaim any obligation or undertaking to update or revise any forward-looking statements contained herein, whether to reflect any change in our expectations with regard thereto, any change in events, conditions or circumstances on which any such statement is based, or otherwise, except to the extent legally required.

### Important factors that could affect the actual outcome of the forward-looking statements

We caution you that a large number of important factors could adversely affect our results or our ability to implement our strategy, cause us to fail to meet our targets, predictions, expectations and other anticipated outcomes or affect the accuracy of forward-looking statements described in this document. These factors include, but are not limited to, those set forth in the risk factors and the other uncertainties described in NatWest Markets Plc's Annual Report and its other public filings. The principal risks and uncertainties that could adversely affect NWM Group's future results, its financial condition and prospects and cause them to be materially different from what is forecast or expected, include, but are not limited to: risks relating to the COVID-19 pandemic (including in respect of: the effects on the global economy and financial markets, and NWM Group's customers; increased counterparty risk; NatWest Group's and NWM Group's ability to meet its targets and strategic objectives; increased operational and control risks; and increased funding risk); strategic risk (including in respect of: the implementation of NatWest Group's and NWM Group's strategy and NWM Group's ability to achieve its targets); economic and political risk (including in respect of: uncertainty regarding the effects of Brexit; increased political and economic risks and uncertainty in the UK and global markets; changes in interest rates and foreign currency exchange rates; and HM Treasury's ownership of NatWest Group plc); financial resilience risk (including in respect of: NWM Group's ability to meet targets; the competitive environment; counterparty risk; prudential regulatory requirements for capital and MREL; funding risk; changes in the credit ratings; the adequacy of NatWest Group's resolution plans; the requirements of regulatory stress tests; model risk; sensitivity to accounting policies, judgments, assumptions and estimates; changes in applicable accounting standards; and the application of UK statutory stabilisation or resolution powers); climate and sustainability risk (including in respect of: risks relating to climate change and the transitioning to a low carbon economy; the implementation of NatWest Group's and NWM Group's climate change strategy and climate change resilient systems, controls and procedures; increased model risk; the failure to adapt to emerging climate, environmental and sustainability risks and opportunities; changes in ESG ratings; increasing levels of climate, environmental and sustainability related regulation and oversight; and climate, environmental and sustainability related litigation, enforcement proceedings and investigations); operational and IT resilience risk (including in respect of: operational risks (including reliance on third party suppliers); cyberattacks; the accuracy and effective use of data; complex IT systems (including those that enable remote working); attracting, retaining and developing senior management and skilled personnel; NWM Group's risk management framework; and reputational risk); and legal, regulatory and conduct risk (including in respect of: the impact of substantial regulation and oversight; compliance with regulatory requirements; the outcome of legal, regulatory and governmental actions and investigations; the replacement of LIBOR, EURIBOR and other IBOR rates; heightened regulatory and governmental scrutiny (including by competition authorities); and changes in tax legislation or failure to generate future taxable profits).

The information, statements and opinions contained in this document do not constitute a public offer under any applicable legislation or an offer to sell or a solicitation of an offer to buy any securities or financial instruments or any advice or recommendation with respect to such securities or other financial instruments

Legal Entity Identifier: RR3QWICWWIPCS8A4S074





# **NatWest Markets Plc**

## Annual Report and Accounts 2020

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## Presentation of information

NatWest Markets Plc ('NWM Plc') is a wholly-owned subsidiary of NatWest Group plc or 'the ultimate holding company'. The NatWest Markets Group ('NWM Group') comprises NWM Plc and its subsidiary and associated undertakings.

The term 'NatWest Group' comprises NatWest Group plc and its subsidiary and associated undertakings.

## Approval of Strategic report

The Strategic report for the year ended 31 December 2020 set out on pages 1 to 27 was approved by the Board of Directors on 18 February 2021.

**By order of the Board**

### Company Secretary

Scott Gibson  
18 February 2021

### Chairman

Frank Dangeard

### Executive Directors

Robert Begbie, CEO  
David King, CFO

### Non-Executive Directors

Vivek Ahuja  
Brendan Nelson  
Tamsin Rowe

Anne Simpson  
Sarah Wilkinson

Despite volatile market conditions brought on by COVID-19, NatWest Markets progressed its strategy to refocus the business and reduce RWAs whilst maintaining balance sheet strength and market access for our customers.

## 2020 performance highlights

### Total income

2020  
£1,158m

2019: £719m

### Income excl. asset disposals/strategic risk reduction & OCA<sup>1</sup>

2020  
£1,265m

2019: £799m

### Other operating expenses<sup>2</sup>

2020  
£1,106m

2019: £920m

### Operating loss before tax

2020  
(£315m)

2019: (£230m)

### CET1 ratio<sup>3</sup>

2020  
21.7%

2019: 17.3%

### MREL ratio<sup>3</sup>

2020  
49.6%

2019: 38.4%

### CRR leverage<sup>3</sup>

2020  
5.2%

2019: 5.1%

### Liquidity coverage ratio<sup>3</sup>

2020  
268%

2019: 254%

### Risk-weighted assets<sup>3</sup>

2020  
£25.6bn

2019: £35.2bn

#### Notes:

1. Asset disposals/strategic risk reduction includes the costs of exiting positions and the impact of risk reduction transactions entered into as part of the optimisation of the entity's capital usage following the strategic announcements of 14 February 2020. OCA refers to own credit adjustment.
2. Excludes strategic costs and litigation & conduct costs.
3. These metrics are shown for NWM Plc. Capital, leverage and RWAs are based on the PRA transitional arrangements for NWM Plc. Regulatory capital is monitored and reported at NWM Plc level.



## Chief Executive's statement

**2020 was a year like no other. We announced a new, refocused strategy before the pandemic took hold, then pivoted to very different ways of working while witnessing some of the most extreme and volatile market conditions we've ever seen. Throughout this uncertainty, and with the majority of our business working remotely, we have stayed true to our purpose, safely managed risk and delivered critical funding and financial markets access to our customers while supporting our colleagues in need with care and compassion.**

Our business has remained resilient, our balance sheet robust, and we have delivered a strong income performance, making excellent progress to reshape our business and be better aligned with NatWest Group.

### Financial performance

NatWest Markets delivered a strong income performance, demonstrating resilience across our core capabilities in Currencies, Fixed Income and Capital Markets, delivering total income (excluding asset disposals/strategic risk reduction and own credit adjustments) of £1.265 billion. The overall operating loss for the year was £315 million, primarily reflecting the costs associated with restructuring the business and strengthening the balance sheet in line with the new strategy.

Through discipline and focus, we strengthened our balance sheet throughout the year and significantly reduced RWAs by £9.6 billion down from £35.2 billion in 2019. This is reflected in the strong Common Equity Tier 1 ratio at 21.7% and Liquidity Coverage Ratio at 268% for the NatWest Markets Plc legal entity.

In 2020 Fitch upgraded the senior ratings of NatWest Markets Plc and NatWest Markets 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. entities were upgraded by two notches to A3 from Baa2, retaining positive outlook. This upgrade

**Robert Begbie**  
CEO, NatWest Markets

Our business has remained resilient, our balance sheet robust, and we have delivered a strong income performance, making excellent progress to reshape our business and be better aligned with NatWest Group.

We now have a fantastic opportunity to build on these strong foundations. With a clear plan built around our priorities, I look forward to leading and building an increasingly sustainable, Purpose-led business as part of NatWest Group.

recognises the successful delivery of our transformation programme to date. It is also a further signal of confidence to our customers and stakeholders as we become a more sustainable business and are better placed to help them thrive.

We also mobilised and executed the next phase of our Brexit plan following on from 2019, ensuring we were able to support our customers and their businesses throughout through our fully functioning NatWest Markets N.V. (NWM N.V.) entity in the Netherlands.

#### Response to the pandemic

As our customers navigated the uncertainty of the pandemic, we played a market-leading role in helping them achieve their financing, liquidity and risk management needs. We have delivered a number of important transactions - including the Debt Management Office's 2061 £7 billion gilt issuance and financing the construction of the first two phases of the Dogger Bank Wind Farm - and have continued to help corporates, banks, financial institutions, governments and the economies that we serve to rebuild. Through excellent partnership with NatWest Group's Commercial Banking business we were quick to support customers needing to access the COVID Corporate Financing Facility, delivering access to a total of £9.47 billion gross financing via this scheme.

During the height of the crisis, extensive and robust preparation ensured we were able to quickly mobilise business continuity plans and continue to support customers and protect colleagues, with the vast majority of our workforce working remotely throughout the year. Despite the significant change in ways of working, colleagues across our global locations responded quickly and have demonstrated exceptional resilience and determination throughout.

#### Refocused strategy

We made excellent progress in delivering our refocused strategy to better serve NatWest Group's customers and create a more sustainable business as part of NatWest Group.

A key aspect of this strategy was sharpening our capital allocation and reducing RWAs. We exceeded our target for the year, reducing RWAs by £9.6 billion, alongside establishing a Capital Management Unit to further accelerate our efforts and ensure we maintain continued discipline around our capital allocation.

I made a number of leadership appointments during 2020 and have a new team to drive our refocused business

forward. We changed how our customer-facing teams operate, creating a more customer-centric model better aligned to supporting NatWest Group's customers. We refined our product offering, building on our core capabilities and exiting a number of product lines to focus on the things we do best and that matter most to our customers. We also brought a number of our functional and services teams together with teams across NatWest Group, leveraging shared resources and promoting a One Bank approach to customers.

#### Climate

Climate and Environmental, Social and Corporate Governance (ESG) is a key component of our strategy and a critical focus for our business. During 2020, we made a significant contribution to NatWest Group's progress towards meeting its climate-related targets while collaborating across the industry to enhance understanding of climate considerations within financial markets.

Having lead managed £7.2 billion of green bond issuances and loans in 2020 with a total notional amount of £27.3 billion, I am pleased that NatWest Group is committed to reaching its £20 billion climate-related financing target during 2021. Our #1 ranking acting as lead manager for Green, Social and Sustainability (GSS) bonds issued by UK Corporates in 2020<sup>(1)</sup> is an outstanding achievement and a clear reflection of our commitment to support the UK's transition to a low-carbon economy.

Whether through COVID-19 response bonds, green securitisations or bespoke transition financing, 2020 has been pivotal in demonstrating the crucial role that ESG plays in repairing our economies and rebuilding better. I am excited to see our ESG capabilities and expertise develop as we support more customers to create a better and more sustainable future.

#### A sustainable future

Our refocused business is now better placed to support our customers and colleagues and help them realise their potential. I am pleased with the outcome of our income performance, balance sheet resilience and transformation programme to date which wouldn't have been possible without the commitment, professionalism and resilience shown by my colleagues throughout this period - I am proud and inspired to work with such talented and dedicated people.

We now have a fantastic opportunity to build on these strong foundations. With a clear plan built around our priorities, I look forward to leading and building an increasingly sustainable, Purpose-led business as part of NatWest Group.

(1) Source: Dealogic, 31 December 2020

# Building a Purpose-led bank

NatWest Markets makes a key contribution to NatWest Group's purpose - championing potential, helping people, families and businesses to thrive.

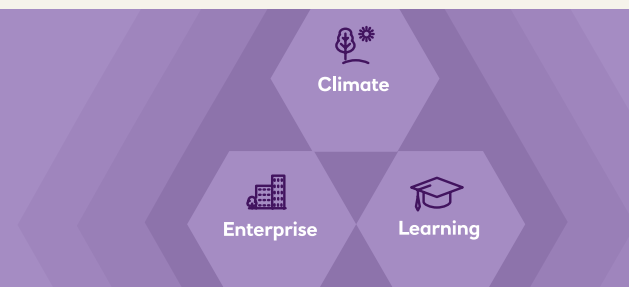
As we continue to refocus NatWest Markets, we aspire to be a business that is guided by this purpose.

By putting purpose at our core, NatWest Markets will be the partner of choice to meet the financial markets needs of NatWest Group's customers. We succeed when our customers thrive.

We recognise that becoming a Purpose-led organisation is a significant mindset change and we are supporting colleagues as we explore how our operating model and culture are informed by and stem from our purpose. We have established a purpose and engagement forum to provide a platform for open discussion to drive sustainable progress.

## Purpose: focus areas

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



In 2020 we have demonstrated purpose in our actions:

- **Climate:** We are championing ESG and climate across the industry and with our customers, supporting their needs while also ensuring we hold ourselves accountable for our own operations and the way we run our business. We continue to develop our ESG and climate strategy, evolving our offering and expertise at pace and in line with the market's exponential growth. In 2020 we have:
  - through 52 transactions, lead managed a total notional amount of £41.7 billion Green, Social and Sustainability bond public issuances and private placements.
  - contributed £7.2 billion of Climate and Sustainable Funding and Financing<sup>(1)</sup> to NatWest Group's £20 billion target.
- **Enterprise:** We are committed to breaking down barriers to make a meaningful contribution to our communities.
  - We worked in partnership with NatWest Group's Commercial Banking business as the only bank sponsor of The Good Economy project to build a sector standard approach for ESG reporting.
  - Through our volunteering and community engagement we continued to support marginalised communities by providing coaching to charity leaders and contributing to virtual food drives during the pandemic.
- **Learning:** We are working with NatWest Group to become a leading learning organisation. We are equipping our leaders with skills and tools to lead with purpose and we are providing ESG and Climate training to more than 500 colleagues.
  - We are helping customers to understand the transition to risk-free rates through numerous appearances on industry panels and a series of thought leadership articles.

### Our Values

We have a common set of values at the heart of how we conduct ourselves in the delivery of our Purpose-led strategy. We've had these values for a number of years; they capture what we do when we are at our best:

#### Serving customers

We exist to serve customers.

We earn their trust by focusing on their needs and delivering excellent service.

#### Working together

We care for each other and work best as one team.

We bring the best of ourselves to work and support one another to realise our potential.

#### Doing the right thing

We do the right thing.

We take risk seriously and manage it prudently.

We prize fairness and diversity and exercise judgement with thought and integrity.

#### Thinking long term

We know we succeed only when our customers and communities succeed.

We do business in an open, direct and sustainable way.

(1) Climate-related funding and financing: Assets and transactions which meet the Climate and Sustainable Finance Inclusion Criteria (the 'CSFI criteria'). The CSFI criteria outline NatWest Group's eligibility criteria for funding and financing of assets, activities and companies that are to be counted towards the current Climate and Sustainable Finance Target. The CSFI criteria focuses on supporting a transition towards a low carbon and climate resilient economy.



# Our business and operations

## Our customers

As part of a sustainable NatWest Group, we support many of NatWest Group's corporate and institutional customers in addition to financial institutions, sponsors, sovereigns and the broader investor community.

We work in close collaboration with teams across NatWest Group so that we can provide capital markets and risk management solutions to their customers and become the partner of choice for those customers' financial markets needs.

## Our products and solutions

We provide liquidity and risk management in Currencies and Fixed Income through a combination of voice and electronic delivery. Through our Capital Markets business, we provide an integrated proposition across financing, solutions and advisory services.

We understand the power of building deep and enduring relationships and one of the ways we do this is by providing relevant market colour, content and ideas to customers. Our strategists and content experts across Currencies, Fixed Income and Capital Markets offer fresh thinking alongside market-leading economic insights in the key economies where our customers do business.

We have a sharp focus on digitisation and automation with our range of digital FX, fixed income, risk management and international payments options which use our applications or Application Programming Interfaces, including Agile Markets and FXmicropay.

## Fixed Income:

We have longstanding expertise in the fixed income markets. We offer cash bond, repo and interest rate derivatives with a focus in GBP, EUR and USD and provide liquidity and credit for Investment Grade and High Yield for both financial institutions and corporate issuers.

## Currencies:

We're an award-winning foreign exchange service provider offering FX spot, forwards and options in more than 60 currency pairs as well as an FX prime brokerage service and FX digital solutions.

## Capital Markets:

We're a leading partner for our customers, helping them to access global debt capital markets across a wide variety of products and target markets, including bonds, loans, commercial paper, MTNs and private placements as well as bespoke financing solutions and primary lending products.

## Our operations

We think and act as One Bank for our customers, leveraging NatWest Group's expertise and utilising shared services and functions. NatWest Markets operates from trading hubs in Amsterdam, London, Singapore and Stamford (US), with sales offices across key locations in the UK, EU, US and Asia. Global market access is offered by the NatWest Markets Group across NatWest Markets Plc (NWM Plc) and its subsidiaries, including NatWest Markets Securities Inc. and NatWest Markets N.V. (NWM N.V.).

NWM Plc has its primary trading and origination hub in London, with Amsterdam-based NWM N.V. providing access to EU capital markets and support for our European customers. NatWest Markets Securities Inc. provides access to US capital markets and USD products, and our hubs in Asia provide trading and sales distribution capability.

## Supporting customers

We support our customers through our product offering and by providing ideas, thought leadership and insight.

**We believe that our focus on sustainable finance and helping customers achieve their ESG and climate ambitions is fundamental to our purpose.**

- In 2020 we have expanded our social and sustainable financing capabilities, including structuring COVID-19 response frameworks and issuances. Given the ongoing economic impact of the pandemic, this will continue to be a core part of our focus across our products and solutions.
- We actively supported our customers in raising much needed financing to mobilise funds into the healthcare sector or to SMEs totalling £19 billion across 16 transactions. Issuers also included agencies, supranationals and regional governments who needed to react quickly to mitigate the negative socio-economic implications of the pandemic.
- We worked closely with NatWest Group's Commercial Banking business to support customers' access to the COVID Corporate Financing Facility (CCFF). As at 31 December 2020, NatWest Markets Group (NWM Group) had worked with 121 customers to explore the CCFF scheme, utilising strong specialist expertise across the bank to help them navigate this period of uncertainty and delivered access to a total of £9.47 billion gross financing.
- NWM Group was acknowledged for supporting customers during the crisis and UK Rates Investors surveyed by Greenwich Associates ranked NWM Group amongst their top three providers for standing by them during the crisis.

### Supporting the UK Government's economic response to COVID-19



In May 2020, the UK Government, via the UK Debt Management Office (DMO), issued £7 billion in a new 41-year gilt (UK Government bond). Funds raised by the Government in 2020/21 have helped to meet the costs of furloughing workers, provide additional capacity in the NHS and cover reduced tax receipts as a result of large numbers of people being unable to work.

The DMO is an executive agency of HM Treasury and is responsible for the day-to-day management of the UK Government's debt and cash requirements, which also includes lending money to local authorities and managing certain public sector funds.

This bond represented the largest ever transaction for the DMO, in terms of duration supplied to the gilt market, at the time of pricing.

Our significant experience in leading large complex transactions for the DMO meant we were ideally placed to act as the duration manager on the offering, which involved co-ordinating the issuance, managing the pricing process and helping to mitigate the risks involved to ensure a successful outcome.

To be involved in such a significant transaction to support the UK Government's economic response to the pandemic demonstrates how NatWest Markets has a vital role to play in supporting the UK economy.

Our commitment and focus continues to be on anticipating our customers' needs and providing excellent customer service and execution. This has been recognised by a number of awards and surveys in 2020.

**GREENWICH**  
DATA | ANALYTICS | INSIGHTS

**GREENWICH**  
DATA | ANALYTICS | INSIGHTS

**GlobalCapital**  
Bond Awards

**dealogic**

**ConsensusEconomics**

**GlobalCapital**  
Private Debt Awards

**UK Corporates FX Service Quality Leader**

Greenwich Associates, Global FX Study, UK Corporates, 2019, awarded April 2020

**#1 European Government Bonds by Estimated Notional Share – Gilts**

Greenwich Associates European Fixed Income Rates 2020

**Most Impressive FIG House in Sterling**

GlobalCapital Bond Awards 2020

**#1 lead manager for sustainability-labelled debt for UK corporates**

Dealogic FY 2020  
(Includes all green, social, sustainability and transition labelled debt)

**Most Accurate UK Economy Forecaster of 2019 – Ross Walker**

Consensus Economics, awarded May 2020

**Best Agent of International US Private Placements**

GlobalCapital Syndicated Loan, Leveraged Finance and Private Debt Awards 2019, awarded 2020

Supporting the construction of the world's largest offshore wind farm



In 2020, NatWest Group delivered £12 billion of climate and sustainable funding and financing to customers against our target to deliver £20 billion during 2021.

We are committed to tackling climate change which is a core part of Our Purpose-led strategy and seek opportunities to demonstrate our leadership and contribution to a cleaner energy future.

In 2020, NatWest Group acted as a lead arranger for the financing of the first two phases of Dogger Bank Wind Farm. Upon completion of all three phases in 2026, Dogger Bank Wind Farm will be the largest offshore windfarm in the world. The project is being developed by SSE, a leading developer, owner and operator of renewable energy across the UK and Ireland together with Norwegian firm Equinor, a leading energy provider, with each holding a 50% stake.

Located over 130km off the north east coast of England, by 2026 Dogger Bank Wind Farm will support 320 new skilled jobs and produce enough electricity to supply 5% of the UK's demand - equivalent to powering six million UK homes each year. NatWest Group acted as a lead arranger of the transaction for the financing of the first two phases, comprising 29 banks and three export credit agencies providing £5.5 billion of financing facilities, making this the largest offshore wind project financing to date, globally.

Renewable energy is a strategically important sector for the bank, Dogger Bank marked our ninth offshore wind project finance transaction in the UK in the past four years. We have been the number one provider of finance to the UK renewables sector over the last 10 years – by total number of transactions over that period – with 79 transactions totaling £3.86 billion<sup>(1)</sup>, supporting more than 8GW of offshore wind development.

(1) Source: Infraction Deals (Acuris). Based on the aggregated totals for the United Kingdom for the 10-year period 03/12/2010-03/12/2020.

## Operating environment

For information on other factors affecting the broader banking sector please see 'Our Operating Environment' section in the NatWest Group plc Annual Report and Accounts 2020.

### Regulatory landscape

NatWest Markets Group (NWM Group) is comprised of NatWest Markets Plc (NWM Plc) and its operating subsidiaries and associated undertakings. It is primarily regulated by: the Financial Conduct Authority and Prudential Regulation Authority in the UK; De Nederlandsche Bank, Authority for the Financial Markets, and BaFin in Europe; the Securities and Exchange Commission, Commodity Futures Trading Commission, Chicago Mercantile Exchange, Federal Reserve Bank of New York, Office of the Comptroller of the Currency, and National Futures Association in the US; Monetary Authority of Singapore, Hong Kong Monetary Authority and Financial Services Agency in Asia.

Due to the UK's exit from the European Union, financial institutions and some of their customers that previously accessed European markets through the UK, are required to relocate activities to Europe to ensure business continuity and minimise disruption to customers. To manage the risks of Brexit, NatWest Group had already re-established NatWest Markets N.V. (NWM N.V.) in the Netherlands as a European hub. The set-up has necessitated the hiring of key trading, finance and risk staff, transfer of assets and liabilities from NatWest Markets Plc and NatWest Bank Plc, as well as gaining regulatory permissions. NWM N.V. started trading new business on 25 March 2019. NatWest Group continued to support customers in their own Brexit readiness activities, offering flexibility in terms of where their trading activity with NatWest Markets is carried out.

NWM Plc has a readiness programme in place to oversee IBOR transition and is actively involved in Bank of England working groups, Federal Reserve working groups, Euro sub-working groups and industry associations that are driving consensus across the market. Separately, to support customers, NWM Plc has established customer education initiatives including public tools such as the NatWest Markets Realised Rate Calculator ([www.realisedrate.com](http://www.realisedrate.com)). NWM Plc continues to lead the SONIA transition with SONIA-linked loans now available to customers and the bank adhering to the ISDA 2020 IBOR Fallbacks Protocol to support the transition of derivative products.

NWM Plc has established a prudential programme to coordinate the regulatory changes encompassed by Capital Requirements Regulation 2 and the finalised Basel III framework. The programme oversees required capital model changes, Internal Models Approach (IMA) eligibility and business readiness for the revised regulations. It coordinates required changes across Trading, Risk, Finance and Technology and simulates the capital impact of the revised regulations to support business planning.

In addition to prudential regulation changes, there were significant developments in non-prudential regulations. Notably, Securities Financing Transactions Regulation was implemented in July 2020 – after a three month delay due to COVID-19. It represents a significant requirement to report repo, stock borrowing and lending and margin lending transactions to trade repositories, which in turn report to the appropriate national competent authorities. Also, an extensive review of the Markets in Financial Instruments Directive (MiFID) II regulation by the EU commission started in January 2020. This too was delayed by the impact of COVID-19 and is still ongoing.

### Market environment

NatWest Markets' activities are primarily related to the economic environment in the UK, Europe and the US. NWM Group derives most of its income from its operations in the UK. Therefore, NWM Group's business, results of operations and financial position depend on the economic conditions prevailing in its primary market – in particular, economic growth and the general level of interest rates and volume of transactions.

The UK, European and US economies all shrank in the first half of 2020 as measures introduced to prevent the spread of COVID-19 restricted economic activity.

Governments responded with fiscal policy to support firms and consumers with transfers and loan guarantees, whilst central banks eased monetary policy by cutting policy rates and increasing quantitative easing. Growth in the second half of 2020 was volatile as restrictions were eased and then subsequently tightened in many countries, whilst prospects for a vaccine affected market participants' views on the outlook. Unemployment rose across most countries and the uncertainty weighed on business investment.

Asset prices were volatile, reflecting the varying sentiment towards the outlook and, in the UK, negotiations over a trade deal with the EU extended into Q4 2020.

Despite an uncertain economic outlook, NatWest Markets remained focused on meeting the diverse needs of customers across the UK and internationally.

### Competitive landscape

NWM Group competes with large domestic banks, major international banks and a number of investment banks that offer risk management, trading solutions and debt financing to financial institutions and UK and European corporate customers. Increasingly, competition is coming from non-bank private firms using low latency and algorithmic trading to participate as non-bank liquidity providers in high volume flow markets, such as US Treasuries and Spot FX, with their volumes now approaching the scale of banks. Maintaining its competitive position in the market requires NWM Group to continue to innovate.



During 2020, NWM Group refined its products and services so that the offering is relevant to NatWest Group's corporate and institutional customers. NWM Group is customer-focused in its decision-making and is concentrating on maintaining leadership positions in FX, capital markets and fixed income, and growing market share in the products that matter most to our customers.

2020 saw a relatively strong performance across investment banking divisions in the industry, with elevated market volatility and higher customer activity driving strong income performance across the sector. This was particularly the case across Fixed Income and Currencies which benefited from favourable market conditions and higher volumes, and also Debt Capital Markets which saw increased issuance activity as the impact of the global pandemic unfolded during 2020.

#### Climate change

NWM Group recognises that climate change is a global issue which has significant implications for our customers, employees, suppliers, partners and therefore, NWM Group itself.

During 2020, NWM Group has contributed to the progress of NatWest Group's climate ambition and climate-related targets while collaborating across the industry to enhance understanding of climate considerations within financial markets. For further details, refer to the Climate-related disclosures on page 20.

#### Global pandemic

In response to the global pandemic, the NWM Group Incident Management Team (IMT) put into action business continuity plans resulting in the majority of teams working from home from the end of Q1 2020. The strategic intent of the NatWest Group IMT throughout has been to ensure NatWest Group maintains a safe balance sheet and liquidity position and is operationally resilient to support customers, colleagues and critical services through the threat posed by COVID-19. The IMT has worked closely with colleagues in Risk and other areas to adjust working practices and processes as required due to new ways of working. The number of significant transactions delivered for customers, to help them build long-term sustainable value, is testament to the effectiveness of the response and resilience of colleagues. Throughout 2020 we have closely monitored developments and guidance from public health authorities, updating our plans appropriately, and will continue to do so. Read more about support for colleagues during the pandemic in the 'Our colleagues' section.



## Our colleagues

We foster a culture of inclusion in everything we do.  
Diversity is vital to our success.



### Gender balanced

Our approach to recruitment, talent identification and promotion will lead to a better gender balance.

We set an ambitious target of having 34% women in our top three leadership layers by the end of 2020. At the start of the year we had reached 32% but this was impacted by the reshaping of the NatWest Markets business and functional teams moving into NatWest Holdings, finishing the year at 26%. We will continue to invest in our female population with senior sponsorship and mentoring at all levels, as well as through learning and leadership initiatives.

The reported mean gender pay gap is 33.4% and the mean gender bonus gap is 55.7%. This shows positive movement but there is more for us to do as we're fully committed to achieving a truly diverse business and meeting our target of a fully gender balanced workforce by 2030.



### Developing skills and capabilities

We have a number of mentorship programmes to unite mentors and mentees across the bank, and we have senior leaders involved in the NatWest Group-wide Reciprocal Mentoring initiative for Black, Asian and Minority Ethnic colleagues.

We have specific leadership programmes for women, such as Rising Stars and Breakthrough. We also have an initiative called Reaching Further, targeted at about 100 senior women with influence across NatWest Group. Now in its third year, it uses the power of purposeful connections to help women with their personal and business development so they can thrive and help drive business growth.



### Ethnically diverse

We continue to focus on existing Black, Asian and Minority Ethnic talent with 16% at CEO-4 (target 18%) and through our graduate intake. Our UK graduate intake was 40% female and 50% Black, Asian and Minority Ethnic and our intern intake was 50% female and 58% Black, Asian and Minority Ethnic.

Following the death of George Floyd in the US, we held a series of 'Listening' events to encourage conversation about racism, diversity and inclusion.

Our NWM Plc CEO established a Task Force to make recommendations to help NatWest Markets support its Black, Asian and Minority Ethnic colleagues to create a more diverse and inclusive culture.

The resulting recommendations encouraged us to launch a global 'Talent to Watch' Leadership programme for Black, Asian and Minority Ethnic colleagues and a Black Professionals Network.



### Disability smart

We had 10 graduates with a disability join the NatWest Markets graduate programme in the UK in 2020 (42% of the graduate intake across all programmes in the UK). This is as a result of working with specialist organisation EmployAbility to both review our early careers recruitment process and to develop a disability internship, with a number of interns being offered graduate positions at the end of their internships.



### Health and wellbeing

In 2020, with the impact of COVID-19, we made mental health a primary focus of our wellbeing activities. We continued to roll out workshops and events with inspiring speakers to help colleagues identify the signs and symptoms of mental ill-health and provide them with practical strategies to support themselves. We opened these up to colleagues across NatWest Group so that they could benefit from these sessions.

For World Mental Health Day we hosted a panel event with NatWest Markets colleagues at all levels sharing their personal experience with mental health.

As part of the NatWest Group network we have 50 Wellbeing Champions in NatWest Markets who help to promote positive health and wellbeing, principally by signposting the most appropriate wellbeing support and resources to colleagues.

We took part in NatWest Group's two employee surveys focusing on our response to COVID-19 and had very strong results in terms of keeping colleagues informed and ensuring they have the right tools to work from home - particularly important given that 62% of respondents were new to homeworking.



### Volunteering and community engagement

We champion our local communities across our regions. In London, we continued to support marginalised communities working with ELBA (East London Business Alliance) in 2020. As well as CV surgeries, mock interviews and providing coaching to charity leaders this also included becoming the largest contributor to their virtual food drive during the pandemic, led by colleagues in our Junior Management Team. This helped community food banks facing unprecedented demand to provide food parcels to vulnerable people.



### Employee Led Networks

In addition to NatWest Group networks, we have a number of active employee-led networks in NatWest Markets focused on developing a community that champions diversity while creating an inclusive workplace that gives our people the best opportunity to succeed and grow their careers. We delivered a variety of virtual events with inspiring speakers to support Pride month and Black History month.



## Outlook<sup>(1,5)</sup>

NatWest Markets, like all companies, continues to deal with a range of significant risks and uncertainties in the external economic, political and regulatory environment. We will continue to actively monitor market conditions.

NatWest Markets continues to refocus the business in line with the strategy announced in February 2020. We expect NWM Group exit and disposal costs will be around £0.2 billion in 2021. NWM Group expects to achieve the majority of the remaining expected medium term RWA reduction in NWM Plc by the end of 2021.

### NWM Plc is targeting the following in the medium-term

Metric <sup>(2)</sup>	Estimate
CET 1 ratio <sup>(3)</sup>	Above 15%
MREL ratio <sup>(4)</sup>	At least 30%
Leverage ratio	At least 4%

NWM Plc expects to have limited term senior unsecured issuance requirements in 2021, as it continues to refocus the business and reduce RWAs.

Continuing to refocus the business while developing opportunities to generate sustainable growth across corporate and institutional customers.

#### Notes:

- (1) This supersedes all prior guidance.
- (2) All metrics presented relate to NatWest Markets Plc.
- (3) NWM Plc expects to run above the 15% target on a solo basis in 2021.
- (4) Includes total regulatory capital, non-eligible capital plus downstreamed internal MREL.
- (5) The targets, expectations and trends discussed in this section represent management's current expectations and are subject to change, including as a result of the factors described in the 'Risk Factors' section on pages 156 to 172 in this document. These statements constitute forward-looking statements. Refer to 'Forward-looking statements' in this document.

# Risk overview

Effective risk management is vital to the successful delivery of NatWest Markets' strategy and purpose.

NatWest Markets Group (NWM Group) operates within NatWest Group's integrated risk management framework. The framework is centred on the embedding of a strong risk culture and ensures tools are in place to identify and manage internal and external threats.

While all colleagues share ownership of risk management, the three lines of defence model is used to define responsibilities and accountabilities. This ensures that risks are properly identified, measured, monitored, controlled and reported. An independent Risk function provides oversight and assessment of current and future performance against risk appetite.

Risk appetite defines the level and types of risk NWM Group is willing to take as part of its business activities. Risk appetite is set in line with overall strategy and approved by the Board.

## Areas of focus in 2020

**COVID-19:** It was a priority to ensure NWM Group was able to safely support its customers through the unprecedented events of the coronavirus pandemic. Risk management activities were focused on the material threats arising from the pandemic itself as well as those that were strongly correlated with or intensified by it.

The effects of the pandemic led to exceptional market volatility and, at times, varying degrees of illiquidity. This highlighted the importance of NWM Group's prudent approach to market risk management, which is described in further detail beginning on page 41 of this document.

Despite the impact of the pandemic, the effect of strategic de-risking activities meant the traded market risk VaR profile remained broadly stable in comparison with 2019.

Issuances under the UK government's COVID Corporate Financing Facility (CCFF) totalling £9.47 billion were facilitated, with no material impact on NWM's risk profile.

Several of NWM Group's other principal risks were directly affected – most notably the credit risk profile. As the potential impact of the pandemic became clear, there was a focus on the prudent management of credit limits, resulting in a number of significant appetite reductions across portfolios.

The pandemic also necessitated a change in the approach to formulating multiple economic stress scenarios. The incorporation of these resulted in probability of default deterioration across models and sectors, leading to an increase in IFRS 9 Stage 2 exposures and associated expected credit loss provisioning.

The operational risk profile was also heightened as a result of the pandemic. While business continuity protocols ensured that NWM Group's processes and operations continued to meet customer and regulatory expectations, risks to the control environment – as a result of changes to business processes and procedures – were actively identified, monitored and managed. Stressed resilience scenarios were also considered as part of the broader business response and planning to ensure continued resilience in the event of longer-term or more extreme impacts.

A number of macro-economic scenarios – benchmarked to the Bank of England's published scenario – were used across NatWest Group to assess the potential impacts of the pandemic and support forward-looking risk management. These included the effects of the crisis on business investment and major project financing.

The rapidly evolving situation, including the necessity of having staff working from home due to lockdown, heightened the conduct risk profile. Though new processes were developed in response to this, including on-site support by Risk teams where possible, residual conduct risks remained, particularly in relation to the supervision of certain roles. A conduct and regulatory risk assessment was carried out on the work-from-home model to ensure additional controls were put in place to mitigate the risks related to the recording of regulated communications, the flow of inside information and management of conflicts of interest.

NWM Group continued to implement the new strategy announced in February 2020. While the material and fast-paced organisational change had the potential to give rise to increased execution, commercial, conduct and operational risks, significant effort was dedicated to identifying and mitigating these risks to ensure the execution of strategic and business change took place within risk appetite. Other areas of focus included:

**Brexit:** Oversight of planning for regulatory, legislative and economic impacts of the UK's exit from the European Union remained a critical part of forward-looking risk management throughout 2020. This included stress testing, scenario modelling and capital planning. The potential second and third order effects on NWM Group and its customers were a further area of focus, including planning for the results of periodic financial volatility and slower economic growth.

The transition period came to an end on 31 December 2020, and the UK assumed third country status to the EU. As a result, UK firms lost the ability to provide financial services directly into the EEA on a cross-border basis, other than where equivalence of regulation has been confirmed by the relevant EU member state.

Generally, this means customers in the EEA will be serviced by NWM N.V. employees based in the EU going forward. NWM N.V. will draw on resource from other parts of NWM Group, in line with appropriate regulations. A new cross-border manual has been created to support those transacting with customers in the EEA.

**Internal service management:** The updated strategy for NatWest Markets has led to a substantial increase in services received from the ring-fenced bank within the terms of the relevant regulations. An internal service management enhancement programme has been implemented to ensure full compliance with UK ring-fencing legislation and this remains a key area of focus.

**Information & cyber security:** The increasing sophistication of cyber criminals, coupled with the rapid shift to and reliance on digital technologies resulting from the pandemic, underlined the importance of both information security and cyber security for both NWM Group and its customers. In 2020 areas of focus included enhancing the management of legacy technology platforms and introducing a centralised operational security capability.

**Climate risk:** NatWest Markets is aligned with NatWest Group's strategic focus on climate. Its risk management practices continue to consider the impact of financial and non-financial risks related to climate change. In Q4 2020, in recognition of its importance to core risk management, climate risk was elevated to a principal risk. For further information, refer to page 73 of the Risk & capital management section of this document.

**Financial crime:** NatWest Group has continued its work on the policies, processes and systems used to combat the continuously evolving threat of financial crime. During 2020, an offshore Financial Crime function was established in Europe to provide additional testing and monitoring support. A multi-year transformation plan has also been developed to ensure that - as changes in technology, the economy and wider society take place - risks relating to money-laundering, terrorist financing, tax evasion, bribery and corruption and financial sanctions are managed, mitigated and controlled as effectively as possible. To support this, enhancements will also be made to management information. NWM Group's CEO is among the members of a new Financial Crime executive steering committee that has been established to provide oversight of the plan and its implementation.

**Anti-bribery and corruption (ABC):** NWM Group is committed to ensuring it acts responsibly and ethically, both when pursuing its own business opportunities and when awarding business. Consequently, it has embedded appropriate policies, mandatory procedures and controls to ensure its employees, and any other parties it does business with, understand these obligations and abide by them whenever they act for NWM Group. ABC training is mandatory for all staff on an annual basis, with targeted training appropriate for certain roles. NWM Group considers ABC risk in its business processes including, but not limited to, corporate donations, charitable sponsorships, political activities and commercial sponsorships. Where appropriate, ABC contract clauses are required in written agreements.

**LIBOR transition:** NWM Group is continuing its preparations for the transition from LIBOR to other interest rate benchmarks by the end of 2021. NWM Group is aligned to the NatWest Group LIBOR programme and continues to work closely with regulators and industry bodies to manage the impact. Oversight of work to prepare for the transition has been a major focus, along with activities across all three lines of defence to minimise risk and disruption to customers. Several risks remain around the compressed timelines to transition at year-end as well as regulatory uncertainty and the need to secure customer agreement ahead of the changeover. Activity to assess the conduct risk implications for NWM Group and its customers has also been a key focus.

**Risk culture:** As part of its multi-year programme to enhance risk management capability at every level of the organisation, NWM Group continued to embed a generative risk culture across all three lines of defence. This supports intelligent risk-taking, better customer outcomes, a stronger and more sustainable business as well as an improved cost base.

## 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	
<b>COVID-19</b>	NWM 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 its business strategy, customers, operations or employees. Heightened monitoring is in place throughout the pandemic. Specific consideration is given to internal and external factors that may require plans to flex dynamically, region by region. NWM Group continues to embed its strategy into planning and thinking to ensure potential future impact is minimised. 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 developments.
<b>Market volatility</b>	NWM Group is exposed to macro-economic and political risks arising from the markets in which it operates. These include the risks arising from market volatility or a sustained period of low economic growth. A range of complementary approaches continue to inform strategic planning and risk mitigation. These include active management of portfolios and adjustment of risk appetite, scenario planning and stress testing.
<b>Brexit</b>	NWM Group has implemented plans to operate in the EU market and continues to monitor the UK's withdrawal from the EU for any developments that may adversely affect NWM Group and its operating environment. NWM Group has engaged in significant contingency planning related to Brexit. NWM Group has worked to obtain the regulatory permissions and continues to manage and monitor these in the emerging regulatory environment to facilitate continuity of business following the UK's departure from the EU.
<b>Climate-related risks</b>	Accelerating climate change may lead to heightened financial risks and faster-than-anticipated impacts on NWM Group and the wider economy. Such impacts could include financial loss as a result of a deterioration in credit quality, or a rise in market risk exposure or operational risk – all of which underline the importance of NatWest Group's climate commitments. NWM 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.
<b>Cyber threats</b>	Cyber attacks continue to increase in frequency, sophistication and severity. There is a risk that a catastrophic cyber attack could damage NWM Group's ability to do business and/or compromise data security. NWM Group operates a multi-layered approach to its defences and continues to invest in building its resilience and cyber-security capabilities.
<b>Competitive environment</b>	NWM Group's target markets are highly competitive, with changes in technology, regulation, customer behaviour and business models continuing to accelerate competitive pressure. As these evolve, there is a risk that NWM Group is not able to adapt or compete effectively with the appropriate product offerings and geography. NWM Group monitors the competitive environment and adapts strategy as appropriate to ensure its business model remains sustainable and viable. It remains focused on innovating to deliver compelling propositions for customers. While customer demands and expectations are high and increasing, NWM Group is focused on delivering increased customer satisfaction as well as ensuring customers are offered all of NatWest Group's services appropriate to their needs.
<b>Regulatory, legal and conduct risk</b>	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 NatWest Markets. The implications of proposed or potential regulatory developments are incorporated into 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. It has also focused on assessing the conduct risk implications of LIBOR transition for NWM Group and its customers. NWM Group is aligned to NatWest Group's LIBOR programme and continues to work closely with regulators and industry bodies to manage the impact. 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.

Internal	
<b>Strategy execution</b>	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 Group. There is a dependency on NatWest Group's strategic decisions which could affect NWM Group's own strategy. NWM Group's Board maintains proactive engagement with NatWest Group to ensure strategic alignment.
<b>Sustainable control environment</b>	The internal system of controls is key to NWM 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. To mitigate these risks, a robust operational risk management framework is in place that supports ongoing identification, management and monitoring of our risk and control profile. NWM Group's control environment (including operational, conduct and financial crime controls) is formally assessed half-yearly to ensure NWM Group's control environment position remains within appetite.
<b>Key person risk</b>	NWM Group's operational risk could increase through the loss of key staff, the recalibration of roles or the loss of institutional knowledge due to strategic change. NWM Group monitors people risk closely and has plans in place to support retention of key roles. Wider NatWest Group programmes that support engagement and training are in place for all employees.
<b>Workforce diversity</b>	Given the importance of 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 among investors and regulators. Creating an inclusive workplace is an important part of NWM Group's purpose and plays a powerful role in shaping the business as well as the views of stakeholders.
<b>Data management</b>	NWM Group relies on the effective use of accurate data to support operations and deliver its strategy. Failure to produce high-quality data and/or the ineffective use of such data could result in a failure to deliver the strategy, including reducing costs and meeting customer expectations. NWM Group is focused on implementing a long-term data strategy alongside control and policy framework enhancements governing data usage.
<b>Legacy system vulnerabilities</b>	There is a risk that NWM Group does not effectively agree and manage its end-of-life strategy for legacy system vulnerabilities. NatWest Group continues to invest in its infrastructure – including NWM Group's IT systems – to prevent customer service disruption. A 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 Group.
<b>Management of algorithmic trading</b>	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 NWM Group's algorithmic trading governance framework.

## Board engagement with our stakeholders



Here we describe how the directors have complied with section 172(1) (a) to (f) of the Companies Act 2006. This requires a director to act in a way which he or she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole. In doing so, they should consider, among other matters: the likely consequences of any decision in the long term; the interests of the company's employees; the need to foster the company's business relationships with suppliers, customers and others; the impact of the company's operations on the community and the environment; the desirability of the company maintaining a reputation for high standards of business conduct; and the need to act fairly amongst members of the company.

### Board training and support on s172 duties

Directors are supported in the discharge of their duties by the Company Secretary. All directors receive guidance on their statutory duties, including those under section 172.

### Purpose

In February 2020, the NatWest Group Board approved NatWest Group's new purpose. Various steps were taken during the year to embed the purpose in discussions and decision-making within NatWest Markets, helping the NWM Plc Board to ensure different stakeholder needs are balanced effectively. The roles and responsibilities of the NWM Plc Board and its committees were enhanced to ensure due consideration of purpose, as reflected in their respective Terms of Reference. Board and Board Committee papers now include a dedicated section which explains how the proposal or update aligns to our purpose, as well as sections detailing stakeholder impacts.

These actions support the NWM Plc Board in giving due consideration to our purpose and our stakeholders during its discussions. They also underpin the Board's oversight of NWM Plc's progress and performance as a purpose-led organisation.

The NWM Plc Board's direct engagement with stakeholders was limited in 2020, due to COVID-19 restrictions. Virtual alternatives were arranged where feasible, and directors were kept informed through regular and focused management reporting about stakeholder engagement activity taking place at an operational level.

### Customers

During the year, the NWM Plc Board received regular updates on customer issues through reports from the NWM Plc CEO and business heads, along with deep-dive sessions on various product lines and customer segments. The NWM Plc Board was also regularly updated on the nature and extent of COVID-19 support provided to customers, including delivery of the COVID Corporate Financing Facility (CCFF) in partnership with the Corporate Banking business.

The NWM Plc CEO continued to meet with customers throughout the year to enhance relationships and explain the impact of the refocusing of NatWest Markets Plc.

### Colleagues

Every year, colleagues are asked to share their thoughts on what it's like to work for NatWest Group by completing a colleague opinion survey. The results from the 2020 survey showed further improvement in colleague sentiment despite the challenges presented by the COVID-19 pandemic. Key measures of engagement, leadership and people management have increased and NWM Plc is above the global financial services norm in all comparable survey categories.

In 2020, colleagues across NatWest Group were also asked to participate in two additional surveys to provide feedback on NatWest Group's response to COVID-19. These provided valuable insight into the impacts that the tactical responses to the pandemic were having, as well as where further support may be required.

At NatWest Group level, the Colleague Advisory Panel (CAP) provides a valuable mechanism for directors to engage directly with colleagues on topics of strategic interest affecting NatWest Group, its workforce and its customers. It supports our open and inclusive culture and offers colleagues a greater insight into the role of the Board.

The CAP met four times in 2020. Other topics discussed included the challenges of COVID-19, embedding the Bank's new purpose, diversity and inclusion, innovation, executive pay and sustainable banking.

### Whistleblowing

Colleagues are encouraged to report any concerns relating to wrongdoing or misconduct using NatWest Group's whistleblowing service, Speak Up. The 2020 colleague opinion survey continued to evidence that colleagues feel safe to speak up and understand the process they would need to follow. In 2020, 28 qualifying reports were raised in NWM Group compared to 22 in 2019.

### Health and wellbeing of colleagues

Supporting colleagues' wellbeing has become increasingly important during the COVID-19 pandemic. NatWest Group has continued to develop a wide range of wellbeing initiatives delivered against four pillars: Physical, Mental, Social and Financial Wellbeing. Further details can be found in the NatWest Group plc Annual Report and Accounts 2020 and on [natwestgroup.com](https://natwestgroup.com).

### Inclusion

NatWest Group is proud to be building an inclusive bank which is a great place for all colleagues to work. NatWest Group's inclusion guidelines apply to all colleagues globally and focus on four key priorities – LGBT Innovative, Gender Balanced, Disability Smart, Ethnically Diverse – to help us embed an inclusive culture.

On 19 October 2020, NatWest Group launched its report 'Banking on Racial Equality' that lays out how we will break down the barriers faced by colleagues, customers and communities from Black, Asian and Minority Ethnic backgrounds.

The report was accompanied by a set of targets and commitments that will set the standard for racial equality across NatWest Group. The NWM Plc Board is fully supportive of this important initiative for our customers, colleagues and communities. Further details can be found within the NatWest Group plc Annual Report and Accounts 2020.



The NWM Plc CEO has established a Taskforce to support delivery of NatWest Group's commitments to support our Black, Asian and Minority Ethnic colleagues to create a more diverse and inclusive culture. The Taskforce provided its recommendations in November 2020, and work on improving inclusion has already started through a series of global initiatives. Further information can be found in the 'Our colleagues' section of this document.

### Regulators

The NWM Plc Board recognises the importance of open and continuous dialogue with regulators. In 2020, the focus of our regulatory engagement was inevitably on our COVID-19 response, and the support we were offering to our customers. There was also regular engagement on the strategic change programme and our readiness for Brexit.

The NWM Plc Chairman and executive directors have regular meetings with the PRA and FCA. Individual non-executive directors also engage regularly with our regulators through Continuous Assessment and Proactive Engagement meetings. The NWM Plc Board receives regular reports on regulatory matters from the Chief Governance & Regulatory Officer.

### Suppliers

The NWM Plc Board is mindful of the role our suppliers play in ensuring we deliver a reliable service to our customers, and of the importance of our relationships with key suppliers, particularly in the current environment.

NWM Plc is part way through a multi-year transformation programme which includes the transfer of support functions to NatWest Bank to improve operating efficiency across NatWest Group. These services will then be provided to NatWest Markets using service level agreements (SLAs). In September, the Board held a spotlight session on the Internal Service Framework, which included an update on the status of critical service delivery for NWM Plc. The NWM Plc Board, through the Board Risk Committee, also approved key performance indicators (KPIs) which will be used to monitor delivery of the outsourced services for Risk and Treasury activity, with other functions to follow in early 2021. These KPIs will be reported to the NWM Plc Board at regular intervals to ensure proper oversight of service levels.

### Community and environment

The NWM Plc Board and its directors recognise the growing importance of climate change and its potential impact on our society. A new CEO-led forum has been established to oversee NWM Plc's response to the risks posed by climate change as well to explore the opportunities for growth in the ESG market. The focus in 2020 has been to increase knowledge and understanding of ESG matters and ensure that NatWest Markets has a co-ordinated response to climate-related regulations, risks and opportunities as part of the overall business strategy. A number of dedicated climate sessions are planned for 2021.

The NWM Plc Board is committed to managing the wider social, environmental and economic impacts of NWM Plc's operations. This includes the way it deals with its customers and manages sustainability issues in its supply chain. Refer to [natwestgroup.com](https://natwestgroup.com) for NatWest Group's Modern Slavery Statement and details of the Supplier Charter, both of which apply to NWM Plc and other relevant subsidiaries within NatWest Group.

Further details on our response to climate change can be found in the relevant section of this document.

### Decision-making influenced by stakeholder interests

NWM Plc recognises the importance of engaging with stakeholders and understanding their views, to help inform its strategy and decision-making.

Relevant stakeholder interests - including those of colleagues, customers and suppliers - are taken into account by the Board when it makes decisions. We define principal decisions as those that are of strategic importance to the company or have a material impact on key stakeholder groups.

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

The following case study provides an example of how these issues, factors and stakeholders have been taken into account in Board discussions and principal decisions during 2020.

### Case study: Refocusing NatWest Markets Plc

As part of the new strategy, NatWest Group announced in February 2020 that NWM Plc would be refocused to allow for closer alignment to NatWest Group's Commercial Banking business and the creation of a more sustainable business model.

In determining the most appropriate operating model for our customer-facing business areas, substantial analysis was completed to evaluate options and to assess their impacts on key stakeholder groups, including colleagues, customers and investors. There was also extensive engagement with representatives of NatWest Group to ensure proper alignment and that the end-state would support delivery of NatWest Group's overarching purpose. This engagement ensured that the Board understood the views of NatWest Group, and could balance these with the interests of other stakeholders in making their decision.

The output of this analysis was presented to the Board at its meeting on 6 August 2020. There the Board approved that the Front Office be reorganised into four distinct areas: Capital Markets, Customer Sales, Trading, and Capital Management. These changes were announced on 13 August 2020.

## 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 Group itself. We believe it's vital that the UK makes a rapid transition towards a low carbon economy and, as part of NatWest Group, we must play a leading role in this transition and support our customers, economies and communities.**

In February 2020, NatWest Group announced its ambition to be the leading bank in the UK and Republic of Ireland ('RoI') helping to address the climate challenge by making its own operations net zero carbon in 2020 and climate positive by 2025, and by driving material reductions in the climate impact of its financing activity by 2030 and to do what is necessary to achieve alignment with the objective of the 2015 Paris Agreement.

During 2020, NWM Group has contributed to the progress of NatWest Group's climate ambition and climate-related targets and commitments, while collaborating across the industry to enhance understanding of climate considerations within financial markets. Key highlights include:

- To contribute to NatWest Group's Climate and Sustainable Finance Target of £20 billion. NWM Group delivered £7.2 billion Climate and Sustainable Funding and Financing<sup>(1)</sup> in 2020;
- NWM Group – through 36 transactions – has lead managed a total notional amount of £22.7 billion Green bond public issuances and green private placements;
- In 2020, NWM Plc, acting as Lead manager, was ranked 1st in Green, Social and Sustainability (GSS)<sup>(2)</sup> bonds issued by UK Corporates<sup>(3)</sup>, and had an estimated 16.8% share of the GBP-denominated GSS Bond market across jurisdictions as measured by notional amount<sup>(4)</sup>;
- NWM Group has been actively involved in the International Capital Market Association's (ICMA) Transition Finance Working Group to develop guidelines that will provide direction to the metrics and methodologies defining issuers transitioning strategies when raising funds in the debt capital markets, and contributed to inaugural transactions, including our role as lead manager on the €500 million inaugural transition bond issued by Cadent Gas in March 2020 – the first of its kind.

The table to the right summarises the ongoing progress NWM Group has made during 2020 and the areas of future focus, as we work to fully embed climate-related risk management in NWM Group by the end of 2021.

1. Climate and Sustainable Funding and Financing: Assets and transactions which meet the Climate and Sustainable Finance Inclusion Criteria (the 'CSFI criteria'). The CSFI criteria outline NatWest Group's eligibility criteria for funding and financing of assets, activities and companies that are to be counted towards the current Climate and Sustainable Finance Target. The CSFI criteria focuses on supporting a transition towards a low carbon and climate resilient economy. For further information on the CSFI criteria please refer to the Metrics and targets section for further details.
2. GSS Bonds: Bonds / private placements where proceeds are required to be used to finance environmentally impactful projects / assets that align / meet the CSFI criteria.
3. Source: Dealogic FY 2020
4. Source: Bloomberg Finance L.P., 31 December 2020



Climate disclosure themes	On-going progress in 2020	Area of future focus
<b>Governance</b>	<ul style="list-style-type: none"> <li>In addition to building Board-level climate knowledge through discussions of strategic issues and management reporting, NWM Plc Board has been offered targeted training to support ongoing oversight and upskilling.</li> <li>Established a new CEO led forum, the Climate &amp; Sustainability Committee (CSC) which is attended by members of the NWM Group Executive team, to oversee NWM Group's response to climate risks and opportunities.</li> <li>Established climate change roles and responsibilities, including adapting the Senior Managers Regime (SMR).</li> </ul>	<ul style="list-style-type: none"> <li>Further develop climate change reporting and monitoring operating rhythm at NWM Plc Board and at the NWM Group executive level.</li> <li>Continue to increase awareness of and education about climate change and climate-related themes.</li> <li>Embed operating models and business processes to support the management of and decision making about climate-related risks and opportunities, in support of NatWest Group's purpose, ambition and external commitments.</li> <li>Embed performance goals and objectives linked to climate initiatives.</li> </ul>
<b>Strategy</b>	<ul style="list-style-type: none"> <li>Commenced the identification and assessment of 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.</li> <li>Continued to develop our business strategy, focusing on supporting our customers in transitioning to a low-carbon economy, engaging with external partners and customers to provide thought leadership, insight and product innovation.</li> <li>Progress made on contributing to NatWest Group's climate ambition, in addition to commencing the climate impact assessment of our financing activities and own operations.</li> </ul>	<ul style="list-style-type: none"> <li>Continue to identify and further analyse our own climate-related risks and opportunities and consider setting appropriate targets and/or commitments</li> <li>Explore the expansion of our climate capabilities including new products and services across our business line that matter most to our customers.</li> <li>Further develop and implement NWM Group's strategy to address climate change that is aligned to NatWest Group's overall vision, purpose and plan.</li> <li>Enhance climate measurement capabilities in the financial planning process.</li> <li>Establish management actions based on insights from scenario analysis outcomes to support decision making and risk management.</li> </ul>
<b>Risk management</b>	<ul style="list-style-type: none"> <li>Climate risk has been established as a principal risk for NatWest Group, including NWM Group.</li> <li>Focused on incorporating climate-related risk within NatWest Group's Enterprise Wide Risk Management Framework.</li> <li>NWM Group contributed to the review of the NatWest Group's Environmental, Social and Ethical risk management framework to mitigate reputational risk from carbon intensive sectors and support the transition to a low-carbon economy.</li> <li>Qualitative assessment of climate-related risks included as one of the contributing factors in the annual Internal Capital Adequacy Assessment Process (ICAAP) scenario analysis.</li> </ul>	<ul style="list-style-type: none"> <li>Implement, as part of NatWest Group, climate-related Risk Policy, Statement of appetite and Risk Appetite.</li> <li>Develop the necessary methodology (including scenario analysis) and processes to be able to identify, measure, manage, monitor and report climate-related risk to embed climate in risk management, strategic decision-making and reporting.</li> </ul>
<b>Metrics and targets</b>	<ul style="list-style-type: none"> <li>Established quantitative assessments for the following metrics:               <ul style="list-style-type: none"> <li>NWM Group's progress against its contribution to the £20 billion NatWest Group Climate and Sustainable Finance target;</li> <li>Loan exposures to high carbon sectors identified based on physical and transition risk assessment.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>In line with NatWest Group's strategy, identifying and developing NWM Group's key metrics and targets to assess and manage own climate-related risks and opportunities, and where useful or material, metrics related to our own operations.</li> </ul>

## Climate-related disclosures: Governance

**NWM Plc Board and senior management team respectively oversee and manage NWM Group's response to climate change.**

### Governance framework

The structure chart below illustrates how climate governance operates at NWM Plc Board, Board Committee and Executive level Committees.

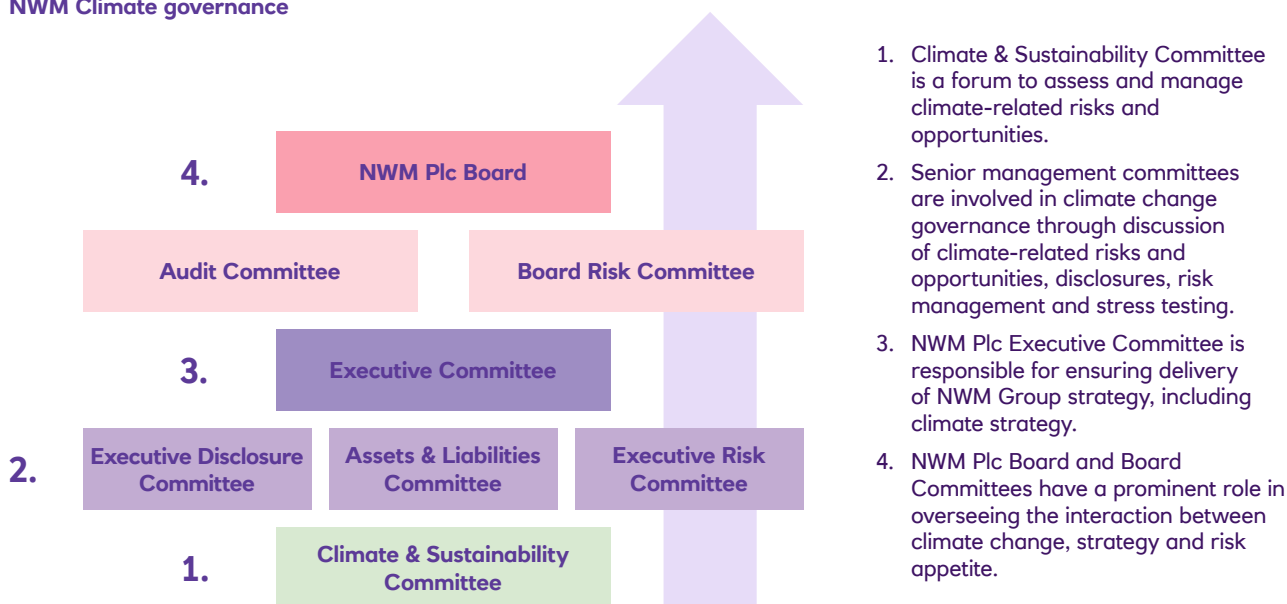
### NWM Plc Board oversight

NWM Plc Board and senior management recognise the growing challenge of climate change and, in 2020, have taken further steps to integrate climate-related risk and opportunities into the governance framework. A separate NWM Group climate-related governance framework has been developed to ensure clarity of responsibility in relation to the NWM Plc Board, Board Committees and management forums across the business.

NWM Plc Board has ultimate oversight of how NWM Group identifies, measures, manages and mitigates climate-related risks and opportunities throughout the business. The NWM Plc Board will be assisted by NWM Group's Board Risk Committee in setting risk appetite and monitoring the risk management response to climate change related physical and transition risks and opportunities within the business. NWM Group's Audit Committee will continue to review disclosures, including non-financial reporting and NWM Group specific climate-related disclosure.

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. The CSC will oversee NWM Group's strategic response to climate change, in line with NatWest Group Purpose-led Strategy, and will consider both the financial and non-financial risks posed by climate change as well as explore climate-related opportunities for our customers.

### NWM Climate governance



### Board knowledge and expertise

As well as building Board-level climate knowledge through discussions of strategic issues and management reporting, NWM Plc Board has been offered targeted training 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 response across climate-related regulations, risks and opportunities. The ESG includes cross-franchise and functional representatives, including Natwest Markets.



NWM Plc's CEO has been designated as the Accountable Executive for Climate change within NWM Plc. To support the CEO in this role, and to strengthen the integration of climate-related issues into the business, NWM Group has mobilised a NWM Group Climate programme which will be

overseen by the Climate & Sustainability Committee (CSC) and attended by members of the NWM Group Executive team

## Climate-related disclosures: Strategy

**NatWest Group's ambition is to be the leading bank in the UK and the RoI in helping to address climate change. 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.**

To realise our climate-related goals, NWM Group will focus on the following:

- We are advancing our assessment of climate-related exposures most relevant to NWM Group, and also developing the use of tools such as scenario analysis and stress testing to measure the resilience of our climate risk approach. We are partnering with NatWest Group to develop methodologies relevant for the customers we support and their portfolios, which are often dynamic in nature and therefore require complex analysis.
- We also proactively engaged with industry bodies to develop an approach that addresses data challenges in line with the expectations of our stakeholders. As mechanisms to capture data are improved allowing for more refined analysis, NWM Group will develop greater understanding to inform how we manage climate-related risks and build out our strategy for qualitative and quantitative assessments.

### Climate-related opportunities

In 2020 we directed resources and evolved our strategy to prioritise climate, building out our capabilities and adapting our business model to help customers navigate their own journeys to transition to a low carbon economy, and to provide them with climate-related funding and financing. Our climate strategy – in line with NatWest Group – consists of four key areas of focus:

- **Championing climate solutions.** We are committed to supporting our customers through increased use of climate-related products and tools to help them achieve their climate goals and look to grow our presence in these markets where relevant for our customers.
- **Thought leadership and insight:** We are working closely with customers to enrich their understanding and awareness of climate risks and opportunities to help them develop their own climate-related strategies. We are also providing opportunities for investors and issuers to have an open dialogue about the complexity of climate change.

This dialogue and engagement manifests in various settings:

- **Industry forums:** We play an active role in industry-wide climate-related forums such as the Global Financial Markets Association (GFMA), the International Capital Market Association (ICMA) and the Association for Financial Markets in Europe (AFME), which are crucial to building market momentum and developing standardised frameworks and products.
- **Thought leadership and education:** We prioritised sharing relevant insights with customers and market participants, including rating agencies, regulators, corporates, investors and industry experts to address specific challenges in respect of climate change and related financing. We have published a number of market insight articles targeted across our customer base to support their needs, as well as regulatory and policy developments such as discussing the impact of ESG integration into credit analysis.
- **Increasing climate awareness of colleagues:** 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.
- **Championing climate-related product innovation:** We have actively developed new and innovative products in collaboration with NatWest Group to support the renewable energy sector, such as a synthetic green securitisation based on a renewable energy loan portfolio. We plan to embed climate solutions throughout our product offering and continue to innovate to support customers in transitioning to a low carbon economy.

In 2020, NWM Group, as part of NatWest Group and 31 other market participants, presented a Green Gilt+ proposal to her Majesty's Government, highlighting the role that governments can play when issuing Green sovereign bonds.

- **Our own operational footprint:** We have a dedicated team focused on assessing the climate and environmental impact of our own business operations and we are implementing a range of initiatives to mitigate those impact. We are seeking to address the direct effects of our property usage, technology infrastructure and people as well as the indirect impact of our business.

### Climate-related impact on financial planning and future looking plan

NatWest Group is working to incorporate climate and broader Purpose-led considerations in its financial planning processes. Work in 2020 involved developing measurement capabilities across NatWest Group, including NWM Group, as part of the opportunities, financed emissions and scenario analysis work. Qualitative considerations related to climate - based on that work - were reflected in the 2021 financial planning cycle.

### Scenario analysis

In 2020, we included a qualitative assessment of climate risk as one of the contributing factors in our annual ICAAP scenario. In light of the Bank of England 2020 update that traded risk will be excluded from the Climate Biennial Exploratory Scenario (CBES), one focus for NWM Group in 2021 will lie in supporting NatWest Group's CBES preparation, in particular the analysis of corporates and large financial counterparties.

NWM Group will also work to embed scenario analysis within the NWM Group climate risk management framework. This aligns with NWM Group initiatives to develop its internal climate scenario analysis and stress testing capability, as well as the necessary methodology and processes to be able to run climate risk scenario analysis for risk management and strategic decision-making.

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## Climate-related disclosures: 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. Its assessment and management require a strategic approach that considers how actions taken today may affect NWM Group's current risk profile now and in the future.

Climate change presents inherent risks to NWM 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, we use analysis from NatWest Group's Climate Centre of Excellence to inform our approach. We incorporate this analysis into our own assessment of climate impacts that are specific to our exposures and the analysis is overseen by our dedicated CSC.

Assessing the future risk profile is dependent on a significant number of variables, some of which remain uncertain or unknown at this point. Work continued during 2020 to integrate climate risk into the risk management framework, including the development of an appropriate risk appetite statement, metrics and targets.

### Integrating climate-related risks into our Principal risk management

Understanding the correlation and potential impact of climate change and its associated risks across different risk types was an important priority for the NWM Group risk management function as work continued to integrate climate risk into the Enterprise Wide Risk Management Framework.

### Credit risk

NWM Group's credit risk exposure will be affected by the impact of climate change on our counterparties, directly and indirectly. Its approach to wholesale credit risk management aligns with NatWest Group. For example, climate-related risk has been included as a factor in setting sector oversight classification and in country risk analysis via the Climate Change Vulnerability Index (CCVI).

NWM Group Credit Risk are working in collaboration with Credit Risk teams across NatWest Group to drive the review of the financial institutions (FI) sectors. We reviewed various product offerings from external data providers for FIs and concluded there is limited data available to enable climate risk related quantitative assessments of FIs at this time. We therefore identified a sample of FIs across sub-sectors which will, in partnership with the first line of defence, be the basis to establish a climate-related qualitative scorecard for FIs.



**Market risk**

Market risk arises from the possibility that NWM Group will incur losses from fluctuations in interest rates, credit spreads, foreign currency rates and other factors, such as market implied volatilities that may lead to a reduction in earnings, economic value or both.

Physical climate events or a rapid shift in climate change related regulation have the potential to lead to market risk as supply chain disruptions or changes in demand for real and financial products may lead to sharp adjustments to market prices for affected sectors or geographies.

**Model risk**

To enable assessment of NWM Group's risks from climate change, various types of models are under consideration for development. Existing models are also being assessed to ensure alignment of our activities to our climate strategy and ambition.

All climate-related models must meet the minimum model risk policy requirements, including an assessment of materiality and independent validation across various model dimensions. The independent model validation, and periodic re-validation, for climate-related models will enable the bank to better understand the risks associated with the use of these models for this purpose.

**Reputational risk**

Reputational risk can arise from the conduct of employees, customer activities and the sectors and countries in which they operate, provision of products and transactions, our operations and infrastructure, as well as external factors such as climate change. Climate-related risk, arising from either physical risk or the risk of transitioning to a low carbon economy, also poses reputational risk to NWM Group and NatWest Group. To help assess and manage these risks, NWM Group adopts NatWest Group's Environmental, Social and Ethical (ESE) risk management framework and risk management policies.

The NWM Group Reputational Risk Committee reviews relevant issues at an individual business or entity level that present the potential for material reputational risk to NWM Group.

**Operational risk**

Climate change is viewed as a potential cause of operational risks arising from disruption to business services, damage to physical assets, supply chain disruption, and health and safety considerations.

The key operational risks identified for NWM Group include physical and transition risks causing business and service disruption across our global footprint; change execution risks as we implement internal and external climate-related requirements; regulatory risks across different jurisdictions, including the risk of diverging requirements; and the risks associated with the design, implementation and processing of new products and transactions as we expand our climate capabilities and product offering. There are also data management risks associated with the need to develop robust metrics and high-quality data to feed into decision making and risk frameworks and to support go-forward NWM Group disclosure requirements.

NWM Group has adopted NatWest Group's Operational Risk framework for the identification, assessment and management of operational risk. NatWest Group's framework was reviewed in Q1 2020 both internally and in conjunction with an external party and assessed as adequate for the identification and assessment of climate-related risk. Standard guidance has also been issued to business areas to consider climate-related risks as part of our operational Risk and Control Assessments and scenario Analysis.



## Climate-related disclosures: Metrics and targets

### Climate and Sustainable Financing and Green Bonds

In February 2020, NatWest Group announced that it would provide an additional £20 billion of funding and financing (including underwriting but excluding M&A advisory activities) for Climate and Sustainable finance between 2020 and 2022 (the 'Climate and Sustainable Finance Target'). As a result of the progress made during 2020, the timeline for this commitment has been brought forward to 2021. The Climate and Sustainable Finance Inclusion Criteria (the 'CSFI criteria') outlines NatWest Group's eligibility criteria for funding and financing of assets, activities and companies that are to be counted towards the current Climate and Sustainable Finance Target. The CSFI criteria focuses on supporting a transition towards a low carbon and climate resilient economy. The CSFI criteria are also subject to NatWest Group's environmental, social and ethical (ESE) risk policies.

The assets and activities which are in scope of the CSFI criteria are in line with the eligibility criteria of the ICMA Green Bond Principles, Loan Markets Association (LMA) Green Loan Principles, and relevant transactions (that include a specific carbon or climate-related metric) under the LMA's Sustainability-Linked Loan Principles.

As of 31 December 2020, NWM Group lead managed an aggregate notional amount of £27.3 billion green syndicated bonds and private placements, as well as loans aligned to the CSFI criteria, of which £7.2 billion was attributed to NWM Group and contributed to NatWest Group's £20 billion Climate and Sustainable Finance Target.

2020			
Climate and Sustainable Funding and Financing <sup>(1)</sup>	Number of deals	Notional <sup>(2)</sup> (£bn)	NWM Group attribution <sup>(3)</sup> (£m)
<b>Green bond public issuances and green private placements:</b> <sup>(4)</sup> underwriting of specific use of proceeds debt capital market issuances for projects and customers that meet the CSFI criteria	36	22.7	5,030
<b>Sustainability-Linked Loans:</b> made to customers in line with LMA Sustainability-Linked Loan Principles where loan targets include green performance indicators, aligned to the CSFI criteria	5	0.7	732
Other bond or private placement underwriting that falls within CSFI criteria <sup>(5)</sup>	14	3.9	1,395
<b>Total</b>	<b>55</b>	<b>27.3</b>	<b>7,157</b>

(1) During 2020, the CSFI criteria excludes own bond issuances. As a result, amounts related to these are not included in the table above.

(2) Notional represents the total underwriting amount lead managed by NWM Group.

(3) Attribution represents NWM Group's share of the notional amount, based on the number of underwriters within a specific deal. This number contributes to the NatWest Group Climate and Sustainable Finance Target.

(4) Green bonds public issuances and green private placements totalling a notional amount of £22.7bn noted above, account for approximately 4% of the total lead managed transactions by NWM Group during the year.

(5) In addition to transactions that directly meet CSFI criteria based on use of proceeds for green purposes, the CSFI criteria also include certain general purpose loans and wider financing to a counterparty who can evidence (to NatWest Group's satisfaction through review of the borrower's profit and loss statement) 50% or more revenues from the categories and sectors outlined in the criteria. The amount in the table comprises bonds and private placements.

**Purpose  
in action -  
Examples of  
major green  
deals**

**Northern Powergrid**

NWM Group supported Northern Powergrid's plans to decarbonise its electricity network as it works towards a low carbon future for its four million customers by acting as sole structuring bank on their inaugural Green Finance Framework, entitled 'A Framework for Decarbonisation' and joint bookrunner for their inaugural £300 million 42-year debut green bond under the framework.

**Cadent Finance Plc**

NWM Group supported Cadent Gas, the UK gas distribution network, to issue a €500 million 12-year transition bond aligned to the EU Sustainable Finance Taxonomy and the UK's National adoption plan. The transition bond framework is an ambitious pathway for Cadent to decarbonise their operations. The bond was the UK's first ever transition bond and NatWest Markets were bookrunners for the deal.

**Mediobanca**

NatWest Markets acted as bookrunner on Mediobanca's inaugural Green Bond, confirming the company's commitment to reshape the Group in line with its ESG strategy. The proceeds of the €500 million seven-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.

**Financed assets**

**Loan exposure to heightened climate-related risk sectors**

The table below sets out NWM Group's loan exposures to sectors identified as exposed to heightened climate-related impacts. Future work will focus on bringing more granularity to our sector reporting and implementing enhanced sector mapping to achieve this, in addition to broadening coverage of products and services:

Heightened climate-related risk sectors	31 December 2020				31 December 2019			
	Loans	Off-Balance sheet	Total Sector Exposure	Total Sector Exposure as % of Total NWM	Loans	Off-Balance sheet	Total Sector Exposure	Total Sector Exposure as % of Total NWM
	£m	£m	£m	%	£m	£m	£m	%
Power utilities	161	1,795	1,956	8.6	210	1,721	1,931	7.2
Automotive	49	863	912	4.0	93	920	1,013	3.8
Land transport and logistics	87	457	544	2.4	65	346	411	1.5
Commercial real estate	166	313	479	2.1	165	348	513	1.9
Oil and gas	64	377	441	1.9	113	495	608	2.3
Airlines and aerospace	33	356	389	1.7	5	436	441	1.6
Chemicals	0	164	164	0.7	0	242	242	0.9
Shipping	0	96	96	0.4	0	16	16	0.1
Construction	0	90	90	0.4	59	192	251	0.9
Building materials	0	75	75	0.3	0	73	73	0.3
Agriculture	38	1	39	0.2	21	2	23	0.1
Housing associates	24	0	24	0.1	24	0	24	0.1
Mining and metals	3	0	3	0.0	95	192	287	1.1
<b>Total Heightened climate-related sectors</b>	<b>625</b>	<b>4,587</b>	<b>5,212</b>	<b>22.9</b>	<b>850</b>	<b>4,983</b>	<b>5,833</b>	<b>21.7</b>
<b>Total NWM all sectors</b>	<b>9,536</b>	<b>13,140</b>	<b>22,676</b>	<b>100.0</b>	<b>9,609</b>	<b>17,220</b>	<b>26,829</b>	<b>100.0</b>

Notes on methodology:

- These amounts represent Gross Loans and Advances to Customers and Banks accounted at Amortised Cost and Fair Value through Other Comprehensive Income plus related off-balance sheet exposures. The preparation of this table aligns with the methodology used in the NWM Group Annual Report and Accounts Credit Risk – Banking Activities section. The amounts include all lending to customers, including sustainable lending, as well as to environmentally responsible customers.
- As at 31 December 2020, Oil & Gas Majors accounted for £292 million (£299 million in 2019) of the Oil and Gas sector exposure.
- As stated in NatWest Group's climate ambition, we plan to stop lending and underwriting to companies with more than 15% of activities related to thermal and lignite coal; unless they have a credible transition plan in line with the 2015 Paris Agreement in place by end of 2021. As at December 2020, included in the table above is £180 million related to customers falling in this category, on the basis of having 15% or more EBITDA related to thermal and lignite coal activities, based on their most recent audited accounts.

# Financial review

## Presentation of information

NatWest Markets Plc ('NWM Plc') is a wholly-owned subsidiary of NatWest Group plc or 'the ultimate holding company'. The term 'NWM Group' refers to NWM Plc and its subsidiary and associated undertakings.

NatWest Group plc was renamed from The Royal Bank of Scotland Group plc on 22 July 2020. The term 'NatWest Group' refers to NatWest Group plc and its subsidiary and associated undertakings. The term 'NWH Group' refers to NatWest Holdings Limited ('NWH') and its subsidiary and associated undertakings. The term 'NatWest Bank Plc' or 'NWB Plc' refers to National Westminster Bank Plc.

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

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

## Western European corporate portfolio

In order to best serve its customers in an efficient manner and in light of Brexit planning, and consistent with its strategy, NWM Group expects that NatWest Group's Western European corporate portfolio, principally including term funding and revolving credit facilities, may remain in NatWest Bank Plc and not be transferred to NWM Group. Some or all of the portfolio already held in NWM Group may be transferred to NatWest Bank Plc. The timing and quantum of such transfers is uncertain.

## NWM Group legal entity disclosures

There is a distinction between the disclosure of the NatWest Markets operating segment performance in NatWest Group plc's 2020 Annual Report and Accounts (ARA), and NWM Group's disclosures as presented in this document, with differences primarily as follows:

- NatWest Markets Group's legal entity disclosures include the Central items & other segment,
- NatWest Group plc's 2020 ARA reports the NatWest Markets segment excluding the Central items & other segment.

## Non-IFRS financial measures

As described in the Accounting policies, NatWest Markets Group prepares its financial statements in accordance with the basis set out in the accounting policies, page 93 which constitutes a body of generally accepted accounting principles (GAAP). This document contains a number of adjusted or alternative performance measures, also known as non-GAAP or non-IFRS performance measures. These measures are adjusted for certain items which management believe are not representative of the underlying performance of the business and which distort period-on-period comparison. The non-IFRS measures provide users of the financial statements with a consistent basis for comparing business performance between financial periods and information on elements of performance that are one-off in nature. The non-IFRS measures also include the calculation of metrics that are used throughout the banking industry. These non-IFRS measures are not measures within the scope of IFRS and are not a substitute for IFRS measures.

- Management analysis of the operating expenses shows strategic costs and litigation and conduct costs in separate lines on page 31. These amounts are included in staff, premises and equipment and other administrative expenses in the statutory analysis. Refer to page 155 for a reconciliation between the two measures;

- Funded assets defined as total assets less derivatives;
- Management view of income by business, including separate itemisation of own credit adjustments, asset disposals/strategic risk reduction and income excluding asset disposals and own credit adjustments. Asset disposals/strategic risk reduction includes the costs of exiting positions and the impact of risk reduction transactions entered into as part of the optimisation of the entity's capital usage, following the strategic announcements of 14 February 2020. Own credit adjustments are applied to positions where it is believed that the counterparties would consider NWM Group's creditworthiness when pricing trades. The fair value of certain issued debt securities, including structured notes, is adjusted to reflect the changes in own credit spreads and the resulting gain or loss recognised in income.

## Performance overview

NWM Group reported a loss for the year ended 31 December 2020 of £327 million compared with a loss of £121 million for the year ended 31 December 2019. Higher income from increased levels of customer activity as the market reacted to the COVID-19 pandemic was offset by Asset disposal/Strategic risk reduction losses following the strategic announcements in February 2020, higher operating expenses and impairment losses.

## Income, costs and legacy issues:

- Income was £1,158 million in 2020, compared with £719 million in 2019, driven by increased levels of customer activity as the market reacted to the COVID-19 pandemic, although these levels eased in the second half of the year, and reflecting the impact of the consolidation of the full year results of NWM N.V. following acquisition on 29 November 2019. In addition, income in 2019 was affected by challenging market conditions, particularly within Fixed Income due to elevated hedging costs caused by reduced liquidity and wider bid-offer spreads as the market experienced sustained curve flattening across global fixed income markets, most notably during Q3 2019.
- Operating expenses of £1,431 million were higher compared with £997 million in 2019, largely as a result of increased litigation and conduct costs and strategic costs, and the non-repeat of reimbursement under indemnification agreements and other one-off cost recoveries in Central items & other during 2019.
- Operating expenses for NatWest Markets segment, excluding litigation and conduct costs and strategic costs, of £1,106 million were £7 million higher than in 2019, reflecting the impact of the consolidation of the full year results of NWM N.V.; offset by cost reductions in the current year.
- Litigation and conduct costs of £134 million in 2020 relate primarily to historical trading activities of a joint venture subsidiary.
- Impairment losses were £42 million in 2020, compared with releases of £48 million in the prior year, largely due to the credit deterioration of an individual counterparty during the year, and the impact of expected credit losses recognised following the COVID-19 pandemic.

## Balance sheet, capital and risk-weighted assets (RWAs)

- NWM Group's total assets and liabilities increased by £7.0 billion and £7.6 billion to £273.1 billion and £263.8 billion respectively at 31 December 2020, compared with the prior year. The increases primarily reflect higher derivative fair values, driven by downward shifts in interest rate yields and FX rate fluctuation across major currencies during the year.
- NWM Plc issued £2.5 billion of term senior unsecured debt securities in benchmark and private placement formats during 2020, lower than the initial guidance of £3-5 billion due to ongoing risk reduction following the strategic announcements made in 2020.
- Total NWM Plc RWAs reduced to £25.6 billion at 31 December 2020 from £35.2 billion at 31 December 2019 reflecting lower levels of credit, counterparty credit and market risk which have trended downwards as the business seeks to reduce RWAs through the execution of capital optimisation actions, including strategic risk reduction transactions and exit activity.



# Financial review

## Performance overview continued

- On 18th February 2021, the NWM Plc Board approved an interim dividend of £500 million, to be declared and payable to NatWest Group plc on 19 February 2021. There has been no adjustment to the year-end statutory financial statements, however a £500 million foreseeable dividend deduction has been applied to the year-end regulatory capital position.
- NWM Plc's Common Equity Tier 1 (CET1) ratio increased to 21.7% from 17.3% at 31 December 2019, primarily reflecting reserve movements in the year, the reduction in RWAs and the impact of the foreseeable dividend deduction to regulatory capital. The CRR leverage ratio increased to 5.2% (2019 – 5.1%).
- The total regulatory capital and CRR-compliant MREL for NWM Plc at 31 December 2020 was £12.7 billion, or 49.6% of RWAs.

## 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.
- The front office operating model was reorganised to focus on NatWest Group's customers, and some customer facing roles were transferred to NatWest Holdings Limited. A Capital Management Unit was established in Q3 2020 to safely manage the capital reduction and optimisation.
- As part of the transformation programme, some support functions including Risk and Treasury were transferred from NWM Group to NatWest Holdings Limited. Following transfer, the services performed by these functions are provided to NWM Group by way of intra-group agreements. NWM Plc's Board has approved key performance indicators by which to monitor delivery of the outsourced services for Risk and Treasury activity, which will be reported to NWM Plc Board at regular intervals in order to ensure proper oversight of service levels.

## The impact of COVID-19

### Business resilience

- Robust business continuity plans ensured that NWM 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 in the various regions where NWM 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 Plc RWAs decreased to £25.6 billion from £35.2 billion at 31 December 2019, reflecting lower levels of credit, counterparty credit and market risk which have trended downwards as the business seeks to reduce RWAs.
- Market risk capital requirements – 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 Plc. During the year, NWM Plc utilised a temporary approach offered by the PRA to mitigate the impact on market risk capital requirements. As at 31 December 2020, this temporary approach was no longer in force and NWM Plc instead utilised the provisions of Regulation (EU) 2020/873, which the European Parliament passed in June 2020 as an amended regulation to the CRR in response to the pandemic ("the CRR COVID-19 Amendment"). Under the provisions of this amendment, NWM Plc has been granted permission by the PRA to exclude back-testing exceptions that occurred on five days in March 2020 when calculating its minimum capital requirements for market risk. For more information, refer to the Market risk section.
- During 2020, the European Commission amended the prudent valuation Regulatory Technical Standard such that, due to the exceptional levels of market volatility, the aggregation factor was increased from 50% to 66% until 31 December 2020 inclusive. This has reduced NWM Plc's Prudential Valuation Adjustment (PVA) deduction by c.£115 million.

- NWM Group was well-capitalised at 31 December 2020, with a NWM Plc CET1 ratio of 21.7%, in line with guidance of above 15%. The liquidity position was also strong, with NWM Plc's liquidity portfolio of £19.4 billion and LCR of 268%.
- Capital, funding and liquidity remained closely monitored, with increased tracking and scenario analysis to ensure balance sheet strength.

## Fair value

- Valuation reserves, comprising credit valuation adjustments (CVA), funding valuation adjustments (FVA), bid-offer and product and deal specific reserves decreased to £803 million at 31 December 2020 from £953 million at 31 December 2019.
- FVA reserves decreased to £121 million at 31 December 2020 from £193 million at 31 December 2019, driven by a reduction in exposures, partly due to trade novation activity, together with reductions in both the level of initial margin posting requirements (driven by the NWM Plc rating upgrade) and the types of initial margin posting requirements assessed as part of FVA.
- Product and deal specific reserves decreased to £172 million at 31 December 2020 from £238 million at 31 December 2019, driven by a reduction in IFRS inception P&L reserves (due to time amortisation and trade unwind activity), certain negative exposures increasing (driven by interest rate and FX market moves) and a reallocation of reserves that are now included within modelled derivative trade valuations.
- CVA reserves increased to £388 million at 31 December 2020 from £384 million at 31 December 2019. CVA reserves increased significantly in Q1 2020 due to credit spreads widening at the outset of the crisis but have since reduced to levels comparable with 2019.

Refer to further information on page 123.

## 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 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 Group's critical services.
- 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.
- Internal traded VaR for NWM Group was £26 million at peak and £16 million average during the year. Stressed VaR was £196 million at peak and £97 million on an average basis.

## 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 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.

## Financial review

### NWM Group business review

The table below sets out the performance key metrics and ratios.

#### Performance key metrics and ratios <sup>(1)</sup>

	2020	2019
Liquidity coverage ratio (LCR) (%) <sup>(2)</sup>	<b>268</b>	254
Liquidity portfolio (£bn) <sup>(2)</sup>	<b>19.4</b>	16.1
Stressed coverage ratio (%) <sup>(2)</sup>	<b>207</b>	153
Total wholesale funding (£bn) <sup>(3)</sup>	<b>20.6</b>	21.9
Total funding including repo (£bn)	<b>75.9</b>	85.0
Common Equity Tier 1 (CET 1) ratio (%)	<b>21.7</b>	17.3
CRR leverage ratio (%) <sup>(2)</sup>	<b>5.2</b>	5.1
Risk-weighted assets (RWAs) (£bn)	<b>25.6</b>	35.2
Total Capital ratio (%)	<b>30.3</b>	24.2
Total CRR-compliant MREL (£bn) <sup>(4)</sup>	<b>12.7</b>	13.5
Total MREL ratio (%)	<b>49.6</b>	38.4

Notes:

(1) Capital, leverage and RWAs are based on the PRA transitional arrangements for NWM Plc. Regulatory capital is monitored and reported at NWM Plc level.

(2) These liquidity metrics and ratios have been presented for NWM Plc as they are monitored and reported for regulatory purposes.

(3) Excludes derivative cash collateral received, customer deposits, repo and intra-NatWest Group balances.

(4) Includes senior internal debt instruments issued to NatWest Group plc with a regulatory value of £4.9 billion (31 December 2019 – £4.9 billion).

#### Simplifying and de-risking

The table below presents a summary of NWM Group's balance sheet exposures. Non-investment grade refers to those exposures below AQ4 on the asset quality scale, refer to pages 63 to 67 for further detail.

	2020	2019
	Total £bn	Total £bn
RWAs	<b>25.6</b>	35.2
Total net credit exposures (banking book and counterparty credit)	<b>38.6</b>	43.4
of which: net non-investment grade credit exposures (based on external credit ratings)	<b>2.7</b>	2.5
of which: IFRS 9 Stage 3 exposures	<b>0.2</b>	0.2
and: IFRS 9 Stage 3 expected credit loss (ECL)	<b>0.1</b>	0.1



## Financial review

### NWM Group business review continued

The table below presents a segmental analysis of key lines of NWM Group's income statement. Commentary refers to the table below as well as the statutory income statement presented on page 89.

	2020			2019			Variance	
	NatWest Markets £m	Central items & other £m	Total £m	NatWest Markets £m	Central items & other £m	Total £m		
<b>Income statement</b>								
Net interest income	(62)	2	(60)	(160)	10	(150)	90	(60%)
Non-interest income	1,180	38	1,218	850	19	869	349	40%
Total income	1,118	40	1,158	690	29	719	439	61%
Strategic costs	(207)	16	(191)	(162)	(9)	(171)	(20)	12%
Litigation and conduct costs	(4)	(130)	(134)	(18)	112	94	(228)	(243%)
Other operating expenses	(1,106)	—	(1,106)	(1,099)	179	(920)	(186)	20%
Operating expenses	(1,317)	(114)	(1,431)	(1,279)	282	(997)	(434)	44%
Operating (loss)/profit before impairments	(199)	(74)	(273)	(589)	311	(278)	5	(2%)
Impairment (losses)/releases	(40)	(2)	(42)	48	—	48	(90)	(188%)
Operating (loss)/profit before tax	(239)	(76)	(315)	(541)	311	(230)	(85)	37%
Tax (charge)/credit	—	—	(12)	—	—	109	(121)	(111%)
(Loss) for the year	—	—	(327)	—	—	(121)	(206)	170%
<b>Income</b>								
Fixed Income (1,2,3,4)	511	—	511	415	—	415	96	23%
Currencies (2,4)	583	—	583	427	—	427	156	37%
Capital Markets (1,2,3,4)	384	—	384	344	—	344	40	12%
Capital Management Unit and other (2,5)	(60)	40	(20)	(208)	29	(179)	159	(89%)
Revenue share paid to other NatWest Group segments	(193)	—	(193)	(208)	—	(208)	15	(7%)
Income excluding Asset disposals and OCA	1,225	40	1,265	770	29	799	466	58%
Asset disposals/Strategic risk reduction (6)	(83)	—	(83)	—	—	—	(83)	—
Own credit adjustments (OCA)	(24)	—	(24)	(80)	—	(80)	56	(70%)
Total income	1,118	40	1,158	690	29	719	439	61%

#### Notes:

- Fixed income comprises Rates and Credit trading. Rates income of £541 million (2019: £374 million) was presented as a separate business in NWM Group results publications prior to the Q3 2020 Interim Management Statement. Credit trading and Capital Markets were previously reported as Financing.
- Income of £(42) million, £(8) million and £(14) million reported within Fixed Income, Currencies and Capital Markets respectively relates to business subsequently reallocated to Capital Management Unit during 2020. Comparatives have not been restated. The full year equivalent amounts for 2019 were £14 million, £(8) million and £8 million respectively.
- Business that was reported within Fixed Income for 2019 was transferred to Capital Markets for Q1 2020 and Q2 2020, before returning to Fixed Income from Q3 2020. Income from this business reported within Capital Markets in 2020 was £33 million.
- Income of £8 million and £59 million reported within Fixed Income relates to business that was subsequently transferred to Capital Markets and Currencies respectively during 2020. Comparatives have not been restated. The full year equivalent amounts for 2019 were £71 million and £77 million respectively.
- Capital Management Unit was set up in Q3 2020 to manage the capital usage and optimisation across all parts of NatWest Markets. The income shown here relates to legacy assets. Other relates to income booked to the Central items & other operating segment.
- Asset disposals/Strategic risk reduction in 2020 relates to the costs of exiting positions, and the impact of risk reduction transactions entered into, in respect of the strategic announcements of 14 February 2020. Prior to this date, disposal losses were primarily reflected in legacy and are presented within Capital Management Unit and Other in the table above.

The operating loss before tax was £315 million compared with a loss of £230 million in 2019. Total income of £1,158 million was up by £439 million from 2019, driven by strong customer activity in response to the COVID-19 crisis, and lower trading income in challenging market conditions in the prior year. Operating expenses increased by £434 million to £1,431 million in 2020, largely as a result of increased litigation and conduct costs and strategic costs, and the non-repeat of reimbursement under indemnification agreements with third parties and other one-off cost recoveries in Central items & other during 2019.

#### Income

Net interest income was a net expense of £60 million compared with a net expense of £150 million in 2019. Net interest expenses largely represent funding costs of the business, partially offset by interest income from lending activity and capital hedges.

Non-interest income increased by £349 million to £1,218 million, compared with £869 million in 2019. Income from trading activities increased to £1,088 million from £805 million in 2019, driven by strong customer activity in response to the COVID-19 crisis, and challenging trading conditions and elevated hedging costs in the prior year that particularly affected Fixed income. Asset disposals/Strategic risk reduction was a £83 million loss for the year, following the strategic announcements in February 2020. Own credit adjustments of £(24) million in 2020 (2019 - £(80) million) reflect the tightening of spreads.

#### Operating expenses

Operating expenses of £1,431 million were £434 million higher than in 2019. Litigation and conduct costs of £134 million for the year primarily related to historical trading activities of a joint venture subsidiary and were up £228 million from the credit of £94 million in 2019, which included £162 million reimbursement under indemnification agreements with third parties. Strategic costs increased by £20 million

to £191 million in 2020, driven by the refocusing of NWM Group following the strategic announcements of 14 February 2020. Other operating expenses increased to £1,106 million from £920 million in 2019, largely due to the non-repeat of certain one-off cost recoveries.

#### Impairments

Impairment losses were £42 million in 2020 compared with releases of £48 million in 2019, largely due to the credit deterioration of an individual counterparty during the year, and the impact of expected credit losses recognised following the COVID-19 pandemic.

#### NatWest Markets segment

The operating loss before tax was £239 million compared with a loss of £541 million in 2019, driven by higher income of £428 million due to strong customer activity in response to the COVID-19 crisis and challenging market conditions in the prior year. Operating expenses increased by £38 million to £1,317 million in 2020, mainly due to increased strategic costs. Other operating expenses of £1,106 million were £7 million higher than 2019, reflecting the impact of consolidation of the full year results of NatWest Markets N.V., offset by cost reductions in the current year.

#### Central items & other segment

The operating loss before tax was £76 million compared with a profit of £311 million in 2019. Litigation and conduct costs of £130 million primarily related to historical trading activities of a joint venture subsidiary and were up £242 million compared with the credit of £112 million in 2019, which included £162 million in reimbursement under indemnification agreements with third parties. Other operating expenses of nil were £179 million higher than credits of £179 million in 2019, which included certain one-off cost recoveries.

## Financial review

### NWM Group business review continued

The table below presents a segmental analysis of key balance sheet asset lines for NWM Group. Commentary refers to the tables below as well as the consolidated balance sheet on page 90.

	31 December 2020			31 December 2019			Variance	
	NatWest Markets £bn	Central items & other £bn	Total £bn	NatWest Markets £bn	Central items & other £bn	Total £bn	Total £bn	%
<b>Balance sheet</b>								
Funded assets	107.5	—	107.5	117.4	—	117.4	(9.9)	(8.4%)
Derivative assets	165.6	—	165.6	148.7	—	148.7	16.9	11.4%
Total assets	273.1	—	273.1	266.1	—	266.1	7.0	2.6%
Liabilities excl. derivatives	106.5	—	106.5	112.1	—	112.1	(5.6)	(5.0%)
Derivative liabilities	157.3	—	157.3	144.1	—	144.1	13.2	9.2%
Total liabilities	263.8	—	263.8	256.2	—	256.2	7.6	3.0%

Total assets and liabilities increased by £7.0 billion and £7.6 billion to £273.1 billion and £263.8 billion respectively at 31 December 2020, compared with £266.1 billion and £256.2 billion at 31 December 2019. Funded assets, which exclude derivatives, decreased by £9.9 billion to £107.5 billion at 31 December 2020.

Cash and balances at central banks of £15.8 billion at 31 December 2020 were up by £3.1 billion compared with £12.7 billion in 2019, reflecting surplus liquidity following a reduction in trading assets in 2020.

Trading assets, which primarily relate to client-led activity as well as derivative cash collateral posted, decreased to £68.7 billion at 31 December 2020 from £76.5 billion at 31 December 2019, driven by a reduction in reverse repos as the balance sheet was managed within limits, and a decrease in derivative cash collateral posted. Trading liabilities decreased by £1.5 billion to £72.3 billion at 31 December 2020 (2019 - £73.8 billion).

Settlement balance assets and liabilities decreased to £2.3 billion and £2.2 billion respectively, reflecting lower year end trading volumes (2019 - £4.3 billion and £4.0 billion respectively).

Derivative assets and derivative liabilities were up £16.9 billion to £165.6 billion and £13.2 billion to £157.3 billion respectively compared with year end 2019. The increases in mark-to-market were driven by a downward shift in interest rate yields and FX rate fluctuation across major currencies during the year.

Other financial assets decreased by £3.3 billion to £9.0 billion at 31 December 2020 (2019 - £12.3 billion). Other financial liabilities decreased to £18.2 billion (2019 - £18.4 billion) and includes £12.8 billion of medium term notes issued.

### Balance sheet profile as at 31 December 2020

NWM Group's balance sheet profile is summarised as follows:

Assets	£bn	£bn	Liabilities
Cash and balances at central banks	15.8		
Trading assets	68.7	72.3	Trading liabilities
Securities	29.2	26.8	Short positions
Reverse repos (1)	19.4	19.0	Repos (2)
Derivative cash collateral posted (3)	18.5	23.2	Derivative cash collateral received (4)
Other trading assets	1.6	3.3	Other trading liabilities
Loans - amortised cost	9.4	4.4	Deposits - amortised cost
Settlement balances	2.3	2.2	Settlement balances
Amounts due from holding company and fellow subsidiaries	1.6	8.1	Amounts due to holding company and fellow subsidiaries
Other financial assets	9.0	18.2	Other financial liabilities
Other assets	0.7	1.3	Other liabilities
Funded assets	107.5	106.5	Liabilities excluding derivatives
Derivative assets	165.6	157.3	Derivative liabilities
Total assets	273.1	263.8	Total liabilities
		20.6	of which: wholesale funding (5)
		9.5	of which: short-term wholesale funding (5)
Net derivative assets	4.7	3.6	Net derivative liabilities

Notes:

- (1) Comprises bank reverse repos of £2.2 billion (2019 - £4.9 billion) and customer reverse repos of £17.2 billion (2019 - £19.2 billion).
- (2) Comprises bank repos of £1.0 billion (2019 - £6.6 billion) and customer repos of £18.0 billion (2019 - £21.3 billion).
- (3) Comprises derivative cash collateral posted relating to banks of £7.4 billion (2019 - £7.6 billion) and customers of £11.0 billion (2019 - £12.9 billion).
- (4) Comprises derivative cash collateral received relating to banks of £11.8 billion (2019 - £11.9 billion) and customers of £11.4 billion (2019 - £9.6 billion).
- (5) Excludes derivative cash collateral received, repo, customer deposits and intra-NatWest Group balances.

## Board of directors and secretary

### Board and committees

#### Chairman

Frank Dangeard

Chairman of the Nominations Committee

#### Executive directors

Robert Begbie

Chief Executive Officer

David King (appointed 1 July 2020)

Chief Financial Officer

#### Independent non-executive directors

Vivek Ahuja

Chairman of Board Risk Committee

Brendan Nelson

Chairman of Audit Committee

Tamsin Rowe

Chairman of the Performance and Remuneration Committee

Sarah Wilkinson

Anne Simpson (appointed 17 September 2020)

### Auditors

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Chartered Accountants and Statutory Auditor

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### **NatWest Markets Holdings USA Inc.**

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Stamford

CT 06901 USA

### **NatWest Markets Plc**

Registered in Scotland No. SC90312

## Risk and capital management

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### Presentation of information

Where indicated by a bracket in the margins, certain information in the Risk and capital management section (pages 34 to 75) is within the scope of the Independent auditor's report. Risk and capital management is generally conducted on an overall basis within NatWest Group such that common policies, procedures, frameworks and models apply across NatWest Group. Therefore, for the most part, discussion on these qualitative aspects reflects those in NatWest Group as relevant for the businesses and operations in NWM Group.

### Update on COVID-19

Amid the unprecedented challenge posed by COVID-19, NWM Group prioritised supporting its clients while operating safely and soundly in line with its strategic objectives. Notably, NWM Group facilitated issuances for its clients under the government's COVID-19 Corporate Financing Facility totalling £9.5 billion, with no material impact on its risk profile.

The emerging effects of the outbreak of COVID-19 led to exceptional volatility in the financial markets and, at times, varying degrees of illiquidity. This highlighted the importance of NWM Group's prudent approach to market risk management, with the traded market risk profile remaining broadly stable in comparison with 2019 due to the effect of ongoing strategic de-risking activities. For more details, refer to the Market risk section.

Several of NWM Group's other principal risks were directly affected – notably the credit risk profile. As the potential impact of COVID-19 became clear, focus on prudent management of credit limits resulted in a number of significant appetite reductions across portfolios. This is detailed in the Credit risk section. The operational risk profile was also heightened. While business continuity protocols ensured that NWM Group processes and operations continued to meet customer and regulatory expectations, risks to the control environment – as a result of necessary changes to processes and procedures – were actively identified, monitored and managed.

### Risk management framework

#### Introduction

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

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

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

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

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

### Culture

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

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

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

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

### Training

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

### Our Code

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

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

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

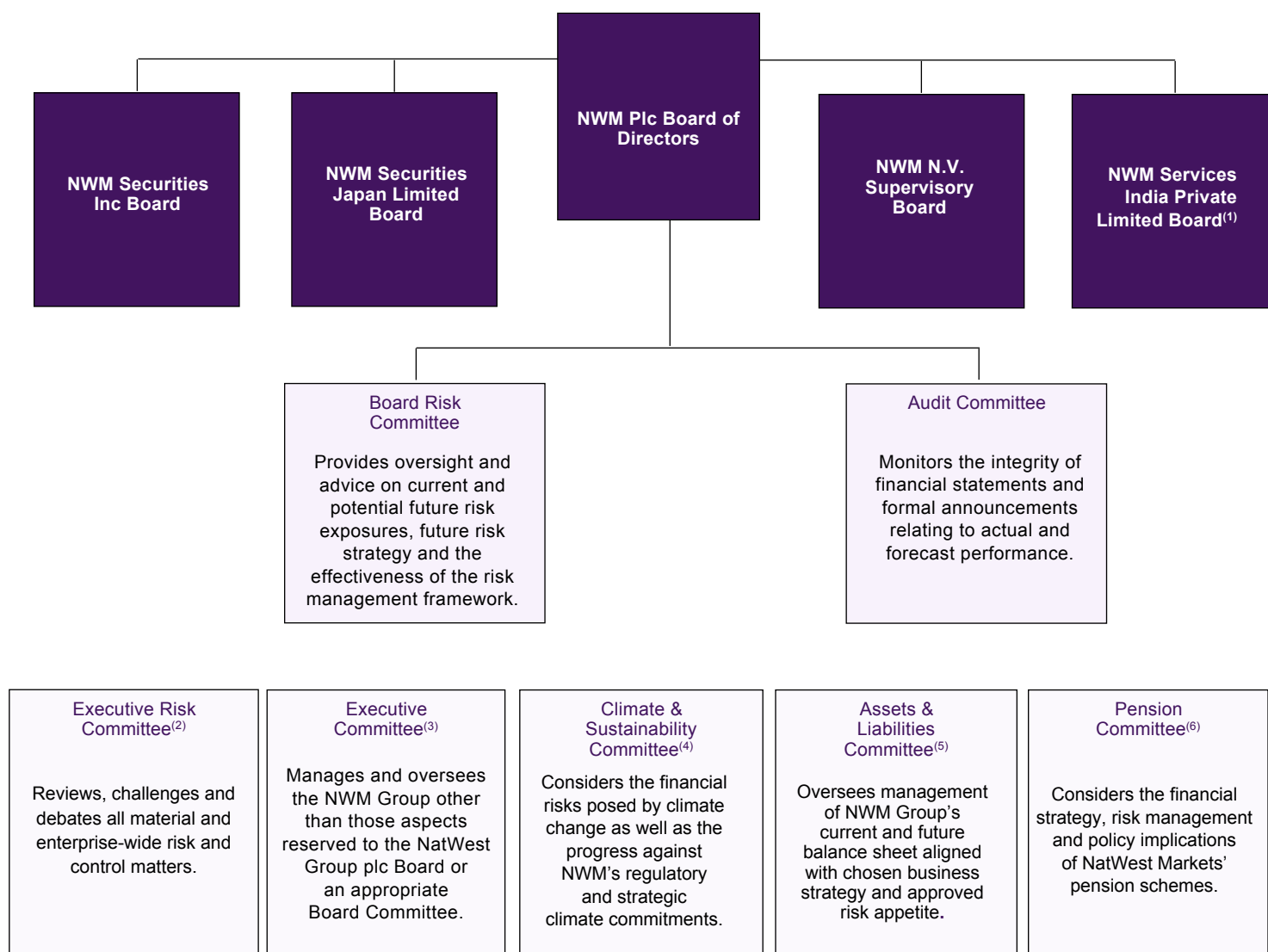
## Risk and capital management

### Risk management framework continued

#### Governance

##### Committee structure

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



#### Notes:

- (1) NWM Services India Private Limited was transferred to NWH Group in August 2020.
- (2) The Executive Risk Committee is chaired by the NWM Chief Risk Officer and supports him in discharging his risk management accountabilities.
- (3) The Executive Committee is chaired by the NWM Chief Executive Officer and supports him in discharging his individual accountabilities in accordance with the authority delegated to him by the NWM Plc Board of Directors.
- (4) The Climate & Sustainability Committee is chaired by the NWM Chief Executive Officer and supports him in discharging his climate risk accountabilities.
- (5) The Assets & Liabilities Committee is chaired by the NWM Chief Financial Officer and supports him in discharging his individual accountabilities relating to treasury and balance sheet management.
- (6) The Pension Committee is chaired by the NWM Chief Financial Officer and supports him in discharging his individual accountabilities relating to the management of NatWest Markets' pension schemes.
- (7) The Financial Crime Risk Committee, the E-Trading Oversight Committee, the Reputational Risk Committee, the Valuations Committee, the Enterprise Wide Risk Committee, the Policy Approval Committee, the Model Risk Committee, the Provisions Committee and the Credit Risk Committee are not shown here. They support the Executive Risk Committee in discharging its risk management responsibilities.

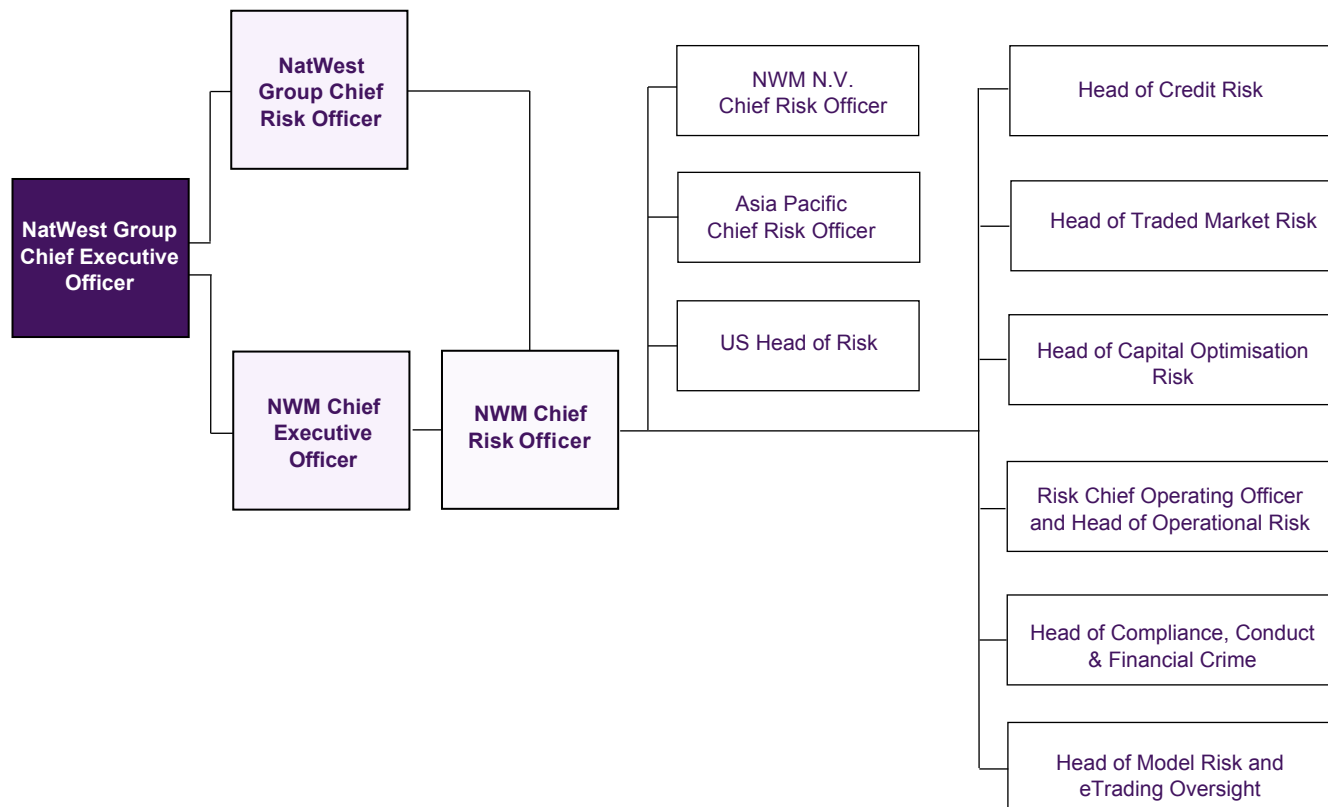
## Risk and capital management

### Risk management framework [continued](#)

#### Governance

#### Risk management structure

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



#### Notes:

- (1) The NWM Chief Risk Officer reports directly to the NWM Chief Executive Officer and the NatWest Group Chief Risk Officer. The NWM Chief Risk Officer also has an additional reporting line to the chair of the NWM Board Risk Committee, and a right of access to the committee.
- (2) The NWM Group 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 businesses.
- (3) The NWH Group Risk function provides services across NatWest Group, including – where agreed – to the NWM Chief Risk Officer. These services are managed, as applicable, through service level agreements and resource augmentation agreements.



# Risk and capital management

## Risk management framework continued

### Three lines of defence

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

### First line of defence

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

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

### Second line of defence

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

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

### Third line of defence

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

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

## Risk appetite

Risk appetite defines the level and types of risk NWM 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 Group or its ability to achieve strategic objectives. For certain strategic risks, risk capacity defines the maximum level of risk NWM Group can assume before breaching constraints determined by regulatory capital and liquidity requirements, the operational environment, and from a conduct perspective. Establishing risk capacity helps determine where risk appetite should be set, ensuring there is a buffer between internal risk appetite and NWM 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.

NatWest Group Board approves the risk appetite framework annually.

## Establishing risk appetite

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

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

The annual process of establishing risk appetite statements is completed alongside the business and financial planning process. This ensures plans and risk appetite are appropriately aligned.

The Board sets risk appetite for the most material risks to help ensure NWM Group is well placed to meet its priorities and long-term targets even in challenging economic environments. It is the basis on which NWM Group remains safe and sound while implementing its strategic business objectives.

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

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

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

## Identification and measurement

Identification and measurement within the risk management process comprise:

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

## Risk and capital management

### Risk management framework continued

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

### Stress testing

#### Stress testing – capital management

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

Stress testing includes:

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

The process for stress testing consists of four broad stages:

Define scenarios	<ul style="list-style-type: none"> <li>• Identify NWM-specific vulnerabilities and risks.</li> <li>• Define and calibrate scenarios to examine risks and vulnerabilities.</li> <li>• Formal governance process to agree scenarios.</li> </ul>
Assess impact	<ul style="list-style-type: none"> <li>• Translate scenarios into risk drivers.</li> <li>• Assess impact to current and projected P&amp;L and balance sheet.</li> <li>• Impact assessment captures input from across NWM Group.</li> </ul>
Calculate results and assess implications	<ul style="list-style-type: none"> <li>• Aggregate impacts into overall results.</li> <li>• Results form part of risk management process.</li> <li>• Scenario results are used to inform NWM Group's business and capital plans.</li> </ul>
Develop and agree management actions	<ul style="list-style-type: none"> <li>• Scenario results are analysed by subject matter experts and appropriate management actions are then developed.</li> <li>• Scenario results and management actions are reviewed and agreed by senior management through senior committees, including the Executive Risk Committee, the Board Risk Committee and the Board.</li> </ul>

Stress testing is used widely across NatWest Group, including at NWM Group level. The diagram below summarises areas of focus.



Specific areas that involve capital management include:

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

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

#### Capital sufficiency – going concern forward-looking view

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

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

## Risk and capital management

### Risk management framework continued

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

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

Under stress testing, the peak-to-trough change in CET1 may be affected by the transitions from Stage 1 to Stage 2 in stress conditions. Stress and peak-to-trough movements are used to help assess the amount of capital NWM Group needs to hold in stress conditions in accordance with the capital risk appetite framework.

### Internal assessment of capital adequacy

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

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

### Capital allocation

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

### Governance

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

### Stress testing – liquidity

#### Liquidity risk monitoring and contingency planning

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

### Internal assessment of liquidity

Under the liquidity risk management framework, NWM Group maintains the Individual Liquidity Adequacy Assessment Process. This includes assessment of net stressed liquidity outflows under a range of extreme but plausible stress scenarios detailed in the following table.

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

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

### Stress testing – recovery and resolution planning

Within NWM Group, both NWM Plc and NWM N.V. each have a recovery plan explaining how they would identify and respond to a financial stress event and restore their financial position so that they remain viable on an ongoing basis.

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

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

The plan is intended to enable critical services and products to be maintained, as well as core business lines while operating within risk appetite and restoring financial condition. It is assessed for appropriateness on an ongoing basis and is updated annually. The NWM Plc plan is reviewed and approved by the Board prior to submission to the PRA each year.

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

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

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

## Risk and capital management

### Risk management framework continued

#### Stress testing – climate

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

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

#### Stress testing – market risk

##### Non-traded market risk

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

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

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

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

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

##### Traded market risk

NWM Group carries out daily market risk stress testing to identify vulnerabilities and potential losses in excess of, or not captured in, value-at-risk. The calculated stresses measure the impact of changes in risk factors on the fair values of the trading and fair value through other comprehensive income portfolios.

NWM Group conducts historical, macroeconomic and vulnerability-based stress testing. Historical stress testing is a measure that is used for internal management. Using the historical simulation framework employed for value-at-risk, the current portfolio is stressed using historical data since 1 January 2005. This methodology simulates the impact of the 99.9 percentile loss that would be incurred by historical risk factor movements over the period, assuming variable holding periods specific to the risk factors and the businesses.

Historical stress tests form part of the market risk limit framework and their results are reported daily to senior management. Macroeconomic stress tests are carried out periodically as part of the bank-wide, cross-risk capital planning process. The scenario narratives are translated into risk factor shocks using historical events and insights by economists, risk managers and the first line.

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

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

#### Internal scenarios

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

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

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

#### Regulatory stress testing

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



## Risk and capital management

### Market risk

NWM 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 44.

Pension-related activities also give rise to market risk. Refer to page 71 for more information on risk related to pensions.

### 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

Traded market risk mainly arises from NWM Group's trading activities. These activities provide a range of financing, risk management and investment services to clients – including corporations and financial institutions – around the world. From a market risk perspective, activities are focused on rates; currencies; and traded credit.

NWM Group undertakes transactions in financial instruments including debt securities, as well as securities financing and derivatives.

The key categories of traded market risk are interest rate risk, credit spread risk and foreign currency price risk.

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

#### Key developments in 2020

- COVID-19 initially resulted in periods of exceptional market volatility as well as increased illiquidity.
- Traded VaR remained broadly consistent on an average basis with 2019 levels despite this increased market volatility. This was due to ongoing business de-risking as part of the overall RWA reduction strategy.

#### Governance

Market risk policy statements set out the governance and risk management framework. Responsibility for identifying, measuring, monitoring and controlling market risk arising from trading activities lies with the relevant trading business. The Market Risk function independently advises on, monitors 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.

### 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.

For each trading business, a document known as a dealing authority compiles details of all applicable limits and trading restrictions. 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. The limit review has been enhanced to improve the alignment between traded market risk exposure and capital usage. This is done by analysing the relationship between VaR and SVaR and NWM Plc's solo CET1 ratio.

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

For more detail on risk appetite, refer to page 37.

#### Monitoring and mitigation

Traded market risk is identified and assessed by gathering, analysing, monitoring and reporting market risk information at desk, business and NWM 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 daily. A daily report summarising the position of exposures against limits at desk, business and NWM Group is provided to senior management and market risk managers across the function. 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 the Market Risk function and the business. The loss triggers are set using both a fall-from-peak approach and an absolute loss level. In addition, regular updates on traded market risk positions are provided to NWM Group's Executive Risk Committee and Board Risk Committee.

## Risk and capital management

### Traded market risk continued

#### Measurement

NWM Group uses VaR, SVaR and the incremental risk charge to measure traded market risk. Risks that are not adequately captured by VaR or SVaR are captured by the Risks Not In VaR (RNIV) framework to ensure that NWM Group is adequately capitalised for market risk. In addition, stress testing is used to identify any vulnerabilities and potential losses.

The key inputs into these measurement methods are market data and risk factor sensitivities. Sensitivities refer to the changes in trade or portfolio value that result from small changes in market parameters that are subject to the market risk limit framework. Revaluation ladders are used in place of sensitivities to capture the impact of large moves in risk factors or the joint impact of two risk factors.

The suite of internal metrics used for risk management purposes at NWM Group level have been designed to capture correlation effects and to allow for an aggregated view of traded market risk across risk types, markets and business lines while also taking into account the characteristics of each risk type.

#### Value-at-risk

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

The internal VaR model – which captures all trading book positions including those products approved by the regulator – is based on a historical simulation, utilising market data from the previous 500 days on an equally-weighted basis.

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

When simulating potential movements in such risk factors, a combination of absolute, relative and rescaled returns is used.

The performance and adequacy of the VaR model are tested regularly through the following processes:

- Back-testing – Internal and regulatory back-testing is conducted on a daily basis. For further information on back-testing, refer to the following page.
- 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 74. More information relating to pricing and market risk models is presented in the NatWest Group Pillar 3 Report.

### One-day 99% traded internal VaR

The table below shows one-day 99% internal VaR for the trading portfolios of NWM Group, split by exposure type. Following the acquisition of NWM N.V. on 29 November 2019, traded internal VaR for NWM Group is presented on a consolidated basis.

	2020				2019
	Average £m	Maximum £m	Minimum £m	Period end £m	Period end £m
<b>Traded internal VaR (1-day 99%)</b>					
Interest rate	8.7	20.2	4.8	6.3	10.6
Credit spread	15.3	27.2	9.1	10.3	10.6
Currency	4.2	8.4	2.1	3.0	3.2
Equity	0.6	2.0	0.2	0.7	0.9
Commodity	0.1	0.6	—	0.2	0.1
Diversification (1)	(12.8)			(10.3)	(11.3)
<b>Total</b>	<b>16.1</b>	<b>25.7</b>	<b>10.1</b>	<b>10.2</b>	<b>14.1</b>

Note:

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

#### Key points

- 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 business de-risking.



## Risk and capital management

### Traded market risk continued

#### VaR back-testing

The main approach employed to assess the VaR model's ongoing performance is back-testing, which counts the number of days when a loss exceeds the corresponding daily VaR estimate, measured at a 99% confidence level.

Two types of profit and loss (P&L) are used in back-testing comparisons: Actual P&L and Hypothetical (Hypo) P&L. For more details on the back-testing approach and the differences between internal and regulatory VaR, refer to the Market risk section of the NatWest Group Pillar 3 Report.

The table below shows regulatory back-testing exceptions in NWM Plc for the 250-business-day period to 31 December 2020 for one-day 99% traded regulatory VaR compared with Actual and Hypo P&L.

	Back-testing exceptions	
	Actual	Hypo
NWM Plc	1	2

#### Key points

- In the 250-day rolling window to 31 December 2020, NWM Plc experienced a total of two Actual and seven Hypo back-testing exceptions. These all occurred in March 2020 when market volatility and illiquidity rose to exceptional levels as a result of COVID-19.
- An increase in VaR model back-testing exceptions was observed across the industry.
- As explained on page 29, under the provisions of the CRR COVID-19 Amendment, NWM Plc has been granted permission by the PRA to exclude exceptions that occurred on five days in March 2020 when calculating its minimum capital requirements for market risk.
- This adjustment has reduced the total to one Actual and two Hypo exceptions.

The table below shows internal back-testing exceptions in the major NWM businesses for the 250-business-day period to 31 December 2020. Internal back-testing compares one-day 99% traded internal VaR with Actual and Hypo P&L.

	Back-testing exceptions	
	Actual	Hypo
Rates	1	4
Currencies	2	5
Credit	10	10

#### Key points

- The exceptional market volatility resulting from COVID-19 led to back-testing exceptions across NWM businesses.
- The exceptions in the Rates business were mainly driven by market moves in sterling and euro rates and underperformance of US Treasuries.
- The exceptions in the Currencies business were mainly driven by volatility in the foreign exchange market.
- The exceptions in the Credit business were mainly driven by bond mark-downs due to overall market weakness.

### Stressed VaR (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.

This is in contrast with VaR, which is based on a rolling 500-day historical data set. A time horizon of ten trading days is assumed with a confidence level of 99%. NWM Group's internal traded SVaR model captures all trading book positions.

The table below analyses 10-day 99% internal SVaR for the trading portfolios of NWM Group.

	2020				2019
	Average £m	Maximum £m	Minimum £m	Period end £m	Period end £m
Total internal traded SVaR	97	196	59	87	90

#### Key point

- Despite the market volatility and illiquidity resulting from COVID-19, SVaR decreased year-on-year on an average basis, primarily due to the ongoing business de-risking.

## Risk and capital management

### Traded market risk continued

#### Risks Not In VaR (RNIVs)

The RNIV framework is used to identify and quantify market risks that are not fully captured by the internal VaR and SVaR models.

RNIV calculations form an integral part of ongoing model and data improvement efforts to capture all market risks in scope for model approval in VaR and SVaR.

For further qualitative and quantitative disclosures on RNIVs, refer to the Market risk section of the NatWest Group Pillar 3 Report.

#### Stress testing

For information on stress testing, refer to page 38.

#### Incremental risk charge (IRC)

The IRC model quantifies the impact of rating migration and default events on the market value of instruments with embedded credit risk (in particular, bonds and credit default swaps) held in the trading book. It further captures basis risk between different instruments, maturities and reference entities. For further qualitative and quantitative disclosures on the IRC, refer to the Market risk section of the NatWest Group Pillar 3 Report.

### Non-traded market risk

#### Definition

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

#### Sources of risk

The key sources of non-traded market risk are interest rate risk, credit spread risk, foreign exchange risk and equity risk.

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

### Key developments in 2020

- NWM Plc's non-traded VaR experienced less volatility compared to 2019 despite the impact of COVID-19. On an average basis, VaR decreased driven by structural foreign exchange exposures. This reflected the year-on-year reduction in the sensitivity of the CET1 ratio to foreign exchange movements.
- NWM Plc's remaining shareholding in Saudi British Bank (SABB) was fully sold on 1 December 2020. The standalone VaR associated with the non-traded foreign exchange and equity risks arising from this shareholding had been £34 million as at 31 December 2019.
- NatWest Markets continued to make progress on the transition from LIBOR to alternative risk-free rates. An increasing proportion of structural hedges are written against swaps linked to SONIA, instead of LIBOR.
- NWM Plc continued to further dispose of the complex lender-option / borrower-option (LOBO) loans it had inherited as a result of ring-fencing. By 31 December 2020, only two loans remained.
- NWM Plc continued to maintain a foreign exchange hedging programme to mitigate the downside risk to its solo CET1 capital ratio from movements in foreign exchange rates.
- NWM Plc maintains a structural hedge of non and low interest-bearing liabilities, principally equity. At 31 December 2020, the notional amount of the structural hedge in place was £4.8 billion (£5.6 billion at 31 December 2019). NWM policy is to align the notional of the hedge to its business strategy. Common equity and reserves are expected to decrease in the medium term.

### Governance

Responsibility for identifying, measuring, monitoring and controlling market risk arising from non-trading activities lies with the relevant business. Oversight is provided by NWM Group's Non-Traded Market Risk function.

Risk positions are reported monthly to NWM Group's Executive Risk Committee and quarterly to the Board Risk Committee, as well as to the Assets & Liabilities Committee (ALCo). Non-traded market risk policy statements set out the governance and risk management framework.

Non-traded market risk is managed separately on both sides of the ring-fence. It is aggregated and monitored against risk appetite at both NWM Plc and NatWest Group levels.

### 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. Supporting measures monitored at Executive governance level include, but are not limited to, a stress-based limit 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. Limits are reviewed regularly to reflect changes in risk appetite, business plans, portfolio composition and the external environment. For further information on risk appetite, refer to page 37.

## Risk and capital management

### Non-traded market risk continued

#### Non-traded internal VaR (one-day 99%)

The market risk exposures arising as a result of banking activities are measured using a combination of value-based metrics (VaR and sensitivities) and earnings-based metrics. The following table shows NWM Plc's one-day internal banking book VaR at a 99% confidence level, split by risk type. For NWM N.V., refer to the appropriate key point below the table.

	2020				2019			
	Average £m	Maximum £m	Minimum £m	Period end £m	Average £m	Maximum £m	Minimum £m	Period end £m
<b>NWM Plc</b>								
Interest rate	2.9	3.4	2.3	2.3	3.5	7.3	1.4	3.7
Credit spread	7.0	8.5	3.8	7.6	5.1	8.3	3.1	3.6
Foreign exchange rate	11.5	14.3	7.7	7.7	17.2	26.9	8.2	8.7
Equity risk	2.3	3.0	1.0	3.0	1.2	3.1	0.9	1.0
Diversification (1)	(7.7)			(8.9)	(6.6)			(3.5)
<b>Total</b>	<b>16.0</b>	<b>19.7</b>	<b>11.8</b>	<b>11.8</b>	<b>20.4</b>	<b>32.2</b>	<b>10.2</b>	<b>13.5</b>

Note:

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

#### Key points

- In NWM Plc, non-traded VaR decreased on an average basis. This reflected a decrease in the sensitivity of the CET1 ratio to foreign exchange movements resulting from hedging undertaken by NWM Plc Treasury.
- In NWM N.V., non-traded VaR was £1.3 million on an average basis and £1.4 million on a period-end basis.

#### Interest rate risk

Non-traded interest rate risk (NTIRR) mainly arises from capital hedges, in portfolios held for liquidity purposes and from interest rate repricing mismatches between assets and liabilities in other portfolios. When aggregated, these products form portfolios of assets and liabilities with varying degrees of sensitivity to changes in market interest rates. Mismatches can give rise to volatility in net interest income as interest rates vary.

NTIRR comprises the following three primary risk types:

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

To manage exposures within appetite, NWM Group aggregates its interest rate positions and hedges these externally using cash and derivatives (primarily interest rate swaps).

#### Credit spread risk

Credit spread risk arises from the potential adverse economic impact of a change in the spread between bond yields and swap rates, where the bond portfolios are accounted at fair value. Credit risk also arises on LOBO loans classified as FVTPL and on loan portfolios classified as FVOCI.

To ensure NWM Group can continue to meet its obligations in the event that access to wholesale funding markets is restricted, it maintains a liquidity buffer in the form of bond portfolios – comprising primarily high-quality securities – and central bank cash. Credit spread risk is monitored daily through sensitivities and VaR measures. The dealing authorities in place for the bond portfolios further mitigate the risk by imposing constraints by duration, asset class and credit rating. Exposures and limit utilisations are reported to senior management on a daily basis.

## Risk and capital management

### Non-traded market risk continued

#### Foreign exchange risk

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

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

The structural foreign exchange exposures arising from investments in foreign branches and their related currency funding are assessed and managed by NWM Plc Treasury, taking into account the foreign exchange rate sensitivity of NWM Plc's solo CET1 ratio to predefined risk appetite levels under delegated authority from the NWM Plc ALCo.

Gains or losses arising from the retranslation of net investments in overseas operations are recognised in equity reserves and reduce the sensitivity of capital ratios to foreign exchange rate movements primarily arising from the retranslation of non-sterling denominated RWAs.

Foreign exchange risk is managed with reference to the sensitivity of NWM Plc's solo CET1 ratio to changes in foreign exchange rates. The sensitivity of this ratio to exchange rates is monitored monthly and reported to NWM Plc senior management at least quarterly.

Foreign exchange exposures arising from customer transactions are sold down by businesses on a regular basis in line with NatWest Group policy.

#### Foreign exchange exposures

The table below shows NWM Group's structural foreign currency exposures.

	Net investments in foreign operations £m	Net investment hedges £m	Structural foreign currency exposures £m	Economic hedges £m	Residual structural foreign currency exposures (1) £m
<b>2020</b>					
US dollar	1,300	—	1,300	(842)	458
Euro	2,349	(236)	2,113	—	2,113
Swiss franc	184	(174)	10	—	10
Other non-sterling (2)	404	—	404	—	404
	<b>4,237</b>	<b>(410)</b>	<b>3,827</b>	<b>(842)</b>	<b>2,985</b>
<b>2019</b>					
US dollar	1,520	—	1,520	(871)	649
Euro	1,891	(224)	1,667	—	1,667
Swiss franc	442	(439)	3	—	3
Other non-sterling (2)	586	(45)	541	—	541
	<b>4,439</b>	<b>(708)</b>	<b>3,731</b>	<b>(871)</b>	<b>2,860</b>

Notes:

- (1) The residual structural foreign currency exposure represents the sum of the net asset value (NAV) of NWM Plc branches, together with any offsetting hedges against the local currency NAV valuations.
- (2) Other non-sterling mainly relates to branches that are expected to be exited over time.

#### Key points

- Over the period, sterling strengthened against the US dollar while it weakened against the euro. Against the dollar, sterling was 1.37 at 30 December 2020 compared to 1.32 at 31 December 2019. Against the euro, it was 1.11 at 31 December 2020 compared to 1.18 at 31 December 2019.
- Net investment in Swiss francs decreased following the receipt of a distribution from Coutts & Co. Ltd as part of the wind-down of this company's operations.
- Changes in foreign currency exchange rates affect equity in proportion to structural foreign currency exposure. For example, a 5% strengthening or weakening in foreign currencies against sterling would result in a gain or loss of £0.2 billion in equity, respectively.
- The assets and liabilities of unhedged overseas subsidiaries are not consolidated in NWM Plc. Therefore, the sensitivity of NWM Plc's equity to changes in foreign exchange rates will be significantly lower than that of NWM Group.

## Risk and capital management

### Capital, liquidity and funding risk

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

### Definitions

Regulatory capital consists of reserves and instruments issued that are available, have a degree of permanency and are capable of absorbing losses. A number of strict conditions are set by applicable regulations to determine capital eligibility.

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

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

Funding consists of on-balance sheet liabilities that are used to provide cash to finance assets. Funding risk is the risk of not maintaining a diversified, stable and cost-effective funding base.

Liquidity and funding risks arise in a number of ways, including through the maturity transformation role that banks perform. The risks are dependent on factors such as:

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

### Sources

#### Capital

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

- CET1 capital - CET1 capital must be perpetual and capable of unrestricted and immediate use to cover risks or losses as soon as these occur. This includes ordinary shares issued and retained earnings.
- Additional Tier 1 (AT1) capital - This is the second type of loss absorbing capital and must be capable of absorbing losses on a going concern basis. These instruments are perpetual in nature, with an initial call period of at least five years from issue and are written off or converted into CET1 capital if a pre-specified CET1 ratio is reached. The sum of CET1 and AT1 capital is referred to as Tier 1 capital.
- Tier 2 capital - Tier 2 capital is the bank entities' supplementary capital and provides loss absorption on a gone concern basis. Gone concern refers to the situation in which resources must be available to enable an orderly resolution, in the event that the Bank of England (BoE) deems that NWM Plc has failed. Tier 2 capital absorbs losses after Tier 1 capital. It typically consists of subordinated debt securities with a minimum initial maturity of five years.

### Minimum requirement for own funds and eligible liabilities (MREL)

In addition to capital, other specific loss absorbing instruments, including senior notes with a residual maturity of at least one year issued by NWM Plc, may be used to cover certain gone concern capital requirements.

### Liquidity

NWM Group maintains a prudent approach to the definition of liquidity resources. Liquidity resources are divided into primary and secondary liquidity as follows:

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

### Funding

NWM Group's primary funding sources are as follows:

Type	Description
Wholesale markets	Includes: <ul style="list-style-type: none"><li>• Short-term (less than 1 year) unsecured money market funding.</li><li>• Commercial paper and certificates of deposit.</li><li>• Secured repo market funding.</li></ul>
Term debt	Includes: <ul style="list-style-type: none"><li>• Long-term (typically more than 1 year) senior unsecured and secured debt securities.</li><li>• Long-term subordinated liabilities.</li></ul>
Internal capital and MREL	Includes: <ul style="list-style-type: none"><li>• Equity, AT1, Tier 2 capital instruments and MREL issued to NatWest Group plc (under the Single Point of Entry regime).</li></ul>

### Managing capital, liquidity and funding requirements: regulated entities

In line with paragraph 135 of IAS 1 'Presentation of Financial Statements', NWM Group manages capital having regard to regulatory requirements. Regulatory capital, MREL, RWA and leverage is monitored and reported on an individual regulated bank legal entity basis ('bank entity'), which is the CRR transitional basis as relevant in the UK and EU.

Liquidity metrics including the LCR are presented for the solo legal entity as regulated by the PRA. Funding sources and Notes issued disclosures are presented for NWM Group rather than for NatWest Markets Plc.

### Key developments in 2020

- NWM Plc's CET1 ratio increased by 440 basis points to 21.7% at 31 December 2020, from 17.3% at 31 December 2019. The increase in the CET1 ratio at year end 2020 was primarily due to lower RWAs, as a result of reductions in credit, counterparty credit risk, market risk and operational risk. CET1 capital decreased by £0.6 billion primarily due to a £0.5 billion foreseeable ordinary dividend deduction and other reserve movements.
- NWM Plc's RWAs decreased by £9.6 billion to £25.6 billion at 31 December 2020, reflecting lower levels of credit, counterparty credit and market risk which have trended downwards as the business seeks to reduce RWAs including through the execution of capital optimisation actions and exit activity. Operational risk RWAs reduced following the annual recalculation.

## Risk and capital management

### Capital, liquidity and funding risk continued

- CRR leverage exposure for NWM Plc decreased to £123.9 billion compared with £136.5 billion at 31 December 2019.
- The leverage ratio on a CRR basis, using PRA transitional capital, increased to 5.2% following the decrease in leverage exposure.
- NWM Plc's MREL at 31 December 2020 was £12.7 billion, or 49.6% of RWAs (2019 - £13.5 billion and 38.4% respectively).
- The NWM Plc liquidity portfolio was £19.4 billion at 31 December 2020, an increase of £3.3 billion from £16.1 billion at the prior year end.
- The LCR for NWM Plc was 268% at 31 December 2020, compared with 254% at year end 2019.

### Capital management

Capital management is the process by which banks ensure that they have sufficient capital and other loss absorbing instruments to operate effectively. This includes meeting minimum regulatory requirements, operating within Board-approved risk appetite, maintaining credit ratings and supporting strategic goals. Capital management is critical in supporting banks businesses. Capital management within NWM Group is executed in accordance with the NatWest Group-wide framework.

NWM Plc's capital plans are produced and updated by the bank on a monthly basis. This process includes integration into NatWest Group's wider annual budgeting process and is summarised below. Other elements of capital management, including risk appetite and stress testing, are set out on pages 37 and 38.

Produce capital plans	<ul style="list-style-type: none"> <li>• A capital plan is produced for NWM Plc using a five year planning horizon under expected and stress conditions. Stressed capital plans are produced to support internal stress testing through the ICAAP or for regulatory purposes.</li> <li>• A shorter term (rolling 12 month) forecast is updated frequently in response to actual performance, changes in internal and external business environment and to manage risks and opportunities.</li> </ul>
Assess capital adequacy	<ul style="list-style-type: none"> <li>• Capital plans are developed to ensure that capital of sufficient quantity and quality is planned to be available to support NWM Group's business and strategic plans over the planning horizon within approved risk appetite, as determined via stress testing, and minimum regulatory requirements.</li> <li>• Impact assessment captures input from across NWM Group including from businesses.</li> </ul>
Inform capital actions	<ul style="list-style-type: none"> <li>• Capital planning informs potential capital actions including managing capital through new issuance, redemptions or internal transactions.</li> <li>• Decisions on capital actions will be influenced by strategic and regulatory requirements, the cost and prevailing market conditions.</li> <li>• As part of capital planning, NWM Group will monitor its portfolio of capital securities and assess the optimal blend.</li> </ul>

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

### Liquidity and funding management

Liquidity and funding management follows a similar process to that outlined above for capital.

### Liquidity portfolio management

The size of the portfolio is determined by reference to NWM Group's liquidity risk appetite. Consistent with NatWest Group, NWM 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. NWM Group categorises its liquidity portfolio, including its locally managed liquidity portfolios, into primary and secondary liquid assets. The majority of the NWM Plc portfolio is managed by NatWest Holdings Treasury on behalf of NWM Plc, for which the NatWest Markets Treasurer is responsible.

NatWest Markets Securities Inc. and NatWest Markets N.V., both of which are significant operating subsidiaries of NWM Plc, hold locally managed liquidity portfolios to comply with local regulations that differ from PRA rules.

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

### Funding risk management

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

The long term obligations of NWM Group must be met with diverse and stable funding sources, the behavioural maturity of these liabilities must at a minimum equal those of the assets.



## Risk and capital management

### Capital, liquidity and funding risk continued

#### Minimum requirements

##### Capital ratios

The Bank entities are subject to minimum capital requirements relative to RWAs. The table below summarises the CRR end-point minimum requirements of capital to RWAs that the UK bank entities are expected to meet.

Type	CET1	Total Tier 1	Total capital
Minimum capital requirements	4.5%	6.0%	8.0%
Capital conservation buffer (1)	2.5%	2.5%	2.5%
Countercyclical capital buffer (1)	0.0%	0.0%	0.0%
Total (2)	7.0%	8.5%	10.5%

Notes:

- (1) The institution specific countercyclical capital buffer requirement is based on the weighted average of geographical exposures. The Financial Policy Committee (FPC) sets the UK countercyclical capital buffer, which in response to COVID-19 was reduced from 1% to 0% effective from 11 March 2020. Foreign exposures may be subject to different countercyclical capital buffer rates dependent on the rate set in those jurisdictions. NWM Plc's main relevant exposures are to the UK (54%) and the US (16%). The capital conservation buffer and the countercyclical capital buffer are required to be met with CET1 capital only.
- (2) In addition, NWM Plc is subject to Pillar 2A requirements which are not disclosed publicly.

##### Leverage ratio

At present, NWM Plc only has a leverage ratio reporting requirement, and not a regulatory minimum leverage requirement. Following the joint announcement of UK Treasury, PRA and FCA on 16 November 2020, it is expected that the PRA will consult on the application of leverage requirements to individual legal entities and sub-groups during 2021.

#### Measurement

##### Capital, RWAs and leverage

Capital resources, RWAs and leverage based on the PRA transitional arrangements for NWM Plc are set out below. Regulatory capital is monitored and reported at legal entity level for large subsidiaries of NatWest Group.

	2020 %	2019 %
Capital adequacy ratios		
CET1	21.7	17.3
Tier 1	25.2	19.9
Total	30.3	24.2
Capital (1)	£m	£m
CET1	5,547	6,097
Tier 1	6,433	7,003
Total	7,753	8,501
RWAs		
Credit risk	6,902	9,825
Counterparty credit risk	8,130	11,060
Market risk	8,150	11,229
Operational risk	2,382	3,039
Total RWAs	25,564	35,153
Leverage (2)		
CRR leverage exposure (£m)	123,927	136,505
Tier 1 capital (£m)	6,433	7,003
CRR leverage ratio (%) (3)	5.2	5.1

Notes:

- (1) CRR end-point for UK banks set by the PRA is 10.5% minimum total capital ratio, with a minimum CET1 ratio of 7.0%.
- (2) Leverage exposure is broadly aligned to the accounting value of on and off-balance sheet exposures, subject to specific adjustments for derivatives, securities financing positions and off-balance sheet exposures.
- (3) CRR leverage exposure at 31 December 2020 includes netting of regular way deals pending settlement in line with CRR amendments that came into effect in June 2020. The prior period has not been restated.

## Risk and capital management

### Capital, liquidity and funding risk continued

#### Leverage Exposure

The leverage exposure is based on the CRR Delegated Act.

	2020 £m	2019 £m
<b>Leverage</b>		
Cash and balances at central banks	11,736	9,953
Trading assets	52,169	57,768
Derivatives	164,104	147,458
Other financial assets	23,827	25,929
Other assets	4,246	6,945
<b>Total assets</b>	<b>256,082</b>	<b>248,053</b>
Derivatives		
- netting	(169,152)	(155,147)
- potential future exposures	35,654	39,997
Securities financing transactions gross up	999	1,559
Undrawn commitments	5,037	5,986
Regulatory deductions and other adjustments	(2,977)	(2,815)
Exclusion of core UK-group exposures	(1,716)	(1,128)
<b>Leverage exposure</b>	<b>123,927</b>	<b>136,505</b>

#### Liquidity portfolio

The table below shows the liquidity portfolio by LCR product, with the incorporation of discounts (or haircuts) used within the internal stressed outflow coverage. Secondary liquidity comprises assets eligible for discount at central banks, which do not form part of the liquid asset portfolio for LCR or stressed outflow coverage purposes.

	<b>Liquidity value (1)</b>	
	2020 £m	2019 £m
<b>NatWest Markets Plc</b>		
Cash and balances at central banks	11,773	9,929
AAA to AA- rated governments	7,207	4,399
A+ and lower rated governments	79	1,277
Government guaranteed issuers, public sector entities and government sponsored entities	—	—
International organisations and multilateral development banks	144	244
LCR level 1 bonds	7,430	5,920
LCR level 1 assets	19,203	15,849
LCR level 2 assets	—	—
Non-LCR eligible assets	—	5
Primary liquidity	19,203	15,854
Secondary liquidity (2)	224	244
<b>Total liquidity value</b>	<b>19,427</b>	<b>16,098</b>

The table below shows the liquidity value of the liquidity portfolio by currency.

	GBP £m	USD £m	EUR £m	Other £m	Total £m
<b>Total liquidity portfolio</b>					
2020	8,838	3,793	6,716	80	19,427
2019	6,142	3,628	5,051	1,277	16,098

Notes:

- (1) Liquidity value is aligned to the internal stressed outflow coverage, which is stated after discounts (or haircuts) are applied to the instruments.
- (2) Comprises assets eligible for discounting at the Bank of England and other central banks.

## Risk and capital management

### Capital, liquidity and funding risk continued

#### Funding sources

The table below shows NWM Group's carrying values of the principal funding sources based on contractual maturity.

	2020			2019		
	Short-term less than 1 year £m	Long-term more than 1 year £m	Total £m	Short-term less than 1 year £m	Long-term more than 1 year £m	Total £m
Bank deposits	1,294	514	1,808	1,302	787	2,089
<i>of which: repos (amortised cost)</i>	200	—	200	380	—	380
Customer deposits	2,526	92	2,618	3,176	527	3,703
<b>Trading liabilities (1)</b>						
Repos (2)	19,036	—	19,036	27,885	—	27,885
Derivative cash collateral received	23,226	—	23,226	21,506	—	21,506
Other bank and customer deposits	818	985	1,803	600	896	1,496
Debt securities in issue	527	881	1,408	659	1,103	1,762
	43,607	1,866	45,473	50,650	1,999	52,649
<b>Other financial liabilities</b>						
Customer deposits (designated fair value)	616	180	796	—	—	—
Debt securities in issue						
commercial paper and certificates of deposits	3,253	168	3,421	2,699	6	2,705
medium term notes (MTNs)	4,441	8,407	12,848	4,386	10,218	14,604
Subordinated liabilities	—	1,105	1,105	107	1,029	1,136
	8,310	9,860	18,170	7,192	11,253	18,445
<b>Amounts due to holding company and fellow subsidiaries (3)</b>						
CRR-compliant internal MREL	—	5,181	5,181	—	5,120	5,120
Other bank and customer deposits	925	—	925	951	38	989
Subordinated liabilities	—	1,753	1,753	—	2,020	2,020
	925	6,934	7,859	951	7,178	8,129
<b>Total funding</b>	<b>56,662</b>	<b>19,266</b>	<b>75,928</b>	<b>63,271</b>	<b>21,744</b>	<b>85,015</b>
<i>Of which: available in resolution (4)</i>	<i>—</i>	<i>8,039</i>	<i>8,039</i>	<i>107</i>	<i>8,169</i>	<i>8,276</i>

Notes:

- (1) Funding sources excludes short positions of £26,779 million (2019 - £21,187 million) reflected as trading liabilities on the balance sheet.
- (2) Comprises Central and other bank repos of £1,048 million (2019 - £6,636 million), other financial institution repos of £15,973 million (2019 - £18,998 million) and other corporate repos of £2,015 million (2019 - £2,251 million).
- (3) Amounts due to holding company and fellow subsidiaries relating to non-financial instruments of £275 million (2019 - £171 million) have been excluded from the table.
- (4) Eligible liabilities (as defined in the Banking Act 2009 as amended from time to time) that meet the eligibility criteria set out in the regulations, rules, policies, guidelines, or statements of the Bank of England including the Statement of Policy published in June 2018.

## Risk and capital management

### Capital, liquidity and funding risk continued

#### Senior notes and subordinated liabilities - residual maturity profile by instrument type

The table below shows NWM Group's debt securities in issue, subordinated liabilities and internal resolution instruments by residual maturity.

	Trading liabilities		Other financial liabilities				Amounts due to holding company and fellow subsidiaries		
	Debt securities in issue		Debt securities in issue						
	MTNs	Total	Commercial paper and CDs	MTNs	Subordinated liabilities	Total	CRR-compliant internal MREL	Subordinated liabilities	Total notes in issue
2020	£m	£m	£m	£m	£m	£m	£m	£m	£m
Less than 1 year	527	527	3,253	4,441	—	7,694	—	—	8,221
1-3 years	169	169	165	4,444	549	5,158	5,181	—	10,508
3-5 years	240	240	3	3,356	—	3,359	—	889	4,488
More than 5 years	472	472	—	607	556	1,163	—	864	2,499
Total	1,408	1,408	3,421	12,848	1,105	17,374	5,181	1,753	25,716
2019									
Less than 1 year	659	659	2,699	4,386	107	7,192	—	—	7,851
1-3 years	321	321	3	6,885	273	7,161	2,129	—	9,611
3-5 years	217	217	3	2,545	252	2,800	2,991	1,143	7,151
More than 5 years	565	565	—	788	504	1,292	—	877	2,734
Total	1,762	1,762	2,705	14,604	1,136	18,445	5,120	2,020	27,347

The table below shows the currency breakdown of total notes in issue.

2020	GBP £m	USD £m	EUR £m	Other £m	Total £m
Commercial paper and CDs	324	695	2,402	—	3,421
MTNs	303	3,007	8,571	2,375	14,256
External subordinated liabilities	97	216	792	—	1,105
CRR-compliant internal MREL due to NatWest Group plc	—	3,247	1,934	—	5,181
Subordinated liabilities due to NatWest Group plc	—	864	889	—	1,753
Total	724	8,029	14,588	2,375	25,716
2019 Total	1,944	7,536	15,624	2,243	27,347

# Risk and capital management

## Credit risk

### Definition

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

### Sources of risk

The principal sources of credit risk for NWM Group are lending, off-balance sheet products, derivatives and securities financing, debt securities, and settlement risk through trading activities.

### Key developments in 2020

- Credit risk RWAs reduced from £9.8 billion to £6.9 billion which was in line with the NWM strategic review (refer to page 28).
- COVID-19 has had dramatic economic impact, although its effect on customer performance has been mitigated by government support schemes.

### Governance

The Credit Risk function provides oversight of frontline credit risk management activities. Authority is delegated to credit risk officers who operate within designated limits set at a customer level and a portfolio level.

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.

A Credit Risk Committee provides oversight of the overall credit risk profile and sector/product/asset class concentrations.

### 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 probability of default (PD) is less than 100%) and defaulted non-performing loans as AQ10 or Stage 3 under IFRS 9 (where the PD is 100%). Loans are defined as defaulted when the payment status becomes 90 days past due, or earlier if there is clear evidence that the borrower is unlikely to repay, for example bankruptcy or insolvency.

### Counterparty credit risk

Counterparty credit risk arises from the obligations of customers under derivative and securities financing transactions. It is a material part of NWM Group's credit risk.

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

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

For lower risk transactions below specific thresholds, credit decisions can be approved through self-sanctioning within the business. This process is facilitated through systems, strategies and policy rules.

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

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

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



## Risk and capital management

### Credit risk continued

#### 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 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 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 Group. The team protects NWM 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 before. Specific adjustments made to credit risk management as a result of COVID-19 are set out below.

#### Risk appetite

NWM 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 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 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 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.

#### Problem debt management

In response to COVID-19, a new framework was introduced to categorise clients in a consistent manner across the 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.

## Risk and capital management

### Credit risk continued

#### 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 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:**
  - o 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).
  - o 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:**
  - o The assessment of the SICR and the formation of a framework capable of consistent application.
  - o The determination of asset lifetimes that reflect behavioural characteristics while also representing management actions and processes (using historical data and experience).
  - o The choice of forward-looking economic scenarios and their respective probability weights.

Refer to Accounting policy 11 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 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.

## Risk and capital management

### Credit risk continued

#### ECL post model adjustments

	2020 £m	2019 £m
Deferred model calibrations	—	—
Economic uncertainty	2.1	4.7
Other adjustments	—	—
Total	2.1	4.7

#### 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 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 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:
  - o Term lending – the contractual maturity date, reduced for behavioural trends where appropriate (such as, expected prepayment and amortisation).
  - o 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 most material economic loss drivers for the UK portfolios include UK gross domestic product (GDP), world GDP, the unemployment rate, the house price index, and the Bank of England base rate. Similar metrics are used for other key country exposures in NWM Group.

#### 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 considered a range of outcomes for the path of COVID-19 and associated effects on labour and asset markets. The scenarios were consistent with the UK-EU Trade and Cooperation Agreement and are summarised as follows:

## Risk and capital management

### Credit risk continued

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

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

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

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

In contrast, as at 31 December 2019, NWM Group used five discrete scenarios to characterise the distribution of risks in the economic outlook. For 2020, the four scenarios were deemed appropriate in capturing the uncertainty in economic forecasts and the non-linearity in outcomes under different scenarios. These four scenarios were developed to provide sufficient coverage across potential rises in unemployment, asset price falls and the degree of permanent damage to the economy, around which there are pronounced levels of uncertainty at this stage.

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

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

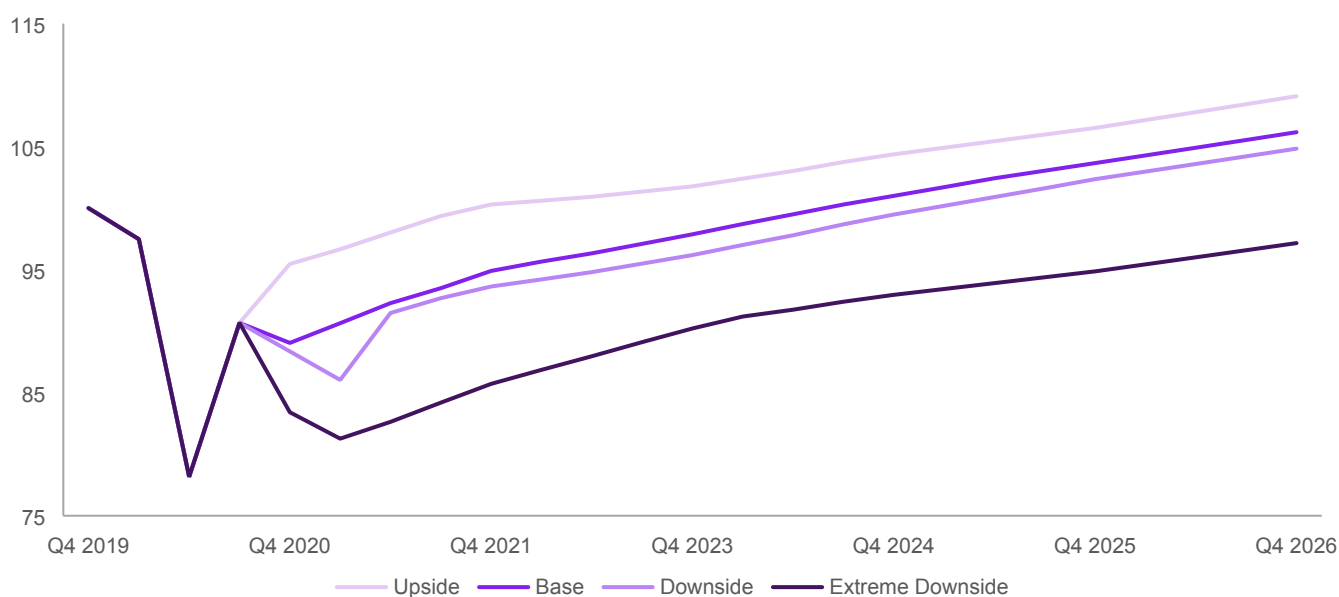
### Main macroeconomic variables

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

Note:

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

UK gross domestic product



## Risk and capital management

### Credit risk continued

#### Annual figures

	Upside %	Base case %	Downside %	Extreme downside %
<b>UK GDP - annual growth</b>				
2020	(9.3)	(10.9)	(11.1)	(12.3)
2021	9.0	4.5	2.6	(4.6)
2022	2.6	4.2	4.6	6.1
2023	2.2	3.2	3.2	4.0
2024	2.3	2.8	3.1	2.3
2025	2.3	2.4	2.6	2.3

	Upside %	Base case %	Downside %	Extreme downside %
<b>UK unemployment rate - annual average</b>				
2020	4.4	4.4	4.9	5.4
2021	5.6	6.3	8.5	12.3
2022	4.5	6.3	7.7	12.0
2023	3.8	5.5	6.7	9.0
2024	3.8	5.1	6.2	7.5
2025	3.9	5.1	6.2	7.3

	Upside %	Base case %	Downside %	Extreme downside %
<b>UK House Price Inflation - four quarter growth</b>				
2020	2.7	1.5	(1.8)	(5.2)
2021	2.2	(3.0)	(7.4)	(26.9)
2022	1.7	3.6	6.5	5.1
2023	2.2	2.2	4.6	5.0
2024	2.8	2.8	2.8	5.6
2025	3.1	3.1	3.1	3.1

	Upside %	Base case %	Downside %	Extreme downside %
<b>UK commercial real estate price - four quarter growth</b>				
2020	(7.7)	(9.5)	(16.6)	(21.4)
2021	2.6	(2.6)	(15.9)	(26.6)
2022	0.3	5.7	10.8	3.2
2023	0.4	(0.4)	3.2	3.2
2024	1.2	0.4	1.6	3.2
2025	1.2	1.2	1.2	1.2

### Worst points

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

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

### Peak (Q3 2020) to trough

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

### Probability weightings of scenarios

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

Instead, NWM Group has subjectively applied probability weights, reflecting internal expert views. The probability weight assignment was judged to present good coverage to the central scenarios and the potential for a far more robust recovery on the upside and exceptionally challenging outcomes on the downside. A 20% weighting was applied to the upside scenario, a 40% weighting applied to the base case scenario, a 30% weighting applied to the downside scenario and a 10% weighting applied to the extreme downside scenario. NWM 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.



## Risk and capital management

### Credit risk continued

#### 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 Group to enrich the range and depth of future economic conditions embedded in the final ECL beyond what would be obtained from using the discrete macro-economic scenarios alone.

### UK economic uncertainty

#### Treatment of COVID-19 relief mechanisms

Use of COVID-19 relief mechanisms (for example, payment holidays, CBILS and BBLs) will not automatically merit identification of SICR and trigger a Stage 2 classification in isolation.

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 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 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 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 Group's models have been built on. To account for these structural changes, model adjustments have been applied and model changes have been implemented.

### Government support

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

Accordingly, model-projected default rates 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.

### Measurement uncertainty and ECL sensitivity analysis

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

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

## Risk and capital management

### Credit risk continued

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

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

<b>31 December 2020</b>	<b>Actual</b>	<b>Upside</b>	<b>Downside</b>	<b>Extreme downside</b>
Stage 1 modelled exposure (£m)	7,677	8,066	7,677	6,977
Stage 1 modelled ECL (£m)	12	10	12	16
Stage 1 coverage (%)	0.16%	0.12%	0.16%	0.23%
Stage 2 modelled exposure (£m)	1,600	1,211	1,600	2,300
Stage 2 modelled ECL (£m)	49	45	50	58
Stage 2 coverage (%)	3.06%	3.72%	3.13%	2.52%
Stage 1 and Stage 2 modelled exposure (£m)	9,277	9,277	9,277	9,277
Stage 1 and Stage 2 modelled ECL (£m)	61	55	62	74
Stage 1 and Stage 2 coverage (%)	0.66%	0.59%	0.67%	0.80%
Variance – (lower)/higher to actual total Stage 1 and Stage 2 ECL		(6)	1	13

#### 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.

## Risk and capital management

### Credit risk – Trading activities

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

### Securities financing transactions and collateral

The table below shows securities financing transactions in NWM Group. Balance sheet captions include balances held at all classifications under IFRS 9.

	Reverse repos			Repos		
	Total £m	Of which: can be offset £m	Outside netting arrangements £m	Total £m	Of which: can be offset £m	Outside netting arrangements £m
<b>2020</b>						
Gross	46,169	45,806	363	44,102	42,402	1,700
IFRS offset	(24,866)	(24,866)	—	(24,866)	(24,866)	—
Carrying value	21,303	20,940	363	19,236	17,536	1,700
Master netting arrangements	(929)	(929)	—	(929)	(929)	—
Securities collateral	(19,938)	(19,938)	—	(16,607)	(16,607)	—
Potential for offset not recognised under IFRS	(20,867)	(20,867)	—	(17,536)	(17,536)	—
Net	436	73	363	1,700	—	1,700
<b>2019</b>						
Gross	52,829	52,021	808	56,985	54,510	2,475
IFRS offset	(28,720)	(28,720)	—	(28,720)	(28,720)	—
Carrying value	24,109	23,301	808	28,265	25,790	2,475
Master netting arrangements	(562)	(562)	—	(562)	(562)	—
Securities collateral	(22,378)	(22,378)	—	(25,228)	(25,228)	—
Potential for offset not recognised under IFRS	(22,940)	(22,940)	—	(25,790)	(25,790)	—
Net	1,169	361	808	2,475	—	2,475

### Key points

- Reverse repos increased on both a gross and carrying value basis when compared with 2019. Gross repo exposure was broadly similar to the prior year although carrying values increased moderately. These trends are consistent with trading assets and liabilities having been managed within limits at 31 December 2020.
- Reverse repo and repo transactions are primarily backed by highly-rated sovereign, supranational and agency collateral.

### Debt securities

The table below shows debt securities held at mandatory fair value through profit or loss by issuer as well as ratings based on the lowest of Standard & Poor's, Moody's and Fitch.

	Central and local government			Financial institutions £m	Corporate £m	Total £m
	UK £m	US £m	Other £m			
<b>2020</b>						
AAA	—	—	3,114	1,113	—	4,227
AA to AA+	—	5,149	3,651	576	49	9,425
A to AA-	4,184	—	1,358	272	81	5,895
BBB- to A-	—	—	8,277	444	656	9,377
Non-investment grade	—	—	36	127	53	216
Unrated	—	—	—	150	1	151
Total	4,184	5,149	16,436	2,682	840	29,291
Short positions	(5,704)	(1,123)	(18,135)	(1,761)	(56)	(26,779)
<b>2019</b>						
AAA	—	—	2,197	1,188	5	3,390
AA to AA+	4,897	5,458	2,824	333	87	13,599
A to AA-	—	—	3,297	755	109	4,161
BBB- to A-	—	—	6,508	872	895	8,275
Non-investment grade	—	—	76	298	150	524
Unrated	—	—	—	420	48	468
Total	4,897	5,458	14,902	3,866	1,294	30,417
Short positions	(4,340)	(1,392)	(13,749)	(1,620)	(86)	(21,187)

### Key point

- The UK's credit rating declined from AA to AA- as rated by Fitch during 2020. The AA rating by Moody's and Standard & Poor's is unchanged.

## Risk and capital management

### Credit risk – Trading activities continued

#### 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 £bn	USD £bn	EUR £bn	Other £bn	Total £bn	Assets £m	Liabilities £m	Notional £bn	Assets £m	Liabilities £m
Gross exposure						164,252	155,787		151,557	147,104
IFRS offset						—	—		(3,876)	(4,011)
Carrying value	3,706	3,539	4,907	1,545	13,697	164,252	155,787	14,734	147,681	143,093
Of which:										
Interest rate (1)										
Interest rate swaps						91,352	80,440		87,324	82,445
Options purchased						20,526	—		15,299	—
Options written						—	20,190		—	13,198
Futures and forwards						1	2		11	10
Total	3,346	2,079	4,348	598	10,371	111,879	100,632	10,972	102,634	95,653
Exchange rate										
Spot, forwards and futures						34,902	35,022		30,336	30,714
Currency swaps						10,025	12,087		8,782	10,202
Options purchased						7,277	—		5,649	—
Options written						—	7,662		—	6,117
Total	358	1,455	550	947	3,310	52,204	54,771	3,742	44,767	47,033
Credit	2	4	9	—	15	161	376	17	280	359
Equity and commodity	—	1	—	—	1	8	8	3	—	48
Carrying value					13,697	164,252	155,787	14,734	147,681	143,093
Counterparty mark-to-market netting						(134,913)	(134,913)		(120,420)	(120,420)
Cash collateral						(19,606)	(14,778)		(18,682)	(17,187)
Securities collateral						(5,053)	(2,487)		(4,292)	(1,276)
Net exposure						4,680	3,609		4,287	4,210
Of which outside netting arrangements						853	577		2,048	4,145
Net exposure - intercompany						69	156		659	693
Banks (2)						206	532		607	821
Other financial institutions (3)						1,416	1,939		1,033	2,773
Corporate (4)						2,921	1,046		2,394	592
Government (5)						137	92		253	24
Net exposure						4,680	3,609		4,287	4,210
UK						2,833	1,516		2,004	1,783
Europe						1,076	1,192		1,374	1,868
US						470	644		428	331
RoW						301	257		481	228
Net exposure						4,680	3,609		4,287	4,210
Asset quality of uncollateralised derivative assets										
AQ1-AQ4						3,388			3,311	
AQ5-AQ8						1,263			955	
AQ9-AQ10						29			21	
Net exposure						4,680			4,287	

#### Notes:

- (1) The notional amount of interest rate derivatives includes £7,074 billion (2019 – £6,788 billion) in respect of contracts cleared through central clearing counterparties.
- (2) Transactions with certain counterparties with which NWM 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 Group's external rating.
- (4) Mainly large corporates with which NWM 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.

## Risk and capital management

### Credit risk – Trading activities continued

#### Derivatives: settlement basis and central counterparties

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

	Notional				Asset		Liability	
	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
<b>2020</b>								
Interest rate	1,032	7,074	2,265	10,371	—	111,879	—	100,633
Exchange rate	2	—	3,308	3,310	—	52,203	—	54,770
Credit	—	—	15	15	—	162	—	376
Equity and commodity	—	—	1	1	—	8	—	8
<b>Total</b>	<b>1,034</b>	<b>7,074</b>	<b>5,589</b>	<b>13,697</b>	<b>—</b>	<b>164,252</b>	<b>—</b>	<b>155,787</b>
<b>2019</b>								
Interest rate	1,592	6,788	2,592	10,972	—	102,634	—	95,653
Exchange rate	3	—	3,739	3,742	—	44,767	—	47,033
Credit	—	—	17	17	—	280	—	359
Equity and commodity	1	—	2	3	—	—	—	48
<b>Total</b>	<b>1,596</b>	<b>6,788</b>	<b>6,350</b>	<b>14,734</b>	<b>—</b>	<b>147,681</b>	<b>—</b>	<b>143,093</b>

### Credit risk – Net credit exposures for banking and trading activities

#### Asset quality

The table below shows the current and potential exposure by high-level asset class and asset quality. It represents total credit risk for assets held in the banking book in addition to counterparty credit risk for traded products. Refer to page 67 for a mapping of AQ band to probability of default range and indicative external credit rating.

	Cash & balances at central banks £m	Sovereign debt securities £m	Loans & other lending £m	Other debt securities £m	Collateralised rate risk management £m	Uncollateralised rate risk management £m	Repo & reverse repo £m	Off-balance sheet items £m	Leasing £m	Total £m
<b>2020</b>										
AQ1-AQ4	15,771	5,968	6,687	1,432	2,399	2,109	351	815	55	35,587
AQ5-AQ8	—	—	1,183	58	479	985	—	59	—	2,764
AQ9	—	—	168	—	2	3	—	1	—	174
AQ10	—	—	30	1	1	8	—	1	4	45
Current exposure	15,771	5,968	8,068	1,491	2,881	3,105	351	876	59	38,570
Potential exposure	15,771	5,968	20,119	1,491	11,969	4,764	1,306	1,811	59	63,258
<b>2019</b>										
AQ1-AQ4	12,729	6,854	9,217	2,142	4,150	2,517	1,454	1,060	32	40,155
AQ5-AQ8	—	—	1,628	30	625	735	116	47	1	3,182
AQ9	—	—	22	1	2	—	—	1	—	26
AQ10	—	—	44	1	—	6	—	4	4	59
Current exposure	12,729	6,854	10,911	2,174	4,777	3,258	1,570	1,112	37	43,422
Potential exposure	12,729	6,854	24,919	2,173	13,732	5,907	2,537	2,426	38	71,315

#### Key points

- Measured against NWM Group's asset quality scale, 92% (2019 – 92%) of total current exposure was rated in the AQ1-AQ4 bands. When considered against external credit ratings, 93%, or £36.0 billion, of current exposure was equivalent to an investment grade rating of BBB- or better (2019 – 94%, £40.9 billion).
- The decrease in total exposure primarily reflects lower levels of credit and counterparty credit risk due to ongoing risk reduction following the strategic announcements made in 2020.
- The non-investment grade exposures were concentrated within loans & other lending, collateralised and uncollateralised rates risk management.



## Risk and capital management

### Credit risk – Banking activities

#### Introduction

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

Refer to Accounting policy 11 and Note 14 to the financial statements for policies and critical judgements relating to impairment loss determination.

#### Financial instruments within the scope of the IFRS 9 ECL framework

Refer to Note 11 to the financial statements for balance sheet analysis of financial assets that are classified as amortised cost or fair value through other comprehensive income (FVOCI), the starting point for IFRS 9 ECL framework assessment.

#### Financial assets

	2020 £bn	2019 £bn
Balance sheet total gross amortised cost and FVOCI	<b>36.6</b>	38.6
In scope of IFRS 9 ECL framework	<b>33.9</b>	33.5
% in scope	<b>93%</b>	87%
Loans - in scope	<b>9.5</b>	9.6
Stage 1	<b>7.8</b>	9.2
Stage 2	<b>1.6</b>	0.2
Stage 3	<b>0.1</b>	0.2
Other financial assets - in scope	<b>24.4</b>	23.9
Stage 1	<b>24.4</b>	23.9
Out of scope of IFRS 9 ECL framework	<b>2.7</b>	5.1

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 £2.4 billion (2019 – £4.3 billion). These were assessed as having no ECL unless there was evidence that they were credit impaired.
- Equity shares of £0.1 billion (2019 – £0.7 billion) as not within the IFRS 9 ECL framework by definition.
- Fair value adjustments on loans hedged by interest rate swaps, where the underlying loan was within the IFRS 9 ECL scope – £0.2 billion (2019 – £0.1 billion).

In scope assets also include an additional £0.8 billion of inter-Group assets (2019 – £0.7 billion) not shown in table above.

#### Contingent liabilities and commitments

In addition to contingent liabilities and commitments disclosed in Note 26 to the financial statements – reputationally-committed limits are also included in the scope of the IFRS 9 ECL framework. These are offset by £0.2 billion (2019 – £0.6 billion) out of scope balances primarily related to facilities that, if drawn, would not be classified as amortised cost or FVOCI, or undrawn limits relating to financial assets exclusions. Total contingent liabilities (including financial guarantees) and commitments within IFRS 9 ECL scope of £13.1 billion (2019 – £17.2 billion) comprised Stage 1; £10.8 billion (2019 – £17.1 billion); Stage 2 £2.3 billion (2019 – £0.1 billion) and Stage 3 nil (2019 – nil).

## Risk and capital management

### 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	2019
<b>Loans - amortised cost and FVOCI</b>		
Stage 1	7,799	9,260
Stage 2	1,566	180
Stage 3	171	169
<i>Of which: individual</i>	162	158
<i>Of which: collective</i>	9	11
Inter-Group (1)	755	738
<b>Total</b>	<b>10,291</b>	<b>10,347</b>
<b>ECL provisions</b>		
Stage 1	12	10
Stage 2	49	4
Stage 3	132	132
<i>Of which: individual</i>	124	123
<i>Of which: collective</i>	8	9
Inter-Group	1	—
<b>Total</b>	<b>194</b>	<b>146</b>
<b>ECL provisions coverage (2,3)</b>		
Stage 1 (%)	0.15	0.11
Stage 2 (%)	3.13	2.22
Stage 3 (%)	77.19	78.11
Inter-Group (%)	0.13	—
<b>Total</b>	<b>2.02</b>	<b>1.52</b>
<b>Impairment losses</b>		
ECL charge		
Stage 1	(2)	—
Stage 2	55	(7)
Stage 3	(12)	(41)
<i>Of which: individual</i>	(3)	(35)
<i>Of which: collective</i>	(9)	(6)
Third party	41	(48)
Inter-Group	1	—
<b>Total</b>	<b>42</b>	<b>(48)</b>
<b>ECL loss rate - annualised (basis points) (3)</b>	<b>43</b>	<b>(50)</b>
Amounts written off	11	15
<i>Of which: individual</i>	11	15

#### Notes:

- (1) NWM Group's intercompany assets were classified in Stage 1. The ECL for these loans was £1.2 million at 31 December 2020.
- (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 64 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 £15.8 billion (2019 – £12.7 billion) and debt securities of £8.7 billion (2019 – £11.1 billion).

#### Key point

- The increase in loan exposure classified as Stage 2, was mainly caused by PD deterioration, primarily due to the economic uncertainty related to COVID-19.

## Risk and capital management

### Credit risk – Banking activities continued

#### Portfolio summary – sector analysis

The table below shows financial assets and off-balance sheet exposures gross of ECL and related ECL provisions, impairment 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 (1) £m	Sovereign £m	Total £m
<b>Loans by geography</b>	<b>190</b>	<b>958</b>	<b>8,208</b>	<b>180</b>	<b>9,536</b>
- UK	50	167	3,726	66	4,009
- Other Europe	140	577	1,573	44	2,334
- RoW	—	214	2,909	70	3,193
<b>Loans by stage</b>	<b>190</b>	<b>958</b>	<b>8,208</b>	<b>180</b>	<b>9,536</b>
- Stage 1	127	629	6,933	110	7,799
- Stage 2	45	182	1,272	67	1,566
- Stage 3	18	147	3	3	171
of which: individual	15	141	3	3	162
of which: collective	3	6	—	—	9
<b>Weighted average life*</b>					
- ECL measurement (years)	2	4	4	—	3
<b>Weighted average 12 months PDs*</b>					
- IFRS 9 (%)	0.61	2.22	1.29	0.98	1.34
- Basel (%)	0.75	2.08	1.04	0.03	1.10
<b>ECL provisions by geography</b>	<b>11</b>	<b>124</b>	<b>55</b>	<b>3</b>	<b>193</b>
- UK	7	5	7	1	20
- Other Europe	4	62	42	—	108
- RoW	—	57	6	2	65
<b>ECL provisions by stage</b>	<b>11</b>	<b>124</b>	<b>55</b>	<b>3</b>	<b>193</b>
- Stage 1	1	1	9	1	12
- Stage 2	—	6	43	—	49
- Stage 3	10	117	3	2	132
of which: individual	7	112	3	2	124
of which: collective	3	5	—	—	8
<b>ECL provisions coverage (%)</b>	<b>5.79</b>	<b>12.94</b>	<b>0.67</b>	<b>1.67</b>	<b>2.02</b>
- Stage 1 (%)	0.79	0.16	0.13	0.91	0.15
- Stage 2 (%)	—	3.30	3.38	—	3.13
- Stage 3 (%)	55.56	79.59	100.00	66.67	77.19
<b>ECL charge - Third party</b>	<b>(1)</b>	<b>(2)</b>	<b>43</b>	<b>1</b>	<b>41</b>
<b>ECL loss rate (%)</b>	<b>(0.53)</b>	<b>(0.21)</b>	<b>0.52</b>	<b>0.56</b>	<b>0.43</b>
Amounts written-off	1	9	1	—	11
<b>Other financial assets by asset quality (2)</b>	<b>98</b>	<b>107</b>	<b>2,905</b>	<b>21,251</b>	<b>24,361</b>
- AQ1-AQ4	—	107	2,648	21,231	23,986
- AQ5-AQ8	98	—	257	20	375
- AQ9	—	—	—	—	—
<b>Off-balance sheet</b>	<b>478</b>	<b>6,421</b>	<b>6,204</b>	<b>37</b>	<b>13,140</b>
- Loan commitments	446	6,291	5,591	37	12,365
- Financial guarantees	32	130	613	—	775
<b>Off-balance sheet by asset quality (2)</b>	<b>478</b>	<b>6,421</b>	<b>6,204</b>	<b>37</b>	<b>13,140</b>
- AQ1-AQ4	420	5,288	5,766	37	11,511
- AQ5-AQ8	52	1,101	432	—	1,585
- AQ9	1	—	—	—	1
- AQ10	5	32	6	—	43

\*Not within audit scope.

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

## Risk and capital management

### Credit risk – Banking activities continued

#### Portfolio summary – sector analysis

2019	Property £m	Corporate £m	FI (1) £m	Sovereign £m	Total £m
<b>Loans by geography</b>	248	1,483	7,816	62	9,609
- UK	39	392	2,862	37	3,330
- Other Europe	209	799	2,156	22	3,186
- RoW	—	292	2,798	3	3,093
<b>Loans by stage</b>	248	1,483	7,816	62	9,609
- Stage 1	227	1,182	7,791	60	9,260
- Stage 2	—	157	23	—	180
- Stage 3	21	144	2	2	169
of which: individual	20	134	2	2	158
of which: collective	1	10	—	—	11
<b>Weighted average life*</b>					
- ECL measurement (years)	4	9	4	—	5
<b>Weighted average 12 months PDs*</b>					
- IFRS 9 (%)	0.31	0.67	0.26	0.02	0.27
- Basel (%)	0.46	0.83	0.23	0.02	0.30
<b>ECL provisions by geography</b>	12	122	10	2	146
- UK	8	5	3	1	17
- Other Europe	4	61	6	—	71
- RoW	—	56	1	1	58
<b>ECL provisions by stage</b>	12	122	10	2	146
- Stage 1	—	1	7	2	10
- Stage 2	—	3	1	—	4
- Stage 3	12	118	2	—	132
of which: individual	9	112	2	—	123
of which: collective	3	6	—	—	9
<b>ECL provisions coverage (%)</b>	4.84	8.23	0.13	3.23	1.52
- Stage 1 (%)	—	0.08	0.09	3.33	0.11
- Stage 2 (%)	—	1.91	4.35	—	2.22
- Stage 3 (%)	57.14	81.94	100.00	—	78.11
<b>ECL charge - Third party</b>	(35)	(5)	(8)	—	(48)
<b>ECL loss rate (%)</b>	(14.11)	(0.34)	(0.10)	—	(0.50)
<b>Amounts written-off</b>	1	11	3	—	15
<b>Other financial assets by asset quality (2)</b>	—	101	4,471	19,306	23,878
- AQ1-AQ4	—	101	4,078	19,285	23,464
- AQ5-AQ8	—	—	391	21	412
- AQ9	—	—	2	—	2
<b>Off-balance sheet</b>	613	7,595	8,974	38	17,220
- Loan commitments	577	7,444	8,034	38	16,093
- Financial guarantees	36	151	940	—	1,127
<b>Off-balance sheet by asset quality (2)</b>	613	7,595	8,974	38	17,220
- AQ1-AQ4	525	7,045	8,756	38	16,364
- AQ5-AQ8	82	533	218	—	833
- AQ9	1	—	—	—	1
- AQ10	5	17	—	—	22

\*Not within audit scope.

#### Notes:

(1) Financial institutions (FI) includes transactions, such as securitisations, where the underlying assets may be in other sectors.

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

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

#### Key point

- The table above reflects the underlying asset quality of the NWM Group banking book exposures, with the vast majority of risk in Stage 1.

## Risk and capital management

### Credit risk – Banking activities continued

#### Portfolio summary – sector analysis

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

	Loans - amortised cost and FVOCI				Off-balance sheet		ECL provisions			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Loan commitments	Contingent liabilities	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
<b>2020</b>										
Property	127	45	18	190	446	32	1	—	10	11
Financial institutions	6,933	1,272	3	8,208	5,591	613	9	43	3	55
Sovereign	110	67	3	180	37	—	1	—	2	3
Corporate	629	182	147	958	6,291	130	1	6	117	124
Of which:										
Airlines and aerospace	—	23	10	33	312	44	—	—	9	9
Automotive	11	38	—	49	863	—	—	1	—	1
Health	22	—	2	24	—	—	—	—	1	1
Land transport and logistics	85	1	1	87	451	6	—	—	—	—
Leisure	—	50	—	50	472	—	—	1	—	1
Oil and gas	11	3	50	64	374	3	—	—	35	35
Retail	—	—	10	10	342	5	—	—	10	10
<b>Total</b>	<b>7,799</b>	<b>1,566</b>	<b>171</b>	<b>9,536</b>	<b>12,365</b>	<b>775</b>	<b>12</b>	<b>49</b>	<b>132</b>	<b>193</b>
<b>2019</b>										
Property	227	—	21	248	577	36	—	—	12	12
Financial institutions	7,791	23	2	7,816	8,034	940	7	1	2	10
Sovereign	60	—	2	62	38	—	2	—	—	2
Corporate	1,182	157	144	1,483	7,444	151	1	3	118	122
Of which:										
Airlines and aerospace	—	—	5	5	388	48	—	—	9	9
Automotive	49	44	—	93	919	1	—	—	—	—
Health	22	—	—	22	26	—	—	—	—	—
Land transport and logistics	63	1	1	65	337	9	—	—	—	—
Leisure	—	48	—	48	464	—	—	—	—	—
Oil and gas	68	7	38	113	492	3	1	—	33	34
Retail	—	—	11	11	364	7	—	—	11	11
<b>Total</b>	<b>9,260</b>	<b>180</b>	<b>169</b>	<b>9,609</b>	<b>16,093</b>	<b>1,127</b>	<b>10</b>	<b>4</b>	<b>132</b>	<b>146</b>



## Risk and capital management

### Credit risk – Banking activities continued

#### Portfolio summary – sector analysis

##### Forbearance

The table below shows forbearance, Heightened Monitoring and Risk of Credit Loss by sector.

	FI £m	Property £m	Sovereign £m	Other corporate £m	Total £m
<b>2020</b>					
Forbearance (flow)	—	8	—	33	41
Forbearance (stock)	—	8	—	33	41
Heightened Monitoring and Risk of Credit Loss	—	29	—	295	324
<b>2019</b>					
Forbearance (flow)	—	10	—	46	56
Forbearance (stock)	—	11	—	46	57
Heightened Monitoring and Risk of Credit Loss	—	10	—	28	38

### Credit risk enhancement and mitigation

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

	Gross exposure £bn	Maximum credit risk			CREM by type			CREM coverage		Exposure post CREM	
		ECL £bn	Total £bn	Stage 3 £bn	Financial (1) £bn	Property £bn	Other (2) £bn	Total £bn	Stage 3 £bn	Total £bn	Stage 3 £bn
<b>2020</b>											
<b>Financial assets</b>											
Cash and balances at central banks	15.8	—	15.8	—	—	—	—	—	—	15.8	—
Loans - amortised cost (3)	9.5	0.2	9.3	—	2.2	—	—	2.2	—	7.1	—
Debt securities	8.6	—	8.6	—	—	—	—	—	—	8.6	—
<b>Total financial assets</b>	<b>33.9</b>	<b>0.2</b>	<b>33.7</b>	<b>—</b>	<b>2.2</b>	<b>—</b>	<b>—</b>	<b>2.2</b>	<b>—</b>	<b>31.5</b>	<b>—</b>
<b>Contingent liabilities and commitments</b>	<b>13.1</b>	<b>—</b>	<b>13.1</b>	<b>—</b>	<b>2.0</b>	<b>—</b>	<b>—</b>	<b>2.0</b>	<b>—</b>	<b>11.1</b>	<b>—</b>
<b>Total off-balance sheet</b>	<b>13.1</b>	<b>—</b>	<b>13.1</b>	<b>—</b>	<b>2.0</b>	<b>—</b>	<b>—</b>	<b>2.0</b>	<b>—</b>	<b>11.1</b>	<b>—</b>
<b>Total exposure</b>	<b>47.0</b>	<b>0.2</b>	<b>46.8</b>	<b>—</b>	<b>4.2</b>	<b>—</b>	<b>—</b>	<b>4.2</b>	<b>—</b>	<b>42.6</b>	<b>—</b>
<b>2019</b>											
<b>Financial assets</b>											
Cash and balances at central banks	12.7	—	12.7	—	—	—	—	—	—	12.7	—
Loans - amortised cost (3)	9.6	0.1	9.5	—	—	—	0.2	0.2	—	9.3	—
Debt securities	11.2	—	11.2	—	—	—	—	—	—	11.2	—
<b>Total financial assets</b>	<b>33.5</b>	<b>0.1</b>	<b>33.4</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>0.2</b>	<b>0.2</b>	<b>—</b>	<b>33.2</b>	<b>—</b>
<b>Contingent liabilities and commitments</b>	<b>17.2</b>	<b>—</b>	<b>17.2</b>	<b>—</b>	<b>0.2</b>	<b>—</b>	<b>1.8</b>	<b>2.0</b>	<b>—</b>	<b>15.2</b>	<b>—</b>
<b>Total off-balance sheet</b>	<b>17.2</b>	<b>—</b>	<b>17.2</b>	<b>—</b>	<b>0.2</b>	<b>—</b>	<b>1.8</b>	<b>2.0</b>	<b>—</b>	<b>15.2</b>	<b>—</b>
<b>Total exposure</b>	<b>50.7</b>	<b>0.1</b>	<b>50.6</b>	<b>—</b>	<b>0.2</b>	<b>—</b>	<b>2.0</b>	<b>2.2</b>	<b>—</b>	<b>48.4</b>	<b>—</b>

#### Notes:

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

## Risk and capital management

### Credit risk – Banking activities continued

#### 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. Other points to note:

- Financial assets include treasury liquidity portfolios, comprising balances at central banks and debt securities, as well as loans. Both modelled and non-modelled portfolios are included.
- Stage transfers (for example, exposures moving from Stage 1 to Stage 2) are a key feature of the ECL movements, with the net re-measurement cost of transitioning to a worse stage being a primary driver of income statement charges. Similarly, there is an ECL benefit for accounts improving stage.
- Changes in risk parameters shows the reassessment of the ECL within a given stage, including any ECL overlays and residual income statement gains or losses at the point of write-off or accounting write-down.
- Other (P&L only items) includes any subsequent changes in the value of written-down assets along with other direct write-off items such as direct recovery costs. Other (P&L only items) affects the income statement but does not affect balance sheet ECL movements.
- Amounts written-off represent the gross asset written-down against accounts with ECL, including the net asset write-down for any debt sale activity.

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets £m	ECL £m	Financial assets £m	ECL £m	Financial assets £m	ECL £m	Financial assets £m	ECL £m
<b>NWM Group</b>								
<b>At 1 January 2020</b>	<b>32,877</b>	<b>10</b>	<b>188</b>	<b>4</b>	<b>184</b>	<b>132</b>	<b>33,249</b>	<b>146</b>
Currency translation and other adjustments	(579)	—	(83)	—	9	9	(653)	9
Transfers from Stage 1 to Stage 2	(2,759)	(7)	2,759	7	—	—	—	—
Transfers from Stage 2 to Stage 1	936	11	(936)	(11)	—	—	—	—
Transfers to Stage 3	—	—	(9)	(3)	9	3	—	—
Net re-measurement of ECL on stage transfer		(9)		44		3		38
Changes in risk parameters (model inputs)		6		18		(4)		20
Other changes in net exposure	2,852	1	(248)	(10)	(24)	—	2,580	(9)
Other (P&L only items)	—	—		3		(11)		(8)
<b>Income statement (releases)/charges</b>		<b>(2)</b>		<b>55</b>		<b>(12)</b>		<b>41</b>
Amounts written-off	—	—	—	—	(11)	(11)	(11)	(11)
<b>At 31 December 2020</b>	<b>33,327</b>	<b>12</b>	<b>1,671</b>	<b>49</b>	<b>167</b>	<b>132</b>	<b>35,165</b>	<b>193</b>
<b>Net carrying amount</b>	<b>33,315</b>		<b>1,622</b>		<b>35</b>		<b>34,972</b>	
<b>At 1 January 2019</b>	<b>32,499</b>	<b>6</b>	<b>670</b>	<b>11</b>	<b>671</b>	<b>91</b>	<b>33,840</b>	<b>108</b>
2019 movements	378	4	(482)	(7)	(487)	41	(591)	38
<b>At 31 December 2019</b>	<b>32,877</b>	<b>10</b>	<b>188</b>	<b>4</b>	<b>184</b>	<b>132</b>	<b>33,249</b>	<b>146</b>
<b>Net carrying amount</b>	<b>32,867</b>		<b>184</b>		<b>52</b>		<b>33,103</b>	

#### Key point

- 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.

# Risk and capital management

## Pension risk

### Definition

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

### Sources of risk

NWM Group has exposure to pension risk through its defined benefit schemes worldwide. The two largest NWM Group schemes are the AA and the NatWest Markets sections of The NatWest Group Pension Fund with a combined £1.5 billion of assets and £1.1 billion of liabilities at 31 December 2020 (2019 – £1.4 billion of assets and £1.0 billion of liabilities). Refer to Note 5 to the financial statements, for further details on NWM Group's pension obligations, including sensitivities to the main risk factors.

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

### Key developments in 2020

- There have been no material changes to NWM Group's exposure to pension risk during the year. In particular, the interest rate and inflation hedging, along with limited exposure to equities, has meant that the positions of the main defined benefit schemes that NWM Group sponsors have remained resilient despite the market shocks caused by COVID-19. More details on the assets held by the schemes are set out in Note 5 of the Notes to the financial statements.
- The Royal Bank of Scotland Group Pension Fund formally changed its name to the NatWest Group Pension Fund on 1 August 2020, to align with the name of NatWest Group's parent company.
- The next triennial actuarial valuation for the two largest NWM Group schemes will have an effective date of 31 December 2020. Under current legislation, agreement with the Trustee would need to be reached no later than 31 March 2022.

### Governance

The Pension Committee, chaired by the Chief Financial Officer, reviews and monitors risk management, asset and liability strategy and financing issues on behalf of NWM Group. As part of its remit, the Committee:

- Considers the financial strategy, risk management and policy implications of NWM Group pension schemes.
- Reviews and recommends NWM Group pension risk appetite to the NWM Group Executive Risk Committee and the NWM Group Board Risk Committee.
- Reviews the pension impact on the capital plan for NWM Group and escalate any concerns to the NWM Group Assets & Liabilities Committee.

The performance of NatWest Group's material pension funds (including those sponsored by NWM Group) is reviewed by NatWest Group's Assets & Liabilities Committee.

For further information on governance, refer to page 35.

## Risk appetite

NWM Group maintains an independent view of the risk inherent in its pension funds. NWM Group has an annually reviewed pension risk appetite statement, incorporating defined metrics against which risk is measured.

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

### Monitoring and measurement

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

Stress tests are carried out each year on the NWM Group's material defined benefit pension schemes. These tests are also used to satisfy the requests of regulatory bodies such as the Bank of England.

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

### Mitigation

Following risk mitigation measures taken by the Trustee in recent years, the AA and the NatWest Markets sections of the NatWest Group Pension Fund are now well protected against interest rate and inflation risks and are being run on a low risk basis with relatively small equity risk exposure. The AA and the NatWest Markets sections of the NatWest Group Pension Fund also use derivatives to manage the allocation of the portfolio to different asset classes and to manage risk within asset classes.

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

## Compliance & conduct risk

### Definition

Compliance risk is the risk that the behaviour of NWM 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 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 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 26 to the financial statements, NWM 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.

# Risk and capital management

## Compliance & conduct risk continued

### Key developments in 2020

- A client-focused COVID-19 response was mobilised, which included prioritised resource and operational capacity and participation in relevant government schemes.
- In-life monitoring of client 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

NWM Group defines appropriate standards of compliance and conduct and ensures adherence to those standards through the risk management framework. The Conduct & Culture Committee is the decision-making forum for conduct-related matters in NWM Group. It considers business plans and initiatives, as well as strategic decisions, with the aim of ensuring conduct risk is adequately mitigated. The committee also ensures that staff receive the appropriate level of conduct training.

### 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 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 reporting to NatWest Group's senior risk committees. 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 NatWest Group with specific areas of focus in the customer-facing businesses and legal entities. Examples of mitigation include consideration of customer needs in business and product planning, targeted training, complaints management, as well as independent monitoring activity. Internal policies help support a strong customer focus across NatWest Group. Independent assessments of compliance with applicable regulations are also carried out at NWM 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, tax evasion and fraud.

#### Sources of risk

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

### Key developments in 2020

- In view of the challenges presented by COVID-19, financial crime policies were reviewed and, where appropriate, management approaches were adapted in line with regulatory guidance.
- An offshore Financial Crime function was established in Europe to provide additional testing and monitoring support.
- There was a significant focus on the financial crime control environment – including activity designed to strengthen customer due diligence standards – across NatWest Group in 2020. NWM Group also implemented regular additional screening for medium- and high-risk unlisted customers and their connected parties.
- NWM Group is fully engaged with NatWest Group's multi-year transformation plan. The plan has been developed to ensure that, as the financial crime threat evolves with changes in technology, the economy and wider society, risks relating to money-laundering, terrorist-financing, tax evasion, bribery and corruption and financial sanctions are managed, mitigated and controlled as effectively as possible.
- NWM Group is represented on the new NatWest Group-wide Financial Crime executive steering committee to provide oversight of the transformation plan and its implementation.

### Governance

The Financial Crime Risk Committee (FCRC), which is chaired by the Head of Compliance & Financial Crime, is NWM Group's principal financial crime risk management forum. The committee reviews and, where appropriate, escalates material financial crime risks and issues across NWM Group to the NWM Executive Risk Committee and NWM Board Risk Committee. Additionally, FCRC reports to the NatWest Group Financial Crime Risk Executive Committee, which escalates material financial crime risks and issues to the NatWest Group Executive Risk Committee and the NatWest Group Board Risk Committee.

### Risk appetite

There is no appetite to operate in an environment where systems and controls do not enable the identification, assessment, monitoring, management and mitigation of financial crime risk. Systems and controls must be proportionate to the nature, scale and complexity of its business.

A framework of preventative and detective controls is operated across NWM Group and is 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 senior risk committees and the Board. Quantitative and qualitative data is reviewed and assessed to measure whether financial crime risk is within risk appetite.

### Mitigation

Through the financial crime framework, NWM Group employs relevant policies, systems, processes and controls to mitigate financial crime risk. This includes the use of dedicated screening and monitoring controls to identify people, organisations, transactions and behaviours which might require further investigation or other actions. Regular risk assessments ensure appropriate procedures are in place to manage inherent risks. In addition, mandatory training for colleagues ensures that all staff are aware of financial crime issues and the role they play in tackling financial crime. NatWest Group ensures that centralised expertise is available to detect and disrupt threats to NWM Group and its customers. Intelligence is also shared with law enforcement, regulators and government bodies to strengthen national and international defences against those who would misuse the financial system for criminal motives.

# Risk and capital management

## Climate-related risk

### Definition

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

### Sources of risk

Physical risks may arise from climate and weather-related events such as heatwaves, droughts, floods, storms and sea level rises. They can potentially result in financial losses, impairing asset values and the creditworthiness of borrowers. NWM 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 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 Group's competitiveness or profitability, or reputation damage.

### Key developments in 2020

- Climate-related risk was established as a principal risk for NatWest Group, including NWM Group.
- Activity was focused on incorporating climate-related risk within NatWest Group's Enterprise Wide Risk Management Framework.
- NWM Group contributed to the review of NatWest Group's Environmental, Social & Ethical risk management framework in order to mitigate reputational risk from carbon intensive sectors and support the transition to a low-carbon economy.
- NWM Group included a qualitative assessment of climate-related risk as one of the contributing factors in its annual Internal Capital Adequacy Assessment Process scenario.

### Risk governance

The NWM Plc Board has ultimate oversight of how NWM Group identifies, measures, manages and mitigates climate-related risks and opportunities. NWM Plc Board will be assisted by NWM Group's Board Risk Committee in setting risk appetite and monitoring the risk management response to climate change related physical and transition risks and opportunities within the business.

In 2020, a new NWM Group CEO-led management forum – the Climate & Sustainability Committee – was established to oversee and manage climate-related risks and opportunities. The Committee will oversee NWM Group's strategic response to climate change, in line with the NatWest Group purpose-led strategy and will consider both the financial and non-financial risks posed by climate change as well as explore climate-related opportunities for NatWest Markets' customers.

The NWM Group CEO has been designated as the accountable executive for climate change within NWM Group. To support the CEO in this role, and to strengthen the integration of climate-related issues, NWM Group has mobilised a NWM Group climate programme, which will be overseen by the Climate & Sustainability Committee and attended by members of the NWM Group Executive team.

In addition, a NatWest Group-wide Climate Change Programme (GCCP) supports the delivery of climate-related objectives. The GCCP is overseen by an Executive Steering Group (ESG) which is responsible for coordinating NatWest Group's response across climate-related regulations, risks and opportunities.

## Risk appetite

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

When considering climate-related risks and their materiality, NWM Group uses analysis from NatWest Group's Climate Centre of Excellence to inform its approach. Analysis is incorporated into NWM's assessments of climate impacts that are specific to its exposures. This activity is overseen by the NWM Climate & Sustainability Committee.

## Risk monitoring and measurement

Understanding the correlation and potential impact of climate change and its associated risks across different risk types was an important priority for the NWM Group risk management function. Assessing the future risk profile is dependent on a significant number of variables, some of which remain uncertain or unknown at this point. Work continued during 2020 to integrate climate risk into the risk management framework, including the development of appropriate risk appetite metrics.

## 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 Group adapted to new ways of working, particularly due to lockdown protocols. The risks associated with the pandemic and ways of working were monitored, and actively assessed for mitigation or acceptance as appropriate.
- 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 Group's supply chain remained a focus. Significant enhancements in managing such incidents and the broader security control environment were made.
- There was also continued oversight of NWM Group's preparations for the end of the transition period, following the UK's exit from the EU, to ensure processes and systems were appropriate to ensure continuity of service for customers.

## Governance

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



## Risk and capital management

### Operational risk continued

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

### Risk appetite

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

### Mitigation

The Control Environment Certification (CEC) process is a half-yearly self-assessment by the NWM 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, including forward-looking assessments for the next two half-yearly cycles and progress on control environment improvements, are reported to NatWest Group's Group Audit Committee and Board Risk Committee. They are also shared with external auditors.

The CEC process helps to ensure compliance with the NatWest Group Policy Framework, Sarbanes-Oxley 404 requirements concerning internal control over financial reporting and certain requirements of the UK Corporate Governance Code.

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

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

### Monitoring and measurement

Risk and control assessments are used across all business areas and support functions to identify and assess material operational and conduct risks and key controls. All risks and controls are mapped to NWM 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 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 Group's Pillar 2A capital requirement.

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

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

### Operational resilience

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

### Event and loss data management

The operational risk event and loss data management process ensures NWM Group captures and records operational risk financial and non-financial events that meet defined criteria. Loss data is used for regulatory 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 financial 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 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 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 Group holds sufficient capital, even in stressed market scenarios.

#### Key developments in 2020

- Progress was made in embedding the model risk framework across NWM Group to ensure all models are identified and managed as per requirements.
- 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 Group are now recorded within a single model inventory, providing increased transparency

#### Governance

A governance framework is in place to ensure policies and processes relating to models are appropriate and effective. Two roles are key to this – Model Risk Owners and Model Risk Officers. Model Risk Owners, in the first line, are responsible for model approval and ongoing performance monitoring. Model Risk Officers, in the second line, are responsible for oversight, including ensuring that models are independently validated prior to use and on an ongoing basis aligned to the model's risk rating. Escalations are made to senior management through the NWM Group Model Risk Committee. The committee also considers whether a model can be approved for use. 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 Group is willing to accept in the course of its business activities. NWM Group has defined limits and triggers that align with the NatWest Group's model risk appetite statement. The first line is responsible for monitoring performance against appetite, reporting on the model population and carrying out any necessary remediation for positions outside appetite.



## Risk and capital management

### Model risk continued

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.

### 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 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.

### 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 Group's values and the public agenda; and contagion (when NWM 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 Group. The NWM Reputational Risk Committee reviews relevant issues at an individual business or entity level, while the NatWest Group Reputational Risk Committee – which has delegated authority from the NatWest Group Executive Risk Committee – opines on cases, issues, sectors and themes that represent a material reputational risk. The NatWest Group Board Risk Committee oversees the identification and reporting of reputational risk. The NatWest Group Sustainable Banking Committee has a specific focus on environmental, social and ethical issues.

### Risk appetite

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

Standards of conduct are in place across NWM 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, investigation and reviews section of Note 26 to the NatWest Group consolidated financial statements for details of material matters currently impacting NatWest Group.

## Report of the directors

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

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

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### Group structure

NatWest Markets Plc ('NWM Plc') is a wholly-owned subsidiary of NatWest Group plc ('NWG plc' or 'the holding company'). The NatWest Markets Group ('NWM Group') comprises NWM Plc and its subsidiary and associated undertakings. The term 'NatWest Group' comprises NWG plc and its subsidiary and associated undertakings. NWG plc is incorporated in the UK and has its registered office at 36 St Andrew Square, Edinburgh, EH2 2YB.

Details of NWM Plc's principal subsidiary undertakings and their activities are shown in Note 15 on the accounts. A full list of related undertakings of NWM Plc is shown in Note 35 on the accounts.

The financial statements of NatWest Group plc can be obtained from NatWest Group Legal, Governance and Regulatory Affairs, NatWest Group, Gogarburn, Edinburgh, EH12 1HQ, the Registrar of Companies or on [natwestgroup.com](http://natwestgroup.com).

### Activities

NWM Group is engaged principally in providing financing, risk management and trading solutions to customers.

### Results and dividends

The loss attributable to the ordinary shareholders of NWM Group for the year ended 31 December 2020 was £327 million compared with a loss of £181 million for the year ended 31 December 2019, as set out in the consolidated income statement on page 89.

NWM Plc paid no ordinary dividends to NWG plc in 2020.

On 18th February 2021, the Board approved an interim dividend of £500 million, declared and payable to NWG plc on 19 February 2021.

### Employees

As at 31 December 2020, NWM Group employed 2,100 people (excluding temporary staff). Details of all related costs are included in Note 3 to the consolidated accounts.

### Corporate Governance statement

The Companies (Miscellaneous Reporting) Regulations 2018 introduced new statutory reporting requirements for financial years beginning on or after 1 January 2019.

As a result of these new requirements, the directors of the company are required to provide a statement in the Directors' Report stating which corporate governance code, if any, the company followed during the year; how it applied the code and any part of the code it did not follow. For the financial year ended 31 December 2020, the company has chosen to report against the Wates Corporate Governance Principles for Large Companies (the Wates Principles) and the disclosures below explain how the company has applied the Wates Principles in the context of its corporate governance arrangements.

### 1. Purpose and leadership

#### Purpose

NatWest Group's Purpose is established by the NWG plc Board, promoted across NatWest Group and cascaded to subsidiaries including NWM Group. Further information on NatWest Group's Purpose can be found in the NatWest Group plc 2020 Annual Report and Accounts.

#### Strategy

NatWest Group's strategy is set and approved by the NWG plc Board.

The NWM Plc Board (the Board) reviews and sets the strategic direction of NWM Plc and, as appropriate, the strategies for each of its businesses within the parameters set by the NWG plc Board. It subsequently oversees the execution of the strategy and holds management to account for its delivery.

#### Culture

The NWG plc Board is supported in monitoring culture across NatWest Group by the Group Sustainable Banking Committee and the Group Board Risk Committee. NatWest Group is on a journey towards a generative risk culture whereby risk is simply part of the way people work and think.

Building a healthy culture that embodies Our Values is a core priority for NatWest Group.

Our Values, which guide the way NatWest Group identifies the right people to serve customers well, and how to manage, engage and reward colleagues, are at the heart of Our Code (the NatWest Group-wide Code of Conduct).

There is regular reporting to the Board on culture, so as to provide appropriate oversight of culture matters. More specifically, with regards to risk culture, significant progress has been made towards addressing historical conduct issues, including the strengthening of the governance arrangements, improved management information and wider engagement with staff. This supports our ambition to create a positive culture and strengthen 'good conduct' outcomes for clients.

### 2. Board Composition

#### The Board

The Board has eight directors comprising: the Chairman, two executive directors (being the Chief Executive Officer and Chief Financial Officer) and five independent non-executive directors.

The size of the Board is considered appropriate, taking into account the size and scale of NWM Plc's business. Biographies for each of the directors can be found on our website: [nwm.com/about-us/board-and-governance/board-of-directors](http://nwm.com/about-us/board-and-governance/board-of-directors)

### The Chairman

The role of Chairman is to lead the Board and ensure its overall effectiveness. This is distinct and separate from that of the Chief Executive Officer who manages the business day-to-day. The Chairman is also a member of the NWG plc Board which provides an appropriate linkage to the wider NatWest Group and ensures alignment and awareness in respect of NatWest Group-wide matters.

### Non-Executive Directors

The majority of the Board comprises independent non-executive Directors. Their role is to challenge and scrutinise the performance of management and to help develop proposals on strategy. They also review the performance of management in meeting agreed goals and objectives and monitor the firm's risk profile. The non-executive directors combine broad business and commercial expertise and bring experience from a wealth of areas including audit, banking, finance, human resources, technology, and telecommunications.

The Board periodically undertakes an independence assessment of the non-executive directors. With the exception of the Chairman, who is a member of the NWG plc Board, all non-executive directors are considered to be independent and there are no relationships or circumstances that are likely to affect their judgement.

### Induction Training

All new directors undergo a formal induction programme upon joining the Board which is coordinated by the Company Secretary and tailored to their individual needs. This includes meetings with other directors, senior executives and business heads. Meetings with the external auditor, legal counsel and other key stakeholders are arranged as appropriate. Directors also receive comprehensive guidance from the Company Secretary on NWM Plc's corporate governance framework and associated policies, including their duties as directors.

### Continuous Development.

Non-executive directors discuss their professional development annually with the Chairman. Directors maintain their knowledge and familiarity with NWM Plc through regular meetings with senior management (including representatives of NatWest Group) and participate in scheduled Board training and other external sessions as appropriate.

During 2020, bespoke training on the Internal Services Management framework was arranged for the directors. Directors may also request individual in-depth briefings from time to time on areas of particular interest.

# Report of the directors

## Board Diversity

The Board is committed to promoting diversity and inclusion in the boardroom and aims to meet industry targets and recommendations wherever possible. The Board has agreed a Boardroom Inclusion Policy which aims to promote diversity and inclusion in the composition of the Board of Directors and in the nomination and appointment process. The Policy reflects the values of the wider NatWest Group, its Inclusion Policy and relevant legal, regulatory or best practice requirements.

## Committees

The responsibilities of the Board are executed, in part, through its committees (namely, the Audit Committee, the Board Risk Committee, the Performance & Remuneration Committee and the Nominations Committee). All matters that the Board has specifically delegated to these committees are set out in their Terms of Reference (ToRs) which are reviewed at least annually. All other matters, including responsibility for the day-to-day operation of NWM Plc (that are not specifically reserved for the Board or delegated to a committee) are delegated to the NWM Plc Chief Executive Officer (CEO) in accordance with such policies and directions as the Board determines appropriate, including the NWM Plc CEO's role profile.

## Succession

The Board is responsible for ensuring that NWM Plc has in place succession plans for the Board and senior management so as to maintain an appropriate balance of skills and experience. The NatWest Group Nominations & Governance Committee is also required to approve all appointments to the Board, reflecting the company's position as a subsidiary of NatWest Group.

## Board Effectiveness

The effectiveness of the Board, including the Chairman, individual directors and Board committees, is assessed periodically. The Board considers such assessments to play an important role in the identification of areas for further improvement, focus and for strengthening its overall performance.

## The Company Secretary

In fulfilling its role, the Board is supported by the Company Secretary. The Company Secretary is responsible for ensuring good information flows between the Board and its committees and between senior management and non-executive directors, as well as facilitating induction and assisting with professional development of non-executive directors, as required. The directors may also seek independent, professional advice, where necessary, at NWM Plc's expense.

## 3. Director Responsibilities

### Policy & Framework

NatWest Group has in place a Corporate Governance Framework, including a Corporate Governance Policy. All directors of NWM Plc are required to ensure that they are familiar with the Corporate Governance Framework and that NWM Plc complies with it.

NWM Plc also produces and maintains a document called 'Our Governance' which sets out the high-level governance framework for NWM Plc at both regional and global levels.

The Board has a programme of seven scheduled meetings every year. The Board's ToRs include a formal schedule of matters specifically reserved for the Board which are reviewed at least annually. Each director has a role profile which clearly articulates their responsibilities and accountabilities. Similarly, any additional regulatory responsibilities and accountabilities where any of the directors undertake a Senior Manager Function (as defined under the Prudential Regulation Authority's and Financial Conduct Authority's 'Senior Manager Regimes') are set out in their Statement of Responsibilities.

To support them in the discharge of their duties, all directors receive regular and timely information on all key aspects of the business including financial performance, strategy, key risks, and market conditions.

### Conflicts of Interest

The Board follows NatWest Group's guidance relating to directors' conflicts of interest.

The Board has the power to authorise any actual or potential conflicts of interest in accordance with the Companies Act 2006 and NWM Plc's Articles of Association. The company maintains a register of directors' interests and appointments and there is discussion of directors' conflicts in Board meetings, as required. During the year, none of the directors declared any material interest, directly or indirectly, in any contract of significance with any company within NatWest Group.

All directors were reminded of their obligations in respect of transacting in NWM Plc securities (Personal Account Dealing) and all directors have confirmed that they have complied with their obligations.

### Board Committees

In order to provide effective oversight and leadership, the Board has established a number of Board committees with particular responsibilities:

**The Audit Committee** comprises at least two independent non-executive directors, one of whom is the Chairman of the Board Risk Committee. The Committee assists the Board in discharging its responsibilities for monitoring the integrity of the financial statements. It reviews the accounting policies, financial reporting and regulatory compliance practices of NWM Plc, its system and standards of internal controls, and monitors the processes for internal audit and external audit.

**The Board Risk Committee** comprises at least two independent non-executive directors, one of whom is the Chairman of the Audit Committee.

The Committee provides oversight and advice to the Board in relation to current and potential future risk exposures and future risk profile, including determination of risk appetite, the effectiveness of the risk management framework and (in conjunction with the Audit Committee) internal controls required to manage risk. The Committee also reviews compliance with NatWest Group Policy Framework and reviews the performance of NWM Plc relative to risk appetite.

### The Performance & Remuneration Committee (RemCo)

comprises at least four independent non-executive directors and assists the NatWest Group Performance & Remuneration Committee with the oversight and implementation of NatWest Group's remuneration policy. It also considers and makes recommendations on remuneration arrangements for senior executives of NWM Plc.

**The Nominations Committee** comprises the Chairman and at least two other independent non-executive directors. It is responsible for assisting the Board in the formal selection and appointment of directors. It reviews the structure, size and composition of the Board and membership and chairmanship of Board committees.

## 4. Opportunity and risk

The role of the Board is to promote the long-term sustainable success of NWM Plc.

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

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

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

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

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



## Report of the directors

Further information on NWM Plc's risk management framework including risk culture, risk governance, risk appetite, risk controls and limits, and risk identification and measurement can be found in the capital and risk management section of this report.

### 5. Remuneration

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

The Performance & Remuneration Committee (RemCo) reviews remuneration for executives of the company and considers reports on the wider workforce including annual pay outcomes and diversity information. The RemCo helps to ensure that the remuneration policies, procedures and practices being applied are appropriate at NWM Plc level.

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

The approach to performance management provides clarity for employees on how their contribution links to NatWest Group's ambition and all employees have goals set across a balanced scorecard of measures. NatWest Group continues to ensure employees are paid fairly for the work they do and are supported by simple and transparent pay structures in line with industry best practices. This clarity and certainty on how pay is delivered is also helping to improve employees' financial wellbeing, which is a priority. Employees are provided with flexibility in terms of how they wish to receive pay to suit their circumstances. Pay is benchmarked against the external market so that pay and benefits are competitive.

NatWest Group is a fully accredited Living Wage Employer in the UK with rates of pay that continue to exceed the Living Wage Foundation Benchmarks.

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

Further information on the remuneration policy can be found in the Directors' remuneration report (DRR) of the NatWest Group plc 2020 Annual Report and Accounts along with the steps being taken to build an inclusive and engaged workforce.

The DRR also contains details of pay ratios for NatWest Group. Gender and Ethnicity Pay Gap information can be found in the Strategic report section of the NatWest Group plc 2020 Annual Report and Accounts.

### 6. Stakeholder relationships and engagement

NWM Plc is committed to managing the wider social, environmental and economic impacts of its operations which includes the way it deals with its customers and manages the sustainability of its supply chain.

The Board recognises the importance of engaging with stakeholders and discussions at Board meetings are focused around the impact that NWM Plc's activities may have on key stakeholder groups. A new Board reporting style has also been introduced with a specific section focussing on the stakeholder impacts to support decision-making.

For further details on the Board's engagement with employees, customers, suppliers and others, and how these stakeholders' interests have influenced one of the Board's principal decisions, see page 18 of the Strategic report.

### Internal control over financial reporting

The internal controls over financial reporting for NWM Group are consistent with those at NatWest Group level. NWM Group has designed and assessed the effectiveness of its internal control over financial reporting as of 31 December 2020 based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in the 2013 publication of 'Internal Control – Integrated Framework'. As part of the assessment, management have considered the additional activities required for its internal control over financial reporting during the year, such as oversight on controls performed on NWM Group's behalf, to better reflect the size, scale and overall materiality of the business profile compared to the NatWest Group framework. Any deficiencies identified are reported to NWM Group Audit Committee along with management's remediation plans

### Directors' interests

Where directors of NWM Plc are also directors of NWG plc, their interests in the shares of the ultimate holding company at 31 December 2020 are shown in the Annual report on remuneration section of the NatWest Group plc 2020 Annual Report and Accounts.

None of the directors held an interest in the loan capital of the ultimate holding company or in the shares or loan capital of NWM Plc or any of its subsidiaries, during the period from 1 January 2020 to 18 February 2021

### Directors' indemnities

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

### Going concern

NWM Plc's business activities and financial position, the factors likely to affect its future development and performance and its objectives and policies in managing the financial risks to which it is exposed, and its capital are discussed in the Business review. NWM Plc's regulatory capital resources and significant developments in 2020, and anticipated future developments are detailed in the Capital, liquidity and funding sections. These sections also describe NWM Plc's funding and liquidity profile, including changes in key metrics and the build-up of liquidity reserves.

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

### Political donations

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

### Directors' disclosure to auditors

Each of the directors at the date of approval of this report confirms that:

- (a) so far as the director is aware, there is no relevant audit information of which NWM Plc's auditors are unaware; and
- (b) the director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that NWM Plc's auditors are aware of that information.

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

### Auditors

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

By order of the Board

Scott Gibson  
Company Secretary  
18 February 2021  
NatWest Markets Plc  
is registered in Scotland No. SC90312

## Statement of directors' responsibilities

This statement should be read in conjunction with the responsibilities of the auditor set out in their report on pages 81 to 88.

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

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

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

The directors confirm that to the best of their knowledge:

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

By order of the Board

Frank Dangeard  
Chairman

Robert Begbie  
Chief Executive Officer

David King  
Chief Financial Officer

18 February 2021

### Board of directors

#### Chairman

Frank Dangeard

#### Executive directors

Robert Begbie  
David King

#### Non-executive directors

Vivek Ahuja  
Brendan Nelson  
Tamsin Rowe  
Anne Simpson  
Sarah Wilkinson

## Financial statements

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# Independent auditor's report to the members of NatWest Markets Plc

## Opinion

In our opinion:

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

We have audited the financial statements (see table below) of NatWest Markets Plc (the Bank) and its subsidiaries (together, the 'Group') for the year ended 31 December 2020 which comprise:

Group	Bank
<ul style="list-style-type: none"><li>• Consolidated balance sheet as at 31 December 2020;</li><li>• Consolidated income statement for the year then ended;</li><li>• Consolidated statement of comprehensive income for the year then ended;</li><li>• Consolidated statement of changes in equity for the year then ended;</li><li>• Consolidated cash flow statement for the year then ended;</li><li>• Accounting Policies;</li><li>• Related notes 1 to 35 to the financial statements, including a summary of significant accounting policies; and</li><li>• Risk and capital management section as indicated by a bracket in the margins.</li></ul>	<ul style="list-style-type: none"><li>• Balance sheet as at 31 December 2020;</li><li>• Statement of changes in equity for the year then ended;</li><li>• Cash flow statement for the year then ended; and</li><li>• Related notes 1 to 35 to the financial statements including a summary of significant accounting policies.</li></ul>

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

## Basis for opinion

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

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

## Conclusions relating to going concern

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

- In conjunction with our walkthrough of the Group's financial close process, we confirmed our understanding of management's Going Concern assessment process, the period of which covers a year from the date of signing this audit opinion. We engaged with management early to ensure all key factors were considered in their assessment;
- We evaluated management's going concern assessment which included reviewing their evaluation of the impact of long-term business and strategic plans on the future capital adequacy, liquidity and funding positions. Management also assessed these positions considering internal stress tests which included consideration of principal and emerging risks. We assessed the appropriateness of the methods used and assumptions applied in these exercises.
- We further evaluated management's assessment by considering viability under different scenarios including the impact of the Group's strategic plans and the economic impact of COVID-19. We also considered other commitments of the Group including those in respect of its subsidiaries; and
- We reviewed the Group's going concern disclosures included in the annual report in order to assess that the disclosures were appropriate and in conformity with the reporting standards.

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

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

# Independent auditor's report to the members of NatWest Markets Plc

## An overview of the scope of NatWest Markets Plc and Group audits

### Tailoring the scope

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

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

Of the five components identified, we performed an audit of the complete financial information of two components ("full scope components") which were selected based on their size or risk characteristics. For one component ("specific scope component"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile. We also instructed two locations to perform specified procedures over certain aspects of selected accounts.

Component	Scope	Key locations
NatWest Markets Primary audit engagement team	Full	United Kingdom, Netherlands, India and Poland
NatWest Markets United States	Full	United States
Central functions*	Specific	United Kingdom
NatWest Markets Japan	Specified procedures	Japan
NatWest Markets Switzerland	Specified procedures	Switzerland

\*Central functions comprise EY functional component teams focused on Services, Credit and Pensions & Remuneration.

The table below illustrates the coverage obtained from the work performed by our audit teams. We considered total assets, total equity and the absolute value of the amounts in the income statement (meaning the magnitude of the amounts without regard to their positive or negative value) to verify we had appropriate overall coverage.

	Full scope	Specific scope	Specified procedures	Total
Total assets	100%	<1%	<1%	100%
Total equity	100%	-	-	100%
Absolute value of the income statement	89%	11%	<1%	100%

As a result of the COVID-19 outbreak and resulting lockdown restrictions in all of the countries where full or specific scope audit procedures have been performed, we have modified our audit strategy to allow for the audit to be performed remotely at both the Group and component locations. This approach was supported through remote user access to the Group's financial systems and the use of EY software collaboration platforms for the secure and timely delivery of requested audit evidence.

### Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction.

The primary audit engagement team interacted regularly with the component audit teams where appropriate throughout the course of the audit, which included holding planning meetings, maintaining regular communications on the status of the audits, reviewing key working papers and taking responsibility for the scope and direction of the audit process. The primary audit team continued to follow a programme of oversight visits that were designed to ensure that the Senior Statutory Auditor, or another Group audit partner, visits all full scope and specific scope locations. During the current year's audit cycle, due to COVID-19, the visits undertaken by the primary audit team were held virtually. These visits involved video call meetings with local management and discussions on the audit approach with the component team and any issues arising from their work. The primary team interacted regularly with the component teams and maintained a continuous and open dialogue with component teams, as well as holding formal closing meetings quarterly, to ensure that the primary team were fully aware of their progress and results of their procedures. The primary team also reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

## Independent auditor's report to the members of NatWest Markets Plc

Risk	Our response to the risk
<p><b>Valuation of financial instruments with higher risk characteristics including related income from trading activities</b></p> <p>As reported in note 12 to the financial statements, as at 31 December 2020 the company held financial instruments that did not trade in active markets. This included reported level 3 assets of £1.7 billion (2019: £2.5 billion) and level 3 liabilities of £0.9 billion (2019: £1.4 billion) whose value is dependent upon unobservable inputs.</p> <p>The valuation of those financial instruments with higher risk characteristics involves both significant judgement and the risk of inappropriate revenue recognition 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.</p> <p>Management's estimates which required significant auditor judgement include:</p> <ul style="list-style-type: none"> <li>• Complex model-dependent valuations, 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;</li> <li>• Pricing inputs and calibrations for illiquid instruments, including rarely traded debt securities. Additionally, derivative instruments whose valuation is dependent upon discount rates associated with complex collateral arrangements;</li> <li>• 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 material product and deal specific adjustments on long dated derivative portfolios; and</li> <li>• The impact of COVID-19 on the valuation of different financial instrument portfolios.</li> </ul>	<p>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 NWG Executive Valuation and NWM Valuation Committees where valuation inputs, assumptions and adjustments were discussed and approved.</p> <p>Among other procedures, we involved our financial instrument valuation and modelling specialists to assist us in performing procedures including the following:</p> <ul style="list-style-type: none"> <li>• Testing complex model-dependent valuations by performing independent calculations to assess the appropriateness of models and the adequacy of assumptions and inputs used by the Group;</li> <li>• Independently re-pricing instruments that had been valued using illiquid pricing inputs, using alternative pricing sources to evaluate management's valuation;</li> <li>• Comparing fair value adjustment methodologies to current market practice and assessing the appropriateness and adequacy of the valuation adjustment framework in light of emerging market practice; and</li> <li>• Revaluing a sample of counterparty level FVA and CVAs, comparing funding spreads to third party data and independently challenging illiquid CVA inputs.</li> </ul> <p>We also assessed whether there were any indicators of aggregate bias in financial instrument marking.</p> <p>Throughout the year we considered the impact of COVID-19 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 marking approach we assessed the reasonableness of these changes as well as the design and operating effectiveness of associated key controls.</p> <p>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 and assessed the appropriateness of management's estimate of 2021 budgeted losses in respect of asset disposals and risk reduction transactions and considered any impact on fair values at year-end and relevant disclosures. The assessment included back-testing 2020 budgeted losses against realised asset disposals and risk reduction transactions. We performed an analysis of significant disagreements with counterparty collateral calls to assess the potential impact on the fair value of the underlying (and similar) financial instruments.</p>
<p><b>Key observations communicated to the Group Audit Committee</b></p>	
<p>We are satisfied that the assumptions used by management to reflect the fair value of financial instruments with higher risk characteristics and the recognition of related income is reasonable and in accordance with IFRS. We highlighted the following matters to the Group Audit Committee:</p> <ul style="list-style-type: none"> <li>• Complex-model dependent valuations were appropriate based on the output of our independent re-valuations, analysis of trade activity and peer benchmarking;</li> <li>• The fair value estimates of hard-to-price portfolios appropriately reflected pricing information available at 31 December 2020; and</li> <li>• Valuation adjustments applied on derivative portfolios for credit, funding and other risks were appropriate and complete based on our assessment of trade activity for positions with common risk characteristics, analysis of market data and peer benchmarking.</li> </ul>	
<p><b>Relevant references in the Annual Report and Accounts</b></p>	
<p>Report of the Group Audit Committee Accounting policies Note 12 to the financial statements</p>	

## Independent auditor's report to the members of NatWest Markets Plc

Risk	Our response to the risk
<b>Provisions for conduct, litigation and regulatory matters</b>	
<p>At 31 December 2020, the Group has reported £0.3 billion (2019: £0.3 billion) of provisions for conduct, litigation and other regulatory matters, as detailed in Note 20 of the financial statements.</p> <p>Regulatory scrutiny and the continued litigious environment give rise to a high level of management judgement in determining appropriate provisions and disclosures. Management judgement is needed to determine whether a present obligation existed, and a provision should be recorded at 31 December 2020 in accordance with the accounting criteria set out under IAS 37.</p> <p>Management's estimates which required significant auditor judgement include:</p> <ul style="list-style-type: none"> <li>• The selection and use of assumptions in the estimation of material provisions. There is a risk of management bias in the determination of whether an outflow in respect of identified material conduct or legal matters is probable and can be estimated reliably; and</li> <li>• The assessment of the adequacy of disclosures of provision for contingent liabilities given the underlying estimation uncertainty in the provisions.</li> </ul>	<p>We evaluated the design and operating effectiveness of key controls over the identification, estimation, monitoring and disclosure of provisions considering the potential for management override of controls. The controls tested included those designed and operated by management to identify and monitor claims, and to ensure the completeness and accuracy of data used to estimate provisions.</p> <p>Among other procedures, we examined the relevant regulatory and legal correspondence to assess developments in certain matters. For the cases which were settled during the period, we compared the actual outflows with the provision that had been recorded, considered whether further risk existed.</p> <p>For the significant provisions recorded we understood and assessed the provisioning methodology. For example, we tested the underlying data and assumptions used in the determination of the provisions recorded, legal costs, and the timing of settlement. We considered the accuracy of management's historical estimates by comparing the actual settlement to the provision and to peer bank settlement in similar cases where appropriate.</p> <p>For significant legal matters, we received confirmations from the Group's external legal counsel for key matters to evaluate the existence of the obligation and management's estimate of the outflow at year-end. We assessed management's conclusion by evaluating the underlying information used in estimating the provisions including consideration of alternate sources. We also conducted inquiries with internal legal counsel over the existence of the legal obligations and related provision.</p> <p>We performed procedures to identify unrecorded provisions to determine if there were any cases not considered in the provision estimate by assessing against external legal confirmations and discussing with internal counsel.</p> <p>We evaluated the disclosures provided on contingent liabilities and provisions for litigation and other regulatory provisions to assess whether they complied with accounting standards.</p>
<b>Key observations communicated to the Group Audit Committee</b>	
We are satisfied that the provision for conduct, litigation and other regulatory matters are reasonable and recognised in accordance with IFRS. We concurred with the level of disclosure in the financial statements. We did not identify any material unrecorded provisions.	
<b>Relevant references in the Annual Report and Accounts</b>	
Report of the Group Audit Committee Accounting policies Notes 20 and 26 to the financial statements	

# Independent auditor's report to the members of NatWest Markets Plc

Risk	Our response to the risk
Expected Credit Losses ('ECL') provisions under IFRS 9	
<p>At 31 December 2020 the Group reported total gross loans of £10.3 billion (2019: £10.3 billion) and £194 million of expected credit loss provisions under IFRS 9 (2019: £146 million).</p> <p>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 recovery assumptions and the impact of government intervention has increased the level of judgement required to calculate ECL.</p> <p>Management's estimates in respect of the timing and measurement of ECL which required significant auditor judgement include:</p> <ul style="list-style-type: none"> <li>• Allocation of assets to stage 1, 2, or 3 using criteria in accordance with IFRS 9 considering the impact of COVID-19 and level of customer support offered;</li> <li>• 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;</li> <li>• Inputs, assumptions and weightings used to estimate the impact of multiple economic scenarios particularly those impacted by COVID-19;</li> <li>• Appropriateness, completeness and valuation of model adjustments including any COVID-19 specific adjustments;</li> <li>• Measurement of individual provisions including the assessment of multiple scenarios considering the impact of COVID-19 on exit strategies, collateral valuations and time to collect; and</li> <li>• The completeness and preparation of disclosures considering the key judgments, sources of data and the design of the disclosures.</li> </ul>	<p>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:</p> <ul style="list-style-type: none"> <li>• the allocation of assets into stages including management's monitoring of stage effectiveness;</li> <li>• model governance including monitoring, the governance and review of both in-model adjustments and post model adjustments and model validation;</li> <li>• data accuracy and completeness;</li> <li>• credit monitoring;</li> <li>• multiple economic scenarios;</li> <li>• individual provisions; and</li> <li>• production of journal entries and disclosures.</li> </ul> <p>In evaluating the governance process, we observed the Group Provisions Committee and Metrics Oversight Committee meetings where the inputs, assumptions and adjustments to the ECL were discussed and approved.</p> <p>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 the Group's portfolio, risk profile, credit risk management practices, assessment of the impact of COVID-19 on the identification of high-risk sectors and the macroeconomic environment by considering trends in the economy and industries to which the Group is exposed.</p> <p>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.</p> <p>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, focussing our testing on high risk industries impacted by COVID-19. We also assessed whether the credit reviews performed by management appropriately considered COVID-19 risk factors.</p> <p>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.</p> <p>To evaluate data quality, we agreed ECL calculation data points to source systems. To test credit monitoring, we recalculated the risk ratings for a sample of performing loans.</p> <p>We involved economic specialists to assist us to evaluate the base case and alternative economic scenarios and to compare them 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 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.</p> <p>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.</p> <p>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 COVID-19 on individual scenarios and weightings, payment recoverability and collateral valuations.</p> <p>We tested the data flows used to populate the disclosures and assessed the adequacy of disclosures for compliance with the accounting standards and regulatory considerations including expectations of COVID-19 specific disclosures.</p>

## Key observations communicated to the Group Audit Committee

We are satisfied that provisions for the impairment of loans were reasonable and recognised in accordance with IFRS 9. We highlighted the following matters to the Group Audit Committee:

- Our testing on the staging criteria did not identify material differences and overall, we concluded that the stage allocation at 31 December 2020 was reasonable;
- Our testing of models and model assumptions did not highlight material differences; and
- Our testing of individually assessed impairments did not highlight any material differences

## Relevant references in the Annual Report and Accounts

Report of the Group Audit Committee  
Credit Risk section of the Risk and capital management section  
Accounting policies  
Note 14 to the financial statements



# Independent auditor's report to the members of NatWest Markets Plc

Risk	Our response to the risk
<b>IT systems and controls impacting financial reporting</b>	
<p>The IT environment is complex and pervasive to the operations of the Group due to the large volume of transactions processed in numerous locations daily and the reliance on automated and IT dependent manual controls. Appropriate IT controls are required to ensure that applications process data as expected and that changes are made in an appropriate manner. Such controls contribute to mitigating the risk of potential fraud or errors as a result of changes to applications and data.</p> <p>This risk is also impacted by the greater dependency on third-parties, decommissioning of legacy systems, and migration to new systems</p> <p>Our audit approach relies upon IT applications and the related control environment including:</p> <ul style="list-style-type: none"> <li>• User access management across application, database and operating systems;</li> <li>• Changes to the IT environment, including changes the IT landscape, and system migrations including cloud outsourcing;</li> <li>• IT operational controls;</li> <li>• IT application or IT dependent controls; and</li> <li>• Evaluation of IT control environment at third party service providers.</li> </ul>	<p>We evaluated the design and operating effectiveness of IT controls over the applications, operating systems and databases that are relevant to financial reporting. During our planning and test of design phases, we performed procedures to determine whether the ongoing global COVID-19 pandemic had caused material changes in IT processes or controls and noted no such changes that would result in an increased IT risk.</p> <p>For the IT transformations during the current financial year, we tested system migrations and related technology changes (including where relevant new systems) resulting from them, where material to financial statement reporting. This included verifying the completeness of information transferred to new systems as well as testing the controls in place for both the migration and the new system.</p> <p>We tested user access by assessing the controls in place for in-scope applications and verifying the addition and periodic recertification of users' access. During 2020, the Group consolidated their access management tools and moved further in-scope application onto a strategic platform which will facilitate most of the Group's Manage Access IT General Controls across applications and infrastructure platforms. We performed procedures around the transition process between IT tools, focusing on the completeness of user data and the adequacy of the control environment.</p> <p>We assessed automated controls within business processes and the reliability of relevant reports used as part of a manual control. This included assessing the integrity of system interfaces, the completeness and accuracy of data feeds, automated calculations and specific input and validation controls.</p> <p>A number of systems are outsourced to third party service providers. For these systems, we tested IT general controls through evaluating the relevant Service Organisation Controls reports (where available). This included assessing the timing of the reporting, the controls tested by the service auditor and whether they address relevant IT risks. We also tested required complementary user entity controls performed by management. Where a SOC report was not available we identified and reviewed compensating business controls to address this risk.</p> <p>Where control deficiencies were identified, we tested remediation activities performed by management and compensating controls in place and assessed what additional testing procedures were necessary to mitigate any residual risk.</p>

## Key observations communicated to the Group Audit Committee

We are satisfied that IT controls impacting financial reporting are designed and operating effectively. The following matters were reported to the Group Audit Committee:

- We have seen an overall reduction in the number of IT control deficiencies identified compared to prior year.
- Where control issues were noted in relation to access management these were remediated by year end or mitigated by compensating controls. We also performed additional testing in response to deficiencies identified, where required.

## Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

## Materiality

*The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.*

We determined materiality for the Group and NatWest Markets Plc to be £91 million (2019: £96 million), which is 1% (2019: 1%) of shareholder's equity of NatWest Markets Plc.

## Performance materiality

*The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.*

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% (2019: 50%) of our planning materiality, namely £46 million (2019: £48 million). We have set performance materiality at this percentage (which is at the lowest end of the range of our audit methodology) based on various considerations including the past history of misstatements, the effectiveness of the control environment and other factors affecting the entity and its financial reporting.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was between £8 million and £46 million (2019: £18 million and £48 million).

# Independent auditor's report to the members of NatWest Markets Plc

## Reporting threshold

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

We agreed with the Group Audit Committee that we would report to them all uncorrected audit differences in excess of £4 million (2019: £5 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

## Other information

The other information comprises the information included in the Annual Report and Accounts (including the Strategic Report, Financial Review, Report of the directors, Statement of directors' responsibilities, Risk Factors and Forward-looking statements and Non-IFRS financial measures) other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

## Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Report of the directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Report of the directors have been prepared in accordance with applicable legal requirements.

## Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and NatWest Markets Plc and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Report of the directors.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

## Responsibilities of directors

As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group and NatWest Markets Plc's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or NatWest Markets Plc or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

## Independent auditor's report to the members of NatWest Markets Plc

### Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined below, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are the regulations, license conditions and supervisory requirements of the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) and the Companies Act 2006.
- We understood how the Group is complying with those frameworks by making inquiries of management, internal audit and those responsible for legal and compliance matters. We also reviewed correspondence between the Group and regulatory bodies; reviewed minutes of the Board and Risk Committees; and gained an understanding of the Group's governance framework.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by considering the controls established to address risks identified to prevent or detect fraud. We also identified the risks of fraud in our key audit matters as described above. Other areas of risk that we identified included manual override of controls, unauthorised trading, the appropriateness of sources used when performing confirmation testing on accounts such as cash, loans and securities and areas of estimation and judgement.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiries of legal counsel, executive management, and internal audit. We also tested controls and performed procedures to respond to the fraud risks as identified in our key audit matters and other areas. These procedures were performed by both the primary team and component teams with oversight from the primary team.
- The Group operates in the banking industry which is a highly regulated environment. As such, the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, involving specialists where appropriate.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

### Other matters we are required to address

- Following the recommendation from the NatWest Holdings Audit Committee we were appointed by on 4 May 2016 to audit the financial statements of NatWest Markets Plc and the Group for the year ended 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is five years, covering periods from our appointment through 31 December 2020.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or NatWest Markets Plc and we remain independent of the Group and NatWest Markets Plc in conducting the audit.
- The audit opinion is consistent with the additional report to the Group Audit Committee.

### Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Simon Ludlam (Senior Statutory Auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London, United Kingdom  
18 February 2021

## Consolidated income statement for the year ended 31 December 2020

	Note	2020 £m	2019 £m
Interest receivable		531	697
Interest payable		(591)	(847)
<b>Net interest income</b>	1	<b>(60)</b>	<b>(150)</b>
Fees and commissions receivable		386	324
Fees and commissions payable		(287)	(337)
Income from trading activities		1,088	805
Other operating income		31	77
<b>Non-interest income</b>	2	<b>1,218</b>	<b>869</b>
<b>Total income</b>		<b>1,158</b>	<b>719</b>
Staff costs		(670)	(691)
Premises and equipment		(107)	(111)
Other administrative expenses		(629)	(177)
Depreciation and amortisation		(25)	(18)
<b>Operating expenses</b>	3	<b>(1,431)</b>	<b>(997)</b>
<b>Loss before impairment (losses)/releases</b>		<b>(273)</b>	<b>(278)</b>
Impairment (losses)/releases	14	(42)	48
<b>Operating loss before tax</b>		<b>(315)</b>	<b>(230)</b>
Tax (charge)/credit	7	(12)	109
<b>Loss for the year</b>		<b>(327)</b>	<b>(121)</b>
<b>Attributable to:</b>			
Ordinary shareholders		(328)	(181)
Paid-in equity holders		68	60
Non-controlling interests		(67)	—
		<b>(327)</b>	<b>(121)</b>

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

	Note	2020 £m	2019 £m
<b>Loss for the year</b>		<b>(327)</b>	<b>(121)</b>
<b>Items that do not qualify for reclassification</b>			
Remeasurement of retirement benefit schemes		(21)	(50)
Loss on fair value of credit in financial liabilities designated at FVTPL due to own credit risk		(52)	(13)
FVOCI financial assets		(210)	(122)
Tax		42	32
		<b>(241)</b>	<b>(153)</b>
<b>Items that do qualify for reclassification</b>			
FVOCI financial assets		2	5
Cash flow hedges		92	28
Currency translation		62	(152)
Tax		(28)	(4)
		<b>128</b>	<b>(123)</b>
<b>Other comprehensive loss after tax</b>		<b>(113)</b>	<b>(276)</b>
<b>Total comprehensive loss for the year</b>		<b>(440)</b>	<b>(397)</b>
<b>Attributable to:</b>			
Ordinary shareholders		(459)	(458)
Paid-in equity holders		68	60
Non-controlling interests		(49)	1
		<b>(440)</b>	<b>(397)</b>

The accompanying notes on pages 98 to 154, the accounting policies on pages 93 to 97 and the audited sections of the Financial review and Risk and capital management on pages 28 to 75 form an integral part of these financial statements.

## Balance sheet as at 31 December 2020

		NWM Group		NWM Plc	
	Note	2020 £m	2019 £m	2020 £m	2019 £m
<b>Assets</b>					
Cash and balances at central banks	11	15,771	12,729	11,736	9,953
Trading assets	9	68,689	76,540	52,169	57,768
Derivatives	10	165,619	148,696	164,104	147,458
Settlement balances	11	2,296	4,339	1,084	3,353
Loans to banks - amortised cost	11	1,003	1,088	701	238
Loans to customers - amortised cost	11	8,444	8,361	7,477	6,910
Amounts due from holding company and fellow subsidiaries	11	1,587	1,231	7,606	7,145
Other financial assets	16	9,041	12,305	8,043	11,636
Investment in group undertakings	15	—	—	2,600	2,905
Other assets	17	688	847	562	687
<b>Total assets</b>		<b>273,138</b>	<b>266,136</b>	<b>256,082</b>	<b>248,053</b>
<b>Liabilities</b>					
Bank deposits	11	1,808	2,089	1,762	2,038
Customer deposits	11	2,618	3,703	1,469	2,247
Amounts due to holding company and fellow subsidiaries	11	8,134	8,300	16,189	16,858
Settlement balances	11	2,248	4,022	604	2,648
Trading liabilities	9	72,252	73,836	56,916	53,576
Derivatives	10	157,332	144,142	153,754	142,390
Other financial liabilities	18	18,170	18,445	15,370	17,470
Other liabilities	20	1,234	1,689	866	1,195
<b>Total liabilities</b>		<b>263,796</b>	<b>256,226</b>	<b>246,930</b>	<b>238,422</b>
Owners' equity	21	9,388	9,907	9,152	9,631
Non-controlling interests		(46)	3	—	—
<b>Total equity</b>		<b>9,342</b>	<b>9,910</b>	<b>9,152</b>	<b>9,631</b>
<b>Total liabilities and equity</b>		<b>273,138</b>	<b>266,136</b>	<b>256,082</b>	<b>248,053</b>

Owners' equity of NWM Plc as at 31 December 2020 includes the loss for the year of £212 million (2019 loss - £269 million).

The accompanying notes on pages 98 to 154, the accounting policies on pages 93 to 97 and the audited sections of the Financial review and Risk and capital management on pages 28 to 75 form an integral part of these financial statements.

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

Frank Dangeard  
Chairman

Robert Begbie  
Chief Executive Officer

David King  
Chief Financial Officer

NatWest Markets Plc  
Registration No. SC90312



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

	NWM Group		NWM Plc	
	2020 £m	2019 £m	2020 £m	2019 £m
Called-up share capital - at beginning and end of period	400	400	400	400
Share premium account - at beginning and end of period	1,759	1,759	1,759	1,759
Paid-in equity - at 1 January	904	749	904	749
Securities issued during the year	—	155	—	155
At 31 December	904	904	904	904
FVOCI reserve - at 1 January	(134)	134	(149)	38
Unrealised losses	(221)	(126)	(221)	(177)
Realised losses/(gains) (2)	389	(151)	385	(19)
Tax	—	9	(1)	9
At 31 December	34	(134)	14	(149)
Cash flow hedging reserve - at 1 January	137	114	137	114
Amount recognised in equity	18	98	18	98
Amount transferred from equity to earnings	74	(70)	74	(70)
Tax	(28)	(5)	(28)	(5)
At 31 December	201	137	201	137
Foreign exchange reserve - at 1 January	77	230	(168)	(136)
Retranslation of net assets	98	(180)	(29)	(49)
Foreign currency (losses)/gains on hedges of net assets	(31)	27	—	3
Tax	—	—	—	—
Recycled to profit or loss on disposal of businesses	(23)	—	5	14
At 31 December	121	77	(192)	(168)
Retained earnings - at 1 January	6,764	5,701	6,748	5,998
Implementation of IFRS 16 on 1 January 2019	—	(6)	—	(6)
Loss attributable to ordinary shareholders and paid-in equity holders	(260)	(121)	(212)	(269)
Ordinary dividends paid	—	(500)	—	(500)
Paid-in equity dividends paid	(68)	(60)	(68)	(60)
Capital contribution (1)	22	1,845	22	1,845
Realised (losses)/gains on FVOCI equity shares (2)				
- gross	(376)	160	(373)	52
- tax	35	—	35	—
Remeasurement of retirement benefit schemes				
- gross	(21)	(50)	(21)	(49)
- tax	(1)	4	(1)	4
Changes in fair value of credit in financial liabilities designated at FVTPL				
- gross	(52)	(13)	(30)	(71)
- tax	8	20	8	20
Share based payments	(42)	(216)	(42)	(216)
Distribution	(40)	—	—	—
At 31 December	5,969	6,764	6,066	6,748
Owners' equity at 31 December	9,388	9,907	9,152	9,631
Non-controlling interests - at 1 January	3	2	—	—
Currency translation adjustments and other movements	18	1	—	—
Loss attributable to non-controlling interests	(67)	—	—	—
At 31 December	(46)	3	—	—
Total equity at 31 December	9,342	9,910	9,152	9,631
Attributable to:				
Ordinary shareholders	8,484	9,003	8,248	8,727
Paid-in equity holders	904	904	904	904
Non-controlling interests	(46)	3	—	—
	9,342	9,910	9,152	9,631

### Notes:

- (1) A capital contribution of £1,845 million was received from NatWest Group plc on 29 November 2019 to facilitate the acquisition of RBS Holdings N.V..
- (2) During the year NWM Plc sold its entire equity holding in Saudi British Bank (SABB) leading to a realised loss of £337 million after tax which was recognised through other comprehensive income and reclassified to retained earnings.

The accompanying notes on pages 98 to 154, the accounting policies on pages 93 to 97 and the audited sections of the Financial review and Risk and capital management on 28 to 75 form an integral part of these financial statements.

## Cash flow statement for the year ended 31 December 2020

	Note	NWM Group		NWM Plc	
		2020 £m	2019 £m	2020 £m	2019 £m
<b>Cash flows from operating activities</b>					
Operating loss before tax		(315)	(230)	(205)	(363)
<b>Adjustments for:</b>					
Impairment losses/(releases) on loans to customers		42	(48)	17	(50)
Amortisation of discounts and premiums of other financial assets		17	7	16	10
Depreciation, amortisation and impairment of other assets		25	18	11	12
Write-down of investments in subsidiaries		—	—	347	349
Change in fair value taken to profit or loss of other financial assets		(43)	(30)	(43)	(41)
Change in fair value taken to profit or loss on other financial liabilities and subordinated liabilities		132	281	80	109
Elimination of foreign exchange differences		(841)	548	(713)	472
Other non-cash items		99	(250)	69	(100)
Income receivable on other financial assets		(198)	(257)	(216)	(284)
Loss on sale of other financial assets		13	9	12	9
Dividends received from group undertakings		—	—	(529)	(481)
Profit on sale of subsidiaries and associates		(64)	(18)	—	—
Loss on sale of other assets and net assets/liabilities		3	—	3	—
Interest payable on MREL and subordinated liabilities		329	443	307	419
Loss on sale of MREL and subordinated liabilities		16	—	16	—
Charges and releases on provisions		106	10	33	4
Defined benefit pension schemes		10	6	5	3
<b>Net cash flows from trading activities</b>		<b>(669)</b>	<b>489</b>	<b>(790)</b>	<b>68</b>
Decrease in trading assets		4,127	2,054	1,601	5,111
Increase in derivative assets		(16,905)	(10,805)	(16,628)	(13,069)
Decrease/(increase) in settlement balance assets		2,043	(4)	2,269	(1,932)
(Increase)/decrease in net loans to banks		(137)	424	(125)	(225)
(Increase)/decrease in net loans to customers		(152)	116	(599)	(1,091)
(Increase)/decrease in amounts due from holding company and subsidiaries		(179)	1,343	(307)	4,289
Decrease in other financial assets		212	603	203	917
Decrease in other assets		40	179	37	23
Decrease in bank deposits		(281)	(667)	(276)	(882)
(Decrease)/increase in customers deposits		(1,085)	427	(778)	—
Increase/(decrease) in amounts due to holding company and fellow subsidiaries		40	(5,346)	(464)	(7,352)
(Decrease)/increase in settlement balance liabilities		(1,774)	41	(2,044)	671
Decrease/(increase) in trading liabilities		(1,584)	(372)	3,340	(1,822)
Increase in derivatives liabilities		13,190	10,011	11,364	12,416
(Decrease)/increase in other financial liabilities		(297)	1,574	(2,057)	2,048
Decrease in other liabilities		(506)	(705)	(323)	(841)
<b>Changes in operating assets and liabilities</b>		<b>(3,248)</b>	<b>(1,127)</b>	<b>(4,787)</b>	<b>(1,739)</b>
Income taxes (paid)/received		(73)	315	(12)	317
<b>Net cash flows from operating activities (1)</b>		<b>(3,990)</b>	<b>(323)</b>	<b>(5,589)</b>	<b>(1,354)</b>
<b>Cash flows from investing activities</b>					
Sale and maturity of other financial assets		10,735	3,905	10,354	4,830
Purchase of other financial assets		(8,020)	(4,860)	(7,337)	(5,422)
Income received on other financial assets		198	257	216	284
Net movement in business interests and intangible assets	27	358	3,705	269	1,201
Dividends received from subsidiaries		—	—	529	481
Sale of property, plant and equipment		2	8	2	—
Purchase of property, plant and equipment		(2)	(1)	(1)	(1)
<b>Net cash flows from investing activities</b>		<b>3,271</b>	<b>3,014</b>	<b>4,032</b>	<b>1,373</b>
<b>Cash flows from financing activities</b>					
Movement in MREL		(191)	(182)	(191)	(182)
Movement in subordinated liabilities		(548)	(80)	(515)	(59)
Dividends paid		(68)	(560)	(68)	(560)
Capital contribution		22	—	22	—
<b>Net cash flows from financing activities</b>		<b>(785)</b>	<b>(822)</b>	<b>(752)</b>	<b>(801)</b>
Effects of exchange rate on cash & cash equivalents		841	(953)	636	(835)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(663)</b>	<b>916</b>	<b>(1,673)</b>	<b>(1,617)</b>
Cash and cash equivalents at 1 January		27,043	26,127	22,958	24,575
<b>Cash and cash equivalents at 31 December</b>	29	<b>26,380</b>	<b>27,043</b>	<b>21,285</b>	<b>22,958</b>

Note:

(1) NWM Group includes interest received of £671 million (2019 - £579 million) and interest paid of £632 million (2019 - £840 million), and NWM Plc includes interest received of £693 million (2019 - £730 million) and interest paid of £635 million (2019 - £936 million).

The accompanying notes on pages 98 to 154, the accounting policies on pages 93 to 97 and the audited sections of the Financial review and Risk and capital management on pages 28 to 75 form an integral part of these financial statements.

# Accounting policies

## 1. Presentation of accounts

The accounts set out on pages 89 to 154, including these accounting policies on pages 93 to 97 and the audited sections of the Financial review: Risk and capital management on pages 34 to 75, are prepared on a going concern basis (see the Report of the directors, page 78) and in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The significant accounting policies and related judgments are set out below.

NatWest Markets Plc (NWM Plc) is incorporated in the UK and registered in Scotland. Its accounts are presented in accordance with the Companies Act 2006.

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

With the exception of certain financial instruments as described in Accounting policies 10 and 18, the accounts are presented on an 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 our current accounting policy and therefore did not affect the financial statements.

### 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 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 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 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 Group has applied International Accounting Standards, which have been adopted for use within the UK. NWM Group's IBOR transition program remains on-track and key milestones have been met. Conversion from rates subject to reform to alternative risk-free rates (RFRs) is expected to increase as RFR-based products become more widely available and key market-driven conversion events occur.

## 2. Basis of consolidation

The consolidated accounts incorporate the financial statements of the NWM Plc and entities (including certain structured entities) that give access to variable returns and that are controlled by NWM Group. NWM Group controls another entity (a subsidiary) when it is exposed, or has rights, to variable returns from its involvement with that entity and has the ability to affect those returns through its power over the other entity; power generally arises from holding a majority of voting rights. On acquisition of a subsidiary, its identifiable assets, liabilities and contingent liabilities are included in the consolidated accounts at their fair value. A subsidiary is included in the consolidated accounts from the date it is controlled by NWM Group until the date NWM Group ceases to control it through a sale or a significant change in circumstances. Changes in NWM Group's interest in a subsidiary that do not result in NWM Group ceasing to control that subsidiary are accounted for as equity transactions.

On the acquisition of a business from a NatWest Group company, the assets, liabilities and IFRS reserves, such as the cash flow hedging reserve, are recognised at their inherited values taken from the consolidated

accounts of NatWest Group plc and include the accounting history since initial recognition. The acquirer recognises, in merger reserve, any difference between the consideration paid and the net items recognised at inherited values.

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

## 3. Revenue recognition

Interest income or expense relates to financial instruments measured at amortised cost and debt instruments classified as fair value through OCI using the effective interest rate method 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.

## 4. Assets held for sale

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

## 5. Employee benefits

Short-term employee benefits, such as salaries, paid absences, and other benefits are accounted for on an accruals basis over the period in which the employees provide the related services. Employees may receive variable compensation satisfied by cash, by debt instruments issued by NWM Group or by NatWest Group plc shares. NWM 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.

## Accounting policies

For defined benefit schemes, the defined benefit obligation is measured on an actuarial basis.

Actuarial gains and losses (i.e. gains or and losses on re-measuring the net defined benefit asset or liability) are recognised in other comprehensive income in full in the period in which they arise. The difference between scheme assets and scheme liabilities, the net defined benefit asset or liability, is recognised in the balance sheet subject to the asset ceiling test which requires the net defined benefit surplus to be limited to the present value of any economic benefits available to NWM Group in the form of refunds from the plan or reduced contributions to it.

The charge to profit or loss for pension costs (mainly the service cost and the net interest on the net defined benefit asset or liability) is recognised in operating expenses.

### 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 18).

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

### 7. Leases

#### As lessee

On entering a new lease contract, NWM Group recognises a right of use asset and a liability to pay future rentals. The liability is measured at the present value of future lease payments discounted at the applicable incremental borrowing rate. The right of use asset is depreciated over the shorter of the term of the lease and the useful economic life, subject to review for impairment.

Short term and low value leased assets are expensed on a systematic basis.

### 8. Provisions and contingent liabilities

NWM 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 Group has a constructive obligation to restructure. An obligation exists when NWM 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 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 Group's contractual obligations that exceed the expected economic benefits. When NWM 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.

### 9. 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 Group has a legally enforceable right to offset and where they relate to income taxes levied by the same taxation authority either on an individual NatWest Group company or on NatWest Group companies in the same tax group that intend, in future periods, to settle current tax liabilities and assets on a net basis or on a gross basis simultaneously.

Accounting for taxes is judgmental and carries a degree of uncertainty because tax law is subject to interpretation, which might be questioned by the relevant tax authority. NatWest Group recognises the most likely current and deferred tax liability or asset, assessed for uncertainty using consistent judgments and estimates. Current and deferred tax assets are only recognised where their recovery is deemed probable, and current and deferred tax liabilities are recognised at the amount that represents the best estimate of the probable outcome having regard to their acceptance by the tax authorities.

### 10. 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 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



## Accounting policies

(FVOCI). Financial assets may also be irrevocably designated at fair value through profit or loss upon initial recognition if such designation eliminates, or significantly reduces, accounting mismatch. In all other instances, fair value through profit or loss (MFVTPL) is the default classification and measurement category for financial assets.

Regular way purchases of financial assets classified as amortised cost, are recognised on the settlement date; all other regular way transactions in financial assets are recognised on the trade date.

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

Financial assets, which are managed under a 'held to collect' business model, 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.

### 11. Impairment: expected credit losses (ECL)

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

ECL are a probability-weighted estimate of credit losses. The probability is determined by the risk of default which is applied to the cash flow estimates. In the absence of a change in credit rating, allowances are recognised when

there is a reduction in the net present value of expected cash flows. On a significant increase in credit risk, allowances are recognised without a change in the expected cash flows, although typically expected cash flows do also change; and ECL are adjusted from 12 month to lifetime expectations.

Judgement is exercised as follows:

- **Models** – in certain low default portfolios, Basel parameter estimates are also applied for IFRS 9.
- **Non-modelled portfolios** use a standardised capital requirement under Basel II. Under IFRS 9, they have bespoke treatments for the identification of significant increase in credit risk. Benchmark 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 Group's interest in equity shares following the exchange is such that NWM Group controls an entity, that entity is consolidated.

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

assessed portfolios are:

- Commercial loans: write offs are determined in the light of individual circumstances; the period does not exceed five years.
- Business loans are generally written off within five years.

### 12. Financial guarantee contracts

Under a financial guarantee contract, NWM 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 11. Amortisation is calculated to recognise fees receivable in profit or loss over the period of the guarantee.

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

### 14. Derecognition

A financial asset is derecognised when the contractual right to receive cash flows from the asset has expired or when it has been transferred and the transfer qualifies for derecognition. Conversely, an asset is not derecognised by a contract under which NWM Group retains substantially all the risks and rewards of ownership. If substantially all the risks and rewards have been neither retained nor transferred, NWM 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.

### 15. 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 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 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



## Accounting policies

treated as interest and recognised in interest income or interest expense over the life of the transaction.

### 16. Netting

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

### 17. Capital instruments

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

The consideration for any ordinary shares of NWM Plc purchased by NWM Group (treasury shares) is deducted from equity. On the cancellation of treasury shares their nominal value is removed from equity and any excess of consideration over nominal value is treated in accordance with the capital maintenance provisions of the Companies Act.

On the sale or re-issue of treasury shares the consideration received and related tax are credited to equity, net of any directly attributable incremental costs.

### 18. Derivatives and hedging

Derivative financial instruments are initially recognised, and subsequently measured, at fair value. NWM 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 12 on the accounts.

A derivative embedded in a financial liability contract is accounted for as a stand-alone derivative if its economic characteristics are not closely related to the economic characteristics of the host contract; unless the entire contract is measured at fair value with changes in fair value recognised in profit or loss.

Gains and losses arising from changes in the fair value of derivatives that are not the hedging instrument in a qualifying hedge 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 Group enters into three types of hedge relationship: hedges of changes in the fair value of a recognised asset or liability or unrecognised firm commitment (fair value hedges); hedges of the variability in cash flows from a recognised asset or liability or a highly probable forecast transaction (cash flow hedges); and hedges of the net investment in a foreign operation (net investment hedges).

Hedge relationships are formally designated and documented at inception in line with the requirements of IAS 39 *Financial instruments – Recognition and measurement*. The documentation identifies the hedged item, the hedging instrument and details of the risk that is being hedged and the way in which effectiveness will be assessed at inception and during the period of the hedge. If the hedge is not highly effective in offsetting changes in fair values or cash flows attributable to the hedged risk, consistent with the documented risk management strategy, hedge accounting is discontinued. Hedge accounting is also discontinued if NWM Group revokes the designation of a hedge relationship.

**Fair value hedge** - in a fair value hedge, the gain or loss on the hedging instrument is recognised in profit or loss. The gain or loss on the hedged item attributable to the hedged risk is recognised in profit or loss and, where the hedged item is measured at amortised cost, adjusts the carrying amount of the hedged item. Hedge accounting is discontinued if the hedge no longer meets the criteria for hedge accounting; or if the hedging instrument expires or is sold, terminated or exercised; or if hedge designation is revoked. If the hedged item is one for which the effective interest rate method is used, any cumulative adjustment is amortised to profit or loss over the life of the hedged item using a recalculated effective interest rate.

**Cash flow hedge** - in a cash flow hedge, the effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income and the ineffective portion in profit or loss. When the forecast transaction results in the recognition of a financial asset or financial liability, the cumulative gain or loss is reclassified from equity to profit or loss in the same periods in which the hedged forecast cash flows affect profit or loss. Otherwise the cumulative gain or loss is removed from equity and recognised in profit or loss at the same time as the hedged transaction. Hedge accounting is discontinued if the hedge no longer meets the

criteria for hedge accounting; if the hedging instrument expires or is sold, terminated or exercised; if the forecast transaction is no longer expected to occur; or if hedge designation is revoked. On the discontinuation of hedge accounting (except where a forecast transaction is no longer expected to occur), the cumulative unrealised gain or loss is reclassified from equity to profit or loss when the hedged cash flows occur or, if the forecast transaction results in the recognition of a financial asset or financial liability, when the hedged forecast cash flows affect profit or loss. Where a forecast transaction is no longer expected to occur, the cumulative unrealised gain or loss is reclassified from equity to profit or loss immediately.

### *Hedge of net investment in a foreign operation*

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

### 19. 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.

### 20. Shares in NWM Group entities

NWM Plc's investments in its subsidiaries are stated at cost less any impairment.

### Critical accounting policies and key sources of estimation uncertainty

The reported results of NWM Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its accounts. UK company law and IFRS require the directors, in preparing NWM 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 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 Group would affect its reported results. During 2020, estimation

## Accounting policies

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 UK and other countries. Change in judgements and assumptions could result in a material adjustment to those estimates in the next reporting periods. Consideration of this source of estimation uncertainty has been set out in the notes below (as applicable).

Critical accounting policy	Note
Deferred tax	7
Fair value: financial instruments	12
Loan impairment provisions	14
Provisions for liabilities and charges	20

### 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 NWM 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).

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

# Notes to the financial statements

## 1 Net interest income

	2020 £m	2019 £m
Loans to banks - amortised cost	86	52
Loans to customers - amortised cost	277	393
Other financial assets	168	252
Interest receivable	531	697
Balances with banks	81	78
Customer deposits	34	58
Amounts due to holding company and fellow subsidiaries	282	309
Other financial liabilities	194	402
Interest payable	591	847
Net interest income	(60)	(150)

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)	99	(13)
Income from trading activities		
Foreign exchange	425	273
Interest rate	648	582
Credit	3	32
Changes in fair value of own debt attributable to own credit risk		
- debt securities in issue and derivative liabilities	(24)	(80)
Equities and other	36	(2)
	1,088	805
Other operating income		
Loss on redemption of own debt	(16)	—
Operating lease and other rental income	2	6
Changes in fair value of financial assets and liabilities designated at fair value through profit or loss (2)	(54)	(31)
Changes in fair value of other financial assets fair value through profit or loss (3)	—	24
Hedge ineffectiveness	(5)	6
(Loss)/profit on disposal of amortised cost assets	(2)	20
Loss on disposal of fair value through other comprehensive income assets	(13)	(9)
Dividend income	29	21
Profit/(loss) on disposal of subsidiaries and associates	64	(9)
Other income (4)	26	49
	31	77
Total	1,218	869

Notes:

- (1) Comparative period includes amounts paid to NWM N.V. prior to its acquisition by NWM Group on 29 November 2019. For further analysis on fees and commissions, refer to Note 4.
- (2) Including related derivatives.
- (3) Includes instruments that have failed SPPI testing under IFRS 9.
- (4) Includes income from activities other than banking.

## Notes to the financial statements

### 3 Operating expenses

	2020 £m	2019 £m
Wages, salaries and other staff costs	476	477
Temporary and contract costs	17	38
Social security costs	54	50
Bonus awards	93	99
Pension costs	30	27
- defined benefit schemes (see Note 5)	10	6
- defined contribution schemes	20	21
Staff costs	670	691
Premises and equipment	107	111
Depreciation and amortisation	25	18
Other administrative expenses (1,2)	629	177
Administrative expenses	761	306
	<b>1,431</b>	<b>997</b>

Notes:

- (1) Includes recharges from other NatWest Group entities, mainly NWB Plc which provides the majority of shared services (including technology) and operational processes.  
(2) Includes litigation and other regulatory costs. Further details are provided in Note 20.

The average number of persons employed, rounded to the nearest hundred, in continuing operations during the year, excluding temporary staff, was 3,600 (2019 – 4,800). The number of persons employed by NWM Group in continuing operations at 31 December 2020, excluding temporary staff, was as follows:

	2020	2019
UK	1,100	2,200
USA	300	400
Europe	500	600
Rest of the World	200	1,800
Total (1)	<b>2,100</b>	<b>5,000</b>

Note:

- (1) During the year, as part of the transformation programme, the front office and support functions operating models were reorganised to focus on NatWest Group's customers and some roles have been transferred from NWM Group to NatWest Holdings Limited.

### Bonus awards

The following tables analyse NWM Group's bonus awards.

	2020 £m	2019 £m	Change %
Non-deferred cash awards (1)	4	6	(33)
<b>Total non-deferred bonus awards</b>	<b>4</b>	<b>6</b>	<b>(33)</b>
Deferred bond awards	39	48	(19)
Deferred share awards	47	47	—
<b>Total deferred bonus awards</b>	<b>86</b>	<b>95</b>	<b>(9)</b>
<b>Total bonus awards (2)</b>	<b>90</b>	<b>101</b>	<b>(11)</b>

	2020 £m	2019 £m
<b>Reconciliation of bonus awards to income statement charge</b>		
Bonuses awarded	90	101
Less: deferral of charge for amounts awarded for current year	(38)	(38)
<b>Income statement charge for amounts awarded in current year</b>	<b>52</b>	<b>63</b>
Add: current year charge for amounts deferred from prior years	45	50
Less: forfeiture of amounts deferred from prior years	(4)	(14)
<b>Income statement charge for amounts deferred from prior years</b>	<b>41</b>	<b>36</b>
<b>Income statement charge for bonus awards (2)</b>	<b>93</b>	<b>99</b>

Notes:

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

## Notes to the financial statements

### 4 Segmental analysis

#### Reportable operating segments

The reportable operating segments are as follows:

**NatWest Markets** offers its customers global market access, providing them with trading, risk management and financing solutions through its trading hubs in London, Amsterdam, Singapore and Stamford and sales offices across key locations in the UK, EU, US and Asia.

**Central items & other** includes corporate functions and other activity not managed in the NatWest Markets segment. In 2019, this substantially comprised reimbursement under indemnification agreements with third parties and certain other one-off cost recoveries.

2020	NWM £m	Central items & other £m	Total £m
Interest receivable	529	2	531
Interest payable	(591)	—	(591)
Net fees and commissions	99	—	99
Other non-interest income	1,081	38	1,119
Total income	1,118	40	1,158
Operating expenses	(1,292)	(114)	(1,406)
Depreciation and amortisation	(25)	—	(25)
Impairment losses	(40)	(2)	(42)
Operating loss	(239)	(76)	(315)

2019			
Interest receivable	687	10	697
Interest payable	(847)	—	(847)
Net fees and commissions	(19)	6	(13)
Other non-interest income	869	13	882
Total income	690	29	719
Operating expenses	(1,261)	282	(979)
Depreciation and amortisation	(18)	—	(18)
Impairment losses	48	—	48
Operating (loss)/profit	(541)	311	(230)

	2020	2019
	Total £m	Total £m
<b>Total revenue (1)</b>		
NatWest Markets	1,995	2,331
Central items & other	41	(428)
Total	2,036	1,903

Note:

(1) Total revenue comprises interest receivable, fees and commissions receivable, income from trading activities and other operating income.

	2020			2019		
	NatWest Markets £m	Central items & other £m	Total £m	NatWest Markets £m	Central items & other £m	Total £m
<b>Analysis of net fees and commissions</b>						
<b>Fees and commissions receivable</b>						
- Lending and financing	86	—	86	80	—	80
- Brokerage	93	—	93	86	—	86
- Underwriting fees	183	—	183	152	—	152
- Other	24	—	24	—	6	6
<b>Total</b>	<b>386</b>	<b>—</b>	<b>386</b>	<b>318</b>	<b>6</b>	<b>324</b>
Fees and commissions payable	(287)	—	(287)	(337)	—	(337)
<b>Net fees and commissions</b>	<b>99</b>	<b>—</b>	<b>99</b>	<b>(19)</b>	<b>6</b>	<b>(13)</b>

	2020		2019	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
NatWest Markets	273,124	263,773	266,136	256,210
Central items & other	14	23	—	16
Total	273,138	263,796	266,136	256,226



## Notes to the financial statements

### 4 Segmental analysis continued

#### Geographical segments

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

2020	UK £m	USA £m	Europe £m	RoW £m	Total £m
Total revenue	1,405	211	291	129	2,036
Interest receivable	418	—	95	18	531
Interest payable	(488)	—	(103)	—	(591)
Fees and commissions receivable	29	63	191	103	386
Fees and commissions payable	(208)	(31)	(42)	(6)	(287)
Income from trading activities	923	170	(15)	10	1,088
Other operating income	35	(22)	20	(2)	31
Total income	709	180	146	123	1,158
Operating (loss)/profit before tax	(313)	(84)	35	47	(315)
Total assets	225,345	25,452	20,108	2,233	273,138
Total liabilities	223,405	26,942	12,332	1,117	263,796
Contingent liabilities and commitments	6,768	—	6,299	—	13,067

2019	UK £m	USA £m	Europe £m	RoW £m	Total £m
Total revenue	1,588	225	(24)	114	1,903
Interest receivable	672	—	—	25	697
Interest payable	(814)	—	(31)	(2)	(847)
Fees and commissions receivable	192	65	(10)	77	324
Fees and commissions payable	(303)	(29)	—	(5)	(337)
Income from trading activities	650	148	—	7	805
Other operating income	55	11	7	4	77
Total income	452	195	(34)	106	719
Operating (loss)/profit before tax	(365)	187	(76)	24	(230)
Total assets*	221,063	27,395	14,416	3,262	266,136
Total liabilities	216,479	31,717	7,025	1,005	256,226
Contingent liabilities and commitments	9,838	—	7,092	2	16,932

\*2019 re-presented.

Note:

(1) Comparative period includes results from NWM N.V. from the point of acquisition on 29 November 2019.

### 5 Pensions

#### Defined contribution schemes

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

#### Defined benefit schemes

NWM Group sponsors a number of pension schemes in the UK and overseas, including the AA and NatWest Markets (NWM) sections of the NatWest Group Pension Fund which operate under UK trust law and are managed and administered on behalf of their members in accordance with the terms of the trust deed, the scheme rules and UK legislation.

Pension fund trustees are appointed to operate each fund and ensure benefits are paid in accordance with the scheme rules and national law. The trustees are the legal owner of a scheme's assets, and have a duty to act in the best interests of all scheme members.

The schemes generally provide a pension of one-sixtieth of final pensionable salary for each year of service prior to retirement up to a maximum of 40 years and are contributory for current members. These have been closed to new entrants for over ten years, although current members continue to build up additional pension benefits, currently subject to 2% maximum annual salary inflation, while they remain employed by NWM Group.

#### Major classes of plan assets as a percentage of total plan assets of the AA section

	2020			2019		
	Quoted %	Unquoted %	Total %	Quoted %	Unquoted %	Total %
Equities	2.1	1.1	3.2	2.4	1.0	3.4
Index linked bonds	39.0	—	39.0	40.5	—	40.5
Government bonds	5.2	—	5.2	4.9	—	4.9
Corporate and other bonds	20.0	11.0	31.0	24.0	7.7	31.7
Real estate	—	1.9	1.9	—	2.3	2.3
Derivatives	—	5.8	5.8	—	4.4	4.4
Cash and other assets	—	13.9	13.9	—	12.8	12.8
	66.3	33.7	100.0	71.8	28.2	100.0

The corporate trustee is NatWest Pension Trustee Limited (the Trustee), a wholly owned subsidiary of National Westminster Bank Plc. The Board of the Trustee comprises four member trustee directors selected from eligible active staff, deferred and pensioner members who apply and six appointed by NatWest Group. Under UK legislation, a defined benefit pension scheme is required to meet the statutory funding objective of having sufficient and appropriate assets to cover its liabilities (the pensions that have been promised to members).

#### Investment strategy

The assets of the AA section, which is typical of other group schemes, represent 77% of plan assets at 31 December 2020 (2019 – 77% of plan assets) and are invested as shown below.

The AA and NWM sections employ derivative instruments to achieve a desired asset class exposure and to reduce the schemes' interest rate, inflation and currency risk. This means that the net funding positions are considerably less sensitive to changes in market conditions than the value of the assets or liabilities in isolation.

Swaps have been executed at prevailing market rates and within standard market bid/offer spreads with a number of counterparty banks, including NatWest Bank Plc.

## Notes to the financial statements

### 5 Pensions continued

The schemes do not invest directly in NWM Group but can have exposure to NWM Group. The trustees are responsible for ensuring that indirect investments in NWM Group do not exceed the 5% regulatory limit.

	AA section			All schemes (3)			
	Fair value of plan assets	Present value of defined benefit obligation (1)	Net pension (asset)/liability	Fair value of plan assets	Present value of defined benefit obligation (1)	Asset ceiling/minimum funding (2)	Net pension (asset)/liability
	£m	£m	£m	£m	£m	£m	£m
<b>Changes in value of net pension (asset)/liability</b>							
At 1 January 2019	1,051	760	(291)	1,388	1,107	97	(184)
Currency translation and other adjustments	—	—	—	1	(1)	—	(2)
Income statement	30	21	(9)	38	41	3	6
Statement of comprehensive income	56	95	39	84	139	(5)	50
Transfers to/from fellow subsidiaries	—	—	—	(2)	7	—	9
Contributions by employer	2	—	(2)	82	—	—	(82)
Contributions by plan participants and other scheme members	—	—	—	1	1	—	—
Benefits paid	(51)	(51)	—	(60)	(60)	—	—
Liabilities extinguished upon settlement	—	—	—	(113)	(118)	—	(5)
At 1 January 2020	1,088	825	(263)	1,419	1,116	95	(208)
Currency translation and other adjustments	—	—	—	—	(9)	—	(9)
<b>Income statement</b>							
Net interest expense	22	18	(4)	27	26	1	—
Current service cost	—	—	—	—	10	—	10
	22	18	(4)	27	36	1	10
<b>Statement of comprehensive income</b>							
Return on plan assets excluding recognised interest income	96	—	(96)	114	—	—	(114)
Experience gains and losses	—	(10)	(10)	—	(8)	—	(8)
Effect of changes in actuarial financial assumptions	—	115	115	—	153	—	153
Effect of changes in demographic assumptions	—	2	2	—	3	—	3
Asset ceiling adjustments	—	—	—	—	—	(13)	(13)
	96	107	11	114	148	(13)	21
Contributions by employer	2	—	(2)	11	—	—	(11)
Benefits paid	(44)	(44)	—	(68)	(68)	—	—
Transfers to/from fellow subsidiaries	—	—	—	—	(4)	—	(4)
At 31 December 2020	1,164	906	(258)	1,503	1,219	83	(201)

Notes:

- (1) Defined benefit obligations are subject to annual valuation by independent actuaries.
- (2) In recognising the net surplus or deficit of a pension scheme, the funded status of each scheme is adjusted to reflect any minimum funding requirement imposed on the sponsor and any ceiling on the amount that the sponsor has an unconditional right to recover from a scheme.
- (3) Includes the NWM Section which has a net pension asset of nil at 31 December 2020 (2019: net pension asset of nil). This scheme has plan assets of £308 million, a defined benefit obligation of £225 million and an asset ceiling of £83 million (2019: £298 million, £203 million and £95 million respectively).
- (4) NWM Group expects to make contributions to the AA section of £1 million and to the NWM section of £4 million in 2021.

	All schemes	
	2020 £m	2019 £m
<b>Amounts recognised on the balance sheet</b>		
Fund assets at fair value	1,503	1,419
Present value of fund liabilities	1,219	1,116
Funded status	284	303
Asset ceiling/minimum funding	83	95
	201	208
<b>Net pension asset/(liability) comprises</b>		
	2020 £m	2019 £m
Net assets of schemes in surplus (included in Other assets, Note 17)	264	271
Net liabilities of schemes in deficit (included in Other liabilities, Note 20)	(63)	(63)
	201	208

## Notes to the financial statements

### 5 Pensions continued

#### Funding and contributions by NWM Group

In the UK, the trustees of defined benefit pension schemes are required to perform funding valuations every three years. The trustees and the sponsoring company, with the support of the Scheme Actuary, agree the assumptions used to value the liabilities and a Schedule of Contributions required to eliminate any funding deficit. The funding assumptions incorporate a margin for prudence over and above the expected cost of providing the benefits promised to members, taking into account the sponsor's covenant and the investment strategy of the scheme. Similar arrangements apply in the other territories where the NWM Group sponsors defined benefit pension schemes. The last funding valuation of the AA section was at 31 December 2017. The next funding valuation, as at 31 December 2020, is to be agreed by 31 March 2022.

The triennial funding valuation of the AA section as at 31 December 2017 determined the funding level to be 109%, pension liabilities to be £1,063 million and the surplus to be £98 million.

The first triennial funding valuation of the NWM section was carried out as at 31 December 2018. NWM Group made a contribution of £53m to the NWM section during 2019. Allowing for this contribution, the valuation determined the funding level at 31 December 2018 to be 115%, pension liabilities to be £220 million and the surplus to be £33 million.

#### Assumptions

Placing a value on NWM Group's defined benefit pension schemes' liabilities requires NWM Group's management to make a number of assumptions, with the support of independent actuaries. The ultimate cost of the defined benefit obligations depends upon actual future events and the assumptions made are unlikely to be exactly borne out in practice, meaning the final cost may be higher or lower than expected.

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

	Principal IAS 19 actuarial assumptions		Principal assumptions of AA section 2017 triennial valuation
	2020 %	2019 %	
Discount rate	1.4	2.1	Fixed interest gilt yield curve plus 0.4% per annum RPI gilt yield curve
Inflation assumption (RPI)	2.9	2.9	
Rate of increase in salaries	1.8	1.8	Modelled allowance for relevant caps and floors 15%
Rate of increase in deferred pensions	2.2	2.0	
Rate of increase in pensions in payment	2.8	2.9	
Lump sum conversion rate at retirement	18	18	
Longevity at age 60:	years	years	
Current pensioners			
Males	28.2	28.1	28.8
Females	29.8	29.6	30.3
Future pensioners, currently aged 40			
Males	29.5	29.4	30.4
Females	31.5	31.3	32.3

#### Discount rate

The IAS 19 valuation uses a single discount rate set by reference to the yield on a basket of 'high quality' sterling corporate bonds. For the triennial valuation discounting is by reference to a yield curve.

The weighted average duration of the AA section's defined benefit obligation at 31 December 2020 is 21 years (2019 – 20 years).

Significant judgement is required when setting the criteria for bonds to be included in the basket of bonds that determines the discount rate used in the IAS 19 valuations. The criteria include issue size, quality of pricing and the exclusion of outliers. Judgement is also required in determining the shape of the yield curve at long durations: a constant credit spread relative to gilts is assumed. Sensitivity to the main assumptions is presented below.

## Notes to the financial statements

### 5 Pensions continued

The table below shows how the present value of the net pension asset of the AA section would change if the key assumptions used were changed independently. In practice the variables have a degree of correlation and do not move completely in isolation.

	(Decrease)/ increase in value of assets £m	(Decrease)/ increase in value of liabilities £m	Increase in net pension (obligations)/ assets £m
<b>2020</b>			
0.25% increase in interest rates/discount rate	(55)	(47)	(8)
0.25% increase in inflation	52	31	21
0.25% increase in credit spreads	—	(47)	47
Longevity increase of one year	—	43	(43)
0.25% additional rate of increase in pensions in payment	—	36	(36)
Increase in equity values of 10% (1)	4	—	4
<b>2019</b>			
0.25% increase in interest rates/discount rate	(52)	(40)	(12)
0.25% increase in inflation	50	27	23
0.25% increase in credit spreads	—	(40)	40
Longevity increase of one year	—	30	(30)
0.25% additional rate of increase in pensions in payment	—	30	(30)
Increase in equity values of 10% (1)	4	—	4

Note:

(1) Includes both quoted and private equity.

The funded status is most sensitive to movements in credit spreads and longevity. The table below shows the combined change in the funded status of the AA section as a result of larger movements in these assumptions, assuming no changes in other assumptions.

		Change in life expectancies				
		-2 years	-1 years	No change	+1 year	+2 years
		£m	£m	£m	£m	£m
<b>2020</b>						
Change in credit spreads	+50 bps	159	124	88	52	15
	No change	83	42	—	(43)	(86)
	-50 bps	(2)	(50)	(99)	(149)	(201)
<b>2019</b>						
Change in credit spreads	+50 bps	125	101	78	53	26
	No change	56	29	—	(30)	(61)
	-50 bps	(22)	(54)	(88)	(123)	(160)

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

	2020 %	2019 %
<b>Membership category</b>		
Active members	2.8	2.8
Deferred members	64.1	62.7
Pensioners and dependants	33.1	34.5
	<b>100.0</b>	<b>100.0</b>

The experience history of the AA section is shown below:

	2020 £m	2019 £m
<b>History of defined benefit schemes</b>		
Fair value of plan assets	1,164	1,088
Present value of plan obligations	906	825
Net surplus	258	263
Experience gains/(losses) on plan liabilities	10	6
Experience gains/(losses) on plan assets	96	56
Actual return on plan assets	118	86
Actual return on plan assets	10.8%	8.2%

## Notes to the financial statements

### 6 Auditor's remuneration

Amounts payable to the NWM Group's auditors for statutory audit and other services are set out below:

	2020 £m	2019 £m
Fees payable for:		
- the audit of the NWM Group's annual accounts	6.6	6.9
- the audit of NWM Plc's subsidiaries	3.0	3.1
- audit-related assurance services	0.6	1.4
Total audit and audit-related assurance services fees	10.2	11.4
Corporate finance services	0.1	0.2
Total other services	0.1	0.2

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

### 7 Tax

	2020 £m	2019 £m
<b>Current tax</b>		
(Charge)/credit for the year	(92)	90
(Under)/over provision in respect of prior years	(36)	58
	(128)	148
<b>Deferred tax</b>		
Credit for the year	128	54
Decrease in the carrying value of deferred tax assets in respect of UK losses	(22)	(76)
Over/(under) provision in respect of prior years	10	(17)
<b>Tax (charge)/credit for the year</b>	<b>(12)</b>	<b>109</b>

The actual tax charge differs from the expected tax credit, computed by applying the standard rate of UK corporation tax of 19% (2019 – 19%), as follows:

	2020 £m	2019 £m
<b>Expected tax credit</b>	<b>60</b>	<b>44</b>
Losses and temporary differences in year where no deferred tax asset recognised	(1)	(12)
Foreign profits taxed at other rates	(12)	(6)
Items not allowed for tax:		
- losses on disposal and write-downs	(2)	(6)
- UK bank levy	(6)	(1)
- regulatory and legal actions	(20)	21
- other disallowable items	(18)	(14)
Non-taxable items	15	48
Losses brought forward and utilised	12	9
Decrease in the carrying value of deferred tax assets in respect of UK losses	(22)	(76)
Banking surcharge	20	45
Tax on paid-in equity	10	16
UK tax rate change impact <sup>(1)</sup>	(22)	—
Adjustments in respect of prior years <sup>(2)</sup>	(26)	41
<b>Actual tax (charge)/credit</b>	<b>(12)</b>	<b>109</b>

Notes:

- (1) The Finance Bill 2020 amended the rate of UK corporation tax to 19% for the financial year beginning 1 April 2020. This reverses the rate reduction to 17% for the financial year beginning 1 April 2020 previously enacted. Deferred tax balances previously based on the lower rate have been restated accordingly.
- (2) Prior year tax adjustments incorporate refinements to tax computations made on submission and agreement with the tax authorities. Current taxation balances include provisions in respect of uncertain tax positions, in particular in relation to restructuring and other costs where the taxation treatment remains subject to agreement with the relevant tax authorities.

### Judgment: tax contingencies

NWM Group's income tax credit and its provisions for income taxes necessarily involves a significant degree of estimation and judgement. The tax treatment of some transactions is uncertain and tax computations are yet to be agreed with the tax authorities in a number of jurisdictions. NWM Group recognises anticipated tax liabilities based on all available evidence and, where appropriate, in the light of external advice. Any difference between the final outcome and the amounts provided will affect current and deferred income tax charges in the period when the matter is resolved.

### Deferred tax

	NWM Group		NWM Plc	
	2020 £m	2019 £m	2020 £m	2019 £m
Deferred tax asset (included in Other assets, Note 17)	(2)	(1)	(2)	—
Deferred tax liability (included in Other liabilities, Note 20)	417	501	380	462
Net deferred tax liability	415	500	378	462



## Notes to the financial statements

### 7 Tax continued

Net deferred tax liability/(asset) comprised:

	NWM Group						
	Pension £m	Accelerated capital allowances £m	Expense provisions £m	Financial instruments £m	Tax losses carried forward £m	Other £m	Total £m
<b>At 1 January 2019</b>	67	478	(65)	141	(151)	17	487
Implementation of IFRS 16 on 1 January 2019	—	—	—	—	—	(2)	(2)
Acquisitions and disposals of subsidiaries	—	(10)	—	6	—	13	9
Charge/(credit) to income statement:	6	(68)	26	(4)	76	3	39
Credit to other comprehensive income	(1)	(1)	—	(11)	—	(20)	(33)
<b>At 31 December 2019</b>	72	399	(39)	132	(75)	11	500
Acquisitions and disposals of subsidiaries	—	3	1	—	—	—	4
Charge/(credit) to income statement	1	(142)	15	(4)	13	1	(116)
Charge/(credit) to other comprehensive income	6	—	—	30	—	(8)	28
Currency translation and other adjustments	—	—	—	—	—	(1)	(1)
<b>At 31 December 2020</b>	79	260	(23)	158	(62)	3	415

	NWM Plc						
	Pension £m	Accelerated capital allowances £m	Expense provisions £m	Financial instruments £m	Tax losses carried forward £m	Other £m	Total £m
<b>At 1 January 2019</b>	68	440	(65)	138	(151)	16	446
Implementation of IFRS 16 on 1 January 2019	—	—	—	—	—	(2)	(2)
Acquisitions and disposals of subsidiaries	—	(10)	(1)	—	—	—	(11)
Charge/(credit) to income statement:	6	(42)	27	(10)	76	4	61
Credit to other comprehensive income	(1)	—	—	(11)	—	(20)	(32)
<b>At 31 December 2019</b>	73	388	(39)	117	(75)	(2)	462
Acquisitions and disposals of subsidiaries	—	3	—	—	—	—	3
(Credit)/charge to income statement	—	(144)	16	(5)	13	6	(114)
Charge/(credit) to other comprehensive income	6	(1)	—	30	—	(7)	28
Currency translation and other adjustments	—	—	—	—	—	(1)	(1)
<b>At 31 December 2020</b>	79	246	(23)	142	(62)	(4)	378

Deferred tax assets in respect of unused tax losses are recognised if the losses can be used to offset probable future taxable profits after taking into account the expected reversal of other temporary differences. Recognised deferred tax assets in respect of tax losses are analysed below.

	2020 £m	2019 £m
UK tax losses carried forward		
NWM Plc	62	75

## Notes to the financial statements

### 7 Tax continued

#### Critical accounting policy: Deferred tax

The deferred tax liability of £417 million at 31 December 2020 (2019 – liability of £501 million) includes a deferred tax asset on losses of £62 million. The deferred tax asset recognised on UK losses is recognised to the extent that it is probable that there will be future taxable profits to recover it.

**Judgment** - NWM Group has considered the carrying value of deferred tax assets and management considers that sufficient taxable profits will be generated in future years to recover the remaining deferred tax asset.

**Estimate** – The deferred tax asset is supported by way of future reversing temporary timing differences on which deferred tax liabilities are recognised at 31 December 2020.

**UK tax losses** - Under UK tax rules, tax losses can be carried forward indefinitely. As the recognised tax losses in NWM Group arose prior to 1 April 2015, credit in future periods is given against 25% of profits at the main rate of UK corporation tax, excluding the Banking Surcharge 8% rate introduced by The Finance (No. 2) Act 2015. Deferred tax assets and liabilities at 31 December 2020 take into account the reduced rates in respect of tax losses and temporary differences and where appropriate, the banking surcharge inclusive rate in respect of other banking temporary differences.

**NWM Plc** - NWM Plc expects that the balance of recognised deferred tax asset at 31 December 2020 of £62 million (2019 - £75 million) in respect of tax losses amounting to approximately £325 million will be recovered by the end of 2027. The movement in the current financial year reflects a £22 million decrease in the carrying value of the deferred tax asset, offset by a £9m increase due to the UK tax rate change impact. Of the losses remaining, £5,226 million have not been recognised in the deferred tax balance at 31 December 2020; such losses will be available to offset 25% of future taxable profits in excess of those forecast in the closing deferred tax asset.

#### 8 Profit/(loss) dealt with in the accounts of NWM Plc

As permitted by section 408(3) of the Companies Act 2006, no income statement for NWM Plc has been presented as a primary financial statement.

### 9 Trading assets and liabilities

Trading assets and liabilities comprise assets and liabilities held at fair value in trading portfolios.

	NWM Group		NWM Plc	
	2020	2019	2020	2019
	£m	£m	£m	£m
<b>Assets</b>				
Loans				
- Reverse repos	19,404	24,095	11,071	12,716
- Collateral given	18,459	20,467	15,389	19,074
- Other loans	1,611	1,854	1,497	1,486
Total loans	39,474	46,416	27,957	33,276
Securities				
Central and local government				
- UK	4,184	4,897	4,184	4,897
- US	5,149	5,458	498	293
- Other	16,436	14,902	16,390	14,748
Financial institutions and Corporate	3,446	4,867	3,140	4,554
Total securities	29,215	30,124	24,212	24,492
Total	68,689	76,540	52,169	57,768
<b>Liabilities</b>				
Deposits				
- Repos	19,036	27,885	5,928	10,007
- Collateral received	23,226	21,506	22,267	20,945
- Other deposits	1,803	1,496	1,800	1,491
Total deposits	44,065	50,887	29,995	32,443
Debt securities in issue	1,408	1,762	1,408	1,762
Short positions	26,779	21,187	25,513	19,371
Total	72,252	73,836	56,916	53,576

#### Overseas tax losses

**NWM N.V.** – NWM N.V. Group management did not recognise deferred tax asset in respect of losses carried forward at 31 December 2020 due to the implications from the wider strategic review of the NWM franchise, and the uncertainty around the consequences of Brexit on the volume and pace of transfers of business from NWM Plc and NWB Plc to NWM N.V.

#### Unrecognised deferred tax

Deferred tax assets of £3,078 million (2019 - £3,052 million) have not been recognised in respect of tax losses and other temporary differences carried forward of £12,171 million (2019 - £12,319 million) in jurisdictions where doubt exists over the availability of future taxable profits. Of these losses and other temporary differences, £714 million expire within five years and £4,496 million thereafter. The balance of tax losses and other temporary differences carried forward has no expiry date.

Deferred tax liabilities of nil (2019 - £2 million) have not been recognised in respect of retained earnings of overseas subsidiaries and held-over gains on the incorporation of certain overseas branches. Retained earnings of overseas subsidiaries are expected to be reinvested indefinitely or remitted to the UK free from further taxation. No taxation is expected to arise in the foreseeable future in respect of held-over gains on which deferred tax is not recognised. Changes to UK tax legislation largely exempts from UK tax, overseas dividends received on or after 1 July 2009.

## Notes to the financial statements

### 10 Derivatives

Companies within NWM Group transact derivatives as principal either as a trading activity or to manage balance sheet foreign exchange, interest rate and credit risk.

	NWM Group					
	2020			2019		
	Notional £bn	Assets £m	Liabilities £m	Notional £bn	Assets £m	Liabilities £m
Exchange rate contracts	3,331	52,524	54,863	3,799	44,983	47,138
Interest rate contracts	10,412	112,926	102,073	11,020	103,433	96,581
Credit derivatives	15	161	388	16	280	375
Equity and commodity contracts	1	8	8	3	—	48
		<b>165,619</b>	<b>157,332</b>		<b>148,696</b>	<b>144,142</b>

	NWM Plc					
	2020			2019		
	Notional £bn	Assets £m	Liabilities £m	Notional £bn	Assets £m	Liabilities £m
Exchange rate contracts	3,362	53,182	55,514	3,831	45,175	47,347
Interest rate contracts	8,606	110,753	97,850	9,577	102,001	94,627
Credit derivatives	15	161	382	18	282	368
Equity and commodity contracts	1	8	8	3	—	48
		<b>164,104</b>	<b>153,754</b>		<b>147,458</b>	<b>142,390</b>

Refer to Note 11 for amounts due from/to fellow NatWest Group subsidiaries.

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

NWM Group interest rate hedging relates to the management of NWM Group non-trading structural interest rate risk, caused by the mismatch between fixed interest rates and floating interest rates. NWM Group manages this risk within approved limits. Residual risk positions are hedged with derivatives, principally interest rate swaps. Suitable larger financial instruments are fair value hedged; the remaining exposure, where possible, is hedged by derivatives documented as cash flow hedges.

Cash flow hedges of interest rate risk relate to exposures to the variability in future interest payments and receipts due to the movement of benchmark interest rates on forecast transactions and on recognised financial assets and financial liabilities. This variability in cash flows is hedged by interest rate swaps, fixing the hedged cash flows. For these cash flow hedge relationships, the hedged items are actual and forecast variable interest rate cash flows arising from financial assets and financial liabilities with interest rates linked to the relevant benchmark rate LIBOR, and the Bank of England Official Bank Rate. The variability in cash flows due to movements in the relevant benchmark rate is hedged; this risk component is identified using the risk management systems of NWM Group. This risk component comprises the majority of cash flow variability risk.

Fair value hedges of interest rate risk involve interest rate swaps transforming the fixed interest rate risk in recognised financial assets and financial liabilities to floating. The hedged risk is the risk of changes in the hedged items fair value attributable to changes in the benchmark interest rate embedded in the hedged item. The significant embedded benchmarks are LIBOR and EURIBOR. This risk component is identified using the risk management systems of NWM Group. This risk component comprises the majority of the hedged items fair value risk.

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

Exchange rate risk also arises in NWM Group where payments are denominated in different currencies than the functional currency. Residual risk positions are hedged with forward foreign exchange contracts. Exposure to the variability in future payments due to the movement of foreign exchange rates is hedged, fixing the exchange

rate the payments will be settled in. The derivatives are documented as cash flow hedges.

For all cash flow hedging and fair value hedge relationships, NWM Group determines that there is an adequate level of offsetting between the hedged item and hedging instrument via assessing the initial and ongoing effectiveness. This involves comparing movements in the fair value of the expected highly probable forecast interest cash flows/fair value of the hedged item attributable to the hedged risk with movements in the fair value of the expected changes in cash flows from the hedging interest rate swap. Hedge effectiveness is measured on a cumulative basis over a time period management determines to be appropriate. NWM Group uses either the actual ratio between the hedged item and hedging instrument(s) or one that minimises hedge ineffectiveness to establish the hedge ratio for hedge accounting.

A number of the current cash flow and fair value hedges of interest rate risk that mature post 31 December 2021 will be directly affected by interest rate benchmark reform. NWM Group early adopted the amendments to IAS 39 and IFRS 7 issued in September 2019 for reporting periods beginning 1 January 2019; these amendments are known as Phase 1 relief. The relief allows, where uncertainty arising from benchmark rate reform exists, the following:

- When assessing if affected forecasted cash flows are highly probable or still expected to occur; it is assumed the IBOR based forecasted hedged cash flows are not altered as a result of interest rate benchmark reform.
- For the purpose of the prospective effectiveness assessment; it is assumed the IBOR based hedged cash flows and/or hedged risk are not altered as a result of interest rate benchmark reform.
- Hedge accounting relationships will not be discontinued if they fall outside the 80 – 125% range when performing a retrospective effectiveness assessment.
- The assessment as to whether a non-contractually specified IBOR risk component is separately identifiable, is done only at the inception of the relationship.

The disclosures made for the notional of hedging instruments and risk exposures affected by interest rate benchmark reform contain information for both the hedging instrument and hedged risks even if only one of these will be directly impacted by the reform.

NWM Group early adopted the amendments to IAS 39 issued in August 2020 for reporting periods beginning 1 January 2021; these amendments are known as Phase 2 relief and apply at the point where components of a hedge accounting relationships transition to reference an alternative interest rate benchmark. Where relationships have transitioned in the year, the impacted hedge accounting relationships had their designations amended in line with the Phase 2 relief.

## Notes to the financial statements

### 10 Derivatives continued

The following phase 2 reliefs have been applied:

- Where forecasted cash flows in cash flow hedge relationships have transitioned to an alternative benchmark interest rate, the relevant hedge accounting designations have been amended.
- As a result of the amended designations the balances in other comprehensive income linked to the transitioned forecasted cash flows are now deemed based on the alternative benchmark interest rate.

Included in the table below are derivatives held for hedging as follows:

NWM Group								
	2020				2019			
	Notional £bn	Assets £m	Liabilities £m	Changes in fair value used for hedge ineffectiveness (1) £m	Notional £bn	Assets £m	Liabilities £m	Changes in fair value used for hedge ineffectiveness (1) £m
<b>Fair value hedging</b>								
- interest rate contracts	14.8	392	170	42	14.2	279	89	68
<b>Cash flow hedging</b>								
- interest rate contracts	5.6	288	—	61	6.4	239	1	55
- exchange rate contracts	1.2	1	107	—	—	—	—	—
<b>Net investment hedging</b>								
- exchange rate contracts	—	—	—	—	0.2	—	1	—
	21.6	681	277	103	20.8	518	91	123
IFRS netting		(414)	(170)	—		(339)	(90)	—
		267	107	—		179	1	—

NWM Plc								
	2020				2019			
	Notional £bn	Assets £m	Liabilities £m	Changes in fair value used for hedge ineffectiveness (1) £m	Notional £bn	Assets £m	Liabilities £m	Changes in fair value used for hedge ineffectiveness (1) £m
<b>Fair value hedging</b>								
- interest rate contracts	14.7	383	170	39	14.2	277	89	68
<b>Cash flow hedging</b>								
- interest rate contracts	5.6	288	—	61	6.4	239	1	55
- exchange rate contracts	1.2	1	107	—	—	—	—	—
<b>Net investment hedging</b>								
- exchange rate contracts	—	—	—	—	0.2	—	1	—
	21.5	672	277	100	20.8	516	91	123
IFRS netting		(406)	(170)	—		(337)	(90)	—
		266	107	—		179	1	—

The notional of hedging instruments affected by interest rate benchmark reform is as follows:

	2020 £bn	2019 £bn
<b>Fair value hedging</b>		
- EUR LIBOR	6.8	5.2
- GBP LIBOR	0.3	0.3
- USD LIBOR	7.2	7.2
- Other CCY LIBOR	1.0	—
<b>Cash flow hedging</b>		
- EUR LIBOR	0.1	—
- GBP LIBOR	5.1	4.1
- USD LIBOR	0.9	0.9

## Notes to the financial statements

### 10 Derivatives continued

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

	NWM Group							
2020	0-3 months £bn	3-12 months £bn	1-3 years £bn	3-5 years £bn	5-10 years £bn	10-20 years £bn	20+ years £bn	Total £bn
<b>Fair value hedging</b>								
Hedging assets - interest rate risk	—	0.5	2.0	0.3	—	0.1	0.2	3.1
Hedging liabilities - interest rate risk	—	0.3	8.0	2.7	0.7	—	—	11.7
<b>Cash flow hedging</b>								
Hedging assets - interest rate risk	0.5	0.2	1.5	2.5	0.9	—	—	5.6
Average fixed interest rate (%)	2.11	3.31	2.27	1.55	0.90	—	—	1.75
Hedging assets - exchange rate risk	—	—	1.0	0.2	—	—	—	1.2
Average JPY - € rate	—	—	120.21	—	—	—	—	120.21
Average JPY - £ rate	—	—	133.31	132.89	—	—	—	132.93
Average JPY - \$ rate	—	107.53	107.06	109.70	—	—	—	107.44
Average USD - £ rate	—	—	1.22	—	—	—	—	1.22
<b>Net investment hedging</b>								
Exchange rate risk	—	—	—	—	—	—	—	—
2019								
<b>Fair value hedging</b>								
Hedging assets - interest rate risk	—	—	1.4	1.0	0.2	0.1	0.1	2.8
Hedging liabilities - interest rate risk	—	0.5	4.7	5.2	0.9	0.1	—	11.4
<b>Cash flow hedging</b>								
Hedging assets - interest rate risk	0.2	0.6	1.3	1.4	2.9	—	—	6.4
Average fixed interest rate (%)	2.12	1.59	2.44	2.13	1.65	—	—	1.93
<b>Net investment hedging</b>								
Exchange rate risk	—	0.2	—	—	—	—	—	0.2
	NWM Plc							
2020	0-3 months £bn	3-12 months £bn	1-3 years £bn	3-5 years £bn	5-10 years £bn	10-20 years £bn	20+ years £bn	Total £bn
<b>Fair value hedging</b>								
Hedging assets - interest rate risk	—	0.5	2.0	0.3	—	0.1	0.2	3.1
Hedging liabilities - interest rate risk	—	0.3	7.9	2.7	0.7	—	—	11.6
<b>Cash flow hedging</b>								
Hedging assets - interest rate risk	0.5	0.2	1.5	2.5	0.9	—	—	5.6
Average fixed interest rate (%)	2.11	3.31	2.27	1.55	0.90	—	—	1.75
Hedging assets - exchange rate risk	—	—	1.0	0.2	—	—	—	1.2
Average JPY - € rate	—	—	120.21	—	—	—	—	120.21
Average JPY - £ rate	—	—	133.31	132.89	—	—	—	132.93
Average JPY - \$ rate	—	107.53	107.06	109.70	—	—	—	107.44
Average USD - £ rate	—	—	1.22	—	—	—	—	1.22
<b>Net investment hedging</b>								
Exchange rate risk	—	—	—	—	—	—	—	—
2019								
<b>Fair value hedging</b>								
Hedging assets - interest rate risk	—	—	1.4	1.0	0.2	0.1	0.1	2.8
Hedging liabilities - interest rate risk	—	0.5	4.7	5.2	0.9	0.1	—	11.4
<b>Cash flow hedging</b>								
Hedging assets - interest rate risk	0.2	0.6	1.3	1.4	2.9	—	—	6.4
Average fixed interest rate (%)	2.12	1.59	2.44	2.13	1.65	—	—	1.93
<b>Net investment hedging</b>								
Exchange rate risk	—	0.2	—	—	—	—	—	0.2



## Notes to the financial statements

### 10 Derivatives continued

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

	NWM Group			NWM Plc		
	Carrying value (CV) of hedged assets and liabilities £m	Impact on hedged items included in CV £m	Change in fair value used as a basis to determine ineffectiveness (1) £m	Carrying value (CV) of hedged assets and liabilities £m	Impact on hedged items included in CV £m	Change in fair value used as a basis to determine ineffectiveness (1) £m
<b>2020</b>						
<b>Fair value hedging – interest rate</b>						
Loans to banks and customers - amortised cost	33	—	—	33	—	—
Other financial assets - securities	3,165	152	89	3,165	152	89
	3,198	152	89	3,198	152	89
Fair value hedging - foreign exchange	—	—	—	—	—	—
Total assets	3,198	152	89	3,198	152	89
Other financial liabilities - debt securities in issue	13,245	322	(139)	13,245	322	(139)
Subordinated liabilities	104	5	(3)	—	—	—
Total liabilities	13,349	327	(142)	13,245	322	(139)
<b>Cash flow hedge – interest rate</b>						
Loans to banks and customers - amortised cost	5,180	—	(50)	5,180	—	(50)
Other financial assets - securities	1,637	—	(5)	1,637	—	(5)
Total	6,817	—	(55)	6,817	—	(55)
<b>2019</b>						
<b>Fair value hedging – interest rate</b>						
Loans to banks and customers - amortised cost	—	—	—	—	—	—
Other financial assets - securities	2,837	70	64	2,837	70	64
	2,837	70	64	2,837	70	64
Fair value hedging - foreign exchange	—	—	—	—	—	—
Total assets	2,837	70	64	2,837	70	64
Other financial liabilities - debt securities in issue	12,013	206	(133)	12,013	206	(133)
Subordinated liabilities	104	1	—	—	—	—
Total liabilities	12,117	207	(133)	12,013	206	(133)
<b>Cash flow hedge – interest rate</b>						
Loans to banks and customers - amortised cost	5,580	—	(41)	5,580	—	(41)
Other financial assets - securities	791	—	(6)	791	—	(6)
Total	6,371	—	(47)	6,371	—	(47)

Note:

(1) The change in fair value per hedge ineffectiveness includes instruments that were derecognised in the year.

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

	2020		2019	
	Notional £bn	Hedged adjustment £m	Notional £bn	Hedged adjustment £m
<b>Fair value hedging</b>				
- EURIBOR	6.8	(85)	5.5	(52)
- GBP LIBOR	0.3	(8)	0.3	(18)
- USD LIBOR	7.2	(89)	7.3	(65)
- Other CCY LIBOR	1.0	—	—	—
<b>Cash flow hedging</b>				
- EURIBOR	0.1	3	—	—
- GBP LIBOR	2.5	(30)	1.2	(63)
- USD LIBOR	0.9	(51)	0.9	(3)
- BOE base rate	2.6	(126)	2.9	(113)

## Notes to the financial statements

### 10 Derivatives continued

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

	NWM Group			
	2020	Foreign exchange hedge reserve £m	2019	
	Cash flow hedge reserve £m		Cash flow hedge reserve £m	Foreign exchange hedge reserve £m
<b>Continuing</b>				
Interest rate risk	224	—	179	—
Foreign exchange risk	1	2	—	(1)
<b>De-designated</b>				
Interest rate	52	—	5	—
Foreign exchange risk	—	(148)	—	(117)
<b>Total</b>	<b>277</b>	<b>(146)</b>	<b>184</b>	<b>(118)</b>

	NWM Plc			
	2020	Foreign exchange hedge reserve £m	2019	
	Cash flow hedge reserve £m		Cash flow hedge reserve £m	Foreign exchange hedge reserve £m
<b>Continuing</b>				
Interest rate risk	224	—	179	—
Foreign exchange risk	1	—	—	—
<b>De-designated</b>				
Interest rate	52	—	5	—
Foreign exchange risk	—	33	—	33
<b>Total</b>	<b>277</b>	<b>33</b>	<b>184</b>	<b>33</b>

	NWM Group			
	2020	Foreign exchange hedge reserve £m	2019	
	Cash flow hedge reserve £m		Cash flow hedge reserve £m	Foreign exchange hedge reserve £m
<b>Interest rate risk</b>				
Amount recognised in equity	18	—	98	—
Amount transferred from equity to net interest income	73	—	(70)	—
Amount transferred from fellow subsidiary	—	—	—	—
<b>Foreign exchange risk</b>				
Amount recognised in equity	—	(31)	—	27
Amount transferred from equity to net interest income	1	—	—	—
Amount transferred from equity to non interest income	—	1	—	—
<b>Total</b>	<b>92</b>	<b>(30)</b>	<b>28</b>	<b>27</b>

	NWM Plc			
	2020	Foreign exchange hedge reserve £m	2019	
	Cash flow hedge reserve £m		Cash flow hedge reserve £m	Foreign exchange hedge reserve £m
<b>Interest rate risk</b>				
Amount recognised in equity	18	—	98	—
Amount transferred from equity to net interest income	73	—	(70)	—
<b>Foreign exchange risk</b>				
Amount recognised in equity	—	—	—	3
Amount transferred from equity to net interest income	1	—	—	—
<b>Total</b>	<b>92</b>	<b>—</b>	<b>28</b>	<b>3</b>

## Notes to the financial statements

### 10 Derivatives continued

Hedge ineffectiveness recognised in other operating income in continuing operations comprised:

	NWM Group	
	2020 £m	2019 £m
<b>Fair value hedging</b>		
Losses on the hedged items attributable to the hedged risk	(53)	(69)
Gains on the hedging instruments	42	68
Fair value hedging ineffectiveness	(11)	(1)
<b>Cash flow hedging</b>		
- Interest rate risk	6	7
Cash flow hedging ineffectiveness	6	7
<b>Total</b>	<b>(5)</b>	<b>6</b>

The main sources of ineffectiveness for interest rate risk hedge accounting relationships are:

- the effect of the counterparty credit risk on the fair value of the interest rate swap, which is not reflected in the fair value of the hedged item attributable to the change in interest rate (fair value hedge);
- differences in the repricing basis between the hedging instrument and hedged cash flows (cash flow hedge); and
- upfront present values on the hedging derivatives where hedge accounting relationships have been designated after the trade date (cash flow hedge and fair value hedge).

Additional information on cash flow hedging and net interest hedging can be found in the Statement of Changes in Equity.

## Notes to the financial statements

### 11 Financial instruments - classification

The following tables analyse NWM Group's financial assets and liabilities in accordance with the categories of financial instruments in IFRS 9. Assets and liabilities outside the scope of IFRS 9 are shown within other assets and other liabilities.

	NWM Group				
	MFVTPL £m	FVOCI £m	Amortised cost £m	Other assets £m	Total £m
<b>Assets</b>					
Cash and balances at central banks			15,771		15,771
Trading assets	68,689				68,689
Derivatives (1)	165,619				165,619
Settlement balances			2,296		2,296
Loans to banks - amortised cost (2)			1,003		1,003
Loans to customers - amortised cost (3)			8,444		8,444
Amounts due from holding company and fellow subsidiaries	766		754	67	1,587
Other financial assets	166	6,300	2,575		9,041
Other assets				688	688
31 December 2020	235,240	6,300	30,843	755	273,138

Cash and balances at central banks			12,729		12,729
Trading assets	76,540				76,540
Derivatives (1)	148,696				148,696
Settlement balances			4,339		4,339
Loans to banks - amortised cost (2)			1,088		1,088
Loans to customers - amortised cost (3)			8,361		8,361
Amounts due from holding company and fellow subsidiaries	438		753	40	1,231
Other financial assets	392	7,929	3,984		12,305
Other assets				847	847
31 December 2019	226,066	7,929	31,254	887	266,136

	NWM Group				
	Held-for- trading £m	DFV £m	Amortised cost £m	Other liabilities £m	Total £m
<b>Liabilities</b>					
Bank deposits (4)			1,808		1,808
Customer deposits			2,618		2,618
Amounts due to holding company and fellow subsidiaries	636	—	7,240	258	8,134
Settlement balances			2,248		2,248
Trading liabilities	72,252				72,252
Derivatives (1)	157,332				157,332
Other financial liabilities (5)		3,196	14,974		18,170
Other liabilities (6)			81	1,153	1,234
31 December 2020	230,220	3,196	28,969	1,411	263,796
Bank deposits (4)			2,089		2,089
Customer deposits			3,703		3,703
Amounts due to holding company and fellow subsidiaries	491	—	7,641	168	8,300
Settlement balances			4,022		4,022
Trading liabilities	73,836				73,836
Derivatives (1)	144,142				144,142
Other financial liabilities (5)		2,980	15,465		18,445
Other liabilities (6)			100	1,589	1,689
31 December 2019	218,469	2,980	33,020	1,757	256,226

Notes:

(1) Includes net hedging derivative assets of £267 million (2019 - £179 million) and net hedging derivative liabilities of £107 million (2019 - £1 million).

(2) Includes items in the course of collection from other banks of £119 million (2019 - £11 million).

(3) Includes finance lease receivables of £66 million (2019 - £56 million).

(4) Includes items in the course of transmission to other banks of £10 million (2019 - nil).

(5) Includes customer accounts of £1 million designated as at fair value through profit or loss (2019 - nil) with a carrying value higher than the principal amount. No amounts have been recognised in profit or loss for changes in credit risk associated with these liabilities as the changes are immaterial both during the period and cumulatively.

(6) Includes lease liabilities of £71 million (2019 - £97 million) held at amortised cost.

### Judgment: classification of financial assets

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

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

## Notes to the financial statements

### 11 Financial instruments - classification continued

NWM Group's financial assets and liabilities include:

	NWM Group	
	2020	2019
	£m	£m
<b>Reverse repos</b>		
Loans to banks - amortised cost	6	2
Loans to customers - amortised cost	1,893	12
Trading assets	19,404	24,095
<b>Repos</b>		
Bank deposits	200	380
Trading liabilities	19,036	27,885

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

	NWM Group					
	2020			2019		
	Holding company £m	Fellow subsidiaries £m	Total £m	Holding company £m	Fellow subsidiaries £m	Total £m
<b>Assets</b>						
Trading assets	542	224	766	307	131	438
Loans to banks - amortised cost	—	624	624	—	617	617
Loans to customers - amortised cost	112	18	130	116	6	122
Settlement balances	—	—	—	—	14	14
Other assets	—	67	67	—	40	40
Amounts due from holding company and fellow subsidiaries	654	933	1,587	423	808	1,231
Derivatives (1)	594	774	1,368	421	594	1,015
<b>Liabilities</b>						
Bank deposits - amortised cost	—	145	145	—	424	424
Customer deposits - amortised cost	—	144	144	—	74	74
CRR-compliant internal MREL	5,181	—	5,181	5,120	—	5,120
Trading liabilities	—	636	636	—	491	491
Settlement balances	—	—	—	—	3	3
Other financial liabilities - subordinated liabilities	1,753	—	1,753	2,020	—	2,020
Other liabilities	—	275	275	—	168	168
Amounts due to holding company and fellow subsidiaries	6,934	1,200	8,134	7,140	1,160	8,300
Derivatives (1)	1,120	425	1,545	712	337	1,049

Note:

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

## Notes to the financial statements

### 11 Financial instruments - classification continued

The following tables show the bank's financial assets and financial liabilities in accordance with the categories of financial instruments in IFRS 9. Assets and liabilities outside the scope of IFRS 9 are shown within other assets and other liabilities.

	NWM Plc				
	MFVTPL £m	FVOCI £m	Amortised cost £m	Other assets £m	Total £m
<b>Assets</b>					
Cash and balances at central banks			11,736		11,736
Trading assets	52,169				52,169
Derivatives (1)	164,104				164,104
Settlement balances			1,084		1,084
Loans to banks - amortised cost (2)			701		701
Loans to customers - amortised cost (3)			7,477		7,477
Amounts due from holding company and fellow subsidiaries	3,600		3,829	177	7,606
Other financial assets	161	5,347	2,535		8,043
Investment in group undertakings				2,600	2,600
Other assets				562	562
<b>31 December 2020</b>	<b>220,034</b>	<b>5,347</b>	<b>27,362</b>	<b>3,339</b>	<b>256,082</b>
Cash and balances at central banks			9,953		9,953
Trading assets	57,768				57,768
Derivatives (1)	147,458				147,458
Settlement balances			3,353		3,353
Loans to banks - amortised cost (2)			238		238
Loans to customers - amortised cost (3)			6,910		6,910
Amounts due from holding company and fellow subsidiaries	3,336		3,748	61	7,145
Other financial assets	381	7,301	3,954		11,636
Investment in group undertakings				2,905	2,905
Other assets				687	687
<b>31 December 2019</b>	<b>208,943</b>	<b>7,301</b>	<b>28,156</b>	<b>3,653</b>	<b>248,053</b>
	NWM Plc				
	Held-for- trading £m	DFV £m	Amortised cost £m	Other liabilities £m	Total £m
<b>Liabilities</b>					
Bank deposits (4)			1,762		1,762
Customer deposits			1,469		1,469
Amounts due to holding company and fellow subsidiaries	6,205		9,563	421	16,189
Settlement balances			604		604
Trading liabilities	56,916				56,916
Derivatives (1)	153,754				153,754
Other financial liabilities (5)		1,792	13,578		15,370
Other liabilities (6)			24	842	866
<b>31 December 2020</b>	<b>216,875</b>	<b>1,792</b>	<b>27,000</b>	<b>1,263</b>	<b>246,930</b>
Bank deposits (4)			2,038		2,038
Customer deposits			2,247		2,247
Amounts due to holding company and fellow subsidiaries	7,118		9,569	171	16,858
Settlement balances			2,648		2,648
Trading liabilities	53,576				53,576
Derivatives (1)	142,390				142,390
Other financial liabilities (5)		2,430	15,040		17,470
Other liabilities (6)			32	1,163	1,195
<b>31 December 2019</b>	<b>203,084</b>	<b>2,430</b>	<b>31,574</b>	<b>1,334</b>	<b>238,422</b>

#### Notes:

- (1) Includes net hedging derivative assets of £266 million (2019 - £179 million) and net hedging derivative liabilities of £107 million (2019 - £1 million).
- (2) Includes items in the course of collection from other banks of £118 million (2019 - £11 million).
- (3) Includes finance lease receivables of £10 million (2019 - £16 million).
- (4) Includes items in the course of transmission to other banks of £11 million (2019 - nil).
- (5) There are no customer accounts designated as at fair value through profit or loss (2019 - nil) with a carrying value higher than the principal amount. No amounts have been recognised in profit or loss for changes in credit risk associated with these liabilities as the changes are immaterial both during the period and cumulatively.
- (6) Includes lease liabilities of £16 million (2019 - £28 million) held at amortised cost.



## Notes to the financial statements

### 11 Financial instruments - classification continued

NWM Plc's financial assets and liabilities include:

	NWM Plc	
	2020 £m	2019 £m
<b>Reverse repos</b>		
Loans to banks - amortised cost	6	2
Loans to customers - amortised cost	1,892	12
Trading assets	11,071	12,716
<b>Repos</b>		
Bank deposits	200	380
Trading liabilities	5,928	10,007

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

	NWM Plc									
	2020				2019					
	Holding company £m	Fellow subsidiaries £m	Subsidiaries £m	Total £m	Holding company £m	Fellow subsidiaries £m	Subsidiaries £m	Total £m		
<b>Assets</b>										
Trading assets	542	224	2,834	3,600	307	130	2,899	3,336		
Loans to banks - amortised cost	—	519	1,024	1,543	—	371	868	1,239		
Loans to customers - amortised cost	—	5	1,487	1,492	—	—	1,755	1,755		
Settlement balances	—	—	81	81	—	14	27	41		
Other financial assets	—	—	713	713	—	—	713	713		
Other assets	—	32	145	177	—	23	38	61		
Amounts due from holding company and fellow subsidiaries	542	780	6,284	7,606	307	538	6,300	7,145		
Derivatives (1)	594	774	2,056	3,424	421	599	880	1,900		
<b>Liabilities</b>										
Bank deposits - amortised cost	—	132	240	372	—	361	102	463		
Customer deposits - amortised cost	—	144	2,098	2,242	—	73	1,842	1,915		
CRR-compliant internal MREL	5,181	—	—	5,181	5,120	—	—	5,120		
Trading liabilities	—	636	5,569	6,205	—	491	6,627	7,118		
Settlement balances	—	—	—	—	—	3	48	51		
Other financial liabilities - subordinated liabilities	1,753	—	—	1,753	2,020	—	—	2,020		
Other liabilities	—	270	166	436	—	148	23	171		
Amounts due to holding company and fellow subsidiaries	6,934	1,182	8,073	16,189	7,140	1,076	8,642	16,858		
Derivatives (1)	1,120	425	2,782	4,327	712	342	1,303	2,357		

Note:

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

## Notes to the financial statements

### 11 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.

NWM Group							
	Rates subject to IBOR reform				Balances not subject to IBOR reform	Expected credit losses	Total
	GBP LIBOR	USD IBOR (1)	EUR IBOR	Other IBOR			
	£m	£m	£m	£m	£m	£m	£m
Trading assets	75	60	348	1	68,205	—	68,689
Loans to banks - amortised cost	—	—	—	—	1,004	(1)	1,003
Loans to customers - amortised cost	576	189	566	6	7,284	(177)	8,444
Other financial assets	1,433	266	304	71	6,971	(4)	9,041
Amounts due from holding company and fellow subsidiaries	—	—	—	—	1,521	(1)	1,520
Bank deposits	—	—	—	—	1,808	—	1,808
Customer deposits	—	—	—	4	2,614	—	2,618
Trading liabilities	54	301	269	2	71,626	—	72,252
Other financial liabilities	—	347	314	38	16,366	—	17,065
Subordinated liabilities	—	—	268	—	837	—	1,105
Amounts due to holding company and fellow subsidiaries	—	—	—	—	7,859	—	7,859
Loan commitments (2)	1,163	1,811	5,253	—	3,121	—	11,348
<b>Derivatives notional (£bn)</b>	<b>1,309.0</b>	<b>1,359.9</b>	<b>2,345.3</b>	<b>288.9</b>	<b>8,456.0</b>	<b>—</b>	<b>13,759.1</b>

Included within the table above for derivatives were currency swaps with corresponding legs also subject to IBOR reform of GBP Libor of £5.2 billion with USD IBOR £2.0 billion, EUR IBOR £2.9 billion and Other IBOR £0.3 billion. Currency swaps of USD IBOR of £231.7 billion with GBP Libor £98.5 billion, EUR IBOR £85.8 billion and Other IBOR £47.4 billion. Currency swaps of EUR IBOR of £5.1 billion with GBP Libor £2.3 billion, USD IBOR £1.8 billion and Other IBOR £1 billion. Currency swaps of Other IBOR of £2.2 billion with EUR IBOR £0.7 billion, USD IBOR £1.2 billion and Other IBOR £0.3 billion.

Additionally, included above are basis swaps for GBP Libor of £97 billion, USD IBOR of £81 billion, EUR IBOR of £49 billion and Other IBOR of £10 billion.

## Notes to the financial statements

### 11 Financial instruments - classification continued

NWM Plc							
	Rates subject to IBOR reform				Balances not subject to	Expected	Total
	GBP LIBOR £m	USD IBOR (1) £m	EUR IBOR £m	Other IBOR £m	IBOR reform £m	credit losses £m	£m
Trading assets	75	58	348	1	51,687	—	52,169
Loans to banks - amortised cost	—	—	—	—	701	—	701
Loans to customers - amortised cost	462	53	185	—	6,852	(75)	7,477
Other financial assets	1,433	266	254	71	6,023	(4)	8,043
Amounts due from holding company and fellow subsidiaries	—	—	972	477	5,904	(5)	7,348
Bank deposits	—	—	—	—	1,762	—	1,762
Customer deposits	—	—	—	4	1,465	—	1,469
Trading liabilities	54	296	269	2	56,295	—	56,916
Other financial liabilities	—	347	314	38	14,155	—	14,854
Subordinated liabilities	—	—	268	—	248	—	516
Amounts due to holding company and fellow subsidiaries	499	—	—	528	14,726	—	15,753
Loan commitments (2)	1,071	1,690	469	—	3,448	—	6,678
<b>Derivatives notional (£bn)</b>	<b>1,035.0</b>	<b>1,359.2</b>	<b>1,707.9</b>	<b>195.8</b>	<b>7,686.4</b>	<b>—</b>	<b>11,984.3</b>

Notes:

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

Included within the table above for derivatives were currency swaps with corresponding legs also subject to IBOR reform of GBP LIBOR of £5.2 billion with USD IBOR of £2.0 billion, EUR IBOR of £2.9 billion and Other IBOR of £0.3 billion. Currency swaps of USD IBOR of £231.9 billion with GBP LIBOR of £98.6 billion, EUR IBOR of £85.8 billion and Other IBOR of £47.4 billion. Currency swaps of EUR IBOR of £5.1 billion with GBP LIBOR of £2.3 billion, USD IBOR of £1.8 billion and Other IBOR of £1 billion. Currency swaps of Other IBOR of £2.2 billion with EUR IBOR of £0.7 billion and USD IBOR of £1.2 billion and Other IBOR of £0.3bn.

Additionally, included above are basis swaps for GBP LIBOR of £79.3 billion, USD IBOR of £80.6 billion, EUR IBOR of £39.2 billion and Other IBOR of £9.7 billion.

#### AT1 issuances

NWM Plc has issued certain capital instruments (AT1) under which reset clauses are linked to IBOR rates subject to reform. Where under the contractual terms of the instrument the coupon subject to IBOR rates and are shown in Note 21.

As part of its capital management activities NWM Plc has acquired an equity instrument (\$250 million EURIBOR) issued by its subsidiary which contains coupon clauses linked to IBOR rates subject to reform. This instrument is reported in Investment in Group undertakings.

## Notes to the financial statements

### 11 Financial instruments - classification continued

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

	NWM Group								
	Instruments which can be offset			Potential to offset not recognised by IFRS					
	Gross £m	IFRS offset £m	Balance sheet £m	Effect of master netting and similar agreements £m	Cash collateral £m	Securities £m	Net amount after the effect of netting agreements and related collateral £m	Instruments outside netting agreements £m	Balance sheet total £m
<b>2020</b>									
Derivative assets	164,766	—	164,766	(135,711)	(20,174)	(5,053)	3,828	853	165,619
Derivative liabilities	156,754	—	156,754	(135,711)	(15,523)	(2,487)	3,033	578	157,332
Net position (1)	8,012	—	8,012	—	(4,651)	(2,566)	795	275	8,287
Trading reverse repos	43,907	(24,866)	19,041	(929)	—	(18,039)	73	363	19,404
Trading repos	42,202	(24,866)	17,336	(929)	—	(16,407)	—	1,700	19,036
Net position	1,705	—	1,705	—	—	(1,632)	73	(1,337)	368
Non trading reverse repos	1,899	—	1,899	—	—	(1,899)	—	—	1,899
Non trading repos	200	—	200	—	—	(200)	—	—	200
Net position	1,699	—	1,699	—	—	(1,699)	—	—	1,699
<b>2019</b>									
Derivative assets	150,524	(3,876)	146,648	(120,776)	(18,682)	(4,292)	2,898	2,048	148,696
Derivative liabilities	144,008	(4,011)	139,997	(120,776)	(17,187)	(1,276)	758	4,145	144,142
Net position (1)	6,516	135	6,651	—	(1,495)	(3,016)	2,140	(2,097)	4,554
Trading reverse repos	52,007	(28,720)	23,287	(562)	—	(22,364)	361	808	24,095
Trading repos	54,131	(28,720)	25,411	(562)	—	(24,849)	—	2,474	27,885
Net position	(2,124)	—	(2,124)	—	—	2,485	361	(1,666)	(3,790)
Non trading reverse repos	14	—	14	—	—	(14)	—	—	14
Non trading repos	380	—	380	—	—	(380)	—	—	380
Net position	(366)	—	(366)	—	—	366	—	—	(366)

Note:

(1) The net IFRS offset balance of nil (2019 - £135 million) relates to variation margin netting reflected on other balance sheet lines.

	NWM Plc								
	Instruments which can be offset			Potential to offset not recognised by IFRS					
	Gross £m	IFRS offset £m	Balance sheet £m	Effect of master netting and similar agreements £m	Cash collateral £m	Securities £m	Net amount after the effect of netting agreements and related collateral £m	Instruments outside netting agreements £m	Balance sheet total £m
<b>2020</b>									
Derivative assets	167,067	(3,801)	163,266	(135,490)	(19,291)	(5,003)	3,482	838	164,104
Derivative liabilities	159,329	(6,186)	153,143	(135,490)	(13,284)	(1,641)	2,728	611	153,754
Net position (1)	7,738	2,385	10,123	—	(6,007)	(3,362)	754	227	10,350
Trading reverse repos	24,951	(13,972)	10,979	(604)	—	(10,373)	2	92	11,071
Trading repos	18,200	(13,972)	4,228	(604)	—	(3,624)	—	1,700	5,928
Net position	6,751	—	6,751	—	—	(6,749)	2	(1,608)	5,143
Non trading reverse repos	1,898	—	1,898	—	—	(1,898)	—	—	1,898
Non trading repos	200	—	200	—	—	(200)	—	—	200
Net position	1,698	—	1,698	—	—	(1,698)	—	—	1,698
<b>2019</b>									
Derivative assets	151,324	(3,872)	147,452	(120,409)	(18,183)	(4,202)	4,658	6	147,458
Derivative liabilities	146,391	(4,007)	142,384	(120,409)	(16,099)	(1,276)	4,600	6	142,390
Net position (1)	4,933	135	5,068	—	(2,084)	(2,926)	58	—	5,068
Trading reverse repos	27,327	(15,160)	12,167	(459)	—	(11,428)	280	549	12,716
Trading repos	22,692	(15,160)	7,532	(459)	—	(7,073)	—	2,475	10,007
Net position	4,635	—	4,635	—	—	(4,355)	280	(1,926)	2,709
Non trading reverse repos	14	—	14	—	—	(14)	—	—	14
Non trading repos	380	—	380	—	—	(380)	—	—	380
Net position	(366)	—	(366)	—	—	366	—	—	(366)

Note:

(1) The net IFRS offset balance of £2,385 million (2019 - £135 million) relates to variation margin netting reflected on other balance sheet lines.

## Notes to the financial statements

### 12 Financial instruments - valuation

#### Critical accounting policy: Fair value - financial instruments

In accordance with Accounting policies 10 and 18, financial instruments at fair value through profit or loss and financial assets classified as fair value through other comprehensive income are recognised in the financial statements at fair value. All derivatives are measured at fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. It also uses the assumptions that market participants would use when pricing the asset or liability. In determining fair value, NWM 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. Expert judgement is used in the initial measurement of modelled products by control teams.

Where NWM 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 the NWM 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
<b>Assets</b>								
Trading assets								
Loans	—	39,249	225	39,474	—	45,967	449	46,416
Securities	21,535	7,599	81	29,215	20,865	8,704	555	30,124
Derivatives	—	164,296	1,323	165,619	—	147,285	1,411	148,696
Amounts due from holding company and fellow subsidiaries	—	766	—	766	—	438	—	438
Other financial assets								
Loans	—	21	71	92	—	18	58	76
Securities	5,107	1,247	20	6,374	6,428	1,787	30	8,245
<b>Total financial assets held at fair value</b>	<b>26,642</b>	<b>213,178</b>	<b>1,720</b>	<b>241,540</b>	<b>27,293</b>	<b>204,199</b>	<b>2,503</b>	<b>233,995</b>
<b>Liabilities</b>								
Amounts due to holding company and fellow subsidiaries	—	636	—	636	—	491	—	491
Trading liabilities								
Deposits	—	44,058	7	44,065	—	50,831	56	50,887
Debt securities in issue	—	1,408	—	1,408	—	1,703	59	1,762
Short positions	19,045	7,734	—	26,779	15,565	5,622	—	21,187
Derivatives	—	156,384	948	157,332	—	143,009	1,133	144,142
Other financial liabilities								
Deposits	—	796	—	796	—	—	—	—
Debt securities in issue	—	1,607	—	1,607	—	2,115	141	2,256
Subordinated liabilities	—	793	—	793	—	724	—	724
<b>Total financial liabilities held at fair value</b>	<b>19,045</b>	<b>213,416</b>	<b>955</b>	<b>233,416</b>	<b>15,565</b>	<b>204,495</b>	<b>1,389</b>	<b>221,449</b>

#### 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) For an analysis of debt securities held at mandatory fair value through profit or loss by issuer as well as ratings and derivatives, by type and contract, refer to Capital and Risk management – Credit risk.
- (3) 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.

## Notes to the financial statements

### 12 Financial instruments – valuation continued

#### Fair Value Hierarchy

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

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

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

#### Valuation Techniques

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

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

Modelled Products that are priced using models range in complexity from comparatively vanilla such as interest rate swaps and loans through to more complex derivatives and structured note issuance. The valuation of modelled products requires an appropriate model and inputs into this model. Sometimes models are also used to derive inputs (e.g. to construct volatility surfaces). NWM Group uses a number of modelling methodologies.

#### Inputs to valuation models

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

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

Credit spreads - where available, these are derived from observable prices of credit default swaps, or other credit based instruments such as debt securities, or market data providers. For others, credit spreads are obtained from third-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). Where such prices are not available credit spreads are determined with reference to available prices of entities with similar characteristics.

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 generally are observable prices both for spot and forward contracts and futures in the world's major currencies.

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

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

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

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

Recovery rates/loss given default - these are used as an input to valuation models and reserves as an indicator of severity of losses on default. Recovery rates are primarily sourced from market data providers, inferred from observable credit spreads or historically realised levels.

#### Valuation Control

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

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

Where measurement differences are identified through the IPV process, these are grouped by 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 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.



## Notes to the financial statements

### 12 Financial instruments – valuation continued

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 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 Group contributes to consensus pricing services where there is a significant interest from a positional point of view. 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 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. All sources of independent data are reviewed for quality and are applied in the IPV processes using a formalised input quality hierarchy.

In order to determine a reliable fair value, where appropriate, management applies IPV valuation adjustments based on the pricing information gathered from the above sources. These adjustments reflect NWM Group's assessment of factors that market participants would consider in setting a price.

Where unobservable inputs are used, NWM Group may determine a range of possible valuations derived from different stress scenarios to determine the sensitivity associated with the valuation. When establishing the fair value of a financial instrument using a valuation technique, NWM 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, funding 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, funding and credit risk. These adjustments are presented in the table below.

	2020 £m	2019 £m
Funding – FVA	121	193
Credit – CVA	388	384
Bid – Offer	122	138
Product and deal specific	172	238
	<b>803</b>	<b>953</b>

The reduction in valuation reserves was primarily driven by a combination of market moves, trade close-out activity and risk reduction together with a reallocation of product and deal specific reserves that are now included within modelled trade valuations.

#### 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 exposure reflects the future valuation of the derivative, 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. CVA is calculated as a portfolio level adjustment.

Collateral held under a credit support agreement is factored into the CVA calculation. In such cases where NWM 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 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. At 31 December 2020, net gains of £63 million (2019 - £88 million) were carried forward. During the year, net gains of £75 million (2019 - £183 million) were deferred and £100 million (2019 - £154 million) were recognised in the income statement.

Where system generated valuations do not accurately recover market prices, manual 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 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 Group's creditworthiness when pricing trades.

## Notes to the financial statements

### 12 Financial instruments – valuation: Level 3 ranges of unobservable inputs

Financial instrument	Valuation technique	Unobservable inputs	Units	2020		2019	
				Low	High	Low	High
Trading assets and Other financial assets							
Loans	Price-based	Price	%	—	105	—	101
	Discount cash flow	Credit spreads	bps	69	119	53	101
	Discount cash flow	Discount margin	bps	49	57	—	—
Debt securities	Price-based	Price	%	—	232	—	246
Equity Shares	Price-based	Price	GBP	—	27,737	—	25,914
		Price	%	88	112	—	80
		Fund NAV	%	80	120	80	120
Trading liabilities and Other financial liabilities							
Deposits	Price-based	Price	%	—	100	—	98
	Yield analysis	Day count	Number	—	—	65	95
Debt securities in issue	Price-based	Price	CCY	—	—	44 JPY	146 EUR
Derivative assets and liabilities							
Credit derivatives	Credit derivative pricing	Credit spreads	bps	2	500	6	500
		Correlation	%	(50)	95	(50)	80
		Volatility	%	27	80	27	80
Interest rate & FX derivatives	Option pricing	Upfront points	%	—	100	—	99
		Recovery rate	%	10	40	10	40
		Correlation	%	(50)	100	(50)	99
		Volatility	%	17	60	19	70
		Constant					
		prepayment rate	%	2	18	2	15
		Mean reversion	%	—	92	—	92
		Basis volatility	bps	15	21	8	27
		Inflation volatility	%	1	2	—	—
		Inflation rate	%	1	2	—	—
		Equity derivatives	Option pricing	Correlation	%	(53)	87

#### 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) Credit spreads and discount margins: credit spreads and margins express the return required over a benchmark rate or index to compensate for the credit risk associated with a cash instrument. A higher credit spread would indicate that the underlying instrument has more credit risk associated with it. Consequently, investors require a higher yield to compensate for the higher risk.
- (3) 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.
- (4) Recovery rate: reflects market expectations about the return of principal for a debt instrument or other obligations after a credit event or on liquidation.
- (5) Valuation: for private equity investments, values may be estimated by looking at past prices of similar stocks and from valuation statements where valuations are usually derived from earnings measures such as EBITDA or net asset value (NAV). Similarly for equity or bond fund investments, prices may be estimated from valuation or credit statements using NAV or similar measures.
- (6) 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.
- (7) Volatility: a measure of the tendency of a price to change with time.
- (8) Interest rate delta: these ranges represent the low/high marks on the relevant discounting curve.
- (9) Upfront points: where CDS contracts are standardised, the inherent spread of the trade may exceed the standard premium paid or received under the contract. Upfront points will compensate for the difference between the standard premium and the actual premium at the start of the contract.
- (10) Mean reversion: a measure of how much a rate reverts to its mean level.
- (11) Constant prepayment rate: the rate is used to reflect how fast a pool of assets pay down.
- (12) Day count: yield analysis on deposits are calculated using day count as an input, referring to the maturity of the deposit.
- (13) NWM Group does not have any material liabilities measured at fair value that are issued with an inseparable third party credit enhancement.

## Notes to the financial statements

### 12 Financial instruments – valuation: areas of judgement

Whilst the business has simplified, the diverse range of products historically traded by NWM 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 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 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 a position.

If an input fails the observability or quality tests then the instrument is considered to be in level 3 unless the input can be shown to have an insignificant effect on the overall valuation of the product.

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

#### Non-modelled products

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

The availability and quality of independent pricing information are considered during the classification process. An assessment is made regarding the quality of the independent information. For example, where consensus prices are used for non-modelled products, a key assessment of the quality of a price is the depth of the number of prices used to provide the consensus price. If the depth of contributors falls below a set hurdle rate, the instrument is considered to be level 3. This hurdle rate is that used in the IPV process to determine the IPV quality rating. However, where an instrument is generally considered to be illiquid, but regular quotes from market participants exist, these instruments may be classified as level 2 depending on frequency of quotes, other available pricing and whether the quotes are used as part of the IPV process or not.

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

	2020			2019		
	Level 3 £m	Favourable £m	Unfavourable £m	Level 3 £m	Favourable £m	Unfavourable £m
<b>Assets</b>						
Trading assets						
Loans	225	10	—	449	10	(10)
Securities	81	—	—	555	—	—
Derivatives	1,323	120	(100)	1,411	250	(230)
Other financial assets						
Loans	71	10	(10)	58	—	—
Securities	20	—	—	30	—	—
	<b>1,720</b>	<b>140</b>	<b>(110)</b>	<b>2,503</b>	<b>260</b>	<b>(240)</b>
<b>Liabilities</b>						
Trading liabilities						
Deposits	7	—	—	56	—	—
Debt securities in issue	—	—	—	59	—	—
Derivatives	948	50	(40)	1,133	100	(100)
Other financial liabilities – debt securities in issue	—	—	—	141	10	(10)
	<b>955</b>	<b>50</b>	<b>(40)</b>	<b>1,389</b>	<b>110</b>	<b>(110)</b>

## Notes to the financial statements

### 12 Financial instruments – valuation: level 3 sensitivities

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

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

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

#### Other considerations

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

### 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	2,415	88	2,503	1,389	2,723	531	3,254	2,051
Amounts recorded in the income statement (1)	192	(14)	178	(68)	(396)	—	(396)	126
Amounts recorded in the statement of comprehensive income	—	2	2	—	—	34	34	—
Level 3 transfers in	165	163	328	188	463	2	465	98
Level 3 transfers out	(139)	(3)	(142)	(368)	(867)	(139)	(1,006)	(577)
Issuances	—	—	—	—	—	—	—	46
Purchases	441	96	537	128	1,501	13	1,514	597
Settlements	(293)	(153)	(446)	(59)	(247)	(39)	(286)	(421)
Sales	(1,154)	(88)	(1,242)	(256)	(759)	(314)	(1,073)	(530)
Foreign exchange and other adjustments	2	—	2	1	(3)	—	(3)	(1)
At 31 December	1,629	91	1,720	955	2,415	88	2,503	1,389
Amounts recorded in the income statement in respect of balances held at year end:								
- unrealised	194	(15)	179	(69)	(395)	10	(385)	126

#### Notes:

- (1) Net gains on trading assets and liabilities of £260 million (2019 – £538 million losses) were recorded in income from trading activities. Net losses on other instruments of £14 million (2019 - £16 million gains) were recorded in other operating income and interest income as appropriate.
- (2) Trading assets comprise assets held at fair value in trading portfolios.
- (3) Other financial assets comprise fair value through other comprehensive income, designated as at fair value through profit or loss and other fair value through profit or loss.

## Notes to the financial statements

### 12 Financial instruments – fair value of financial instruments measured at amortised cost

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

	NWM Group					NWM Plc				
	Items where fair value approximates carrying value £bn	Carrying value £bn	Fair value £bn	Fair value hierarchy level Level 2 £bn	Level 3 £bn	Items where fair value approximates carrying value £bn	Carrying value £bn	Fair value £bn	Fair value hierarchy level Level 2 £bn	Level 3 £bn
<b>2020</b>										
<b>Financial assets</b>										
Cash and balances at central banks	15.8					11.7				
Settlement balances	2.3					1.1				
Loans to banks	0.1	0.9	0.9	0.3	0.6	0.1	0.6	0.6	0.1	0.5
Loans to customers		8.4	8.4	1.9	6.5		7.5	7.4	1.9	5.5
Amounts due from holding company and fellow subsidiaries		0.8	0.8	—	0.8	0.1	3.7	3.7	—	3.7
Other financial assets - securities		2.6	2.6	—	2.6		2.5	2.6	—	2.6
<b>Financial liabilities</b>										
Bank deposits		1.8	1.8	—	1.8		1.8	1.8	—	1.8
Customer deposits	0.1	2.5	2.6	—	2.6	—	1.5	1.4	—	1.4
Amounts due to holding company and fellow subsidiaries	0.1	7.1	7.2	7.1	0.1	0.1	9.5	9.6	7.1	2.5
Settlement balances	2.2					0.6				
Other financial liabilities										
Debt securities in issue		14.7	15.0	9.4	5.6		13.5	13.8	8.6	5.2
Subordinated liabilities		0.3	0.4	0.4	—		0.1	0.1	0.1	—
<b>2019</b>										
<b>Financial assets</b>										
Cash and balances at central banks	12.7					10.0				
Settlement balances	4.3					3.4				
Loans to banks		1.1	1.1	0.2	0.9		0.2	0.2	—	0.2
Loans to customers		8.4	8.1	0.3	7.8		6.9	6.9	—	6.9
Amounts due from holding company and fellow subsidiaries	0.2	0.6	0.6	—	0.6	0.1	3.6	3.5	—	3.5
Other financial assets - securities		4.0	4.0	1.5	2.5		4.0	4.0	1.5	2.5
<b>Financial liabilities</b>										
Bank deposits		2.1	2.1	—	2.1		2.0	2.0	—	2.0
Customer deposits	0.9	2.8	2.8	—	2.8	0.5	1.7	1.8	—	1.8
Amounts due to holding company and fellow subsidiaries	0.1	7.5	7.7	7.3	0.4	0.3	9.3	9.6	7.3	2.3
Settlement balances	4.0					2.6				
Other financial liabilities										
Debt securities in issue		15.1	15.1	12.6	2.5		14.8	14.9	12.4	2.5
Subordinated liabilities		0.4	0.4	0.4	—		0.2	0.2	0.2	—

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, customer demand deposits and notes in circulation, carrying value is a reasonable approximation of fair value.

#### Loans to banks and customers

In estimating the fair value of net loans to customers and banks measured at amortised cost, NWM Group's loans are segregated into

appropriate portfolios reflecting the characteristics of the constituent loans. Two principal methods are used to estimate fair value:

- 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 institutional and corporate lending portfolios in NWM Group where counterparties have external ratings.
- 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 of the rest 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, adjusting for own credit spreads where appropriate.

## Notes to the financial statements

### 13 Financial instruments - maturity analysis

#### Remaining maturity

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

	NWM Group					
	Less than 12 months £m	More than 12 months £m	Total £m	Less than 12 months £m	More than 12 months £m	Total £m
<b>Assets</b>						
Cash and balances at central banks	15,771	—	15,771	12,729	—	12,729
Trading assets	41,736	26,953	68,689	51,620	24,920	76,540
Derivatives	46,232	119,387	165,619	40,667	108,029	148,696
Settlement balances	2,296	—	2,296	4,339	—	4,339
Loans to banks - amortised cost	891	112	1,003	1,083	5	1,088
Loans to customers - amortised cost	4,535	3,909	8,444	3,716	4,645	8,361
Amounts due from holding company and fellow subsidiaries (1)	1,295	225	1,520	950	241	1,191
Other financial assets	3,152	5,889	9,041	3,589	8,716	12,305
<b>Liabilities</b>						
Bank deposits	1,294	514	1,808	1,302	787	2,089
Customer deposits	2,526	92	2,618	3,176	527	3,703
Amounts due to holding company and fellow subsidiaries (2)	942	6,934	7,876	982	7,180	8,162
Settlement balances	2,248	—	2,248	4,022	—	4,022
Trading liabilities	45,033	27,219	72,252	52,934	20,902	73,836
Derivatives	47,138	110,194	157,332	41,214	102,928	144,142
Other financial liabilities	8,310	9,860	18,170	7,192	11,253	18,445
Lease liabilities	21	50	71	24	73	97

	NWM Plc					
	Less than 12 months £m	More than 12 months £m	Total £m	Less than 12 months £m	More than 12 months £m	Total £m
<b>Assets</b>						
Cash and balances at central banks	11,736	—	11,736	9,953	—	9,953
Trading assets	29,985	22,184	52,169	36,902	20,866	57,768
Derivatives	46,739	117,365	164,104	40,729	106,729	147,458
Settlement balances	1,084	—	1,084	3,353	—	3,353
Loans to banks - amortised cost	589	112	701	233	5	238
Loans to customers - amortised cost	4,440	3,037	7,477	3,356	3,554	6,910
Amounts due from holding company and fellow subsidiaries (1)	4,720	2,709	7,429	4,004	3,080	7,084
Other financial assets	2,632	5,411	8,043	3,392	8,244	11,636
<b>Liabilities</b>						
Bank deposits	1,248	514	1,762	1,294	744	2,038
Customer deposits	1,406	63	1,469	2,217	30	2,247
Amounts due to holding company and fellow subsidiaries (2)	6,714	9,054	15,768	7,731	8,972	16,703
Settlement balances	604	—	604	2,648	—	2,648
Trading liabilities	30,794	26,122	56,916	34,176	19,400	53,576
Derivatives	47,670	106,084	153,754	41,356	101,034	142,390
Other financial liabilities	6,513	8,857	15,370	6,977	10,493	17,470
Lease liabilities	10	6	16	13	15	28

#### Notes:

- (1) Amounts due from holding company and fellow subsidiaries relating to non-financial instruments of £67 million (2019 – £40 million) for NWM Group and £177 million (2019 - £61 million) for NWM Plc have been excluded from the tables.
- (2) Amounts due to holding company and fellow subsidiaries relating to non-financial instruments of £258 million (2019 - £138 million) for NWM Group and £421 million (2019 - £155 million) for NWM Plc have been excluded from the tables.



## Notes to the financial statements

### 13 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 Group. 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 Group depends on when cash flows are received from the securitised assets. Where these assets are prepayable, the timing of the cash outflow relating to securities assumes that each asset will be prepaid at the earliest possible date. 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.

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

MFVTPL assets of £235 billion (2019 - £226 billion) for NWM Group, £220 billion (2019 - £209 billion) for NWM Plc, HFT liabilities of £230 billion (2019 - £218 billion) for NWM Group and £217 billion (2019 - £203 billion) for NWM Plc have been excluded from the following tables.

	NWM Group					
	0-3 months £m	3-12 months £m	1-3 years £m	3-5 years £m	5-10 years £m	10-20 years £m
<b>2020</b>						
<b>Assets by contractual maturity</b>						
Cash and balances at central banks	15,771	—	—	—	—	—
Derivatives held for hedging	52	44	137	27	6	—
Settlement balances	2,296	—	—	—	—	—
Loans to banks - amortised cost	876	16	—	—	1	110
Loans to customers - amortised cost	1,476	3,139	2,541	872	262	126
Amounts due from holding company and fellow subsidiaries (1)	528	1	23	1	4	85
Other financial assets (2)	1,439	2,004	2,871	908	882	525
Finance lease	2	7	8	6	13	46
	<b>22,440</b>	<b>5,211</b>	<b>5,580</b>	<b>1,814</b>	<b>1,168</b>	<b>892</b>
<b>2020</b>						
<b>Liabilities by contractual maturity</b>						
Bank deposits	458	819	498	37	—	—
Customer deposits	1,664	863	84	1	1	20
Amounts due to holding company and fellow subsidiaries (3)	103	204	5,181	889	204	—
Settlement balances	2,248	—	—	—	—	—
Derivatives held for hedging	—	(1)	92	11	—	—
Other financial liabilities	2,419	5,931	5,371	3,371	463	195
Lease liabilities	4	15	21	8	21	2
	<b>6,896</b>	<b>7,831</b>	<b>11,247</b>	<b>4,317</b>	<b>689</b>	<b>217</b>
<b>Guarantees and commitments notional amount</b>						
Guarantees (4)	638	—	—	—	—	—
Commitments (5)	11,348	—	—	—	—	—
	<b>11,986</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>

For notes to the above table refer to page 131.

## Notes to the financial statements

### 13 Financial instruments - maturity analysis continued

2019	NWM Group					
	0-3 months £m	3-12 months £m	1-3 years £m	3-5 years £m	5-10 years £m	10-20 years £m
<b>Assets by contractual maturity</b>						
Cash and balances at central banks	12,729	—	—	—	—	—
Derivatives held for hedging	37	6	117	58	(40)	—
Settlement balances	4,339	—	—	—	—	—
Loans to banks - amortised cost	1,052	35	5	—	—	—
Loans to customers - amortised cost	1,920	1,922	2,170	1,881	455	198
Amounts due from holding company and fellow subsidiaries (1)	511	—	1	27	7	207
Other financial assets (2)	1,063	2,672	3,826	1,550	1,337	504
Finance lease	—	4	19	7	13	25
	<b>21,651</b>	<b>4,639</b>	<b>6,138</b>	<b>3,523</b>	<b>1,772</b>	<b>934</b>

2019						
<b>Liabilities by contractual maturity</b>						
Bank deposits	931	374	748	38	—	—
Customer deposits	1,915	1,273	520	1	—	17
Amounts due to holding company and fellow subsidiaries (3)	442	49	2,164	4,134	197	—
Settlement balances	4,022	—	—	—	—	—
Derivatives held for hedging	—	1	—	—	—	—
Other financial liabilities	3,433	3,769	7,177	2,842	560	298
Other liabilities- notes in circulation	—	—	—	—	—	—
Lease liabilities	11	13	35	12	20	6
	<b>10,754</b>	<b>5,479</b>	<b>10,644</b>	<b>7,027</b>	<b>777</b>	<b>321</b>

#### Guarantees and commitments notional amount

Guarantees (4)	972	—	—	—	—	—
Commitments (5)	14,472	—	—	—	—	—
	<b>15,444</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>

2020	NWM Plc					
	0-3 months £m	3-12 months £m	1-3 years £m	3-5 years £m	5-10 years £m	10-20 years £m
<b>Assets by contractual maturity</b>						
Cash and balances at central banks	11,736	—	—	—	—	—
Derivatives held for hedging	52	44	137	27	6	—
Settlement balances	1,084	—	—	—	—	—
Loans to banks - amortised cost	574	16	—	—	1	110
Loans to customers - amortised cost	1,412	3,090	2,091	483	256	127
Amounts due from holding company and fellow subsidiaries (1)	888	738	1,209	689	220	85
Other financial assets (2)	1,429	1,490	2,723	778	765	498
Finance lease	1	4	5	—	—	—
	<b>17,176</b>	<b>5,382</b>	<b>6,165</b>	<b>1,977</b>	<b>1,248</b>	<b>820</b>

2020						
<b>Liabilities by contractual maturity</b>						
Bank deposits	456	775	498	37	—	—
Customer deposits	878	529	61	1	1	3
Amounts due to holding company and fellow subsidiaries (3)	842	365	6,379	889	427	—
Settlement balances	604	—	—	—	—	—
Derivatives held for hedging	—	(1)	92	11	—	—
Other financial liabilities	2,086	4,458	5,049	3,276	307	195
Lease liabilities	2	7	7	—	—	—
	<b>4,868</b>	<b>6,133</b>	<b>12,086</b>	<b>4,214</b>	<b>735</b>	<b>198</b>
<b>Guarantees and commitments notional amount</b>						
Guarantees (4)	195	—	—	—	—	—
Commitments (5)	6,678	—	—	—	—	—
	<b>6,873</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>

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

## Notes to the financial statements

### 13 Financial instruments - maturity analysis continued

2019	NWM Plc					
	0-3 months £m	3-12 months £m	1-3 years £m	3-5 years £m	5-10 years £m	10-20 years £m
<b>Assets by contractual maturity</b>						
Cash and balances at central banks	9,953	—	—	—	—	—
Derivatives held for hedging	37	6	81	52	2	—
Settlement balances	3,353	—	—	—	—	—
Loans to banks - amortised cost	202	35	5	—	—	—
Loans to customers - amortised cost	1,588	1,862	1,778	1,202	418	198
Amounts due from holding company and fellow subsidiaries (1)	607	620	807	1,613	7	91
Other financial assets (2)	1,045	2,490	3,695	1,382	1,258	460
Finance lease	1	4	10	—	—	—
	<b>16,786</b>	<b>5,017</b>	<b>6,376</b>	<b>4,249</b>	<b>1,685</b>	<b>749</b>
<b>Liabilities by contractual maturity</b>						
Bank deposits	922	374	706	38	—	—
Customer deposits	1,431	795	30	1	—	—
Amounts due to holding company and fellow subsidiaries (3)	736	126	2,839	4,763	421	—
Settlement balances	2,648	—	—	—	—	—
Derivatives held for hedging	—	1	—	—	—	—
Other financial liabilities	3,428	3,548	7,158	2,614	470	234
Lease liabilities	8	5	14	1	—	—
	<b>9,173</b>	<b>4,849</b>	<b>10,747</b>	<b>7,417</b>	<b>891</b>	<b>234</b>
<b>Guarantees and commitments notional amount</b>						
Guarantees (4)	134	—	—	—	—	—
Commitments (5)	8,941	—	—	—	—	—
	<b>9,075</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>

#### Notes:

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

## Notes to the financial statements

### 14 Loan impairment provisions

#### Loan exposure and impairment metrics

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

	NWM Group		NWM Plc	
	31 December 2020 £m	31 December 2019 £m	31 December 2020 £m	31 December 2019 £m
<b>Loans - amortised cost</b>				
- Stage 1	7,799	9,260	6,819	7,046
- Stage 2	1,566	180	1,253	79
- Stage 3	171	169	99	106
<i>Of which: individual</i>	162	158	90	88
<i>Of which: collective</i>	9	11	9	18
- Inter-Group	755	738	3,039	2,994
<b>Total</b>	<b>10,291</b>	<b>10,347</b>	<b>11,210</b>	<b>10,225</b>
<b>ECL provisions (1)</b>				
- Stage 1	12	10	11	10
- Stage 2	49	4	12	2
- Stage 3	132	132	65	63
<i>Of which: individual</i>	124	123	57	53
<i>Of which: collective</i>	8	9	8	11
- Inter-Group	1	—	5	1
<b>Total</b>	<b>194</b>	<b>146</b>	<b>93</b>	<b>76</b>
<b>ECL provision coverage (2,3)</b>				
- Stage 1 (%)	0.15	0.11	0.16	0.14
- Stage 2 (%)	3.13	2.22	0.96	2.53
- Stage 3 (%)	77.19	78.11	65.66	59.43
- Inter-Group (%)	0.13	—	0.16	0.03
<b>Total</b>	<b>2.02</b>	<b>1.52</b>	<b>1.08</b>	<b>1.04</b>
<b>Impairment losses</b>				
<b>ECL charge</b>				
- Stage 1	(2)	—	1	—
- Stage 2	55	(7)	16	(6)
- Stage 3	(12)	(41)	(13)	(41)
<i>Of which: individual</i>	(3)	(35)	(4)	(4)
<i>Of which: collective</i>	(9)	(6)	(9)	(37)
- Third party	41	(48)	4	(47)
- Inter-Group	1	—	13	(3)
<b>Total</b>	<b>42</b>	<b>(48)</b>	<b>17</b>	<b>(50)</b>
- ECL loss rate - annualised (basis points) (3)	43	(50)	5	(65)
- Amounts written off	11	15	6	14
<i>Of which: individual</i>	11	15	6	14

Notes:

- (1) NWM Group's intercompany assets were classified as Stage 1. The ECL for these loans was £1.2 million at 31 December 2020.
- (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 64 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 £15.8 billion (2019 – £12.7 billion) and debt securities of £8.7 billion (2019 – £11.1 billion).

## Notes to the financial statements

### 14 Loan impairment provisions continued

#### 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 11 sets out how the expected loss approach is applied. At 31 December 2020, customer loan impairment provisions amounted to £194 million (2019 - £146 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.

## Notes to the financial statements

### 15 Investments in group undertakings

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

	NWM Plc	
	2020 £m	2019 £m
At 1 January	2,905	1,151
Currency translation and other adjustments	42	34
Additions	—	2,069
Disposals	(97)	—
Impairment of investments (1)	(250)	(349)
At 31 December	2,600	2,905

Note:

(1) Net of impairment reversals.

The disposal relates to RBS Bank (Polska) S.A., which was liquidated in August 2020. The impairment of investments in 2020 relates mainly to RBS Netherlands Holdings BV. The additional investment in group undertakings in 2019 was due to the acquisition of RBS Holdings NV.

The principal subsidiary undertakings of the company are shown below. Their capital consists of ordinary shares and additional Tier 1 notes which are unlisted. All of these subsidiaries are included in NWM Group's consolidated financial statements and have an accounting reference date of 31 December.

	Nature of business	Country of incorporation and principal area of operation	Group interest
NatWest Markets Securities Inc.	Broker dealer	US	100%
NatWest Markets N.V.	Banking	Netherlands	100%

Full information on all related undertakings is included in Note 35.

### 16 Other financial assets

	NWM Group							
	Debt securities							
	Central and local government			Other debt	Total	Equity shares	Loans	Total
2020	UK £m	US £m	Other £m	£m	£m	£m	£m	£m
Mandatory fair value through profit or loss	—	—	—	84	84	5	77	166
Fair value through other comprehensive income	212	3,372	1,691	891	6,166	119	15	6,300
Amortised cost	—	—	—	2,575	2,575	—	—	2,575
Total	212	3,372	1,691	3,550	8,825	124	92	9,041

2019	UK £m	US £m	Other £m	Other debt £m	Total £m	Equity shares £m	Loans £m	Total £m
Mandatory fair value through profit or loss	—	—	—	305	305	11	76	392
Fair value through other comprehensive income	233	3,484	2,890	627	7,234	695	—	7,929
Amortised cost	—	—	—	3,984	3,984	—	—	3,984
Total	233	3,484	2,890	4,916	11,523	706	76	12,305

	NWM Plc							
	Debt securities							
	Central and local government			Other debt	Total	Equity shares	Loans	Total
2020	UK £m	US £m	Other £m	£m	£m	£m	£m	£m
Mandatory fair value through profit or loss	—	—	—	84	84	—	77	161
Fair value through other comprehensive income	108	3,298	1,497	376	5,279	53	15	5,347
Amortised cost	—	—	—	2,535	2,535	—	—	2,535
Total	108	3,298	1,497	2,995	7,898	53	92	8,043

2019	UK £m	US £m	Other £m	Other debt £m	Total £m	Equity shares £m	Loans £m	Total £m
Mandatory fair value through profit or loss	—	—	—	305	305	—	76	381
Fair value through other comprehensive income	233	3,484	2,652	294	6,663	638	—	7,301
Amortised cost	—	—	—	3,954	3,954	—	—	3,954
Total	233	3,484	2,652	4,553	10,922	638	76	11,636

Equity share disposals include SABB shares of £383 million. A dividend of £15 million was received in the year.

Dividends on FVOCI equity shares include £5 million in relation to the equity holding in OTC Derivative Limited.



## Notes to the accounts

### 17 Other assets

	NWM Group		NWM Plc	
	2020 £m	2019 £m	2020 £m	2019 £m
Property, plant and equipment	106	136	19	36
Pension schemes in net surplus (Note 5)	264	271	264	271
Assets of disposal groups	—	26	—	—
Accrued income	25	31	19	23
Tax recoverable	221	264	207	279
Deferred tax (Note 7)	2	1	2	—
Other assets	70	118	51	78
Total	688	847	562	687

### 18 Other financial liabilities

	NWM Group		NWM Plc	
	2020 £m	2019 £m	2020 £m	2019 £m
Customer deposits - designated as at fair value through profit or loss	796	—	—	—
Debt securities in issue				
- designated as at fair value through profit or loss	1,607	2,256	1,372	2,031
- amortised cost	14,662	15,053	13,482	14,849
Subordinated liabilities				
- designated as at fair value through profit or loss	793	724	420	399
- amortised cost	312	412	96	191
Total	18,170	18,445	15,370	17,470

### 19 Subordinated liabilities

	NWM Group		NWM Plc	
	2020 £m	2019 £m	2020 £m	2019 £m
Dated loan capital	1,009	1,041	420	495
Undated loan capital	96	95	96	95
Total	1,105	1,136	516	590

Note:

- (1) Excludes amounts due to holding company and fellow subsidiaries of £1,753 million (2019 – £2,020 million) for NWM Group and £1,753 million (2019 – £2,020 million) for NWM Plc which are analysed in the tables below.

The following tables analyse NWM Plc third party subordinated liabilities:

	Capital treatment	2020 £m	2019 £m
<b>Dated loan capital</b>			
US\$125.6 million floating rate notes 2020 <sup>(3)</sup>	Tier 2	—	97
€300 million floating rate notes 2022 <sup>(3)</sup>	Tier 2	268	251
€144.4 million floating rate notes 2023 <sup>(3)</sup>	Tier 2	152	147
Total		420	495

Notes:

- (1) In the event of certain changes in tax laws, dated loan capital issues may be redeemed in whole, but not in part, at the option of the issuer, at the principal amount thereof plus accrued interest, subject to prior regulatory approval.
- (2) Except as stated above, claims in respect of NWM Plc's dated loan capital are subordinated to the claims of other creditors. None of NWM Plc's dated loan capital is secured.
- (3) Interest on all floating rate subordinated notes is calculated by reference to market rates.

	Capital treatment	2020 £m	2019 £m
<b>Undated loan capital</b>			
£31 million 4.956% notes (not callable)	Tier 2	31	31
£21 million 6.20% notes (callable March 2022)	Tier 2	23	22
£16 million 5.625% (callable September 2026)	Tier 2	22	24
£19 million 5.625% notes (callable June 2032)	Tier 2	20	18
Total		96	95

Notes:

- (1) The Company can satisfy interest payment obligations by issuing ordinary shares to appointed Trustees to enable them, on selling these shares, to settle the interest payment.
- (2) Except as stated above, claims in respect of NWM Plc's undated loan capital are subordinated to the claims of other creditors. None of NWM Plc's undated loan capital is secured.
- (3) In the event of certain changes in tax laws, undated loan capital issues may be redeemed in whole, but not in part, at the option of NWM Plc, at the principal amount thereof plus accrued interest, subject to prior regulatory approval.

## Notes to the financial statements

### 19 Subordinated liabilities continued

The following table analyses NWM Group's third party new issuances and redemptions during the year:

	Capital treatment	2020 £m	2019 £m
<b>Third party redemptions in the period (values as at date of transaction)</b>			
£35 million 5.5% fixed rate undated subordinated notes (callable December 2019)	Tier 2	—	35
US\$125.6 million floating rate notes 2020	Tier 2	97	—
€15 million 6.00% notes 2020	Tier 2	11	—
<b>Total</b>		<b>108</b>	<b>35</b>

Note:

(1) There were no third party issuances in 2020 or 2019.

The following tables analyse intercompany subordinated liabilities:

	Capital treatment	2020 £m	2019 £m
<b>Dated loan capital</b>			
€950 million 3.26% (redeemable March 2024)	Tier 2	889	836
US\$250 million subordinated notes 2029	Tier 2	204	195
US\$389 million 6.10% notes 2023	Tier 2	—	307
		<b>1,093</b>	<b>1,338</b>

#### Undated loan capital

##### NatWest Group plc

US\$600 million floating rate perpetual notes (callable every 5 years from 2013)	Tier 2	440	455
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#### Preference shares

US\$300 million 7.25% Series H (callable anytime)	Tier 1	220	227
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#### Redemptions in the period (values as at date of transaction)

##### NatWest Group plc

€1,000 million 3.625% notes 2024	Tier 2	—	861
US\$389 million 6.10% notes 2023	Tier 2	285	—
		<b>285</b>	<b>861</b>

#### Issuances in the period (values as at date of transaction)

##### NatWest Group plc

€950 million 3.2595% (redeemable March 2024)	Tier 2	—	818
US\$250 million subordinated notes 2029	Tier 2	—	197
		<b>—</b>	<b>1,015</b>

## 20 Other liabilities

	NWM Group		NWM Plc	
	2020 £m	2019 £m	2020 £m	2019 £m
Lease liabilities (Note 22)	71	97	16	28
Provisions for liabilities and charges	448	505	238	302
Retirement benefit liabilities (Note 5)	63	63	54	54
Accruals	108	283	79	186
Deferred income	25	27	16	15
Current tax	54	76	16	17
Deferred tax (Note 7)	417	501	380	462
Other liabilities	48	137	67	131
	<b>1,234</b>	<b>1,689</b>	<b>866</b>	<b>1,195</b>

# Notes to the financial statements

## 20 Other liabilities continued

	NWM Group		
	Litigation and other regulatory £m	Other (1) £m	Total £m
<b>Provisions for liabilities and charges</b>			
At 1 January	325	180	505
Currency translation and other movements (2)	(10)	(3)	(13)
Charge to income statement	114	80	194
Releases to income statement	(20)	(68)	(88)
Provisions utilised	(75)	(75)	(150)
At 31 December	334	114	448

	NWM Plc		
	Litigation and other regulatory £m	Other (1) £m	Total £m
<b>Provisions for liabilities and charges</b>			
At 1 January	158	144	302
Currency translation and other movements (3)	1	(22)	(21)
Charge to income statement	14	68	82
Releases to income statement	(4)	(45)	(49)
Provisions utilised	(11)	(65)	(76)
At 31 December	158	80	238

### Notes:

- (1) Materially comprises provisions relating to restructuring costs.
- (2) Includes £6 million in relation to expected credit losses impairment charge.
- (3) Includes £2 million in relation to expected credit losses impairment charge.

### Critical accounting policy: Provisions for liabilities

The key judgement is involved in determining whether a present obligation exists. There is often a high degree of uncertainty and judgement is based on the specific facts and circumstances relating to individual events in determining whether there is a present obligation. Judgement is also involved in estimation of the probability, timing and amount of any outflows. Where NWM Group can look to another party such as an insurer to pay some or all of the expenditure required to settle a provision, any reimbursement is recognised when, and only when, it is virtually certain that it will be received.

**Estimates** - Provisions are liabilities of uncertain timing or amount and are recognised when there is a present obligation as a result of a past event, the outflow of economic benefit is probable and the outflow can be estimated reliably. Any difference between the final outcome and the amounts provided will affect the reported results in the period when the matter is resolved.

- Litigation and other regulatory: NWM Group is engaged in various legal proceedings, both in the UK and in overseas jurisdictions, including the US. For further information in relation to legal proceedings and discussion of the associated uncertainties, refer to Note 26.
- Other provisions: These materially comprise provisions for onerous contracts and restructuring costs. Onerous contract provisions comprise an estimate of the costs involved with fulfilling the terms and conditions of contracts net of any expected benefits to be received. Redundancy and restructuring provisions comprise the estimated cost of restructuring, including redundancy costs where an obligation exists.

## Notes to the financial statements

### 21 Share capital and reserves

	2020 £m	2019 £m	Number of shares	
			2020 000s	2019 000s
<b>Allotted, called up and fully paid</b>				
Ordinary shares of £1	<b>400</b>	400	<b>399,517</b>	399,517
Non-cumulative preference shares of US\$0.01	<b>—</b>	—	<b>12,000</b>	12,000

#### Ordinary shares

No ordinary shares were issued during 2020 or 2019.

No ordinary dividends were paid during 2020 (2019 – two ordinary dividends were paid to NatWest Group plc totalling £500 million, or £1.25 per share).

#### Paid-in equity

Comprises equity instruments issued by NWM Plc other than those legally constituted as shares.

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

	2020 £m	2019 £m
<b>Additional Tier 1 instruments</b>		
US\$950 million 7.9604% instruments callable August 2025	<b>749</b>	749
US\$200 million 5.540% instruments callable August 2025	<b>155</b>	155
	<b>904</b>	904

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

#### Reserves

NWM Plc optimises capital efficiency by maintaining reserves in subsidiaries, including regulated entities. Certain preference shares and subordinated debt are also included within regulatory capital. The remittance of reserves to the parent or the redemption of shares or subordinated capital by regulated entities may be subject to maintaining the capital resources required by the relevant regulator.

## Notes to the financial statements

### 22 Leases

#### Lessees

The NWM 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.

	NWM Group		NWM Plc	
	2020 £m	2019 £m	2020 £m	2019 £m
<b>Amounts recognised on the balance sheet</b>				
Right of use assets included in property, plant and equipment	<b>69</b>	99	<b>18</b>	36
Additions to right of use assets	<b>7</b>	101	<b>2</b>	46
Lease liabilities <sup>(1,2)</sup>	<b>(87)</b>	(127)	<b>(31)</b>	(56)

The total cash outflow for leases is £21 million (2019: £20 million), including payment of principal amount of £18 million (2019: £16 million) for NWM Group and £10 million (2019: £11 million) for NWM Plc, including payment of principal amount of £9 million (2019: £9 million) which are included in the operating activities in cash flow statement.

Notes:

(1) Contractual cashflows of lease liabilities is shown in Note 13.

(2) Lease liabilities include amounts due to fellow subsidiaries of £16 million (2019 - £30 million) for NWM Group and £15 million (2019 - £28 million) for NWM Plc.

#### Lessor

Acting as a lessor, NWM Group holds property, plant and equipment, renting them to customers under finance lease arrangements. NWM Group's consolidated income statement recognised finance lease income of nil (2019 - £14 million).

	NWM Group		NWM Plc	
	2020 £m	2019 £m	2020 £m	2019 £m
<b>Amounts receivable under finance leases</b>				
Within 1 year	<b>15</b>	12	<b>5</b>	6
1 to 2 years	<b>11</b>	11	<b>5</b>	6
2 to 3 years	<b>6</b>	10	—	5
3 to 4 years	<b>5</b>	5	—	—
4 to 5 years	<b>4</b>	3	—	—
After 5 years	<b>45</b>	37	—	—
Lease payments total	<b>86</b>	78	<b>10</b>	17
Unearned income	<b>(15)</b>	(17)	—	(1)
Present value of lease payments	<b>71</b>	61	<b>10</b>	16
Impairments	<b>(5)</b>	(5)	—	—
Net investment in finance leases	<b>66</b>	56	<b>10</b>	16

Investment properties are leased out on operating leases for £19 million (2019 - £18 million) and had lease income for £2 million (2019 - £6 million).

## Notes to the financial statements

### 23 Structured entities

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

#### Consolidated structured entities

##### Securitisations

In a securitisation, assets, or interests in a pool of assets, are transferred generally to a SE which then issues liabilities to third party investors. The majority of securitisations are supported through liquidity facilities or other credit enhancements. The NWM Group arranges securitisations to facilitate client transactions and undertakes own asset securitisations to sell or to fund portfolios of financial assets. NWM Group also acts as an underwriter and depositor in securitisation transactions in both client and proprietary transactions. NWM Group's involvement in client securitisations takes a number of forms. It may: sponsor or administer a securitisation programme; provide liquidity facilities or programme-wide credit enhancement; and purchase securities issued by the vehicle.

### Covered debt programme

NWM Group has assigned certain loans to customers and other debt instruments to bankruptcy remote limited liability partnerships to provide security for issues of debt securities by NWM Group. NWM Group retains all of the risks and rewards of these assets and continues to recognise them. The partnerships are consolidated by the NWM Group and the related covered debt included within other financial liabilities. At 31 December 2020, £1,064 million (2019 - £1,428 million) of loans and other debt instruments provided security for £1,085 million (2019 - £1,293 million) debt securities in issue and other borrowing by NWM Plc and NWM Group.

### Lending of own issued securities

NWM Plc has issued, retained, and lent debt securities under securities lending arrangements. Under standard terms in the UK and US markets, the recipient has an unrestricted right to sell or re-pledge collateral, subject to returning equivalent securities on maturity of the transaction. NWM Plc retains all of the risks and rewards of own issued liabilities lent under such arrangements and does not recognise them. At 31 December 2020, £1,893 million secured and nil unsecured (2019 - £1,704 million secured, £424 million unsecured) of own issued liabilities have been retained and lent under securities lending arrangements. At 31 December 2020, £2,029 million (2019 - £1,745 million) of loans and other debt instruments provided security for secured own issued liabilities that have been retained and lent under securities lending arrangements.

### Unconsolidated structured entities

NWM Group's interests in unconsolidated structured entities are 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
<b>Trading assets and derivatives</b>						
Trading assets	319	46	365	760	52	812
Derivative assets	441	16	457	196	24	220
Derivative liabilities	(319)	(21)	(340)	(154)	(4)	(158)
Total	441	41	482	802	72	874
<b>Non trading assets</b>						
Loans to customers	1,376	145	1,521	1,508	114	1,622
Other financial assets	2,409	170	2,579	3,869	107	3,976
Total	3,785	315	4,100	5,377	221	5,598
Liquidity facilities/loan commitments	1,481	132	1,613	1,612	83	1,695
Maximum exposure	5,707	488	6,195	7,791	376	8,167



## Notes to the financial statements

### 24 Asset transfers

#### Transfers that do not qualify for derecognition

NWM Group enters into securities financing, reverse repurchase and total return 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 the NWM Group retains substantially all the risks and rewards of ownership. The fair value (and carrying value) of securities transferred under such transactions included on the balance sheet, are set out below. All of these securities could be sold or repledged by the holder.

	NWM Group		NWM Plc	
	2020 £m	2019 £m	2020 £m	2019 £m
The following assets have failed derecognition (1)				
Trading assets	20,526	23,156	12,614	13,461
Other financial assets	104	94	104	94
	<b>20,630</b>	<b>23,250</b>	<b>12,718</b>	<b>13,555</b>

Note:

(1) Associated liabilities were £20,541 million for the NWM Group (2019 - £23,177 million) and £12,660 million for NWM Plc (2019 - £12,827 million).

#### Assets pledged as collateral

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

	NWM Group		NWM Plc	
	2020 £m	2019 £m	2020 £m	2019 £m
Assets pledged against liabilities				
Trading assets	28,426	27,918	26,067	27,138
Loans to customers - amortised cost	—	499	—	499
Other financial assets (1)	2,557	2,740	1,453	2,078
	<b>30,983</b>	<b>31,157</b>	<b>27,520</b>	<b>29,715</b>

Note:

(1) Includes pledges for stock borrowing.

The following table analyses assets that have been transferred but have failed the derecognition rules under IFRS 9 and therefore continue to be recognised on NWM Plc's balance sheet.

Asset type	2020 £m	2019 £m
Loans and other debt instruments - covered debt programme (1)	746	1,149
Loans and other debt instruments - own issued retained lent securities (2)	2,029	1,745

Notes:

(1) The associated liabilities for covered debt programme were £857 million (2019 - £1,324 million).

(2) The associated own issued securities that were retained and lent under securities lending arrangements were £1,893 million (2019 - £1,704 million).

## Notes to the financial statements

### 25 Capital resources

The minimum requirement for own funds is set out under the Capital Requirements Regulation on a legal entity and consolidated basis. Transitional arrangements on the phasing in of end-point capital resources are set by the relevant regulatory authority.

The capital resources under the PRA transitional basis for NWM Plc are set out below.

	2020 £m	2019 £m
<b>Shareholders' equity</b>		
Shareholders' equity	9,152	9,631
Other equity instruments	(904)	(904)
	<b>8,248</b>	<b>8,727</b>
<b>Regulatory adjustments and deductions</b>		
Own credit	43	(39)
Defined benefit pension fund adjustment	(174)	(171)
Cash flow hedging reserve	(201)	(137)
Prudential valuation adjustments	(251)	(373)
Expected losses less impairments	(1)	(10)
Instruments of financial sector entities where the institution has a significant investment	(1,624)	(1,900)
Adjustments under IFRS 9 transition arrangements	7	—
Foreseeable ordinary dividends	(500)	—
	<b>(2,701)</b>	<b>(2,630)</b>
<b>CET1 capital</b>	<b>5,547</b>	<b>6,097</b>
<b>Additional Tier 1 (AT1) capital</b>		
Qualifying instruments and related share premium	904	904
Qualifying instruments and related share premium subject to phase out	219	226
	<b>1,123</b>	<b>1,130</b>
<b>Tier 1 deductions</b>		
Instruments of financial sector entities where the institution has a significant investment	(237)	(224)
<b>Tier 1 capital</b>	<b>6,433</b>	<b>7,003</b>
<b>Qualifying Tier 2 capital</b>		
Qualifying instruments and related share premium	1,704	1,967
<b>Tier 2 deductions</b>		
Instruments of financial sector entities where the institution has a significant investment	(406)	(469)
Other regulatory adjustments	22	—
	<b>(384)</b>	<b>(469)</b>
<b>Tier 2 capital</b>	<b>1,320</b>	<b>1,498</b>
<b>Total regulatory capital</b>	<b>7,753</b>	<b>8,501</b>

In the management of capital resources, NWM Plc is governed by NatWest Group's policy to maintain a strong capital base and to utilise it efficiently throughout its activities to optimise the return to shareholders while maintaining a prudent relationship between the capital base and the underlying risks of the business. In carrying out this policy, NatWest Group has regard to the supervisory requirements of the PRA. The PRA uses capital ratios as a measure of capital adequacy in the UK banking sector, comparing a bank's capital resources with its risk-weighted assets (the assets and off-balance sheet exposures are 'weighted' to reflect the inherent credit and other risks); by international agreement, the Pillar 1 capital ratios, excluding capital buffers, should be not less than 8% with a Common Equity Tier 1 component of not less than 4.5%. NWM Plc has complied with the PRA's capital requirements throughout the year. NWM Plc is also subject to a Pillar 2 requirement.

Subsidiaries and sub-groups within NWM Group, principally banking entities, are subject to various individual regulatory capital requirements in the UK and overseas. Furthermore, the payment of dividends by subsidiaries and the ability of members of NatWest Group to lend money to other members of NatWest Group is subject to restrictions such as local regulatory or legal requirements, the availability of reserves and financial and operating performance.

## Notes to the financial statements

### 26 Memorandum items

#### Contingent liabilities and commitments

The amounts shown in the table below are intended only to provide an indication of the volume of business outstanding at 31 December 2020. Although the NWM Group is exposed to credit risk in the event of a customer's failure to meet its obligations, the amounts shown do not, and are not intended to, provide any indication of NWM Group's expectation of future losses.

	NWM Group		NWM Plc	
	2020 £m	2019 £m	2020 £m	2019 £m
<b>Contingent liabilities and commitments</b>				
Guarantees and assets pledged as collateral security	638	972	195	134
Other contingent liabilities	137	155	136	152
Standby facilities, credit lines and other commitments	12,292	15,805	7,534	10,218
	<b>13,067</b>	<b>16,932</b>	<b>7,865</b>	<b>10,504</b>

Note:

- (1) In the normal course of business, NWM Plc guarantees specified third party liabilities of certain subsidiaries; it also gives undertakings that individual subsidiaries will fulfil their obligations to third parties under contractual or other arrangements

Banking commitments and contingent obligations, which have been entered into on behalf of customers and for which there are corresponding obligations from customers, are not included in assets and liabilities. NWM Group's maximum exposure to credit loss, in the event of its obligation crystallising and all counterclaims, collateral or security proving valueless, is represented by the contractual nominal amount of these instruments included in the table above. These commitments and contingent obligations are subject to NWM Group's normal credit approval processes.

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

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 £2.6 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 £0.8 billion and the guarantee fees in the year were £7.6 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). Fees of £4.3 million in relation to the guarantees were recognised in the year.

#### Indemnity deed

In April 2019, NWM Plc and NWB Plc entered into a cross indemnity agreement for losses incurred within the entities in relation to business transferred to or from the ring-fenced bank under the NatWest Group's structural re-organisation. Under the agreement, NWM Plc is indemnified by NWB Plc against losses relating to the NWB Plc transferring businesses and ring-fenced bank obligations and NWB Plc is indemnified by NWM Plc against losses relating to NWM Plc transferring businesses and non ring-fenced bank obligations with effect from the relevant transfer date.

#### Contractual obligations for future expenditure not provided for in the accounts

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

	NWM Group 2020 £m	NWM Group 2019 £m
Contracts to purchase goods or services (1)	5	1
	<b>5</b>	<b>1</b>

Note:

- (1) Of which due within 1 year: £3 million (2019 - £1 million).

## Notes to the financial statements

### 26 Memorandum items continued

#### Litigation and regulatory matters

NWM Plc and its subsidiary and associated undertakings (NWM Group) are party to legal proceedings and involved in regulatory matters, including as the subject of investigations and other regulatory and governmental action ('Matters') in the United Kingdom (UK), the United States (US), the European Union (EU) and other jurisdictions.

NWM 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 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 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 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 Group believes it has credible defences and should prevail on the merits. The uncertainties inherent in all such Matters affect the amount and timing of any potential outflows for both Matters with respect to which provisions have been established and other contingent liabilities.

The future outflow of resources in respect of any Matter may ultimately prove to be substantially greater than or less than the aggregate provision that NWM Group has recognised. Where (and as far as) liability cannot be reasonably estimated, no provision has been recognised. NWM Group expects that in future periods, additional provisions, settlement amounts and customer redress payments will be necessary, in amounts that are expected to be substantial in some instances.

For a discussion of certain risks associated with NWM Group's litigation and regulatory matters (including investigations), see the Risk Factor relating to legal, regulatory and governmental actions and investigations set out on page 171.

#### Litigation

**Residential mortgage-backed securities (RMBS) litigation in the US**  
NatWest Markets Securities Inc. (NWMSI) and certain affiliates continue to defend RMBS-related claims in the US in which plaintiffs allege that certain disclosures made in connection with the relevant offerings of RMBS contained materially false or misleading statements and/or omissions regarding the underwriting standards pursuant to which the mortgage loans underlying the RMBS were issued. The remaining RMBS lawsuits against NWM Group companies consist of cases filed by the Federal Deposit Insurance Corporation and the State of New Mexico that together involve the issuance of less than US\$400 million of RMBS issued primarily from 2005 to 2007. In addition, NWMSI previously agreed to settle a purported RMBS class action entitled *New Jersey Carpenters Health Fund v. Novastar Mortgage Inc. et al.* for US\$55.3 million. This was paid into escrow pending court approval of the settlement, which was granted in March 2019, but which is now the subject of an appeal by a class member who does not want to participate in the settlement.

#### London Interbank Offered Rate (LIBOR) and other rates litigation

NWM Plc and certain other members of NatWest Group, including NatWest Group plc, are defendants in a number of class actions and individual claims pending in the United States District Court for the Southern District of New York (SDNY) with respect to the setting of LIBOR and certain other benchmark interest rates. The complaints allege that the NWM Group defendants and other panel banks violated various federal laws, including the US commodities and antitrust laws, and state statutory and common law, as well as contracts, by manipulating LIBOR and prices of LIBOR-based derivatives in various markets through various means.

Several class actions relating to USD LIBOR, as well as more than two dozen non-class actions concerning USD LIBOR, are part of a co-ordinated proceeding in the SDNY. In December 2016, the SDNY held that it lacks personal jurisdiction over NWM Group defendants with respect to certain claims. As a result of that and other decisions, all NWM Group defendants have been dismissed from each of the USD LIBOR-related class actions (including class actions on behalf of over-the-counter plaintiffs, exchange-based purchaser plaintiffs, bondholder plaintiffs, and lender plaintiffs), but seven non-class cases in the co-ordinated proceeding remain pending against NWM Group defendants. The dismissal of NWM Group defendants for lack of personal jurisdiction is the subject of a pending appeal to the United States Court of Appeals for the Second Circuit. In March 2020, NWM Group defendants finalised a settlement resolving the class action on behalf of bondholder plaintiffs (those who held bonds issued by non-defendants on which interest was paid from 2007 to 2010 at a rate expressly tied to USD LIBOR). The amount of the settlement (which was covered by an existing provision) has been paid into escrow pending court approval of the settlement.

Among the non-class claims dismissed by the SDNY in December 2016 were claims that the Federal Deposit Insurance Corporation (FDIC) had asserted on behalf of certain failed US banks. In July 2017, the FDIC, on behalf of 39 failed US banks, commenced substantially similar claims against NWM Plc, NatWest Group plc and others in the High Court of Justice of England and Wales. The action alleges that the defendants breached English and European competition law, as well as asserting common law claims of fraud under US law.

In addition, there are two class actions relating to JPY LIBOR and Euroyen TIBOR. The first class action, which relates to Euroyen TIBOR futures contracts, was dismissed by the SDNY in September 2020 on legal grounds, and the plaintiffs have commenced an appeal to the United States Court of Appeals for the Second Circuit. The second class action, which relates to other derivatives allegedly tied to JPY LIBOR and Euroyen TIBOR, is the subject of a motion to dismiss that remains pending in the SDNY.

In addition to the above, five other class action complaints were filed against NWM Group defendants in the SDNY, each relating to a different reference rate. The SDNY dismissed all claims against NWM Plc in the case relating to Euribor for lack of personal jurisdiction in February 2017. The SDNY dismissed, for various reasons, the case relating to the Singapore Interbank Offered Rate and Singapore Swap Offer Rate in July 2019, the case relating to Pound Sterling LIBOR in August 2019, and the case relating to Swiss Franc LIBOR in September 2019. Plaintiffs are appealing each of these four dismissals to the United States Court of Appeals for the Second Circuit. In the class action relating to Swiss Franc LIBOR, NWM Plc and the plaintiffs reached a settlement in principle in February 2021. The amount of the settlement, which remains subject to final documentation and court approval, is covered by an existing provision. In the fifth class action, which relates to the Australian Bank Bill Swap Reference Rate, the SDNY in February 2020 declined to dismiss the amended complaint as against NWM Plc and certain other defendants, but dismissed it as to other members of NWM Group (including NatWest Group plc). The claims against non-dismissed defendants (including NWM Plc) are now proceeding in discovery.

## Notes to the financial statements

### 26 Memorandum items continued

#### Litigation and regulatory matters

NWM Plc was also named as a defendant in a motion to certify a class action relating to LIBOR in the Tel Aviv District Court in Israel. NWM Plc filed a motion for cancellation of service, which was granted in July 2020. The claimants appealed that decision and in November 2020 the appeal was refused and the claim dismissed by the Appellate Court. The claim could in future be recommenced depending on the outcome of a separate case under appeal to Israel's Supreme Court.

In January 2019, a class action antitrust complaint was filed in the SDNY alleging that the defendants (USD ICE LIBOR panel banks and affiliates) have conspired to suppress USD ICE LIBOR from 2014 to the present by submitting incorrect information to ICE about their borrowing costs. The defendants include NatWest Group plc, NWM Plc, NWMSI and NatWest Bank Plc. The defendants made a motion to dismiss this case, which was granted by the court in March 2020. Plaintiffs' appeal of the dismissal is pending in the United States Court of Appeals for the Second Circuit.

In August 2020, a complaint was filed in the United States District Court for the Northern District of California by several United States consumer borrowers against the USD ICE LIBOR panel banks and their affiliates, alleging that the normal process of setting USD ICE LIBOR amounts to illegal price-fixing, and also that banks in the United States have illegally agreed to use LIBOR as a component of price in variable consumer loans. The NatWest Group defendants are NatWest Group plc, NWM Plc, NWMSI and NatWest Bank Plc. The plaintiffs seek damages and to prevent the enforcement of LIBOR-based instruments through injunction. Defendants have filed a motion to transfer the matter to federal court in New York and will seek dismissal.

#### FX litigation

NWM Plc, NWMSI and / or NatWest Group plc are defendants in several cases relating to NWM Plc's foreign exchange (FX) business, each of which is pending before the same federal judge in the SDNY. In 2015, NWM Plc paid US\$255 million to settle the consolidated antitrust class action on behalf of persons who entered into over-the-counter FX transactions with defendants or who traded FX instruments on exchanges. That settlement received final court approval in August 2018. In November 2018, some members of the settlement class who opted out of the settlement filed their own non-class complaint in the SDNY asserting antitrust claims against NWM Plc, NWMSI and other banks. Those opt-out claims are proceeding in discovery. In December 2018, some of the same claimants, as well as others, filed proceedings in the High Court of Justice of England and Wales, asserting competition claims against NWM Plc and several other banks. The claim was served in April 2019.

One other FX-related class action, on behalf of 'consumers and end-user businesses', is proceeding in the SDNY against NWM Plc and others. Plaintiffs have filed a motion for class certification, which defendants are opposing. The 2020 settlement of another class action, on behalf of 'indirect purchasers' of FX instruments (which plaintiffs define as persons who transacted FX instruments with retail foreign exchange dealers that transacted directly with defendant banks), received final court approval in November 2020. NWM Plc has paid the settlement in that case (which was covered by an existing provision).

In May 2019, a cartel class action was filed in the Federal Court of Australia against NWM Plc and four other banks on behalf of persons who bought or sold currency through FX spots or forwards between 1 January 2008 and 15 October 2013 with a total transaction value exceeding AUS \$0.5 million. The claimant has alleged that the banks, including NWM Plc, contravened Australian competition law by sharing information, coordinating conduct, widening spreads and manipulating FX rates for certain currency pairs during this period. NatWest Group plc has been named in the action as an 'other cartel participant', but is

not a respondent. The claim was served in June 2019. The claimant sought permission to amend its claim to strengthen its claim of alleged breaches of competition law, but this was refused by the court in the form sought by the claimant. The claimant now seeks a further opportunity to amend its claim.

In July and December 2019, two separate applications seeking opt-out collective proceedings orders were filed in the UK Competition Appeal Tribunal against NatWest Group plc, NWM Plc and other banks. Both applications have been brought on behalf of persons who, between 18 December 2007 and 31 January 2013, entered into a relevant FX spot or outright forward transaction in the EEA with a relevant financial institution or on an electronic communications network. A hearing to determine class certification and which of the applications should be permitted to represent the class is scheduled to take place in July 2021.

In November 2020, proceedings were issued in the High Court of Justice of England and Wales against NWM Plc by a claimant who seeks an account of profits or damages in respect of alleged historic FX trading misconduct. The claimant has also issued similar proceedings against a number of other banks. The claim against NWM Plc makes allegations of fraud, deceit and dishonesty, as well as breaches of contract, fiduciary duties, duties of confidence and other matters, in respect of FX services provided by NWM Plc during the period 2006 to 2010. NWM Plc awaits service of the claim.

Two motions to certify FX-related class actions were filed in the Tel Aviv District Court in Israel in September and October 2018, and were subsequently consolidated into one motion. The consolidated motion, which names The Royal Bank of Scotland plc (now NWM Plc) as the defendant, was served on NWM Plc in May 2020. NWM Plc has filed a motion for cancellation of service.

Certain other foreign exchange transaction related claims have been or may be threatened. NWM Group cannot predict whether any of these claims will be pursued, but expects that some may.

#### Government securities antitrust litigation

NWMSI and certain other US broker-dealers are defendants in a consolidated antitrust class action pending in the SDNY on behalf of persons who transacted in US Treasury securities or derivatives based on such instruments, including futures and options. The plaintiffs allege that defendants rigged the US Treasury securities auction bidding process to deflate prices at which they bought such securities and colluded to increase the prices at which they sold such securities to plaintiffs. The defendants' motion to dismiss this matter remains pending.

Class action antitrust claims commenced in March 2019 are pending in the SDNY against NWM Plc, NWMSI and other banks in respect of Euro-denominated bonds issued by European central banks (EGBs). The complaint alleges a conspiracy among dealers of EGBs to widen the bid-ask spreads they quoted to customers, thereby increasing the prices customers paid for the EGBs or decreasing the prices at which customers sold the bonds. The class consists of those who purchased or sold EGBs in the US between 2007 and 2012. The defendants filed a motion to dismiss this matter, which was granted by the court in respect of NWM Plc and NWMSI in July 2020, subject to plaintiffs attempting to remedy the pleading deficiencies identified by the court through an amended complaint.



## Notes to the financial statements

### 26 Memorandum items continued

#### Litigation and regulatory matters

##### Swaps antitrust litigation

NWM Plc, NWMSI and NatWest Group plc, as well as a number of other interest rate swap dealers, are defendants in several cases pending in the SDNY alleging violations of the US antitrust laws in the market for interest rate swaps. There is a consolidated class action complaint on behalf of persons who entered into interest rate swaps with the defendants, as well as non-class action claims by three swap execution facilities (TeraExchange, Javelin, and trueEx). The plaintiffs allege that the swap execution facilities would have successfully established exchange-like trading of interest rate swaps if the defendants had not unlawfully conspired to prevent that from happening through boycotts and other means. Discovery in these cases is complete, and the plaintiffs' motion for class certification remains pending.

In addition, in June 2017, TeraExchange filed a complaint against NWM Plc, NWMSI and NatWest Group plc, as well as a number of other credit default swap dealers, in the SDNY. TeraExchange alleges it would have established exchange-like trading of credit default swaps if the defendant dealers had not engaged in an unlawful antitrust conspiracy. In October 2018, the court dismissed all claims against NWM Plc, NWMSI and NatWest Group plc.

##### Odd lot corporate bond trading antitrust litigation

NWMSI is the subject of a class action antitrust complaint filed in the SDNY against NWMSI and several other securities dealers. The complaint alleges that, from August 2006 to the present, the defendants conspired artificially to widen spreads for odd lots of corporate bonds bought or sold in the United States secondary market and to boycott electronic trading platforms that would have allegedly promoted pricing competition in the market for such bonds. Defendants filed a motion to dismiss the operative complaint in this matter in December 2020.

##### 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.

##### Interest rate hedging products and similar litigation

NWM Plc continues to deal with a small number of active litigation claims in the UK relating to the alleged mis-selling of interest rate hedging products.

Separately, NWM Plc is defending claims filed in France by two French local authorities relating to structured interest rate swaps. The plaintiffs allege, among other things, that the swaps are void for being illegal transactions, that they were mis-sold, and that information / advisory duties were breached. One of the claims is being appealed to the Supreme Court and the other has been remitted from the Supreme Court to the Court of Appeal for reconsideration of one aspect. NWM N.V. was a defendant in the latter case but has been dismissed from the proceedings.

##### EUA trading litigation

HMRC issued a tax assessment in 2012 against NatWest Group plc for approximately £86 million regarding a value-added-tax (VAT) matter in relation to the trading of European Union Allowances (EUAs) by a joint venture subsidiary in 2009. NatWest Group plc has lodged an appeal, which is due to be heard in June 2021, before the First-tier Tribunal (Tax), a specialist tax tribunal, challenging the assessment (the 'Tax Dispute'). In the event that the assessment is upheld, interest and costs would be payable, and a penalty of up to 100 per cent of the VAT held to have been legitimately denied by HMRC could also be levied. Separately, NWM Plc was a named defendant in civil proceedings before the High Court of Justice of England and Wales brought in 2015 by ten companies (all in liquidation) (the 'Liquidated Companies') and their respective liquidators (together, 'the Claimants'). The Liquidated Companies previously traded in EUAs in 2009 and were alleged to be defaulting traders within (or otherwise connected to) the EUA supply chains forming the subject of the Tax Dispute. The Claimants claimed approximately £71.4 million plus interest and costs and alleged that NWM Plc dishonestly assisted the directors of the Liquidated Companies in the breach of their statutory duties and/or knowingly participated in the carrying on of the business of the Liquidated Companies with intent to defraud creditors. The trial in that matter concluded in July 2018 and judgment was issued in March 2020. The court held that NWM Plc and Mercuria Energy Europe Trading Limited were liable for dishonestly assisting and knowingly being a party to fraudulent trading during a seven business day period in 2009. In October 2020, the High Court quantified damages against NWM Plc at £45 million plus interest and costs, and permitted it to appeal to the Court of Appeal. The appeal hearing is due to take place in March 2021.

##### US Anti-Terrorism Act litigation

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 SDNY 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.

##### Securities underwriting litigation

NWMSI is an underwriter defendant in several securities class actions in the US in which plaintiffs generally allege that an issuer of public debt or equity securities, as well as the underwriters of the securities (including NWMSI), are liable to purchasers for misrepresentations and omissions made in connection with the offering of such securities.



## Notes to the financial statements

### 26 Memorandum items continued

#### Litigation and regulatory matters

##### Regulatory matters (including investigations)

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

NWM Group companies have been providing, and continue 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 Group, remediation of systems and controls, public or private censure, restriction of NWM Group's business activities and/or fines. Any of the events or circumstances mentioned in this paragraph or below could have a material adverse effect on NWM 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.

NWM Group is co-operating fully with the matters described below.

##### US investigations relating to fixed-income securities

In the US, NWM Group companies, including NWMSI, and its affiliates have in recent years been involved in investigations relating to, among other things, issuance, underwriting and trading in RMBS and other mortgage-backed securities and collateralised debt obligations (CDOs). Investigations by the US Department of Justice (DoJ) and several state attorneys general relating to the issuance and underwriting of RMBS were previously resolved. In December 2020, RBS Financial Products, Inc. agreed to pay US\$18.2 million to resolve such an investigation by the State of Maryland. RBS Financial Products, Inc. has paid the settlement amount, which was covered by an existing provision.

In October 2017, NWMSI entered into a non-prosecution agreement (NPA) with the United States Attorney for the District of Connecticut (USAO) in connection with alleged misrepresentations to counterparties relating to secondary trading in various forms of asset-backed securities. In the NPA, the USAO agreed not to file criminal charges relating to certain conduct and information described in the NPA, conditioned on NWMSI and affiliated companies complying with the NPA's reporting and conduct requirements during its term, including by not engaging in conduct during the NPA that the USAO determines was a felony under federal or state law or a violation of the anti-fraud provisions of the United States securities law.

The NatWest Markets business is currently responding to a separate criminal investigation by the USAO and DoJ concerning unrelated trading by certain NatWest Markets former traders involving alleged spoofing. The NPA (referred to above) has been extended as the criminal investigation has progressed and related discussions with the USAO and the DoJ, including relating to the impact of such alleged conduct on the status of the NPA and the potential consequences thereof, have been ongoing. The duration and outcome of these matters remain uncertain, including in respect of whether settlement may be reached. Material adverse collateral consequences, in addition to further substantial costs and the recognition of further provisions, may occur depending on the outcome of the investigations, as further described in the Risk Factor relating to legal, regulatory and governmental actions and investigations set out on page 171.

##### Foreign exchange related investigations

In 2014 and 2015, NWM Plc paid significant penalties to resolve investigations into its FX business by the FCA, the Commodity Futures Trading Commission, the DoJ, and the Board of Governors of the Federal Reserve System. In May and June 2019, NatWest Group plc and NWM Plc reached settlements totalling approximately EUR 275 million in connection with the European Commission and certain other related competition law investigations into FX trading. NWM Plc continues to co-operate with ongoing investigations from competition authorities on similar issues relating to past FX trading. The exact timing and amount of future financial penalties, related risks and collateral consequences remain uncertain and may be material.

##### FCA investigation into NatWest Group's compliance with the Money Laundering Regulations 2007

In July 2017, the FCA notified NatWest Group that it was undertaking an investigation into NatWest Group's compliance with the UK Money Laundering Regulations 2007 in relation to certain money service businesses and related parties. The investigation is assessing both criminal and civil culpability. NatWest Group is co-operating with the investigation, including responding to information requests from the FCA.

##### Systematic Anti-Money Laundering Programme assessment

In December 2018, the FCA commenced a Systematic Anti-Money Laundering Programme assessment of NatWest Group. The FCA provided its written findings to NatWest Group in June 2019, and NatWest Group responded on 8 August 2019. On 28 August 2019, the FCA instructed NatWest Group to appoint a Skilled Person under section 166 of the Financial Services and Markets Act 2000 to provide assurance on financial crime governance arrangements in relation to two financial crime change programmes. NatWest Group is co-operating with the Skilled Person's review, which is ongoing.

## Notes to the financial statements

### 27 Analysis of the net investment in business interests and intangible assets

	NWM Group		NWM Plc	
	2020 £m	2019 £m	2020 £m	2019 £m
<b>Acquisitions and disposals</b>				
Fair value given for businesses acquired	—	2,460	—	(69)
Net inflow/(outflow) of cash in respect of acquisitions	—	2,460	—	(69)
Net assets sold	288	1,245	274	1,270
Loss on disposal of net assets	(5)	—	(5)	—
Sale of subsidiaries	32	—	—	—
Profit on sale of subsidiaries	43	—	—	—
Net inflow of cash in respect of disposals	358	1,245	269	1,270
Net inflow	358	3,705	269	1,201

### 28 Analysis of changes in financing during the year

	NWM Group					
	Share capital, share premium and paid in equity		Subordinated liabilities		MREL	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
At 1 January	3,063	2,908	3,156	2,605	5,120	5,125
Issue of subordinated liabilities	—	—	—	1,015	—	—
Redemption of subordinated liabilities	—	—	(409)	(896)	—	—
Interest on subordinated liabilities	—	—	(139)	(199)	—	—
Interest on MREL	—	—	—	—	(191)	(182)
Net cash outflow from financing	—	—	(548)	(80)	(191)	(182)
Effects of foreign exchange	—	—	31	(114)	(6)	(194)
Changes in fair value of MREL and subordinated liabilities	—	—	65	158	67	123
Loss on sale of MREL and subordinated liabilities	—	—	16	—	—	—
Interest on MREL subordinated liabilities	—	—	138	195	191	248
Other adjustments	—	155	—	392	—	—
At 31 December	3,063	3,063	2,858	3,156	5,181	5,120

	NWM Plc					
	Share capital, share premium and paid in equity		Subordinated liabilities		MREL	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
At 1 January	3,063	2,908	2,610	2,620	5,120	5,125
Issue of subordinated liabilities	—	—	—	1,015	—	—
Redemption of subordinated liabilities	—	—	(398)	(896)	—	—
Interest on subordinated liabilities	—	—	(117)	(178)	—	—
Issue of MREL	—	—	—	—	—	—
Interest on MREL	—	—	—	—	(191)	(182)
Net cash outflow from financing	—	—	(515)	(59)	(191)	(182)
Effects of foreign exchange	—	—	29	(108)	(6)	(194)
Changes in fair value of MREL and subordinated liabilities	—	—	13	(14)	67	123
Loss on sale of MREL and subordinated liabilities	—	—	16	—	—	—
Interest on MREL and subordinated liabilities	—	—	116	171	191	248
Other adjustments	—	155	—	—	—	—
At 31 December	3,063	3,063	2,269	2,610	5,181	5,120

## Notes to the financial statements

### 29 Analysis of cash and cash equivalents

	NWM Group (1)		NWM Plc (1)	
	2020 £m	2019 £m	2020 £m	2019 £m
At 1 January				
- cash	<b>12,729</b>	11,188	<b>9,953</b>	11,095
- cash equivalents	<b>14,314</b>	14,939	<b>13,005</b>	13,480
	<b>27,043</b>	26,127	<b>22,958</b>	24,575
Net cash (outflow)/inflow	<b>(663)</b>	916	<b>(1,673)</b>	(1,617)
At 31 December	<b>26,380</b>	27,043	<b>21,285</b>	22,958
Comprising:				
Cash and balances at central banks	<b>15,771</b>	12,729	<b>11,736</b>	9,953
Trading assets	<b>9,055</b>	12,528	<b>7,540</b>	11,301
Other financial assets	<b>173</b>	374	<b>173</b>	374
Net loans to banks including intragroup balances	<b>1,381</b>	1,412	<b>1,836</b>	1,330
Cash and cash equivalents	<b>26,380</b>	27,043	<b>21,285</b>	22,958

Note:

(1) NWM Group includes cash collateral posted with bank counterparties in respect of derivative liabilities of £7,427 million (2019 - £7,554 million), and NWM Plc includes cash collateral posted with bank counterparties in respect of derivative liabilities of £6,974 million (2019 - £7,256 million).

Certain members of NatWest Group are required by law or regulation to maintain balances with the central banks in the jurisdictions in which they operate. Natwest Markets N.V. had mandatory reserve deposits with De Nederlandsche Bank N.V of €81 million (2019 - €47 million).

## Notes to the financial statements

### 30 Directors' and key management remuneration

	2020 £000	2019 £000
<b>Directors' remuneration</b>		
Non-executive Directors	368	326
Chairman and executive directors - emoluments	1,877	3,356
	<b>2,245</b>	<b>3,682</b>
Amounts receivable under LTIPs, share option and other plans	269	—
<b>Total</b>	<b>2,514</b>	<b>3,682</b>

The total emoluments and amounts receivable under long-term incentive plans and share option plans of the highest paid director were £1,428,000 (2019 - £2,034,000).

David King was appointed Chief Financial Officer of NWM Plc on 1 July 2020. Mr King is employed and remunerated by NWM Plc for his service to NWM Group as a whole.

No directors accrued benefits under defined benefit schemes or defined contribution schemes during 2020 and 2019.

The executive directors may participate in NatWest Group's long-term incentive plans, executive share option and sharesave schemes. Where directors of the Bank are also directors of NatWest Group, details of their share interests can be found in the 2020 Annual Report and Accounts of the NatWest Group, in line with regulations applying to NatWest Group as a premium listed company.

### Compensation of key management

The aggregate remuneration of directors and other members of key management during the year was as follows:

	2020 £000	2019 £000
Short term benefits	16,922	22,889
Post employment benefits	278	283
Share based payments	2,789	484
	<b>19,989</b>	<b>23,656</b>

Note:

(1) As a result of NWM Group restructuring, changes in the composition of key management does not allow for any meaningful comparison to the 2019 disclosure.

### 31 Transactions with directors and key management

At 31 December 2020, amounts outstanding in relation to transactions, arrangements and agreements entered into by authorised institutions in NWM Group, as defined in UK legislation, were £59,894 in respect of loans to one director of the company at any time during the financial period (2019 - £93,145).

For the purposes of IAS 24 'Related Party Disclosures', key management comprise directors of the company and members of the Executive Committee. Applying the captions in the NWM Group's primary financial statements the following amounts are attributable, in aggregate, to key management. Amounts are attributed to each person at their highest level of NatWest Group key management.

	2020 £000	2019 £000
Loans to customers - amortised cost	60	93
Customer deposits	765	4,771

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

## Notes to the financial statements

### 32 Related parties

#### UK Government

The UK government through HM Treasury is the ultimate controlling party of NatWest Group plc. The UK government's shareholding is managed by UK Government Investments Limited, a company wholly owned by the UK Government. As a result the UK government and UK Government controlled bodies are related parties of the Group.

At 31 December 2020, HM Treasury's holding in NatWest Group's ordinary shares was 61.9%.

NWM Group enters into transactions with many of these bodies. Transactions include the payment of: taxes principally UK corporation tax (refer to Note 7) and value added tax; national insurance contributions; local authority rates; and regulatory fees and levies; together with banking transactions such as loans and deposits undertaken in the normal course of banker-customer relationships.

#### Bank of England facilities

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

Members of NWM Group that are UK authorised institutions are required to maintain non-interest bearing (cash ratio) deposits with the Bank of England amounting to 0.368% of their average eligible liabilities in excess of £600 million. They also have access to Bank of England reserve accounts: sterling current accounts that earn interest at the Bank of England Base Rate.

#### Other related parties

- (a) In their roles as providers of finance, NWM Group companies provide development and other types of capital support to businesses. These investments are made in the normal course of business. In some instances, the investment may extend to ownership or control over 20% or more of the voting rights of the investee company. However, these investments are not considered to give rise to transactions of a materiality requiring disclosure under IAS 24.
- (b) In accordance with IAS 24, transactions or balances between NWM Group entities that have been eliminated on consolidation are not reported.
- (c) NWM Group is recharged from other NatWest Group entities, mainly NWB Plc which provides the majority of shared services (including technology) and operational processes.
- (d) The captions in the primary financial statements of the parent company include amounts attributable to subsidiaries. These amounts have been disclosed in aggregate in the relevant notes to the financial statements.

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

	2020 £m	2019 £m
Interest payable	(282)	(313)
Fees and commissions receivable	13	3
Fees and commissions payable	(4)	(83)
Other administrative expenses	(13)	—
Continuing operations	(286)	(393)

### 33 Ultimate holding company

NWM Group's ultimate holding company is NatWest Group plc which is incorporated in the United Kingdom and registered in Scotland. As at 31 December 2020, NatWest Group plc heads the largest group in which NWM Group is consolidated. Copies of the consolidated accounts may be obtained from The Secretary, NatWest Group plc, Gogarburn, PO Box 1000, Edinburgh EH12 1HQ.

Following placing and open offers by NatWest Group plc in December 2008 and April 2009, the UK Government, through HM Treasury, currently holds 61.9% of the issued ordinary share capital of the holding company and was therefore the NWM Group's ultimate controlling party.

### 34 Post balance sheet events

On 18 February 2021, the NWM Plc Board approved an interim dividend of £500 million, or £1.25 per share, to be declared and payable to NWG plc on 19 February 2021. There has been no adjustment to the 31 December 2020 statutory financial statements. For regulatory reporting purposes, a £500 million foreseeable dividend deduction has been applied to the year-end regulatory capital position.

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.

## Notes to the financial statements

### 35 Related undertakings

#### Legal entities and activities at 31 December 2020

In accordance with the Companies Act 2006, NWM Plc's related undertakings and the accounting treatment for each are listed below. All undertakings are wholly-owned by NWM Plc or subsidiaries of NWM Plc and are consolidated by reason of contractual control (Section 1162(2) CA 2006), unless otherwise indicated. NWM Group interest refers to ordinary shares of equal values and voting rights unless further analysis is provided in the notes. Activities are classified in accordance with Annex I to the Capital Requirements Directive ("CRD IV") and the definitions in Article 4 of the Capital Requirements Regulation.

The following table details active related undertakings incorporated in the UK which are 100% owned by NWM Group and fully consolidated for accounting purposes

Entity name	Activity	Regulatory treatment	Notes	Entity name	Activity	Regulatory treatment	Notes
280 Bishopsgate Finance Ltd	INV	FC	(4)	Property Venture Partners Ltd	INV	FC	(1)
Care Homes 1 Ltd	BF	FC	(4)	R.B. Equipment Leasing Ltd	BF	FC	(4)
Care Homes 2 Ltd	BF	FC	(4)	R.B. Leasing (April) Ltd	BF	FC	(4)
Care Homes 3 Ltd	BF	FC	(4)	R.B. Leasing Company Ltd	BF	FC	(1)
Care Homes Holdings Ltd	BF	FC	(4)	R.B.S. Special Investments Ltd	BF	FC	(4)
Churchill Management Ltd	BF	FC	(2)	RB Investments 3 Ltd	OTH	FC	(4)
Desertlands Entertainment Ltd	BF	FC	(4)	RBOS (UK) Ltd	BF	FC	(4)
Distant Planet Productions Ltd	BF	FC	(4)	RBS Management Services (UK) Ltd	SC	FC	(4)
Helena Productions Ltd	BF	FC	(4)	RBS Mezzanine Ltd	BF	FC	(1)
Lombard Corporate Finance (6) Ltd	BF	FC	(4)	RBS Property Developments Ltd	INV	FC	(13)
Lombard Corporate Finance (7) Ltd	BF	FC	(4)	RBS Property Ventures Investments Ltd	BF	FC	(1)
Lombard Corporate Finance (11) Ltd	BF	FC	(4)	RBSM Capital Ltd	BF	FC	(1)
Lombard Corporate Finance (13) Ltd	BF	FC	(4)	RBSSAF (6) Ltd	BF	FC	(4)
Lombard Corporate Finance (15) Ltd	BF	FC	(4)	RBSSAF (12) Ltd	BF	FC	(4)
Nanny McPhee Productions Ltd	BF	FC	(4)	RoboScot Equity Ltd	BF	FC	(1)
NatWest Markets Secretarial Services Ltd	SC	FC	(4)	Royal Bank Investments Ltd	BF	FC	(1)
NatWest Markets Secured Funding LLP	BF	FC	(19)	Royal Bank Ventures Investments Ltd	BF	FC	(1)
P of A Productions Ltd	BF	FC	(4)	Theobald Film Productions LLP	BF	FC	(4)
Patalex Productions Ltd	BF	FC	(4)	West Register (Hotels Number 3) Ltd	INV	DE	(1)
Patalex III Productions Ltd	BF	FC	(4)	West Register (Property Investments) Ltd	BF	DE	(1)
Patalex V Productions Ltd	BF	FC	(4)	West Register (Realisations) Ltd	INV	DE	(1)
Price Productions Ltd	BF	FC	(4)	Winchcombe Finance Ltd	BF	FC	(4)
Priority Sites Investments Ltd	BF	DE	(4)				
Priority Sites Ltd	INV	DE	(4)				

The following table details active related undertakings incorporated outside the UK which are 100% owned by NWM Group and fully consolidated for accounting purposes

Entity name	Activity	Regulatory treatment	Notes	Entity name	Activity	Regulatory treatment	Notes
Alcover A.G.	BF	DE	(32)	RBS Americas Property Corp.	SC	FC	(5)
Alternative Investment Fund B.V.	BF	FC	(3)	RBS Asia Financial Services Ltd	BF	FC	(23)
Candlelight Acquisition LLC	BF	FC	(5)	RBS Assessoria Ltd	SC	FC	(29)
Coutts & Co Ltd	CI	FC	(20)	RBS Commercial Funding Inc.	BF	FC	(5)
Coutts General Partner (Cayman) V Ltd	BF	FC	(25)	RBS Employment (Guernsey) Ltd	SC	FC	(11)
Financial Asset Securities Corp.	BF	FC	(5)	RBS Financial Products Inc.	BF	FC	(5)
KEB Investors, L.P.	BF	FC	(34)	RBS Group (Australia) Pty Limited	BF	FC	(12)
Keep SPV Ltd	BF	FC	(33)	RBS Holdings III (Australia) Pty Limited	BF	FC	(12)
Morar ICC Insurance Ltd	BF	DE	(30)	RBS Holdings N.V.	BF	FC	(3)
NatWest Markets Group Holdings Corporation	BF	FC	(5)	RBS Holdings USA Inc.	BF	FC	(5)
NatWest Markets N.V.	CI	FC	(3)	RBS Hollandsche N.V.	BF	FC	(3)
NatWest Markets Securities Inc.	INV	FC	(5)	RBS Investments (Ireland) Ltd	BF	FC	(9)
NatWest Markets Securities Japan Ltd	INV	FC	(23)	RBS Netherlands Holdings B.V.	BF	FC	(3)
R.B. Leasing BDA One Ltd	BF	FC	(7)	RBS Nominees (Ireland) Ltd	BF	FC	(9)
Random Properties Acquisition Corp. III	INV	FC	(5)	RBS Nominees (Netherlands) B.V.	BF	FC	(3)
RBS Acceptance Inc.	BF	FC	(5)	RBS WCS Holding Company	BF	FC	(17)

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

Entity name	Activity	Accounting treatment	Regulatory treatment	Group %	Notes	Entity name	Activity	Accounting treatment	Regulatory treatment	Group %	Notes
Higher Broughton (GP) Ltd	BF	EAA	PC	41	(26)	NatWest Markets Secured Funding (LM) Ltd	BF	FC	PC	20	(19)
Higher Broughton Partnership LP	BF	EAA	DE	41	(28)	RBS Sempra Commodities LLP	BF	FC	FC	51	(1)



## Notes to the financial statements

### 35 Related undertakings continued

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

Entity name	Activity	Accounting treatment	Regulatory treatment	Group %	Notes	Entity name	Activity	Accounting treatment	Regulatory treatment	Group %	Notes
Eris Finance S.R.L.	BF	IA	PC	45	(8)	Lunar Luxembourg Series 2020-01	BF	FC	DE	0	(35)
German Public Sector Finance B.V.	BF	EAJV	PC	50	(16)	Lunar Luxembourg Series 2020-02	BF	FC	DE	0	(35)
Herge Holding B.V.	BF	EAJV	PC	63	(36)	Maja Finance S.R.L.	BF	FC	FC	98	(8)
Lunar Funding VIII Ltd	BF	FC	DE	0	(35)	NatWest Secured Funding DAC	BF	FC	FC	0	(15)
Lunar Luxembourg SA	BF	FC	DE	0	(35)	Sempra Energy Trading LLC	BF	FC	FC	51	(5)
Lunar Luxembourg Series 2019-04	BF	FC	DE	0	(35)	Thames Asset Global Securitization No.1 Inc.	BF	FC	FC	0	(24)
Lunar Luxembourg Series 2019-05	BF	FC	DE	0	(35)	Tulip Asset Purchase Company B.V.	BF	FC	FC	0	(27)
Lunar Luxembourg Series 2019-06	BF	FC	DE	0	(35)						

The following table details related undertakings that are not active (actively being dissolved)

Entity name	Accounting treatment	Regulatory treatment	Group %	Notes	Entity name	Accounting treatment	Regulatory treatment	Group %	Notes
AA Merchant Services B.V.	FC	FC	100	(3)	Nevis Derivatives No. 3 LLP	FC	FC	100	(21)
Arran Cards Funding Plc	FC	FC	0	(21)	RBS Asia Holdings B.V.	FC	FC	100	(3)
Coutts & Co Trustees (Suisse) SA	FC	FC	100	(22)	RBS Asset Management Ltd	FC	FC	100	(4)
Isobel AssetCo Ltd	FC	FC	75	(18)	RBS European Investments SARL	FC	FC	100	(31)
Isobel EquityCo Ltd	FC	FC	75	(18)	RBS Investment Ltd	FC	FC	100	(1)
Isobel HoldCo Ltd	FC	FC	75	(18)	RoyScot Financial Services Ltd	FC	FC	100	(4)
Isobel Intermediate HoldCo Ltd	FC	FC	75	(18)	Style Financial Services Ltd	FC	FC	100	(10)
Isobel Loan Capital Ltd	FC	FC	75	(18)	Total Capital Finance Ltd	FC	FC	100	(2)
Isobel Mezzanine Borrower Ltd	FC	FC	75	(18)	West Register Hotels (Holdings) Ltd	FC	FC	100	(10)

The following table details related undertakings that are dormant

Entity name	Accounting treatment	Regulatory treatment	Group %	Notes	Entity name	Accounting treatment	Regulatory treatment	Group %	Notes
Buchanan Holdings Ltd	FC	FC	100	(2)	RBOS Nominees Ltd	FC	FC	100	(4)
Marigold Nominees Ltd	FC	FC	100	(4)	Sixty Seven Nominees Ltd	FC	FC	100	(2)
Mulcaster Street Nominees Ltd	FC	FC	100	(14)	The Royal Bank of Scotland (1727) Ltd	FC	FC	100	(1)
N.C. Head Office Nominees Ltd	FC	FC	100	(1)	Williams & Glyn's Bank Ltd	FC	FC	100	(4)
Project & Export Finance (Nominees) Ltd	FC	FC	100	(2)					

The following table details the overseas branches of NWM Group

Subsidiary	Geographic location	Subsidiary	Geographic location
Coutts & Co Ltd	Hong Kong	NatWest Markets Plc	Germany, Hong Kong, Japan, Singapore Turkey, United Arab Emirates
NatWest Markets N.V.	France, Germany, Hong Kong, Italy Republic of Ireland, Spain, Sweden United Kingdom		

## Notes to the financial statements

### 35 Related undertakings continued

#### Key:

BF	Banking and financial institution
CI	Credit institution
INV	Investment (shares or property) holding company
SC	Service company
TR	Trustee
OTH	Other
DE	Deconsolidated
FC	Full consolidation
PC	Pro-rata consolidation
EAA	Equity accounting – associate
EAJV	Equity accounting – joint venture
IA	Investment accounting
NC	Not consolidated

Notes	Registered addresses	Country of incorporation
(1)	RBS Gogarburn, 175 Glasgow Road, Edinburgh, EH12 1HQ, Scotland	UK
(2)	1 Princes Street, London, EC2R 8BP, England	UK
(3)	Claude Debussylaan 94, 1082 MD, Amsterdam	Netherlands
(4)	250 Bishopsgate, London, EC2M 4AA, England	UK
(5)	251, Little Falls Drive, Wilmington, Delaware, 19808	USA
(6)	c/o Nordisk Renting AB, Jakobsbergsgatan 13, 8 storey, Box 14044, SE-111 44, Stockholm	Sweden
(7)	Victoria Place, 5th Floor, 31 Victoria Street, Hamilton, HM 10	Bermuda
(8)	Via Vittorio Alfieri 1, Conegliano TV, IT-TN 31015	Italy
(9)	Ulster Bank Group Centre, George's Quay, Dublin 2, D02 VR98	RoI
(10)	24/25 St Andrew Square, Edinburgh, Midlothian, EH2 1AF, Scotland	UK
(11)	Regency Court, Glatigny Esplanade, St Peter Port, GY1 3AP	Guernsey
(12)	Ashurst L26, 181 William Street, Melbourne, VIC, 3000	Australia
(13)	36 St Andrew Square, Edinburgh, EH2 2YB, Scotland	UK
(14)	Royal Bank House, 71 Bath Street, St Helier, JE4 8PJ	Jersey
(15)	5 Harbourmaster Place, Dublin 1, D01 E7E8	RoI
(16)	De entree 99 -197, 1101HE Amsterdam Zuidooost	Netherlands
(17)	1209, Orange Street, Wilmington, New Castle County, DE, 19801	USA
(18)	40 Berkeley Square, London, W1J 5AL, England	UK
(19)	1 Bartholomew Lane London EC2N 2AX, England	UK
(20)	Lerchenstrasse 18, Zurich, CH-8022	Switzerland
(21)	35 Great St Helen's, London, EC3A 6AP, England	UK
(22)	c/o Regus Rue du Rhone Sarl, Rue du Rhone 14, 1204, Geneva	Switzerland
(23)	Level 54, Hopewell Centre, 183 Queen's Road East	Hong Kong
(24)	114 West 47th Street, New York, 10036	USA
(25)	c/o Maples Corporate Services Ltd, PO Box 309, 121 South Church Street, George Town, Grand Cayman, KY1-1104	Cayman Islands
(26)	3rd Floor, 1 St Ann Street, Manchester, M2 7LR, England	UK
(27)	Claude Debussylaan 24, 1082 MD, Amsterdam	Netherlands
(28)	Cornwall Buildings, 45-51 Newhall Street, Birmingham, West Midlands, B3 3QR, England	UK
(29)	254, 13th Floor, Rua Boa Vista, Sao Paulo, 01014-907	Brazil
(30)	PO Box 384, The Albany, South Esplanade, St Peter Port, GY1 4NF	Guernsey
(31)	46, Avenue John F. Kennedy, L-1855	Luxembourg
(32)	Tirolerweg 8, Zug, CH- 6300	Switzerland
(33)	Clarendon House, Two Church Street, Suite 104, Reid Street, Hamilton, HM 11	Bermuda
(34)	Grand Pavilion Commercial Centre, 802 West Bay Road, P.O. Box 31119,	Cayman Islands
(35)	Verlengde Poolseweg 16, Breda, 4818CL	Netherlands

## Non-IFRS measures

As described in the Accounting policies, NatWest Markets Group prepares its financial statements in accordance with the basis set out in the accounting policies, page 93 which constitutes a body of generally accepted accounting principles (GAAP). This document contains a number of adjusted or alternative performance measures, also known as non-GAAP or non-IFRS performance measures. These measures are adjusted for certain items which management believe are not representative of the underlying performance of the business and which distort period-on-period comparison. The non-IFRS measures provide users of the financial statements with a consistent basis for comparing business performance between financial periods and information on elements of performance that are one-off in nature. The non-IFRS measures also include the calculation of metrics that are used throughout the banking industry. These non-IFRS measures are not measures within the scope of IFRS and are not a substitute for IFRS measures. These measures include:

- Funded assets defined as total assets less derivative assets.
- Management view of income by business, including separate itemisation of own credit adjustments, asset disposals/strategic risk reduction and income excluding asset disposals and own credit adjustments. Asset disposals/strategic risk reduction includes the costs of exiting positions and the impact of risk reduction transactions entered into as part of the optimisation of the entity's capital usage, following the strategic announcements of 14 February 2020. Own credit adjustments are applied to positions where it is believed that the counterparties would consider NWM Group's creditworthiness when pricing trades. The fair value of certain issued debt securities, including structured notes, is adjusted to reflect the changes in own credit spreads and the resulting gain or loss recognised in income.

### Operating expenses analysis

#### Statutory analysis (1, 2)

	Year ended	
	31 December 2020	31 December 2019
	£m	£m
<b>Operating expenses</b>		
Staff costs	670	691
Premises and equipment	107	111
Other administrative expenses	629	177
Depreciation and amortisation	25	18
<b>Total operating expenses</b>	<b>1,431</b>	<b>997</b>

#### Non-statutory analysis

	Year ended				Year ended			
	31 December 2020		Statutory operating expenses		31 December 2019		Statutory operating expenses	
	Strategic costs	Litigation and conduct costs			Strategic costs	Litigation and conduct costs		
<b>Operating expenses</b>								
Staff expenses	121	—	549	670	90	—	601	691
Premises and equipment	19	—	88	107	8	—	103	111
Other administrative expenses	51	134	444	629	73	(94)	198	177
Depreciation and amortisation	—	—	25	25	—	—	18	18
<b>Total</b>	<b>191</b>	<b>134</b>	<b>1,106</b>	<b>1,431</b>	<b>171</b>	<b>(94)</b>	<b>920</b>	<b>997</b>

Notes:

- On a statutory, or GAAP, basis, strategic costs are included within staff, premises and equipment and other administrative expenses. Strategic costs relate to restructuring provisions, related costs and projects that are transformational in nature.
- On a statutory, or GAAP, basis, litigation and conduct costs are included within other administrative expenses.

## Risk Factors

### Principal Risks and Uncertainties

Set out below are certain risk factors that could adversely affect NWM Group's future results, its financial condition and prospects and cause them to be materially different from what is forecast or expected, and directly or indirectly impact the value of its securities in issue. These risk factors are broadly categorised and should be read in conjunction with other sections of this annual report, including the forward-looking statements section, the strategic report and the risk and capital management section. They should not be regarded as a complete and comprehensive statement on its own of all potential risks and uncertainties facing NWM Group. The current COVID-19 pandemic may exacerbate any of the risks described below.

### Risks relating to the COVID-19 pandemic

**The effects of the COVID-19 pandemic on the UK, global economies and financial markets and NWM Group's customers, as well as its competitive environment may continue to have a material adverse effect on NWM 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) have at times imposed strict social distancing measures, restrictions on non-essential activities and travel quarantines, in an attempt to slow the spread and reduce the impact of the COVID-19 pandemic.

The UK economy, as well as most countries, went into recession in 2020 as measures were introduced to reduce the spread of the virus. UK economic output fell again in November 2020, according to estimates from the Office for National Statistics, as many restrictions were re-introduced towards the end of 2020 and at the start of 2021. The COVID-19 pandemic has caused significant reductions in levels of personal and commercial activity, reductions in consumer spending, increased levels of corporate debt and, for some customers, personal debt, increased unemployment and significant market volatility in asset prices, interest rates and foreign exchange rates. It has also caused physical disruption and slow-down to global supply chains and working practices, all of which have affected NWM Group's customers.

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

Significant uncertainties continue as to the extent of the economic contraction and the path and length of time required to achieve economic recovery.

In response to the COVID-19 pandemic, central banks, governments, regulators and legislatures in the UK and elsewhere have announced historic levels of support and various schemes for impacted businesses and individuals, including forms of financial assistance and legal and regulatory initiatives, including further reductions in interest rates. Whether or not these measures effectively mitigate the negative impacts of the COVID-19 pandemic on NWM Group, some of these measures, or further measures, such as negative interest rates, may also have a material adverse effect on NWM Group's business and performance. It is uncertain as to how long such financial assistance and legal and regulatory initiatives may last, how they may evolve in the future or how consumers and businesses may react to such initiatives. NWM Group's clients may be negatively impacted when such support schemes are scaled back and ultimately ended, which in turn could expose NWM 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 Group more complex and may result in uncertainty impacting the risk profile of NWM Group and/or that of the wider banking industry. The medium and long-term implications of the COVID-19 pandemic for NWM Group customers, and the UK and global economies and financial markets remain uncertain and may continue to have a material adverse effect on NWM Group's business, results of operations and outlook.

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

The effects of the COVID-19 pandemic have adversely affected the credit quality of many of NWM Group's borrowers and other counterparties. As a result, NWM 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, 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' RWAs. If the NWM 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 Group's business, results of operations and outlook.

NWM Group has applied an internal analysis of multiple economic scenarios (MES) together with the determination of specific overlay adjustments to inform its IFRS 9 ECL (Expected Credit Loss). The recognition and measurement of ECL is complex and involves the use of significant judgement and estimation. This includes the formulation and incorporation of multiple forward-looking economic scenarios into ECL to meet the measurement objective of IFRS 9. The ECL provision is sensitive to the model inputs and economic assumptions underlying the estimate. Going forward, NWM 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 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 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, which requires changes in the NWM Group's business, including reductions in capital allocated to NWM Plc or its subsidiaries, its cost base and complexity. As part of the NWM Refocusing, the 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 IFRS9, 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 market risk and has caused RWA inflation, which may increase in the future.

## Risk Factors

Whilst NWM 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 Group and which may have a material adverse effect on NWM 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 scrutiny regarding how businesses address these changes and related climate, environmental, social, governance and other sustainability issues including workplace health, safety and wellbeing, diversity and inclusion, data privacy, workforce management, human rights and supply chain management. Any failure or delay by NWM 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 Group's reputation, business, results of operations and outlook and the value of NWM Group's securities. See also, 'Any failure by NWM Group to implement effective and compliant climate change resilient systems, controls and procedures could adversely affect NWM Group's ability to manage climate-related risks' and 'A failure to adapt NWM 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 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 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 Group's operational risks as many of its employees are working remotely which may also adversely affect NWM Group's ability to maintain effective internal controls.**

Due to the COVID-19 pandemic, as at 31 January 2021, many of NWM Group's employees continue to work remotely. This has increased reliance on NWM 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 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 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 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 Group'.

Sustained periods of remote working may also negatively affect workplace morale. Whilst NWM 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 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. Operational difficulties as a result of the COVID-19 pandemic, which may affect NWM 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 Group employees, in particular at a senior level. For example, in March 2020 the PRA requested that bank boards in response to the COVID-19 pandemic should consider taking appropriate actions with regard to the accrual, payment and vesting of variable remuneration. Any of the above could impair NWM Group's ability to hire, retain and engage well-qualified employees, especially at a senior level, which in turn may adversely impact NWM Group's ability to serve its clients efficiently, and impact productivity across NWM Group. This

could have a material adverse effect on NWM Group's reputation and competitive position and its ability to grow its business.

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

### **The effects of the COVID-19 pandemic could affect NWM 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 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 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. If NatWest Group plc is unable to issue securities externally as planned as a result of the COVID-19 pandemic, this may have a negative impact on NWM Plc's current and forecasted MREL position, particularly if NatWest Group plc is unable to downstream capital and/or funding to NWM Plc. 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.

Furthermore, significant fluctuation in foreign currency exchange rates may affect capital deployed in NWM Plc's foreign subsidiaries, branches and joint arrangements, securities issued by NWM Plc and/or its subsidiaries in foreign currencies or the respective values of assets, liabilities, income, RWAs, capital base, expenses and reported earnings.

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 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 Group's business, results of operations and outlook.



## Risk Factors

### Strategic risk

**NatWest Group is in the process of implementing its Purpose-led Strategy, which requires changes in NWM Group's business and strategy, and entails material execution, commercial and operational risks for NWM 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 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 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. The implementation of the NWM Refocusing is also expected to result in material costs for NWM Group and could be materially higher than anticipated, including due to material uncertainties and factors outside of NWM 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 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, 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 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. 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 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 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 Group's products and services offering or office locations, reputation with customers or business model and adversely impact NWM Group's ability to deliver its strategy and meet its targets and guidance, any of which could in turn have a

material adverse impact on NWM Group's business, results of operations and outlook. The NWM Refocusing envisages a smaller scaled business and its successful implementation is 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 Group will meet targets and expectations, or that the refocused NWM Group will be a viable, competitive business aligned to NatWest Group's corporate and institutional customer offering.

**NWM Group may not be able to successfully implement the NWM Refocusing and it may not achieve its targets and NWM 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. 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 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 and NWM 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 its customers, regulators, rating agencies, stakeholders and the wider market, how that impacts its business, and NWM 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 its portfolios and the targeted reduction of its RWAs will be accompanied by the recognition of disposal losses, which may be higher than anticipated, including due to future stresses which may place NWM Plc's capital ratios under pressure. Furthermore, regulatory pressures or changes in the economic and political and regulatory environment in which NWM 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 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



## Risk Factors

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 Group and negatively impact NWM 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 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 Group and may affect its ability to be a viable and competitive business.

### **Economic and political risk** **NWM Group faces market risk as a result of increased political and economic risks and uncertainty in the UK and global markets.**

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

The value of NWM 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 Group's financial instruments, particularly during periods of market displacement. This could cause a decline in the value of NWM Group's financial instruments. This may have an adverse effect on NWM Group's results of operations in future periods, or cause inaccurate carrying values for certain financial instruments.

Similarly, NWM Group trades a considerable amount of financial instruments (including derivatives) and volatile market conditions could result in a significant decline in NWM 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 Group's counterparty risk. NWM Group's risk management and monitoring processes seek to quantify and mitigate NWM Group's exposure to more extreme market moves. However, severe market events have historically been difficult to predict and NWM 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 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 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 Group directly (for example, as a result of credit losses) or indirectly (for example, by impacting global economic growth and financial markets and NWM Group's clients and their banking needs).

In addition, NWM Group is exposed to risks arising out of geopolitical events or political developments, such as exchange controls, and other measures taken by sovereign governments that may hinder economic or financial activity levels. Furthermore, unfavourable political, military or diplomatic events, including secession movements or the exit of other member states from the EU,

armed conflict, pandemics and widespread public health crises (including the current COVID-19 pandemic and any future epidemics or pandemics), state and privately sponsored cyber and terrorist acts or threats, and the responses to them by governments and markets, could negatively affect the business and performance of NWM Group, including as a result of the indirect effect on regional or global trade and/or NWM Group's customers.

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

After the 2016 EU Referendum, the UK ceased to be a member of the EU and the European Economic Area ('EEA') on 31 January 2020 ('Brexit'). The 2020 EU-UK Trade and Cooperation Agreement ('TCA') ended the transition period on 31 December 2020 and provides for free trade between the UK and EU with zero tariffs and quotas on all goods that comply with the appropriate rules of origin, with minimal coverage, however, for financial services; UK-incorporated financial services providers no longer have EU passporting rights and there is no mutual recognition regime. Financial services may largely be subject to individual equivalence decisions by relevant regulators. A number of temporary equivalence decisions have been made that cover all services offered by NWM Group. The EU's equivalence regime does not cover most lending and deposit taking, and determinations in respect of third countries have not, to date, covered the provision of investment services. In addition, equivalence determinations do not guarantee permanent access rights and can be withdrawn with short notice. The TCA is accompanied by a Joint Declaration on financial services, which sets out an intention for the EU and UK to cooperate on matters of financial regulation and to agree a Memorandum of Understanding by March 2021. There is no certainty, however, as to the form, scope and timing of any such Memorandum of Understanding.

NatWest Group has engaged in significant and costly Brexit planning and contingency planning. NatWest Group continues to monitor regulatory developments, and NatWest Group continues to seek advice on any transitional regimes being introduced by individual EU countries. It is updating its operating model accordingly. NatWest Group also continues to assess where NatWest Group companies can obtain bilateral regulatory permissions to permit business to continue from its UK entities, transferring what cannot be continued to be rendered from the UK to an EEA subsidiary. Where such regulatory permissions are temporary or are withdrawn, a different approach may need to be taken or may result in a change in operating model or some business being ceased. Not all NatWest Group entities have applied for bilateral regulatory permissions and instead intend to move EEA business to an EEA licenced subsidiary. There is a risk that such EEA licences may not be granted, and where these

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permissions are not obtained, further changes to NatWest Group's operating model may be required or some business may need to be ceased. In addition, failure to obtain regulatory permissions in one part of NatWest Group may impact other parts of NatWest Group adversely. Certain permissions are required in order to maintain the ability to clear euro payments and others will allow NatWest Group to continue to serve non-UK EEA customers. Furthermore, transferring business to an EEA based subsidiary is a complex exercise and involves legal, regulatory and executional risks, and could result in a loss of business, customers or greater than expected costs. The changes to NatWest Group's operating model have been costly and further changes to its business operations, product offering and customer engagement could result in further costs. Any of the above could, in turn, negatively impact NWM Group.

NatWest Group previously announced that it had transferred the client relationship coverage of its Western European corporate portfolio to NWM Group. This was accompanied by the transfer of certain term funding and revolving credit facilities from NWB Plc to NWM Group. In light of NatWest Group's most recent Brexit planning and consistent with NatWest Group and NWM Group's strategies, NWM 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. In addition, some or all of this portfolio already held in NWM Group may be transferred back to NatWest Holdings Group. The timing and quantum of any such transfers is uncertain and NWM Group can give no assurance as to the full impact of such transactions on its go-forward results of operations. As a result, NWM 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 NWM Group's business and operating environment, including as described elsewhere in these risk factors, and may be material and/or cause a near-term impact on impairments.

The long-term effects of Brexit on NWM Group's operating environment are difficult to predict. They may be impacted by wider global macro-economic trends and events, particularly COVID-19 pandemic related uncertainties, which may significantly impact NWM Group and its customers and counterparties who are themselves dependent on trading with the EU or personnel from the EU. They may exacerbate the economic impacts of the COVID-19 pandemic on the UK, the Republic of Ireland ('ROI') and the rest of 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 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 attendant operating, compliance and restructuring costs, level of impairments, capital requirements, regulatory environment and tax implications and as a result may adversely impact NWM Group's profitability, competitive position, business model and product offering.

### **Changes in interest rates have affected and will continue to affect NWM Group's business and results.**

Interest rate risk exists for NWM Group. Monetary policy has been accommodative in recent years including initiatives implemented by the Bank of England and HM Treasury, which have helped to support demand at a time of pronounced fiscal tightening and balance sheet repair. However, there remains considerable uncertainty as to the future direction of interest rates and pace of change (as set by the Bank of England and other major central banks) including as a result of COVID-19 pandemic and its effect on the UK economy as well as the general UK political or economic climate. Further decreases in interest rates and/or continued sustained low or negative interest rates would be expected to continue to put further pressure on NWM Group's interest income and profitability. Zero or negative interest rates will require investment spend to implement a strategic solution to allow a potential pass-through of those interest rates in certain systems to relevant customer segments.

Conversely, while increases in interest rates may support NWM Group interest income, sharp increases in interest rates could have macroeconomic effects that lead to adverse outcomes for the business. For example, they could lead to generally weaker than expected growth, or even contracting GDP, reduced business confidence and higher levels of unemployment or underemployment, all of which could adversely affect the business and performance of NWM Group.

### **Changes in foreign currency exchange rates may affect NWM Group's results and financial position.**

Decisions of major central banks (including the Bank of England, the European Central Bank and the US Federal Reserve) and political or market events which are outside NWM Group's control, may lead to sharp and sudden variations in foreign exchange rates.

As part of NatWest Group's strategy, NWM Group has become the markets business for NatWest Group, and is engaged principally in providing financing, risk management and trading solutions to global customers across Europe, the USA and Asia. NWM Group entities issue instruments in foreign currencies that assist in meeting their respective capital and/or MREL requirements. In addition, NWM Plc's acquisition of NWM N.V. from NatWest Group increased NWM Group's exposure to euro movements. NWM N.V. holds a

significant loan portfolio denominated in euros (see also, 'Risk and capital management — Credit Risk'). In its day-to-day operations, NWM Group maintains policies and procedures designed to manage the impact of exposures to fluctuations in currency rates. Nevertheless, changes in currency rates, particularly in the sterling-US dollar and euro-sterling exchange rates, can adversely affect the value of assets, liabilities (including the total amount of MREL eligible instruments), foreign exchange dealing activity, income and expenses, RWAs and hence the reported earnings and financial condition of NWM Group.

### **HM Treasury (or UKGI on its behalf) could exercise a significant degree of influence over NatWest Group and NWM Group is controlled by NatWest Group.**

In its March 2020 Budget, the UK Government announced its intention to continue the process of privatisation of NatWest Group plc and to carry out a programme of sales of NatWest Group plc ordinary shares with the objective of selling all of its remaining shares in NatWest Group plc by 2025. On 6 February 2019, NatWest Group plc obtained shareholder authority to make off-market purchases of its ordinary shares from HM Treasury under the terms of a directed buyback contract. The authority provided by this contract was renewed at NatWest Group's Annual General Meeting on 29 April 2020. As 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 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 Group's) capital strategy, dividend policy, remuneration policy or the conduct of NatWest 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 Group.

In addition, NWM Plc is a wholly owned subsidiary of NatWest Group plc, and NatWest Group plc therefore controls NWM Group's board of directors, corporate policies and strategic direction. The interests of NatWest Group plc as an equity holder and as NWM Group's parent may differ from the interests of NWM Group or of potential investors in NWM Group's securities.

## Risk Factors

### Financial resilience risk

**NWM Group may not meet the targets it communicates to the market, generate returns or implement its strategy effectively.**

As part of NatWest Group's Purpose-led Strategy and the NWM Refocusing, NWM 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 (for NWM Plc and NWM N.V.), targets in relation to local regulation, funding plans and requirements, management of RWAs and the timing thereof, employee engagement, diversity and inclusion as well as environmental, social and customer satisfaction targets.

NWM 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 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 NWM Group's business and strategy, and entails material execution, commercial and operational risks for NWM Group' and 'NWM Group may not be able to successfully implement the NWM Refocusing and it may not achieve its targets and NWM 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 Plc 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 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 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 Group's business and may adversely affect its ability to achieve its targets and execute its strategy.

There is a risk that NWM 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 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 outside the ring-fence (excluding RBS International). The implementation of the UK ring-fencing regime had a significant impact on NWM Plc and required it to adapt its 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 NWM Group's business and operations in the medium and long term and entails material execution, commercial and operational risks for NWM Group. Additional changes to NWM 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 NWM Group's business and strategy, and entails material execution, commercial and operational risks for NWM Group' and 'NWM Group may not be able to successfully implement the NWM Refocusing and it may not achieve its targets and NWM Group may not ultimately result in a viable, competitive business'.

NWM 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 Group has entered into Revenue Share Agreements with some entities within NatWest Group's ring-fenced sub-group (including NatWest Bank Plc, The Royal Bank of Scotland Plc and Ulster Bank Ireland DAC) as well as a non-ring-fenced entity (RBS International). It has also entered into certain transfer pricing arrangements, a funded guarantee and revenue sharing agreements with NWM N.V. in relation to certain EEA customer transfers and Western European transfers.

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 Group will be a viable, competitive or profitable banking business.

**NWM Plc and/or its regulated subsidiaries may not meet the prudential regulatory requirements for capital.**

NWM Group is required by regulators in the UK, the EU and other jurisdictions in which it undertakes regulated activities to maintain adequate financial resources. Adequate capital also gives NWM Group financial flexibility in the face of turbulence and uncertainty in the global economy and specifically in its core UK and European operations.

NWM Plc's target CET1 ratio is based on regulatory requirements, internal modelling and risk appetite (including under stress). NWM N.V.'s target CET1 ratio is based on expected regulatory requirements, internal modelling and risk appetite (including under stress).

As at 31 December 2020, NWM Plc's solo CET1 ratio was 21.7%. NWM Plc's current capital strategy is based on the management of RWAs and other capital management initiatives (including the reduction of RWAs and the periodic payment of dividends to NatWest Group plc, NWM Plc's parent company).

Other factors that could influence NWM Plc and NWM N.V.'s CET1 ratios include, amongst other things (See also, 'NatWest Group is in the process of implementing its Purpose-led Strategy, which requires changes in NWM Group's business and strategy, and entails material execution, commercial and operational risks for NWM Group'):

- a depletion of NWM Plc or 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 Plc's or 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 (and increase the amount of internal MREL required for NWM Plc);
- changes in prudential regulatory requirements including the Total Capital Requirement for NWM Plc (as regulated by the PRA) or NWM N.V. (as regulated by the De Nederlandsche Bank ('DNB')),



## Risk Factors

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.

NWM Plc has a Capital Support Deed in place, which facilitates capital support amongst the participating entities in NWM Group.

Any capital management actions taken under a stress scenario may affect, among other things, NWM 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 Group's securities. See also, 'NWM Plc and/or its regulated subsidiaries may not manage their capital, liquidity or funding effectively which could trigger the execution of certain management actions or recovery options' and 'NatWest Group (including NWM Group) may become subject to the application of UK statutory stabilisation or resolution powers which may result in, among other actions, the write-down or conversion of NWM Group entities' Eligible Liabilities'.

### **NWM Plc may not be able to adequately access sources of liquidity and funding.**

NWM 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 Group held £4.4 billion in deposits from banks and customers. The level of deposits and wholesale funding may fluctuate due to factors outside NWM Group's control. These factors include: loss of investor confidence (including in individual NWM Group entities or the UK 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 Group has significant exposure to counterparty and borrower risk'.

An inability to grow, roll-over, or any material decrease in, NWM 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 Group's ability to satisfy its liquidity needs.

NWM 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 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 Group balance sheet, then unsecured funding from other sources would be required to replace such financing. There is a risk that NWM 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 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 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 Group.

As at 31 December 2020, NWM Group reported a liquidity coverage ratio of 268%. If its liquidity position were to come under stress and if NWM 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 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 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 Group's funding plans. In a time of reduced liquidity or market stress, NWM 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 Group's results.

NWM Group entities independently manage liquidity risk on a stand-alone basis, including through holding their own liquidity portfolios. They have restricted access to liquidity or funding from other NatWest Group entities. NWM Group entities management of their own liquidity portfolios and the structure of capital support are subject to operational and execution risk, as NWM group entities take

steps to meet their own liquidity and capital requirements.

### **NWM Plc and/or its regulated subsidiaries may not manage their capital, liquidity or funding effectively which could trigger the execution of certain management actions or recovery options.**

Under the EU Bank Recovery and Resolution Directives I and II ('BRRD'), as implemented in the UK, NatWest Group must maintain a recovery plan acceptable to its regulator, such that a breach of NWM Plc's applicable capital or leverage, liquidity or funding requirements would trigger consideration of NWM Plc'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 Plc 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 Plc's capital and leverage requirements. NatWest Group may also address a shortage of capital in NWM Plc by providing parental support to NWM Plc. NatWest Group's (and NWM Plc's) regulator may also request that NWM 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 the UK resolution authority, the Bank of England also has the power to execute the 'bail-in' of certain securities of NWM Group without further action at NatWest Group level.

Any capital management actions taken under a stress scenario may affect, among other things, NWM 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 Group's securities. See also, 'NatWest Group (including NWM Group) may become subject to the application of UK statutory stabilisation or resolution powers which may result in, among other actions, the write-down or conversion of NWM Group entities' Eligible Liabilities'. In addition, if NWM Plc or 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 Group's operating performance.

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**Any reduction in the credit rating and/or outlooks assigned to NatWest Group plc, any of its subsidiaries (including NWM Plc or NWM Group subsidiaries) or any of their respective debt securities could adversely affect the availability of funding for NWM Group, reduce NWM Group's liquidity position and increase the cost of funding.**

Rating agencies regularly review NatWest Group plc, NWM Plc and other NatWest Group entity credit ratings and outlooks, which could be negatively affected by a number of factors that can change over time including: the credit rating agency's assessment of NWM 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 Group operates; the implementation of structural reform; the legal and regulatory frameworks applicable to NWM 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 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 or of certain other NatWest Group entities, including, in particular, downgrades below investment grade, or a deterioration in the capital markets' perception of NWM Group's financial resilience could significantly affect NWM 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 Group's (and, in particular, NWM Plc's) cost of funding and its access to capital markets which could limit the range of counterparties willing to enter into transactions with NWM Group (and, in particular, with NWM Plc). This could in turn adversely impact NWM Group's competitive position and threaten its prospects in the short to medium-term.

**NWM Group operates in markets that are highly competitive, with increasing competitive pressures and technology disruption.**

The markets in which NWM 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 Group are, and will become, more technology intensive. NWM Group's ability to develop such services (which also comply with applicable and evolving regulations) has become increasingly important to retaining and growing NWM Group's client businesses across its geographical footprint. There can be no certainty that NWM Group's innovation strategy (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 Group to continue to grow such services in the future.

In addition, certain of NWM 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 Group. Although NWM 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 Group's focus on its cost savings targets. This may limit additional investment in areas such as financial innovation and could therefore affect NWM Group's offering of innovative products or technologies for delivering products or services to clients and its competitive position. NWM 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's ability to produce underlying high quality data, failing which its ability to offer innovative products may be compromised.

If NWM 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 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 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 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 Group's ability to compete effectively and intensified competition from incumbents, challengers and new entrants could affect NWM 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 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 Group's business and results of operations.

**NWM Group is reliant on access to the capital markets to meet its funding requirements, both directly, and indirectly through its parent for the subscription to its internal MREL. The inability to do so may adversely affect NWM Group.**

NWM Group 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 Group faces market risk as a result of increased political and economic risks and uncertainty in the UK and global markets', 'Continuing uncertainty regarding the effects of the UK's withdrawal from the European Union may continue to adversely affect NWM Group and its operating environment' and 'Any reduction in the credit rating and/or outlooks assigned to NatWest Group plc, any of its subsidiaries (including NWM Plc or NWM Group subsidiaries) or any of their respective debt securities could adversely affect the availability of funding for NWM Group, reduce NWM Group's liquidity position and increase the cost of funding'.

In addition, NWM Plc receives capital and funding from NatWest Group plc. NWM Plc has set target levels for different tiers of capital and for the internal minimum requirements for own funds and eligible liabilities ('MREL'), as percentages of its RWAs. The level of capital and funding required for NWM Plc to meet its internal targets is therefore a function of the level of RWAs and its leverage exposure in NWM Plc and this may vary over time.

NWM Plc's internal MREL comprises the regulatory value of capital instruments and loss-absorbing senior funding issued by NWM Plc to its parent, NatWest Group plc, in all cases with a residual maturity of at least one year. The Bank of England has identified that the preferred resolution strategy for NatWest Group is as a single point of entry. As a result,

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only NatWest Group plc is able to issue Group MREL eligible liabilities to third-party investors, using the proceeds to fund the internal capital and MREL targets and/or requirements of its operating entities, including NWM Plc. NWM Plc is therefore dependent not only on NatWest Group plc to fund its internal capital targets, but also on NatWest Group plc's ability to source appropriate funding. NWM Plc is also dependent on NatWest Group plc to continue to fund NWM Plc's internal MREL targets over time and its ability to issue and maintain sufficient amounts of external MREL liabilities to support this. In turn, NWM Plc is required to fund the internal capital and MREL requirements of its subsidiaries.

Any inability of NWM Group to adequately access the capital markets, to manage its balance sheet in line with assumptions in its funding plans, or to issue internal capital and MREL may adversely affect NWM Group, such that NWM Group may not constitute a viable banking business and/or NWM Plc or NWM N.V. may fail to meet their respective regulatory capital and/or MREL requirements (at present, NWM N.V. does not yet have its own MREL requirements).

### **NWM 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 Group has significant exposure to counterparty and borrower risk.**

NWM N.V., 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 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 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 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 Group's clients and credit exposures, which may, in turn, adversely impact NWM Group's profitability.

The credit quality of NWM Group's borrowers and other counterparties is impacted by prevailing economic and market conditions (including those caused by the COVID-19 pandemic) and by the legal and regulatory landscape in the UK and 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 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 Group. In addition, the value of collateral may be correlated with the probability of default by the relevant counterparty ('wrong way risk'), which would increase NWM 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 Group interacts on a daily basis. See also, 'NWM Group is reliant on access to the capital markets to meet its funding requirements, both directly, and indirectly through its parent

for the subscription to its internal MREL. The inability to do so may adversely affect NWM 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 Group and an inability to engage in routine funding transactions.

NWM 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 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 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 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 Group.

### **NWM 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 Group's business, strategy and capital requirements, NWM 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 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 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 Group operates (for example to account for the impact of the



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COVID-19 pandemic), to capture risks and exposures at the subsidiary level, and to update for changes to NWM Group's current business model or operations, or for findings of deficiencies by NatWest Group (and in particular, NWM Group's regulators (including as part of NatWest Group's mandated stress testing) may result in increased capital requirements or require management action. NWM 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 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 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 97. New accounting standards and interpretations that have been issued by the International Accounting Standards Board but which have not yet been adopted by NWM Group are discussed in 'Accounting developments' on page 97.

### **Changes in accounting standards may materially impact NWM 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 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 Group.

NWM Group's trading assets amounted to £68.7 billion 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 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 Group's internal valuation models require NWM 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 Group to recognise fair value losses, which may have an adverse effect on NWM Group's income generation and financial position.

### **NatWest Group (including NWM Group) may become subject to the application of UK statutory stabilisation or resolution powers which may result in, among other actions, the write-down or conversion of NWM Group entities' Eligible Liabilities.**

HM Treasury, the Bank of England and the PRA and FCA (together, the 'Authorities') are granted substantial powers to resolve and stabilise UK-incorporated financial institutions. Five stabilisation options exist: (i) transfer of all of the business of a relevant entity or the shares of the relevant entity to a private sector purchaser; (ii) transfer of all or part of the business of the relevant entity to a 'bridge bank' wholly-owned by the Bank of England; (iii) transfer of part of the assets, rights or liabilities of the relevant entity to one or more asset management vehicles for management of the transferor's assets, rights or liabilities; (iv) the write-down, conversion, transfer, modification, or suspension of the relevant entity's equity, capital instruments and liabilities ('Eligible Liabilities'); and (v) temporary public ownership of the relevant entity. These tools may be applied to NatWest Group plc as the parent company or to NWM Group, as an affiliate, where certain conditions are met (such as, whether the firm is failing or likely to fail, or whether it is reasonably likely that action will be taken (outside of resolution) that will result in the firm no longer failing or being likely to fail). Moreover, there are modified insolvency and administration procedures for relevant entities, and the Authorities have the power to modify or override certain contractual arrangements in certain circumstances and amend the law for the purpose of enabling their powers to be used effectively and may promulgate provisions with retrospective applicability. Similar powers may also be exercised with respect to NWM N.V. in the Netherlands by the relevant Dutch regulatory authorities.

Under the UK Banking Act, the Authorities are generally required to have regard to specified objectives in exercising the powers provided for by the Banking Act. One of the objectives (which is required to be balanced as appropriate with the other specified objectives) refers to the protection and enhancement of the stability of the financial system of the UK. Moreover, the 'no creditor worse off' safeguard contained in the Banking Act (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 Authorities may exercise their powers including the determination of actions undertaken in relation to the ordinary shares and other securities of NatWest Group (including NWM Group), which may depend on factors outside of NWM Group's control. Moreover, the Banking Act provisions remain untested in practice.

If NatWest Group is at or is approaching the point of non-viability such that regulatory intervention is required, there may correspondingly be an adverse effect on the business, results of operations and outlook of NWM Group.

### **NatWest Group is subject to Bank of England oversight in respect of resolution, and NatWest 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 Group, resulting in restrictions on maximum individual and aggregate exposures, a requirement to dispose of specified assets, a requirement to cease carrying out certain activities and/or maintaining a specified amount of MREL. This may also result in reputational damage and/or loss of investor confidence.

## Risk Factors

### **Climate and sustainability-related risks NWM Group and its customers may face significant climate-related risks, including in transitioning to a low-carbon economy, which may adversely impact NWM 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 Group may face a variety of climate-related legal risks, both physical and transition, from potential litigation and contract liability. See also, 'NWM 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 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 Group's portfolios. In addition, NWM 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. 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 Group's customer base (including oil and gas, automotive and transport, for example) are expected to be particularly impacted.

If NWM 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 Group and its customers face, NWM 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 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 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 Group's business and operating model. This may have a material adverse effect on NWM Group's ability to achieve financial targets and generate sustainable returns.

To understand and measure the climate impact of emissions related to NWM 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 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 progress towards its Climate Ambition by 2030.

NWM 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 NWM Group's business and strategy, and entails material execution, commercial and operational risks for NWM Group'.

Any delay or failure to meet those climate-related targets and commitments and may have a material adverse impact on NWM Group's reputation, business, results, outlook, market and competitive position.

### **Any failure by NWM Group to implement effective and compliant climate change resilient systems, controls and procedures could adversely affect NWM 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 the SS 3/19 the PRA states that regulated entities must:

- fully embed the consideration of the financial risks from climate change in their governance arrangements;
- incorporate the financial risks from climate change into existing financial risk management practice;
- use (long term) scenario analysis to inform strategy setting and risk assessment and identification; and
- develop an approach to disclosure on the financial risks from climate change.

The PRA requires firms to embed fully their approaches to managing climate-related financial risks by the end of 2021. NatWest Group provided the PRA on 8 October 2020 with an updated delivery plan to its original plan submitted in October 2019 to meet these requirements, stating that the COVID-19 pandemic had disrupted delivery of some elements of NatWest Group's original plan and as a result, some near term activities have been delayed to 2021. This delay may increase execution risk. Further, the updated plan advised that it will require additional operating cycles reaching into 2022 and beyond to prove embedding.

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 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 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 Group's regulatory compliance, prudential capital requirements, liquidity position, reputation, business, results of operations and outlook.

## Risk Factors

### **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 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):

- lack of specialist expertise in banks such that NWM Group needs to rely on third party advice, modelling, and data;
- immaturity of modelling of and data on the impact of climate-related risks on financial assets which will evolve rapidly in the coming years;
- the number of variables and forward-looking nature of climate scenarios which makes them challenging to back test and benchmark;
- 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 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 Group's regulatory compliance, reputation, business, results of operations and outlook.

### **A failure to adapt NWM 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 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 Group or its customers with adverse sustainability-related issues, as well as exacerbate existing risks.

Failure to adapt NWM 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 Group's reputation, liquidity position, business, results of operations and outlook.

### **Any reduction in the ESG ratings of NatWest Group (including NWM Group) could have a negative impact on NatWest Group's (including NWM Group) reputation and on investors' and customers risk appetite.**

Unsolicited ESG ratings from agencies and data providers that rate how NatWest Group (including NWM 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 Group) control (e.g. change in rating methodology). Any reduction in ESG ratings of NatWest Group could have a negative impact on NWM Group's reputation and influence investors' risk appetite for NWM Group's and/or its subsidiaries' securities and

affect whether customers wish to deal with NWM Group.

### **Increasing levels of climate, environmental and sustainability-related laws, regulation and oversight may adversely affect NWM Group's business and expose NWM Group to increased costs of compliance, regulatory sanction and reputational damage.**

There are an increasing number of EU, UK 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 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 Group) achievement of its Climate Ambition.

In addition, NWM Group's EU subsidiaries will continue to be subject to an increasing array of the EU/EEA climate and sustainability-related legal and regulatory requirements. These requirements may be used as the basis for UK laws and regulations (such as the recently announced UK Green Taxonomy) or regarded by investors and regulators as best practice standards whether or not they apply to UK businesses. Any divergence between EU/EEA and UK climate and sustainability-related legal and regulatory requirements may result in NWM Group not meeting investors' expectations, increase the cost of doing business and may restrict access of NWM Group's UK business to the EU/EEA market.

In addition, NWM Group and its subsidiaries 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, as the UK moves towards mandatory TCFD reporting across the UK economy by 2025.

NatWest Group (including NWM 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 Group to implement significant changes to its business, operations, internal controls over



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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 Group's regulatory compliance and may result in regulatory sanction and reputational damage.

### **NWM 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 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 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 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 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 Group operates in many countries, offering a diverse range of products and services supported by 2,100 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 Group relies on third-party suppliers or vendors to provide services to it or its clients, as is increasingly the case as NWM Group outsources certain activities, including with respect to the implementation of new technologies, innovation and responding to regulatory and market changes.

Operational risks continue to be heightened as a result of the implementation of the NWM Refocusing and NatWest Group's Purpose-led Strategy, NWM 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 Group will evolve to best serve its customers. Any of the above may place significant pressure on NWM Group's ability to maintain effective internal controls and governance frameworks.

As part of the NWM Refocusing, NWM 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. A failure by NatWest Bank Plc to adequately supply these services may expose NWM 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 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 Group has implemented risk controls and mitigation actions, with resources and planning having been devoted to mitigate operational risk, such measures may not be effective in controlling each of the operational risks faced by NWM Group. Ineffective management of such risks could adversely affect NWM Group.

### **NWM Group is subject to increasingly sophisticated and frequent cyberattacks.**

NWM Group experiences a constant threat from cyberattacks across the entire NatWest Group (including NWM Group) and against NatWest Group and NWM Group's supply chain, reinforcing the importance of due diligence of close working relationship with, the third parties on which NWM Group relies. NWM 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 Group is required to continue to invest in additional capability designed to defend against emerging threats. In 2020, NWM 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 Group's customers. NWM 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 Group's IT systems, and to exploit vulnerabilities. NWM 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 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 Group'.

Any failure in NWM 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 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 Group's systems to disclose sensitive information in order to gain access to NWM Group's data or that of NWM 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 Group's employees or third parties, including third party providers, or may result from accidental technological failure.

NWM Group expects greater regulatory engagement, supervision and enforcement to continue at a high level 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 the pace of change, which could negatively impact NWM Group. Due to NWM 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 Group.

In accordance with the EU General Data Protection Regulation ('GDPR') and European Banking Authority ('EBA') Guidelines on ICT and Security Risk Management, NWM Group is required to ensure it implements timely appropriate and effective organisational and technological safeguards against unauthorised or unlawful access to data of NWM Group, its clients and its employees. In order to meet this requirement, NWM Group relies on the effectiveness of its internal policies, controls and procedures to protect the confidentiality, integrity and availability of

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information held on its IT systems, networks and devices as well as with third parties with whom NWM Group interacts. A failure to monitor and manage data in accordance with the GDPR and EBA requirements of the applicable legislation may result in financial losses, regulatory fines and investigations and associated reputational damage.

### **NWM Group operations and strategy are highly dependent on the accuracy and effective use of data.**

NWM 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 Group's strategy and could place the NWM 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 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 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 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 Group's ability to do this may be more difficult due to the implementation of the NWM Refocusing, 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 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 the PRA's request that bank boards consider taking further appropriate action regarding variable compensation, or negative economic developments, could have an adverse effect on 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.

Some of NWM Group's employees are represented by employee representative bodies, including trade unions. Engagement with its employees and such bodies is important to NWM Group in maintaining good employee relations. Any breakdown of these relationships could affect NWM Group's business, reputation, results of operations and outlook.

### **NWM 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 Group.**

NWM 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 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 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 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 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 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 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 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 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 NWM Group's business and strategy, and entails material execution, commercial and operational risks for NWM Group'.

### **A failure in NWM Group's risk management framework could adversely affect NWM Group, including its ability to achieve its strategic objectives.**

Risk management is an integral part of all of NWM Group's activities and includes the definition and monitoring of NWM Group's risk appetite and reporting on NWM Group's risk exposure and the potential impact thereof on NWM Group's financial condition. Financial risk management is highly dependent on the use and effectiveness of internal stress tests and models and ineffective risk management may arise from a wide variety of factors, including lack of transparency or incomplete risk reporting, unidentified conflicts or misaligned incentives, lack of accountability control and governance, lack of consistency in risk monitoring, risks related to unanticipated behaviour or performance in algorithmic trading and management or insufficient challenges or assurance processes. Failure to manage risks effectively could adversely impact NWM Group's reputation or its relationship with its regulators, clients, shareholders or other stakeholders.

NWM 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 Group's regulatory obligations, client needs or do not reflect NWM 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 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 Group.

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These risks may be exacerbated when most of NWM Group's employees work remotely as a result of the COVID-19 pandemic, which places additional pressure on NWM Group's ability to maintain effective internal controls and governance frameworks.

As part of the NWM Refocusing, NWM 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 Group from future instances of misconduct and no assurance can be given that NWM 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 NWM Group's business and strategy, and entails material execution, commercial and operational risks for NWM Group'. 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 Group's operations are subject to inherent reputational risk.**

Reputational risk relates to stakeholder and public perceptions of NWM 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 Group, its employees or those with whom NWM Group is associated. This includes brand damage, which may be detrimental to NWM 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 Group's ability to attract and retain clients. In particular, NWM 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 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 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 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 Group cannot be certain that it will be successful in avoiding damage to its business from reputational risk.

### **Legal, regulatory and conduct risk NWM Group's businesses are subject to substantial regulation and oversight, which are constantly evolving and may adversely affect NWM Group.**

NWM 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 diverge now that the Brexit transition period has ended. NWM Group expects government and regulatory intervention in the financial services industry to remain high for the foreseeable future.

In recent years, regulators and governments have focused on reforming the prudential regulation of the financial services industry and the manner in which the business of financial services is conducted. Amongst others, measures have included: enhanced capital, liquidity and funding requirements, implementation of the UK ring-fencing regime, implementation and strengthening of the recovery and resolution framework applicable to financial institutions in the UK, the EU and the US, financial industry reforms (including in respect of MiFID II), corporate governance requirements, restrictions on the compensation of senior management and other employees, enhanced data privacy and IT resilience requirements, financial market infrastructure reforms (including 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, consumer protection and disputes regimes, anti-money laundering, anti-corruption, anti-bribery, anti-tax evasion, payment systems, sanctions and anti-terrorism laws and regulations.

In addition, there is significant oversight by competition authorities of the jurisdictions in which NWM Group operates. The competitive landscape for banks and other financial institutions in the UK, EU/EEA and the US 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. Recent regulatory changes, proposed or future

developments and heightened levels of public and regulatory scrutiny in the UK, the EU and the US have resulted in increased capital, funding and liquidity requirements, changes in the competitive landscape, changes in other regulatory requirements and increased operating costs, and have impacted, and will continue to impact, product offerings and business models. For example, NWM 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 risk. Material consequences could arise should NWM 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 Group's ability to comply with the applicable body of rules and regulations in the manner and within the time frames required.

Other areas in which, and examples of where, governmental policies, regulatory and accounting changes and increased public and regulatory scrutiny could have an adverse impact (some of which could be material) on NWM 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 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 Group's operations, such as the imposition of a financial transaction tax, changes in the scope and administration of the Bank Levy, changes in tax rates, increases in the bank corporation tax surcharge in the UK, restrictions on the tax deductibility of interest payments or further restrictions imposed on the treatment of carry-forward tax losses that reduce the value of deferred tax assets and require increased payments of tax.

These and other recent regulatory changes, proposed or future developments and heightened levels of public and regulatory scrutiny in the UK, the EU and the US have resulted in increased capital, funding and liquidity requirements, changes in the competitive landscape, changes in other regulatory requirements and increased



## Risk Factors

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 Group's authorisations and licences, the products and services that NWM Group may offer, its reputation and the value of its assets, NWM Group's operations or legal entity structure, and the manner in which NWM Group conducts its business. Material consequences could arise should NWM 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 Group's ability to comply with the applicable body of rules and regulations in the manner and within the time frames required.

In 2019, the PRA published an industry-wide "Dear CEO" letter which confirmed the regulator's ongoing focus on the integrity of regulatory reporting and its intention to ask a selection of UK banks to commission reports from Skilled Persons under section 166 of the Financial Services and Markets Act 2000 to review the governance, controls and processes around the preparation of Common Reporting ("COREP") regulatory returns and to provide reasonable assurance opinions on whether the returns reviewed were properly prepared. NatWest Group was selected to participate in this review. The PRA delayed the start of this review in light of the COVID-19 pandemic and the Skilled Persons are now expected to complete their work in H1 2021.

Changes in laws, rules or regulations, or in their interpretation or enforcement, or the implementation of new laws, rules or regulations, including contradictory or conflicting laws, rules or regulations by key regulators or policymakers in different jurisdictions, or failure by NWM Group to comply with such laws, rules and regulations, may adversely affect NWM 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 Group's ability to engage in effective business, capital and risk management planning.

**NWM Group is 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 Group.**

NWM Group's operations are diverse and complex and it operates in legal and regulatory environments that expose it to potentially significant legal proceedings, and civil and criminal regulatory and governmental actions. NWM Group has settled a number of legal and regulatory actions over the past several years but continues to be, and may in the future be, involved in such actions in the US, the UK, Europe and other jurisdictions.

NWM Group is currently involved in a number of significant legal and regulatory actions, including criminal and civil investigations, proceedings and ongoing reviews (both formal and informal) by governmental law enforcement and other agencies and litigation proceedings, relating to, among other matters, the 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 Group's expectation for resolution may change and substantial additional provisions and costs may be recognised in respect of any matter.

NWM Group companies are currently responding to a criminal investigation by the United States Attorney for the District of Connecticut (USAO) and the United States Department of Justice (DoJ) concerning trading by certain NWM Plc former traders involving alleged spoofing, which activity occurred during the term of a non-prosecution agreement (NPA) that NWMSI entered into in connection with secondary trading in various forms of asset-backed securities, under which non-prosecution was conditioned on NWMSI and affiliated companies not engaging in conduct during the NPA that the USAO determines was a felony under federal or state law or a violation of the anti-fraud provisions of the United States securities law. The duration and outcome of this criminal investigation, which may include the extension, modification, or deemed violation of the NPA, remain uncertain. 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 26 to the consolidated accounts on pages 144 to 147 for details of these matters.

Adverse outcomes or resolution of current or future legal or regulatory actions (in particular, any finding of criminal liability by US authorities (including as a result of pleading guilty), as to the alleged spoofing or the conduct underlying the NPA) could have material collateral consequences for NWM Group's business and result in restrictions or limitations on NWM Group's operations. These may include consequences resulting from the need to reapply for various important licenses or obtain waivers to conduct certain existing activities of NWM Group, particularly but not solely in the US, which may take a significant period of time and the results of which are uncertain. Failure to obtain such licenses or waivers could adversely impact

NWM Group's business, in particular in the US, including if it results in NWM Group being precluded from carrying out certain activities. This in turn and/or the fines, settlement payments or penalties could adversely impact NWM Group's capital position or its ability to meet regulatory capital adequacy requirements.

Failure to comply with undertakings made by NWM Group to its regulators may result in additional measures or penalties being taken against NWM Group.

**NWM Group may not effectively manage the transition of LIBOR and other IBOR rates to alternative risk free rates.**

UK and international regulators are driving the transition from the use of interbank offer rates (IBORs), including LIBOR, to alternative risk free rates (RFRs). Interest rate benchmark reform is a key priority of the Financial Stability Board, and working groups have been established in a number of jurisdictions to support the transition. Major central banks and regulators, including the FCA, the Bank of England, and the Federal Reserve, have strongly urged market participants to transition to RFRs, given the FCA have indicated that the availability of LIBOR beyond the end of 2021 cannot be guaranteed. NWM Group has a significant exposure to IBORs, and continues to reference it in certain products, primarily derivatives and cash products. NWM Group has started to phase out its use of IBOR in line with the Bank of England transition roadmap, and has embedded appropriate fall-back mechanisms in most new IBOR activities, either through bilateral contract documentation, or under the ISDA fall-backs protocol. NWM, 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 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 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

## Risk Factors

IBORs that may impact NWM 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 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 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.

### **Changes in tax legislation or failure to generate future taxable profits may impact the recoverability of certain deferred tax assets recognised by NWM Group.**

In accordance with the accounting policies set out on page 94, NWM Group has recognised deferred tax assets on losses available to relieve future profits from tax only to the extent it is probable that they will be recovered. The deferred tax assets are quantified on the basis of current tax legislation and accounting standards and are subject to change in respect of the future rates of tax or the rules for computing taxable profits and offsetting allowable losses.

Failure to generate sufficient future taxable profits or further changes in tax legislation (including with respect to rates of tax) or accounting standards may reduce the recoverable amount of the recognised tax loss deferred tax assets, amounting to £62 million as at 31 December 2020. Changes to the treatment of certain deferred tax assets may impact NWM Group's capital position. In addition, NWM Group's interpretation or application of relevant tax laws may differ from those of the relevant tax authorities and provisions are made for potential tax liabilities that may arise on the basis of the amounts expected to be paid to tax authorities. The amounts ultimately paid may differ materially from the amounts provided depending on the ultimate resolution of such matters.

## Forward-looking statements

### Cautionary statement regarding forward-looking statements

#### Cautionary statement regarding forward-looking statements

Certain sections in this document contain 'forward-looking statements' as that term is defined in the United States Private Securities Litigation Reform Act of 1995, such as statements that include the words 'expect', 'estimate', 'project', 'anticipate', 'commit', 'believe', 'should', 'intend', '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. In particular, this document includes forward-looking statements relating, but not limited to: the COVID-19 pandemic and its impact on NWM Group; future profitability and performance, including financial performance targets; ESG and climate-related targets, including in relation to sustainable financing and financed emissions; planned cost savings; implementation of NatWest Group's and NWM Group's strategy, including in relation to the digitisation of their operations and services; the timing and outcome of litigation and government and regulatory investigations; balance sheet reduction, including the reduction of RWAs; capital, liquidity and leverage ratios and requirements, including CET1 Ratio, RWAs, Pillar 2 and other regulatory buffer requirements and MREL; funding plans and credit risk profile; capitalisation; portfolios; net interest margin; customer loan and income growth and market share; impairments and write-downs; restructuring and remediation costs and charges; NWM Group's exposure to political risk, economic risk, climate, environmental and sustainability risk, operational risk, conduct risk, cyber and IT risk and credit rating risk and to various types of market risk, including interest rate risk, foreign exchange rate risk and commodity and equity price risk; customer experience, including our Net Promoter Score (NPS); employee engagement and gender balance in leadership positions.

### Limitations inherent to forward-looking statements

These statements are based on current plans, expectations, estimates, targets and projections, and are subject to significant inherent risks, uncertainties and other factors, both external and relating to NatWest Group's and NWM Group's strategy or operations, which may result in NWM Group being unable to achieve the current plans, expectations, estimates, targets, projections and other anticipated outcomes expressed or implied by such forward-looking statements. In addition, certain of these disclosures are dependent on choices relying on key model characteristics and assumptions and are subject to various limitations, including assumptions and estimates made by management. By their nature, certain of these disclosures are only estimates and, as a result, actual future results, gains or losses could differ materially from those that have been estimated. Accordingly, undue reliance should not be placed on these statements. The forward-looking statements contained in this document speak only as of the date we make them and we expressly disclaim any obligation or undertaking to update or revise any forward-looking statements contained herein, whether to reflect any change in our expectations with regard thereto, any change in events, conditions or circumstances on which any such statement is based, or otherwise, except to the extent legally required.

### Important factors that could affect the actual outcome of the forward-looking statements

We caution you that a large number of important factors could adversely affect our results or our ability to implement our strategy, cause us to fail to meet our targets, predictions, expectations and other anticipated outcomes or affect the accuracy of forward-looking statements described in this document. These factors include, but are not limited to, those set forth in the risk factors and the other uncertainties described in NatWest Markets Plc's Annual Report and its other public filings. The principal risks and uncertainties that could adversely affect NWM Group's future results, its financial condition and prospects and cause them to be materially different from what is forecast or expected, include, but are not limited to: risks relating to the COVID-19 pandemic (including in respect of: the effects on the global economy and financial markets, and NWM Group's customers; increased counterparty risk; NatWest Group's and NWM Group's ability to meet its targets and strategic objectives; increased operational and control risks; and increased funding risk); strategic risk (including in respect of: the implementation of NatWest Group's and NWM Group's strategy and NWM Group's ability to achieve its targets); economic and political risk (including in respect of: uncertainty regarding the effects of Brexit; increased political and economic risks and uncertainty in the UK and global markets; changes in interest rates and foreign currency exchange rates; and HM Treasury's ownership of NatWest Group plc); financial resilience risk (including in respect of: NWM Group's ability to meet targets; the competitive environment; counterparty risk; prudential regulatory requirements for capital and MREL; funding risk; changes in the credit ratings; the adequacy of NatWest Group's resolution plans; the requirements of regulatory stress tests; model risk; sensitivity to accounting policies, judgments, assumptions and estimates; changes in applicable accounting standards; and the application of UK statutory stabilisation or resolution powers); climate and sustainability risk (including in respect of: risks relating to climate change and the transitioning to a low carbon economy; the implementation of NatWest Group's and NWM Group's climate change strategy and climate change resilient systems, controls and procedures; increased model risk; the failure to adapt to emerging climate, environmental and sustainability risks and opportunities; changes in ESG ratings; increasing levels of climate, environmental and sustainability related regulation and oversight; and climate, environmental and sustainability related litigation, enforcement proceedings and investigations); operational and IT resilience risk (including in respect of: operational risks (including reliance on third party suppliers); cyberattacks; the accuracy and effective use of data; complex IT systems (including those that enable remote working); attracting, retaining and developing senior management and skilled personnel; NWM Group's risk management framework; and reputational risk); and legal, regulatory and conduct risk (including in respect of: the impact of substantial regulation and oversight; compliance with regulatory requirements; the outcome of legal, regulatory and governmental actions and investigations; the replacement of LIBOR, EURIBOR and other IBOR rates; heightened regulatory and governmental scrutiny (including by competition authorities); and changes in tax legislation or failure to generate future taxable profits).

The information, statements and opinions contained in this document do not constitute a public offer under any applicable legislation or an offer to sell or a solicitation of an offer to buy any securities or financial instruments or any advice or recommendation with respect to such securities or other financial instruments