Dated 31 March 2021

NatWest Markets Plc

(incorporated in Scotland with limited liability under the Companies Acts 1948 to 1980, registered number SC090312)

2021 Registration Document

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INTRODUCTION

This document constitutes a registration document ('**Registration Document**') for the purposes of Article 6(3) of Regulation (EU) 2017/1129 as it forms part of domestic law of the United Kingdom by virtue of the European Union (Withdrawal) Act 2018 (the '**EUWA**') and the regulations made under the EUWA, as amended or superseded (the '**UK Prospectus Regulation**'), and has been prepared for the purpose of giving information with respect to NatWest Markets Plc which, according to the particular nature of the Issuer and the securities which it may offer to the public within the United Kingdom (the '**UK**') or apply to have admitted to trading on the London Stock Exchange's regulated market, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer.

In this Registration Document, unless otherwise stated or the context otherwise requires, references to the '**Issuer**' and to '**NWM Plc**' are to NatWest Markets Plc and references to the '**NWM Group**' are to NWM Plc and its subsidiaries.

The Issuer accepts responsibility for the information contained in this Registration Document. To the best of the knowledge of the Issuer, the information contained in this Registration Document is in accordance with the facts and the Registration Document makes no omission likely to affect the import of such information.

This Registration Document has been approved by the Financial Conduct Authority (the '**FCA**'), as competent authority under the UK Prospectus Regulation. The FCA only approves this Registration Document as meeting the standards of completeness, comprehensibility and consistency imposed by the UK Prospectus Regulation. Such approval should not be considered as an endorsement of the Issuer that is the subject of this Registration Document.

No person has been authorised to give any information or to make any representation not contained in or not consistent with this Registration Document and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer.

This Registration Document should not be considered as a recommendation by the Issuer that any recipient of this Registration Document should purchase any securities of the Issuer. Each investor contemplating purchasing any securities of the Issuer should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. This Registration Document does not constitute an offer or invitation by or on behalf of the Issuer to any person to subscribe for or to purchase any securities of the Issuer.

The delivery of this Registration Document shall not in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof. Investors should carefully review and evaluate, *inter alia*, the most recent financial disclosure of the Issuer from time to time incorporated by reference herein when deciding whether or not to purchase any securities of the Issuer.

The distribution of this Registration Document and the offer or sale of any securities of the Issuer may be restricted by law in certain jurisdictions. Persons into whose possession this Registration Document or any securities of the Issuer come must inform themselves about, and observe, any such restrictions.

Any securities to be issued by the Issuer in connection with this Registration Document have not been and will not be registered under the United States Securities Act of 1933, as amended (the '**Securities Act**') or with any securities regulatory authority of any state or other jurisdiction of the United States ('**US**'). Accordingly, any such securities may not be offered, sold, pledged or otherwise transferred within the US or to or for the account or benefit of US persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and any applicable state securities laws. There will be no public offering of Securities in the United States.

Any securities to be issued by the Issuer in connection with this Registration Document have not been approved or disapproved by the US Securities and Exchange Commission ('**SEC**'), any state securities commission in the US or any other US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of any such securities or the accuracy or the adequacy of this Registration Document. Any representation to the contrary is a criminal offence in the United States.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents, which have previously been published or are published simultaneously with this Registration Document and have been approved by the FCA or filed with it, shall be deemed to be incorporated in, and to form part of, this Registration Document and this Registration Document should be read and construed in conjunction with such documents:

(a) the Articles of Association of the Issuer;

(b) the audited consolidated financial statements of the NWM Group, together with the audit report thereon, for the year ended 31 December 2020, set forth in the section 'Financial Statements' on pages 80 to 154 and the section 'Capital and Risk Management' on pages 34 to 75 (only the information identified by a bracket in the margin) of the Issuer's annual report which was published via the regulated news service of the London Stock Exchange ('**RNS**') on 19 February 2021 (the '**2020 Financial Statements**'); and

(c) the audited consolidated financial statements of the NWM Group, together with the audit report thereon, for the year ended 31 December 2019, set forth in the section 'Financial Statements' on pages 69 to 142 and the section 'Capital and Risk Management' on pages 22 to 63 (only where information is identified as 'audited') of the Issuer's annual report which was published via RNS on 14 February 2020 (the '**2019 Financial Statements**' and, together with the 2020 Financial Statements, the '**Financial Statements**').

Any statement contained in a document which is deemed to be incorporated by reference into this Registration Document shall be deemed to be modified or superseded for the purpose of this Registration Document to the extent that a statement contained herein, or in a later dated document incorporated by reference herein, modifies or supersedes such earlier statement (whether expressly, by implication or otherwise).

Any information or other documents themselves incorporated by reference, either expressly or implicitly, in the documents incorporated by reference in this Registration Document shall not form part of this Registration Document, except where such information or other documents are specifically incorporated by reference into this Registration Document.

The Issuer will provide, without charge, to each person to whom a copy of this Registration Document has been delivered, upon the oral or written request of such person, a copy of any or all of the information which is incorporated herein by reference. Written or oral requests for such information should be directed to the Issuer at NatWest Markets Plc, 250 Bishopsgate, London, EC2M 4AA, United Kingdom.

A copy of any or all of the information which is incorporated by reference in this Registration Document can be obtained from the website of the Issuer at https://investors.natwestgroup.com/regulatory-news/company-announcements and from the London Stock Exchange's website at https://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html.

Except as set forth above, no information or documents included on the website of the Issuer are part of or shall be incorporated by reference into this Registration Document.

Where only certain parts of a document are incorporated by reference into this Registration Document, the non-incorporated parts are either not relevant to investors or are covered elsewhere in this Registration Document. Any information not listed in the above cross-reference list but included in the documents incorporated by reference is given for information purpose only.

IMPORTANT INFORMATION FOR INVESTORS

Special Notice Regarding Forward-Looking Statements

Certain sections in this Registration 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 Registration 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 Promotor Score (NPS); employee engagement and gender balance in leadership positions.

NWM Group cautions you that a large number of important factors could adversely affect NWM Group's results or its ability to implement its strategy, cause it to fail to meet its 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 section '*Risk Factors*' in this Registration Document. The principal risks and uncertainties that could adversely 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;
    - NWM Group's and NatWest 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 NWM Group's and NatWest Group's strategy and NWM Group's and NatWest 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.

Additional factors that could cause the NWM Group's actual business, results of operations or financial condition to differ from the forward-looking statements include, but are not limited to, the other factors that the NWM Group has indicated in other parts of this Registration Document that could materially adversely affect its business and financial performance.

Should one or more of these factors or uncertainties materialise, or should any underlying assumptions prove to be incorrect, the NWM Group's actual results of operations or financial position could differ materially from that described herein as anticipated, believed, estimated or expected. The Issuer urges investors to read the sections of this Registration Document entitled '*Risk Factors*,' '*Operating and Financial Review*,' '*Description of the NWM Group*' and '*Regulation and Supervision*' for a more complete discussion of the factors that could affect the NWM Group's future performance and the industry in which the NWM Group operates.

The forward-looking statements contained in this Registration Document 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 Registration Document speak only as at the date hereof, and the Issuer does not assume or undertake any obligation or responsibility to update any forward-looking statement to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events, except as may be required by law. All subsequent written and oral forward-looking statements attributable to the Issuer or to persons acting on its behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this Registration Document.

Certain Defined Terms

The following terms used in this Registration Document have the meanings assigned to them below:

'**2019 Financial Statements**'..	the audited consolidated financial statements of the NWM Group as at and for the year ended 31 December 2019 as well as the 'Capital and Risk Management' section (only where information is identified as 'audited').
'**2020 Financial Statements**'..	the audited consolidated financial statements of the NWM Group as at and for the year ended 31 December 2020 as well as the 'Capital and Risk Management' section (only the information identified by a bracket in the margin).
'**Alawwal Sale**'	has the meaning assigned thereto in section *'Operating and Financial Review—Primary Factors Affecting the NWM Group's Results of Operations—Recent Changes to the NWM Group's Scope of Activities Relating to the UK's Exit From The EU.'*
'**ALCO**'...	assets & liabilities committee.
'**AML**'...	anti-money laundering.
'**AQ**'	asset quality.
'**AT1**'..	additional tier 1.
'**Authorities**'	the SRR, HM Treasury, the BoE and the PRA and FCA, collectively.
'**bank entity**'	an individual regulated bank legal entity.
'**Banking Act**'	the Banking Act 2009, as amended.
'**Bank**,' '**Issuer**,' or '**NWM Plc**'	NatWest Markets Plc.
'**Basel III**'..	the Basel Committee on Banking Supervision's regulatory capital framework.
'**Board of Directors**' or '**Board**'.................................	the board of directors of the Issuer.
'**BoE**'...	the Bank of England.
'**Brexit**'..	the withdrawal of the UK from the European Union and the European Economic Area on 31 January 2021.
'**BRRD**'..	the EU Bank Recovery and Resolution Directive
'**BRRD II**'...	the European Commission's proposal for EU banking reform, which included amendments to the BRRD.
'**CAGR**'	compound annual growth rate.
'**CBES**'..	the 2021 biennial exploratory scenario launching in June 2021.

'CCFs'	credit conversion factors.
'CCIs'	credit cycle indices.
'CCyB'	countercyclical capital buffer.
'CDIO'	Chief Digital and Information Officer.
'CDOs'	collateralised debt obligations.
'CEC'	control environment certification.
'CET1'	common equity tier 1.
'CJEU'	The Court of Justice of the European Union.
'Combined Saudi Bank'	Alawwal and Saudi British Bank.
'CRA Regulation'	Regulation (EC) No. 1060/2009.
'CRD'	the Capital Requirements Directive (2013/36/EU).
'CRD IV'	the CRD and CRR, together.
'CRD V'	the Capital Requirements Directive V.
'CREM'	credit risk enhancement and mitigation.
'CRR'	Regulation No. 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms, as amended or replaced from time to time.
'CRR 2'	the Capital Requirements Regulation 2.
'CSD'	Capital Support Deed.
'DDOS'	Distributed Denial of Service.
'DNB'	the De Nederlandsche Bank.
'DoJ'	the US Department of Justice.
'D-SIB'	Domestic Systemically Important Banks.
'EAD'	exposure at default.
'EBA'	the European Banking Authority.
'ECL'	expected credit loss.
'EEA'	the European Economic Area.
'EEA transfer customers'	has the meaning assigned thereto in the section '*Operating and Financial Review—Primary Factors Affecting the NWM Group's Results of Operations—Recent Changes to the NWM Group's Scope of Activities Relating to the UK's Exit From The EU.'*
'EGBs'	the European central banks.

'**Eligible Liabilities**'	a bank entity's equity, capital instruments and liabilities.
'**EMEA**'	Europe, the Middle East and Africa.
'**EMIR**'	European Market Infrastructure Regulation.
'**ESG**'	the environmental, social and governance.
'**EU**'	the European Union.
'**EUA**'	European Union Allowances.
'**EUWA**'	the European Union (Withdrawal) Act 2018.
'**FCA**'	the United Kingdom Financial Conduct Authority.
'**FCRC**'	the Financial Crime Risk Committee.
'**FDIC**'	the Federal Deposit Insurance Corporation.
'**Federal Reserve**'	the Board of Governors of the Federal Reserve System.
'**Fitch**'	Fitch Ratings Ltd. or successors thereto.
'**Financial Institutions**'	commercial banks, insurance companies, pension funds, hedge funds and sovereign wealth funds.
'**Financial Statements**'	the 2019 Financial Statements and the 2020 Financial Statements, collectively.
'**FPC**'	the Financial Policy Committee.
'**FS Bill**'	the Financial Services Bill 2019-21 introduced by the UK Government in 2020.
'**FSB**'	the Financial Stability Board.
'**FSMA**'	the Financial Services and Markets Act 2000.
'**Funded Guarantee**'	has the meaning assigned thereto in section *'Operating and Financial Review—Primary Factors Affecting the NWM Group's Results of Operations—Recent Changes to the NWM Group's Scope of Activities Relating to the UK's Exit From The EU.'*
'**FVOCI**'	fair value through other comprehensive income.
'**FVTPL**'	fair value through profit or loss.
'**FX**'	foreign exchange.
'**G-SII**'	non-EU global systemically important institution.
'**G10**'	Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom and the United States.
'**GAAP**'	generally accepted accounting principles.

'GCCP'	NatWest Group-wide Climate Change Programme.
'GDP'	gross domestic product.
'GDPR'	the General Data Protection Regulation.
'G-SIB'	the Global Systemically Important Banks.
'HQLA'	high quality liquid assets.
'IASB'	the International Accounting Standards Board.
'IBORs'	interbank offer rates.
'ICAAP'	internal capital adequacy assessment process.
'IFPR'	the Investment Firms Prudential Regime.
'IFRS'	International Financial Reporting Standards issued by the IASB (with respect to the 2020 Financial Statements, as adopted pursuant to Regulation (EC) No. 1606/2002 as it applies to the European Union, and with respect to the 2019 Financial Statements, as adopted by the EU).
'IRB'	internal ratings-based.
'IRC'	incremental risk charge.
'IT'	information technology.
'IPU'	intermediate parent undertaking.
'LAB'	Liquid Asset Buffer.
'LCR'	liquidity coverage ratio.
'LGD'	loss given default.
'LIBOR'	London interbank offered rate.
'Liquidated Companies'	Ten companies, which were all in liquidation, that brought a civil proceeding against NatWest Market Plc before the High Court of Justice of England and Wales in 2015.
'LOBO'	lender's option borrower's option.
'Member State'	Member State of the EU.
'MES'	multiple economic scenarios.
'MiFID II'	Directive 2014/65/EU, as amended, as it forms part of domestic law of the UK by virtue of the EUWA.
'MiFIR'	Regulation (EU) No 600/2014, as amended, as it forms part of domestic law by virtue of the EUWA.
'MLD5'	the Fifth Money Laundering Directive.
'Moody's'	Moody's Investors Service Limited or successors

thereto.

'**MREL**'	the minimum requirement for own funds and eligible liabilities.
'**MTNs**'	medium term notes.
'**NatWest Group**'	NatWest Group plc together with its subsidiary and associated undertakings.
'**NatWest Holdings Group**'	NWH Ltd and its subsidiaries.
'**NAV**'	net asset value.
'**nm**'	not meaningful.
'**NPA**'	non-prosecution agreement.
'**NSFR**'	net stable funding ratio.
'**NTIRR**'	non-traded interest rate risk.
'**NV Transfer**'	has the meaning assigned thereto in the section '*Operating and Financial Review—Primary Factors Affecting the NWM Group's Results of Operations—Recent Changes to the NWM Group's Scope of Activities Relating to the UK's Exit From The EU.'*
'**NWB**'	National Westminster Bank Plc.
'**NWH Ltd**'	NatWest Holdings Limited.
'**NWMSI**'	NatWest Markets Securities Inc.
'**NWM Group**'	the Issuer and its consolidated subsidiaries.
'**NWM NV**'	NatWest Markets N.V.
'**P&L**'	profit & loss.
'**PD**'	probability of default.
'**PMA**'	post model adjustments.
'**pounds sterling**', '**£**' or '**sterling**'	the currency of the United Kingdom.
'**PRA**'	the Prudential Regulation Authority.
'**RBS Plc**'	The Royal Bank of Scotland Plc.
'**RBSH**'	RBS Holdings N.V.
'**RBSI**'	RBS International Limited.
'**repo**'	repurchase agreement.
'**Revenue Share Agreements**'	has the meaning assigned thereto in the section '*Operating and Financial Review—Primary Factors Affecting the NWM Group's Results of Operations—Relationship with NatWest Group—Revenue Share*

	Agreements.'
'**Revenue Sharing Entities**'	has the meaning assigned thereto in the section '*Operating and Financial Review—Primary Factors Affecting the NWM Group's Results of Operations—Relationship with NatWest Group—Revenue Share Agreements.'*
'**RFB Entities**'	NWB, The Royal Bank of Scotland Plc and Ulster Bank Ireland DAC, collectively.
'**RFRs**'	risk free rates.
'**RMBS**'	US Residential Mortgage Backed Securities.
'**RNIV**'	risks not in VaR.
'**RNS**'	regulated news service of the London Stock Exchange.
'**ROI**'	Republic of Ireland.
'**RSAs**'	has the meaning assigned thereto in the section '*Operating and Financial Review—Primary Factors Affecting the NWM Group's Results of Operations—Recent Changes to the NWM Group's Scope of Activities Relating to the UK's Exit From The EU.'*
'**RWAs**'	the risk weighted assets.
'**S&P**'	Standard & Poor's Credit Market Services Europe Limited or successors thereto.
'**SABB**'	the Alawwal Bank and Saudi British Bank.
'**SEC**'	the US Securities and Exchange Commission.
'**Securities Act**'	the United States Securities Act of 1933, as amended.
'**SICR**'	significant increase in credit risk.
'**SIFI**'	systemically important financial institution.
'**SMF**'	the Sterling Monetary Framework.
'**SOC**'	the stressed outflow coverage.
'**SRR**'	the special resolution regime.
'**SVaR**'	Stressed value-at-risk.
'**Tax Dispute**'	the appeal by NatWest Group plc of the tax assessment issued by HMRC in 2012 for approximately £86 million in relation to a VAT matter.
'**TCA**'	the 2020 EU-UK Trade and Cooperation Agreement.
'**TCR**'	the total capital requirements.
'**TCFD**'	the Task Force on Climate-related Financial

	Disclosure.
'**TLAC**'	the total loss-absorbing capacity.
'**Transfer Scheme**'	has the meaning assigned thereto in the section *'Operating and Financial Review—Primary Factors Affecting the NWM Group's Results of Operations—Recent Changes to the NWM Group's Scope of Activities Relating to the UK's Exit From The EU.'*
'**UK**'	the United Kingdom.
'**UK CRA Regulation**'	Regulation (EU) No. 1060/2009 (as amended), as it forms part of domestic law of the UK by virtue of the EUWA.
'**UK Prospectus Regulation**'	Regulation (EU) 2017/1129, as it forms part of domestic law of the UK by virtue of the EUWA and the regulations made under the EUWA, as amended or superseded.
'**UKGI**'...	UK Government Investments Limited.
'**US**'	the United States.
'**US dollar**' or '**US$**'	the currency of the United States.
'**USAO**'	the United States Attorney for the District of Connecticut.
'**VaR**'	value-at-risk.
'**VAT**'..	value-added-tax.
'**Western European Portfolio**'	NatWest Group plc's Western European corporate portfolio.
'**Western European Transfers**'..................................	the transfer of lending facilities from National Westminster Bank Plc to NatWest Markets N.V. and NatWest Markets Plc.

Statistical Data

The statistical data included in this Registration Document is not intended to, and does not, comply with Regulation S-K, Industry Guide 3 – '*Statistical Disclosure by Bank Holding Companies*' under the Securities Act applicable to offerings of securities by bank holding companies that are registered with the SEC.

Market and Industry Information

This Registration Document contains information about the market share, market position and industry data for the operating areas of the NWM Group and its reporting segments. Such information has been accurately reproduced and, as far as the Issuer is aware and is able to ascertain from such information, no facts have been omitted which would render the information provided herein inaccurate or misleading.

Industry publications generally state that the information they contain has been obtained from sources believed to be reliable, but the accuracy and completeness of such information is not guaranteed. The Issuer has not independently verified and cannot give any assurance as to the accuracy of market data and industry forecasts contained in this Registration Document that were taken or derived from these industry publications.

Presentation of Financial Information

General

Except as discussed below, the historical financial information of the NWM Group and the Issuer presented in this Registration Document has been derived from the Financial Statements. The 2020 Financial Statements are prepared in accordance with IFRS (as adopted pursuant to Regulation (EC) No. 1606/2002 as it applies to the European Union) and the 2019 Financial Statements are prepared in accordance with IFRS (as adopted by the EU), include consolidated financial information of the NWM Group as at and for the years ended 31 December 2020, 2019 and 2018 and have been audited by Ernst & Young LLP. The Financial Statements and the reports of Ernst & Young LLP on the 2020 Financial Statements and the 2019 Financial Statements are incorporated by reference into this Registration Document. Ernst & Young LLP is registered to carry out audit work by the Institute of Chartered Accountants in England and Wales.

Certain historical financial information of the NWM Group, including as set forth in '*Selected Statistical Data and Other Information*' has been derived from the NWM Group's regularly maintained accounting records, operating systems, accounting systems or other systems. Such historical financial information has not been audited.

Certain financial and other information set forth in this Registration Document has been rounded. Accordingly, in certain instances, the sum of the numbers in a column or row in a table may not conform exactly to the total figure given for that column or row. In addition, certain percentages presented in this Registration Document reflect calculations based upon the underlying information prior to rounding and, accordingly, may not conform exactly to the percentages that would be derived if the relevant calculations were based upon the rounded numbers.

The NWM Group's financial year ends on 31 December and references in this Registration Document to any specific financial year are to the 12-month period ended 31 December of such year.

Financial information previously published for any financial periods can differ from subsequently published financial information due to the retrospective implementation of subsequent changes in accounting policies and other retrospective adjustments made in accordance with IFRS.

The 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 UK.

Note on the comparability of NatWest Group's NatWest Markets Franchise financial information to the Issuer financial information

NatWest Group's 'NatWest Markets' franchise reporting segment does not correspond to the NWM Plc legal entity or the NWM Group. NatWest Group's NatWest Markets franchise reporting segment includes NWM Plc and NWM NV, the latter of which became a subsidiary of NWM Plc with effect from 29 November 2019, when RBS Holdings NV ('**RBSH**'), the holding company of NWM NV, was acquired by NWM Plc from RFS Holdings BV, itself a direct subsidiary of NatWest Group plc. As such, the NWM Group's financial reporting does not include the financial results of NWM NV for the period prior to the acquisition date. For more information, see '*Operating and Financial Review—Primary Factors Affecting the NWM Group's Results of Operations—Recent Changes to the NWM Group's Scope of Activities Relating to the UK's Exit From The EU*.' In addition, NatWest Group's NatWest Markets franchise reporting segment does not include the assets, liabilities or results presented in the Issuer's 'Central & Other Items' reporting segment. Therefore, the financial information reported by NatWest Group for its NatWest Markets franchise reporting segment is not directly comparable to the consolidated financial information reported by the Issuer in the Financial Statements and should not be treated as the financial information of NWM Plc or the NWM Group or as a substitute therefor

Note on the comparability of certain of the NWM Group's financial information in the context of the implementation of the UK ring-fencing regime

The UK ring-fencing legislation required the separation of essential banking services from investment banking services from 1 January 2019. NatWest Group placed the majority of the UK and Western European banking business in ring-fenced banking entities under an intermediate holding company, NWH Ltd. The NWM Group is outside the ring-fence and a subsidiary of NatWest Group plc. Comparisons of certain financial information herein and in the Financial Statements with prior periods are impacted by the implementation of the UK ring-fencing regime, including the transfers described below.

As part of the implementation of UK ring-fencing regime, the activities relating to the Issuer's former 'Personal & Business Banking' and 'Commercial & Private Banking' franchises, as well as certain parts of the 'Central Items' reportable segment, were required to become part of NatWest Group ring-fenced subgroup and were therefore transferred to subsidiaries of NWH Ltd during 2018. These transfers were executed primarily in the form of court-approved ring-fencing transfer schemes, with the majority of the issuer's retail and commercial activities having been transferred to subsidiaries of NWH Ltd in April 2018.

On 30 April 2018, following the completion of the first ring-fencing transfer scheme, the legal entity formerly known as RBS Plc, which at that point held substantially all of the assets, liabilities and operations of NatWest Group plc directly or through subsidiaries, was renamed NWM Plc. On 29 June 2018, the Court of Session, Edinburgh approved the reduction of share capital and the cancellation of the share premium account and capital redemption reserve (together, the '**capital reduction**') of the Issuer. As part of the capital reduction, NWH Ltd (the intermediate holding company of the ring-fenced subgroup of NatWest Group) was transferred by the NWM Group to be a direct subsidiary of NatWest Group plc with effect from 2 July 2018 thereby creating the legal separation of those NatWest Group entities that are within the ring-fenced subgroup from those held outside the ring-fence.

The NWM Group's results for the year-ended 31 December 2018 include, amongst other items, income from the ring-fenced bank subsidiaries of NWH Ltd within the profit from discontinued operations line in the income statement for the period that those subsidiaries were owned by the NWM Group. At 31 December 2018, following the completion of ring-fencing related transfers in the year, disposal group assets and liabilities were no longer presented in the NWM Group's balance sheet. For the period ended 30 June 2018, the assets and liabilities relating to NWH Ltd and its subsidiaries ('**NatWest Holdings Group**') were reflected within disposal groups in the balance sheet with an associated liability recognised at 30 June 2018 for the approved distribution of the issued share capital of NWH Ltd and the corresponding decrease in owner's equity which became effective on 2 July 2018.

As the structural reorganisation of NatWest Group resulting from the UK ring-fencing legislation was completed by 31 December 2018, the NWM Group's financial statements for the years ended 31 December 2019 and 31 December 2020 no longer present disposal groups or profit from discontinued operations in relation thereto.

Note on recent changes to the scope of the NWM Group's activities

The NWM Group previously announced changes to the scope of its activities as a result of structural changes implemented as part of NatWest Group's strategy. Certain of these changes were implemented during 2019, including (i) the transfer of the Issuer's EEA transfer customers to NWM NV under a court-approved FSMA scheme, with such transfers being substantially completed in the first half of 2019, and (ii) NatWest Group plc transferring ownership of NWM NV to NWM Plc with effect from 29 November 2019, following the completion of the Alawwal Sale and the subsequent unwinding of the consortium arrangements with respect to the ownership of RFS Holdings BV. In 2020, NWM Group made significant progress on implementing the Purpose-led Strategy announced in February 2020. This has involved a reorganisation of the front office, including exiting a number of product lines and the transfer of some customer facing roles to NWH Ltd. A Capital Management Unit business was established in Q3 2020 to manage the capital reduction and optimisation. Some support functions, including Risk and Treasury, were transferred from NWM Group to NWH Ltd, and following transfer the services performed by these functions are now provided by NWH Ltd to NWM Group by way of intra-group agreements. In light of Brexit planning and consistent with the NWM Group strategy, the transfer of loans and lending facilities in respect of the Western European customers, primarily from NWB to NWM NV, which began in 2019 as part of NatWest Group's response to Brexit, has paused as at 31 December 2020, and it is expected that these positions 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. These changes are discussed below under '*Operating and Financial Review—Primary Factors Affecting the NWM Group's Results of Operations—Recent Changes to the NWM Group's Scope of Activities Relating to the UK's Exit From The EU*.' The volume and pace of further changes, including in respect of the ongoing transfer of Western European customers, will depend on the terms and circumstances of the UK's exit from the EU, as well as the specific contractual terms of the affected products and the agreement of certain customers, amongst other variables. The NWM Group's business operations are also subject to further potential changes including as a result of the UK's departure from the

EU. See '*Risk Factors—Economic and political risk— 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.*'

Non-GAAP Measures of Financial Performance

The discussion of the results of operations of the NWM Group and its reporting segments included in '*Risk Factors*,' '*Overview of Consolidated Financial Information and Other Data*,' '*Operating and Financial Review*' and '*Description of the NWM Group*' is based on the Financial Statements. The Issuer prepares its financial statements in accordance with IFRS which constitutes a body of GAAP. This document contains a number of alternative performance measures or non-GAAP (or non-IFRS) financial measures. A non-GAAP financial measure is defined as one that measures historical or future financial performance, financial position or cash flows but which excludes or includes amounts that would not be so adjusted in the most comparable GAAP financial measure.

The non-GAAP financial measures used in this document generally exclude certain items which management believe are not representative of the underlying performance of the business and which distort period-on-period comparison. These measures are used internally by management, in conjunction with IFRS financial measures, to measure performance and make decisions regarding the future direction of the business. Management believes these non-GAAP financial measures, when provided in combination with reported IFRS results, provide helpful supplementary information for investors. These non-GAAP financial measures are not a substitute for, and should be read in conjunction with, reported IFRS financial measures.

The NWM Group uses 'funded assets' as a non-GAAP financial measure in this Registration Document. This is an internal metric which assists management in evaluating the amount of assets that need to be financed using the NWM Group's sources of funding. Funded assets are represented by the NWM Group's total assets in accordance with the published IFRS balance sheet, less derivative assets.

The NWM Group also presents a management view of operating expenses alongside the statutory measure. This analysis of operating expenses allows strategic costs and litigation and conduct expenses to be tracked separately from the underlying costs of the business. A reconciliation between the statutory and non-statutory presentations of operating expenses is set out in the section '*Operating and Financial Review - Consolidated Financial Information for the Years Ended and as at 31 December 2020 and 2019*'.

The NWM Group presents a 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 NWM Plc's capital usage, following the announcement of the Purpose-led Strategy in February 2020.

RISK FACTORS

Set out below are certain risk factors that, if they were to materialise, could have a material adverse effect on the business, operations, financial condition or prospects of the Issuer and cause the Issuer's future results to be materially different from expected results, thereby potentially affecting the Issuer's ability to fulfil its obligations in respect of securities issued by it. Where such material adverse effects are identified below, they should not be read as mutually exclusive of one another and any such effects could materialise as a result of the risks identified. The factors discussed below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties the Issuer's businesses face. The Issuer has described only those risks relating to its operations of which it is aware and that it considers to be material. There may be additional risks that the Issuer currently considers not to be material or of which it is not currently aware and any of these risks could have the effects set forth above. Investors should note that they bear the Issuer's solvency risk. The term Issuer, for the purpose of this section (but not others), also refers, where the context so permits, to any group company of the Issuer.

The order in which the following risks are presented is not intended to be an indication of the probability of their occurrence or the magnitude of their potential effects and risks have been grouped by topic rather than presented by expected magnitude or probability. The risk factors set out below are the ones that the Issuer believes are the most significant risks facing the NWM Group.

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 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 have a material adverse effect on 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 NV 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.

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

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 NV) 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.

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

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.

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

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. On 26 March 2021 technical discussions on the text of the Memorandum of Understanding were concluded and formal steps need to be undertaken by the UK and the EU in order to sign the Memorandum of Understanding. Once signed, the Memorandum of Understanding creates the framework for voluntary regulatory cooperation in financial services between the UK and the EU.

NatWest Group has engaged in significant and costly Brexit planning and contingency planning. NatWest Group continues to monitor regulatory developments and 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 announced in 2019 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 could have a material adverse effect on NWM Group's business, results of operations and outlook.

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

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 NV from NatWest Group increased NWM Group's exposure to euro movements. NWM NV 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.

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

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. On 19 March 2021 NatWest Group plc announced the completion of an off-market purchase of its ordinary shares from HM Treasury pursuant to this contract, thereby reducing HM Treasury's holding from 61.7% to 59.8% 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.

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

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 NV), leverage ratio targets (for NWM Plc and NWM NV), 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 NV'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.

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

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 NV, 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 NV 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.

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

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 NV'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 NV'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 NV'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 NV'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 NV (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 NV

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*'.

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

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.

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

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

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.

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

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.

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

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', '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' and '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'.

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 NV may fail to meet their respective regulatory capital and/or MREL requirements (at present, NWM NV does not yet have its own MREL requirements) (see also, '*Risks relating to the COVID-19 pandemic — 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*').

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

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 NV 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.

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

NWM Group has significant exposure to counterparty and borrower risk.

NWM NV, 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 NV 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.

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

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.

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

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 '*Operating and Financial Review — Critical Accounting Policies and Key Accounting Estimates*'. 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 '*Operating and Financial Review — Recent Accounting Developments*'.

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

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 a material adverse effect on NWM Group's business, results of operations and outlook.

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 NV 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, this could have a material adverse effect on NWM Group's business, results of operations and outlook.

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.

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

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

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 business, results of operations and outlook.

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 adverse effect on NWM Group's regulatory compliance, prudential capital requirements, 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 effect on NWM Group's regulatory compliance, 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 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.

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

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, each of which could have a material adverse effect on NWM Group’s business, results of operations and outlook.

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

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.

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

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.

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

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

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 have a material adverse effect on NWM Group's business, 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 (see also '*Risks relating to the COVID-19 pandemic — 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*').

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, which in turn could have a material adverse effect on 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. 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 (including trade surveillance) and failures of systems to properly process all relevant data, 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 have a material adverse effect on NWM Group's business, results of operations and outlook 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.

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

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.

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

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 '*Description of the NWM Group — Legal and Arbitration Proceedings*'.

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. Similar consequences could result from legal or regulatory actions relating to other parts of NatWest Group (including the recently announced criminal charge in the UK of National Westminster Bank Plc in respect of certain AML matters).

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

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

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. 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.

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

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 in the section '*Operating and Financial Review — Critical Accounting Policies and Key Accounting Estimates*', 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.

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

SELECTED CONSOLIDATED FINANCIAL INFORMATION AND OTHER DATA

The consolidated income statement and balance sheet data presented below have been derived from the Financial Statements. The 2020 Financial Statements are prepared in accordance with IFRS (as adopted pursuant to Regulation (EC) No. 1606/2002 as it applies to the European Union) and the 2019 Financial Statements are prepared in accordance with IFRS (as adopted by the EU). The Financial Statements include consolidated financial information of the NWM Group as at and for the years ended 31 December 2020, 2019 and 2018 and have been audited by Ernst & Young LLP. The Financial Statements and the reports of Ernst & Young LLP on the 2020 Financial Statements and the 2019 Financial Statements are incorporated by reference into this Registration Document.

The information below should be read together with the Financial Statements incorporated by reference into this Registration Document and the sections '*Important Information for Investors—Presentation of Financial Information*,' '*Important Information for Investors—Non-GAAP Measures of Financial Performance*' and '*Operating and Financial Review*.'

Consolidated Income Statement Data

	For the years ended 31 December		
	2020	**2019**	**2018**
		£m	
Interest receivable	531	697	406
Interest payable	(591)	(847)	(673)
Net interest income	(60)	(150)	(267)
Fees and commissions receivable	386	324	260
Fees and commissions payable	(287)	(337)	(233)
Income from trading activities	1,088	805	1,045
Gain on redemption of own debt	—	—	101
Other operating income	31	77	(48)
Non-interest income	1,218	869	1,125
Total income	1,158	719	858
Staff costs	(670)	(691)	(579)
Premises and equipment	(107)	(111)	(120)
Other administrative expenses	(629)	(177)	(1,524)
Depreciation and amortisation	(25)	(18)	(14)
Operating expenses	(1,431)	(997)	(2,237)
Loss before impairment (losses)/releases	(273)	(278)	(1,379)
Impairment (losses)/releases	(42)	48	102
Operating loss before tax	(315)	(230)	(1,277)
Tax (charge)/credit	(12)	109	33
Loss from continuing operations	(327)	(121)	(1,244)
Profit from discontinued operations, net of tax(1)	—	—	2,461
(Loss)/profit for the period	(327)	(121)	1,217

(1) This reflects, amongst other items, the results of the businesses within the ring-fenced bank up until the point of transfer of NatWest Holdings Group to NatWest Group plc. As the structural reorganisation of NatWest Group resulting from the UK ring-fencing legislation was completed by 31 December 2018, the NWM Group's financial statements for the years ended 31 December 2019 and 31 December 2020 no longer present disposal groups or profit from discontinued operations in relation thereto.

Balance Sheet Data

	NWM Group			NWM Plc		
	As at 31 December			As at 31 December		
	2020	2019	2018	2020	2019	2018
	£m			£m		
Assets						
Cash and balances at central banks	15,771	12,729	11,188	11,736	9,953	11,095
Trading assets(1)	68,689	76,540	74,972	52,169	57,768	61,990
Derivatives	165,619	148,696	134,250	164,104	147,458	134,291
Settlement balances	2,296	4,339	2,705	1,084	3,353	1,421
Loans to banks – amortised cost	1,003	1,088	626	701	238	454
Loans to customers – amortised cost	8,444	8,361	8,366	7,477	6,910	7,908
Amounts due from holding company and fellow subsidiaries	1,587	1,231	3,398	7,606	7,145	11,800
Other financial assets	9,041	12,305	11,268	8,043	11,636	10,995
Investment in group undertaking	—	—	—	2,600	2,905	1,151
Other assets(2)	688	847	1,108	562	687	936
Total assets	273,138	266,136	247,881	256,082	248,053	242,041
Liabilities						
Bank deposits	1,808	2,089	2,749	1,762	2,038	2,777
Customer deposits	2,618	3,703	2,580	1,469	2,247	2,390
Amounts due to holding company and fellow subsidiaries	8,134	8,300	10,161	16,189	16,858	23,505
Settlement balances	2,248	4,022	2,914	604	2,648	1,977
Trading liabilities(1)	72,252	73,836	72,289	56,916	53,576	54,540
Derivatives	157,332	144,142	129,914	153,754	142,390	129,974
Other financial liabilities	18,170	18,445	16,279	15,370	17,470	16,279
Other liabilities(2)	1,234	1,689	1,906	866	1,195	1,677
Total liabilities	263,796	256,226	238,792	246,930	238,422	233,119
Owners' equity	9,388	9,907	9,087	9,152	9,631	8,922
Non-controlling interests	(46)	3	2	—	—	—
Total equity	9,342	9,910	9,089	9,152	9,631	8,922
Total liabilities and equity	273,138	266,136	247,881	256,082	248,053	242,041

(1) For a further analysis of the 'Trading assets' and 'Trading liabilities' see '*Operating and Financial Review—Consolidated Financial Information for the Years Ended and as at 31 December 2020 and 2019—Balance Sheet*' and '*Operating and Financial Review—Consolidated Financial Information for the Years Ended and as at 31 December 2019 and 2018—Balance Sheet.*'

(2) For a further analysis of the line items 'Other assets' and 'Other liabilities.' see '*Operating and Financial Review—Consolidated Financial Information for the Years Ended and as at 31 December 2020 and 2019—Balance Sheet*' and '*Operating and Financial Review—Consolidated Financial Information for the Years Ended and as at 31 December 2019 and 2018—Balance Sheet.*'

Other Data

Performance key metrics and ratios(1)	As of the year ended 31 December 2020	2019	2018
LCR (%)(2)(3)	268	254	457
Liquidity portfolio (£bn)(4)	19.4	16.1	16.6
Stressed coverage ratio (%)(2)(5)	207	153	208
Total wholesale funding (£bn)(6)	20.6	21.9	19.8
Total funding including repo (£bn)	75.9	85.0	80.0
Common Equity Tier (CET 1) ratio (%)(7)	21.7	17.3	15.6
CRR leverage ratio (%)(8)	5.2	5.1	5.0
Risk-weighted assets (RWAs) (£bn)(9)	25.6	35.2	40.8
Total Capital ratio (%)(10)	30.3	24.2	21.5
Total CRR-compliant MREL (£bn)(2)(11)	12.7	13.5	13.9
MREL ratio (%)(2)(11)(12)	49.6	38.4	34.0

(1) Capital resources, RWAs and leverage based on the PRA transitional arrangements for NWM Plc. Regulatory capital is monitored and reported at legal entity level for significant subsidiaries of NatWest Group. Leverage is based on the CRR end-point minimum requirement.

(2) These liquidity metrics and ratios have been presented for the NWM Plc solo legal entity / non-consolidated basis as they are monitored and reported for regulatory purposes.

(3) The LCR is a regulatory measure that requires banks to hold sufficient liquid assets to cover a period of liquidity stress. It is calculated by taking a firm's HQLA divided by its 30 day stress net outflows.

(4) The liquidity portfolio comprises largely of cash and high quality government securities that can be readily converted to cash within a short timeframe and with a reliable value. The calculation of the liquidity portfolio metric aligns the liquidity values to the SOC, which entails the application of discounts (or haircuts) to the liquidity instruments.

(5) The SOC is an internal measure calculated by reference to liquid assets as a percentage of net stressed contractual and behavioural outflows over three months under the worst of three severe stress scenarios: a market-wide stress, an idiosyncratic stress and a combination of both. The stressed coverage ratio is only published at year-end.

(6) Excluding derivative cash collateral received, repo, customer deposits and intra-NatWest Group balances. See '*Operating and Financial Review–Funding and Liquidity–Funding*' and '*Selected Statistical Data and Other Information –Deposits and Short-Term Borrowings*'.

(7) A regulatory measure which assesses the highest quality of capital held as a percentage of RWAs, which represents both the size and inherent riskiness of on and off balance sheet exposures.

(8) The leverage ratio measures the Tier 1 capital expressed as a percentage of leverage exposure. Leverage exposure is broadly aligned to the accounting value of on and off balance sheet exposures but subject to certain adjustments for trading positions, repurchase agreements and off balance sheet exposures.

(9) RWAs are a measure of the NWM Group's assets and off balance sheet positions that capture both the size and risks inherent in those positions.

(10) A regulatory measure which assesses total capital held as a percentage of RWAs.

(11) Includes senior internal debt instruments issued to NatWest Group plc with a regulatory value of £4.9 billion (31 December 2019 - £4.9 billion, 31 December 2018 - £5.1 billion)

(12) A measure of the total resources that would be available in an ordinary resolution situation. It is calculated as total regulatory capital and CRR-compliant MREL instruments with a maturity of at least one year, expressed as a percentage of RWAs.

OPERATING AND FINANCIAL REVIEW

The following discussion is primarily based on and should be read in conjunction with the Financial Statements incorporated by reference into this Registration Document. The 2020 Financial Statements are prepared in accordance with IFRS (as adopted pursuant to Regulation (EC) No. 1606/2002 as it applies to the European Union) and the 2019 Financial Statements are prepared in accordance with IFRS (as adopted by the EU).

This section contains forward-looking statements that involve inherent risks and uncertainties. Actual results may differ materially from those contained in such forward-looking statements. See 'Important Information for Investors—Special Notice Regarding Forward-Looking Statements' and 'Risk Factors.'

Overview

NWM Plc is a wholly owned subsidiary of NatWest Group plc, a banking and financial services group.

The NWM Group provides liquidity and risk management in Currencies and Fixed Income. The Capital Markets business provides an integrated proposition across financing, solutions and advisory services. NWM Group provides services principally to corporates, sponsors, financial institutions and sovereigns as well as the broader NatWest Group. NWM Group's climate strategy also supports and contributes to NatWest Group's ambition and is focused on helping customers to achieve their climate ambitions, proactively supporting their transition to a low carbon economy while managing NWM Group's operations with respect to carbon emissions.

Income derived from customers whose primary banking relationship is with other NatWest Group plc entities is referred to as 'revenue share.' The NWM Group and other entities within the broader NatWest Group follow an integrated customer-planning approach to maximise connectivity, which includes customer account planning, allocation decision-making, and opportunity identification. Approximately 19 per cent of the NWM Group's total income for the year ended 31 December 2020 was sourced from customers referred to the NWM Group by other NatWest Group entities, compared to 30 per cent for the year ended 31 December 2019.

The core business lines of the NWM Group are:

- **Fixed Income.** A range of cash bond, repo and interest rate derivatives products that support customers' financing and hedging needs, together with the provision of liquidity and credit trading capabilities to support Capital Markets activities.

- **Currencies.** Access to cash / spot FX, forwards and FX options in more than 60 currency pairs.

- **Capital Markets.** Access to global debt capital markets, offering mainstream bond financing activities, asset-backed financing and primary lending products.

The NWM Group is focussed on leveraging technology and automation to add value for customers. The NWM Group has developed digital self-service applications covering, among others, FX, rates, risk management, and international payments services. NWM's strategists and content experts across Currencies, Fixed Income and Capital Markets offer content and ideas alongside market-leading economic insights in the key economies where its customers do business.

The NWM Group's operations are centred around the UK, a market in which it has a strong positioning and a competitive value proposition. The NWM Group targets customers in the UK and Europe and its activities in the US and the APAC region are focused on providing risk distribution capability and access to institutional clients in those regions. For the year ended 31 December 2020, 74 per cent (2019 - 58 per cent) of the NWM Group's total income was generated in the UK and Europe, 15 per cent (2019 - 27 per cent) was generated in the US and 11 per cent (2019 - 15 per cent) was generated in the rest of the world. See '*—Geographic Footprint*' for further details.

As further discussed under '*Business Description—The NWM Group's History and Development*,' in the year ended 31 December 2018 NatWest Group restructured its group legal entities and business model to meet the requirements of UK ring-fencing legislation. Following this, NWM Plc became the principal holding and operating company for NatWest Group's operations outside the ring-fence and the NWM Group's business, operations and financial condition cannot be compared to its business, operations and financial condition prior to the implementation of the UK ring-fencing regime. The implementation of the UK ring-fencing regime had a material impact on the NWM Group's operational footprint, balance sheet composition, funding strategy, capital requirements and credit ratings. Accordingly, the NWM Group adapted its strategy and business model and adopted new processes and structures for, among other things, financial reporting, risk management and corporate governance and has also implemented a shared services model with the ring-fenced entities for certain other services.

Due to the exit of the UK from the EU, financial institutions and some of their customers that previously accessed European markets through the UK were required to relocate activities to Europe to ensure business continuity and minimise disruption to customers. To manage the risks arising from Brexit, NWM NV began transacting new business on 25 March 2019 to ensure continuity of service to EEA customers following the UK's exit from the EU. In November 2019, NWM NV and its holding company, RBSH, were acquired by NWM Plc from NatWest Group plc.

In February 2020, NatWest Group plc announced that it will become a purpose-led organisation, operating with the purpose to champion potential, helping people, families and businesses to thrive. This strategy entails balancing the interests and changing needs of all stakeholders, with a focus on the three core areas where NatWest Group plc believes it can make a unique contribution to the broader issues that are impacting the lives of its customers and communities, being Enterprise, Learning and Climate change.

As part of this new strategy, NatWest Group plc undertook a review of its core businesses to inject greater discipline in its approach to customer and capital allocation. Following this review, NWM Plc is being refocussed to support a more integrated corporate and institutional customer offering, which is intended to result in it having a sustainable future within NatWest Group plc. As a result, NWM Plc and NWM franchise RWAs are expected to be significantly reduced, initially through, among others, optimising inefficient capital and accelerating the exit of historic credit exposures. This is expected to result in NatWest Group's NWM franchise reducing RWAs by c.50 per cent to around £20bn, becoming c.10 per cent of NatWest Group's total RWAs in the medium term. As of 31 December 2020, NWM Plc's RWA had reduced by £10bn to £25.6bn and the majority of the remaining medium term RWA reduction is expected to be achieved by the 31 December 2021.

NWM Plc CET 1 capital is also expected to reduce as a result of the reduction in RWAs. On the 18 February 2021, the NWM Plc Board approved an interim dividend of £500m, declared and paid to NatWest Group plc on 19 February 2021. In the medium term, NWM Plc is targeting at CET1 capital ratio above 15%, although it is expected that NWM Plc will operate with CET1 capital above this target during the period of refocus. Other factors may also influence the CET 1 ratio. For more information, please refer to '*Risk Factors—Financial resilience risk*.'

It is expected that NWM Plc will be in a period of significant transformation and incur material costs as it implements this strategy over a medium term transition period.

The following metrics have been set for NWM Plc in the medium term and supersede all prior guidance:

Metric	**Estimate**
CET 1 ratio(1)	Above 15%
MREL ratio(2)	At least 30%
Leverage ratio	At least 4%

(1) NWM Plc expects to run above the 15% target on a solo basis in 2021.

(2) Includes total regulatory capital, non-eligible capital plus downstreamed internal MREL.

The NWM Group continues to refocus the business in line with the Purpose-led Strategy announced in February 2020. The NWM Group expects exit and disposal costs will be around £0.2 billion in 2021 and expects to achieve the majority of the remaining expected medium term RWA reduction in NWM Plc by the end of 2021.

Comparability of the NWM Group's Historical Financial Results

Note on the comparability of NatWest Group's NatWest Markets Franchise financial information to the Issuer

NatWest Group's 'NatWest Markets' franchise reporting segment does not correspond to the NWM Plc legal entity or the NWM Group. NatWest Group's NatWest Markets franchise reporting segment includes NWM Plc and NWM NV, which became a subsidiary of NWM Plc on 29 November 2019, when its holding company, RBSH, was acquired by NWM Plc from RFS Holdings BV, itself a direct subsidiary of NatWest Group plc. As such, the NWM Group's financial reporting does not include the financial results of NWM NV for the period prior to the acquisition date. For more information, see '*Operating and Financial Review—Primary Factors Affecting the NWM Group's Results of Operations—Recent Changes to the NWM Group's Scope of Activities Relating to the UK's Exit From The EU*.' In addition, NatWest Group's NatWest Markets franchise reporting segment does not include the assets, liabilities or results presented in the Issuer's 'Central & Other Items' reporting segment. Therefore, the financial information reported by NatWest Group for its NatWest Markets franchise reporting segment is not directly comparable to the consolidated financial information reported by the Issuer in the Financial Statements and should not be treated as the financial information of NWM Plc or the NWM Group or as a substitute therefor.

Note on the comparability of certain of the NWM Group's financial information in the context of the implementation of the UK ring-fencing regime

The UK ring-fencing legislation required the separation of essential banking services from investment banking services from 1 January 2019. NatWest Group has placed the majority of the UK and Western European banking business in ring-fenced banking entities under an intermediate holding company, NWH Ltd. The NWM Group is outside the ring-fence and a subsidiary of NatWest Group plc. Comparisons of certain financial information herein and in the Financial Statements with prior periods are impacted by the implementation of the UK ring-fencing regime, including the transfers described below.

As part of the implementation of UK ring-fencing regime, the activities relating to the Issuer's former 'Personal & Business Banking' and 'Commercial & Private Banking' franchises, as well as certain parts of the 'Central Items' reportable segment, were required to become part of NatWest Group ring-fenced subgroup and were therefore transferred to subsidiaries of NWH Ltd during 2018. These transfers were executed primarily in the form of court-approved ring-fencing transfer schemes, with the majority of the issuer's retail and commercial activities having been transferred to subsidiaries of NWH Ltd in April 2018.

On 30 April 2018, following the completion of the first ring-fencing transfer scheme, the legal entity formerly known as RBS Plc, which at that point held substantially all of the assets, liabilities and operations of NatWest Group plc directly or through subsidiaries, was renamed NWM Plc. On 29 June 2018, the Court of Session, Edinburgh approved the reduction of share capital and the cancellation of the share premium account and capital redemption reserve (together, the '**capital reduction**') of the Issuer. As part of the capital reduction, NWH Ltd (the intermediate holding company of the ring-fenced subgroup of NatWest Group) was transferred by the NWM Group to be a direct subsidiary of NatWest Group plc with effect from 2 July 2018 thereby creating the legal separation of those NatWest Group entities that are within the ring-fenced subgroup from those held outside the ring-fence.

The NWM Group's results for the year-ended 31 December 2018 include, amongst other items, income from the ring-fenced bank subsidiaries of NWH Ltd within the profit from discontinued operations line in the income statement for the period that those subsidiaries were owned by the NWM Group. At 31 December 2018, following the completion of ring-fencing related transfers in the year, disposal group assets and liabilities were no longer presented in the NWM Group's balance sheet. For the periods ended 31 December 2017 and 30 June 2018, the assets and liabilities relating to NWH Ltd and its subsidiaries ('**NatWest Holdings Group**') were reflected within disposal groups in the balance sheet with an associated liability recognised at 30 June 2018 for the approved distribution of the issued share capital of NWH Ltd and the corresponding decrease in owner's equity which became effective on 2 July 2018.

As the structural reorganisation of NatWest Group resulting from the UK ring-fencing legislation was completed by 31 December 2018, the NWM Group's financial statements for the years ended 31 December 2019 and 31 December 2020 no longer present disposal groups or profit from discontinued operations in relation thereto.

Primary Factors Affecting the NWM Group's Results of Operations

The NWM Group's business, results of operations and financial position have been affected, and may continue to be affected, by various factors, the most significant of which are described below. The impact of these and other potential factors may vary significantly in the future. See '*Important Information for Investors—Special Notice Regarding Forward-Looking Statements.*'

The impact of the COVID-19 pandemic

Throughout 2020, the global rate of infection of the COVID-19 virus (a respiratory disease caused by coronavirus) and the number of associated deaths increased at a rapid pace. Having first been diagnosed in Wuhan, China in December 2019, the World Health Organization officially declared a pandemic on 11 March 2020. The short-term impact of COVID-19 has included sudden reductions in personal and commercial activity, increased unemployment and significant market volatility in asset prices, interest rates and foreign exchange rates, as well as physical disruption to global supply chains and working practices, all of which are having a major impact on the NWM Group's clients and have had a negative impact on the NWM Group's results for the year ended 31 December 2020 and outlook.

The sudden and profound economic and social impact of the COVID-19 pandemic starting in the latter part of Q1 2020, 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. Whilst NWM Group as part of NatWest Group remains committed to its cost reduction targets, achieving the planned reductions in the current environment will be more challenging and require additional savings to be made in a manner that may increase certain operational risks and could impact productivity and competitiveness within the NWM Group.

In many of the NWM Group's key markets, including the UK, Europe and the US, central banks, governments, regulators and legislatures announced historic levels of support and various mandated schemes for impacted businesses and individuals with various forms of financial assistance and legal and regulatory initiatives, including further reductions in interest rates. There is no certainty as to the extent to which these measures may directly and indirectly mitigate negative impacts of the COVID-19 pandemic on the NWM Group and its clients. In addition, the range of prudential regulatory forbearance has made planning and forecasting for the NWM Group more complex, and may result in uncertainty impacting the risk profile of the NWM Group and/or that of the wider banking industry. The medium and long-term implications of the COVID-19 pandemic for NWM Group clients and the UK and global economies and financial markets are uncertain, and may continue to have a material adverse effect on the NWM Group's financial results, 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 counterparties. NWM Group, as part of NatWest Group, has applied an internal analysis of multiple economic scenarios (MES) to inform its IFRS 9 Expected Credit Loss (ECL) provisioning. 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 ECL provisioning, which also in part due to the credit deterioration of an individual counterparty drove an increase in ECL provisions of £48 million to £194 million in the year ended 31 December 2020. 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. Over the period ahead, NWM Group anticipates observable credit deterioration of a proportion of assets resulting in a systematic uplift in ECL requirements mitigated by the economic uncertainty overlay; a credit deterioration would also lead to RWA increases. Furthermore, the assumptions and judgements 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.

During the year ended 31 December 2020, the NWM Group experienced elevated exposure to credit risk and demands on its funding, particularly from customers and borrowers drawing down upon committed credit facilities, of which a significant proportion were undrawn at 31 December 2020. If borrowers or counterparties default or suffer deterioration in credit, this would increase 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 goodwill and deferred taxes, which may result in further write-downs.

The COVID-19 pandemic may affect NWM Group's ability meet its targets and achieve its strategic objectives. For example, during the year ended 31 December 2020, significant market volatility temporarily increased NWM Group's market risk and caused RWA inflation. Depending on the severity and duration of market volatility, NWM Group may be required to adapt its funding plan in order to satisfy it capital and funding position. 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. Furthermore, market volatility may result in increases to leverage exposure.

Please also refer to '*Risk Factors—Risks relating to the COVID-19 pandemic.*'

Strategic changes to the NWM Group's scope of activities

On 14 February 2020, NatWest Group announced a new strategy that will require changes in the NWM Group's business, including a material reduction in capital allocated to the NWM Group and its cost base, the simplification of its operating model and technology platform and an increased focus on serving NatWest Group's corporate and institutional customer base. Together, these initiatives are referred to as the 'NWM Refocusing'. The changes required are substantial, will be implemented over several years, and may not result in the expected outcome within the timeline and in the manner contemplated.

A part of the NWM Refocusing is the intended reduction in NWM Group's and NatWest Markets Plc's level of RWAs, through accelerating the exit of exposures and an optimisation of inefficient capital across the NWM Group, especially in relation to its Rates products. During the year ended 31 December 2020, NWM Group's RWA's reduced by £11bn and NWM Plc's RWAs reduced by £10bn. It is expected that the majority of the remaining medium term RWA reductions will be achieved by the year ended 31 December 2021. In addition, it is anticipated that the NWM Group will generate operating losses over the course of the transition plan period and therefore the NWM Group's capital levels are also expected to decline. Moreover, it is anticipated that NWM Plc's capital ratios will be maintained, as the level of RWAs is anticipated to reduce 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 NV have difficulties accessing the funding market on acceptable terms or at all (including if the legal entity credit ratings are negatively impacted). The implementation of the NWM Refocusing is also expected to result in material costs for the NWM Group and could be materially higher than anticipated, including due to material uncertainties and factors outside of the NWM Group's control, or phased in a manner other than currently expected.

In addition, the focus on meeting cost reduction targets as part of the NWM Refocusing will require head-count reductions and may also result in limited investment in other areas which could affect the NWM Group's long-term prospects, product offering or competitive position and its ability to meet its other targets. Ultimately, the NWM Refocusing envisages a smaller scaled business and its successful implementation is expected to result in substantially lower revenues. In the year ended 31 December 2020, NWM Group implemented the following actions to support the delivery of NWM Refocusing, which included:

- the reorganisation of customer facing teams under a new organisational construct built around Trading, Customer Sales and Capital Markets;
- changes to the NWM Management team;
- changes to the product offering to exit products or refine scope of activities across Fixed Income, Currencies and Capital Markets;
- the agreement with BNP Paribas for the execution and clearing of listed derivatives transactions;
- the establishment of a Capital Management Unit to oversee efforts to maintain capital discipline, capital allocation and implement the RWA reduction plan;
- reduced NWM franchise RWAs by £11bn over 2020; and

- the transfer of approximately 2,500 FTEs from NWM Group to NatWest Holdings as part of the 'one-bank' operating model. This transfer was primarily comprised of functions and services teams, with a small number of customer facing teams also transferring to consolidate coverage activity into commercial banking.

Ring-Fencing and related changes to the NWM Group's scope of activities

The UK government passed legislation which required UK banks to separate their retail and investment banking activities by 1 January 2019. To comply with this legislation, NatWest Group undertook a reorganisation of its group legal entity structure and business model. Following the reorganisation, NatWest Group has been split into a ring-fenced subgroup and to entities positioned outside the ring-fence. NWM Plc, which prior to the implementation of the UK ring-fencing regime was NatWest Group's principal operating subsidiary, is the principal holding and operating company for NatWest Group's operations outside the ring-fence. Accordingly, throughout 2018, all activities which must only be provided by a ring-fenced entity have been moved out of the NWM Group together with certain activities that may be provided by an entity within the ring-fence or by an entity positioned outside of the ring-fence, but which NatWest Group believed are best provided by an entity positioned inside the ring-fence.

As a result, the implementation of the UK ring-fencing regime had a material impact on the NWM Group's operational footprint, balance sheet composition, funding strategy, capital requirements and credit ratings. Accordingly, the NWM Group adapted its strategy and business model and adopted new processes and structures for, among other things, financial reporting, risk management and corporate governance and has also implemented a shared services model with the ring-fenced entities for certain other services.

In addition, because the NWM Group can no longer undertake certain activities which in accordance with the UK ring-fencing rules can only be performed inside the ring-fenced entities of NatWest Group, the NWM Group can no longer accept deposits from certain retail and small business customers and competes with other financial institutions, including NWB, for corporate deposit funding. This increases the requirement for the NWM Group to raise funding in the wholesale markets which is generally more expensive and access to these markets is more uncertain than retail and commercial deposit funding. In particular a lower credit rating would result in an increase in the cost of funding, therefore negatively impacting profitability.

Other implications of the UK ring-fencing legislation include the NWM Group being unable to provide critical services to any ring-fenced entity in NatWest Group.

Recent Changes to the NWM Group's Scope of Activities Relating to the UK's Exit From the EU

The NWM Group has obtained the requisite regulatory permissions (including third country licence branch approvals and access to TARGET2 clearing and settlement mechanics) it currently considers are required for continuity of business as a result of the UK's departure from the EU. The EU-UK Trade and Cooperation Agreement ('TCA') was agreed on 24 December 2020 and received royal assent in the UK on 31 December 2020. The TCA ends the transition period phase and provides for free trade between the UK and EU. However, the TCA principally covers goods and the coverage of financial services is minimal. As a result, UK-incorporated financial services providers no longer have EU passporting rights and there is no mutual recognition regime. It is anticipated that financial services will largely be subject to individual equivalence decisions by relevant regulators. A number of equivalence decisions have been made which cover clearing and access to central securities deposits, but these may not cover all services offered by NWM Group. In addition, equivalence determinations do not guarantee permanent access rights and can be withdrawn with 30 days 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 and the NWM Group's business operations are subject to further potential changes as a result of any such agreement. On 26 March 2021 technical discussions on the text of the Memorandum of Understanding were concluded and formal steps need to be undertaken by the UK and the EU in order to sign the Memorandum of Understanding. Once signed, the Memorandum of Understanding creates the framework for voluntary regulatory cooperation in financial services between the UK and the EU (see also, '*Risk Factors—Economic and political risk— 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.*'). The volume and pace of these potential changes will depend on the terms and circumstances of the UK's and EU's cooperation on matters of financial regulation, as well as the specific contractual terms of the affected products and the agreement of certain customers, amongst other variables discussed below.

There were three main changes to the scope of the NWM Group's activities during 2020 as a result of the UK's exit from the EU:

- ***The Issuer's EEA customers outside the UK and not subject to regulatory exemptions (the 'EEA transfer customers') were transferred to NWM NV on 25 March 2019.*** In anticipation of Brexit, NatWest Group plc repurposed the banking licence of its Dutch subsidiary, NWM NV, during the year ended 31 December 2018 in order to be operationally ready to serve customers of the Issuer who are incorporated or located in the EEA. In addition, the ownership of NWM NV was changed on 29 November 2019 with the transfer of RBSH, the parent entity of NWM NV, to be a subsidiary of NWM Plc.

  NWM NV serves the Issuer's EEA customers outside the UK facilitated by a FSMA transfer scheme (the '**Transfer Scheme**') which was approved by the Court of Session in Scotland on 22 February 2019 and then extended for 12 months until 31 December 2020 through approval by DNB, the PRA and Court of Session in Scotland on 20 December 2019.

  Pursuant to Phase I of the Transfer Scheme, NWM EEA transfer customers' master trade documentation were automatically replicated in the name of NWM NV (rather than NWM Plc) by the end of March 2019, thereby allowing NWM NV to provide services to such customers if necessary as NWM NV chooses to do so. Approximately 30 per cent of NWM Plc's customer base by number of customers as at 31 December 2018 were affected by the duplication of documents under the Transfer Scheme. Certain existing transactions in NWM Plc's back book were also transferred from the Issuer to NWM NV as part of Phase II under this Transfer Scheme.

  As part of the commencement of new business, €7.5 billion of assets and €8.4 billion of liabilities were transferred from NWM Plc to NWM NV. A further €0.6 billion of lending and securitised products and €1.5 billion of contingent liabilities and commitments were transferred from NWM Plc to NWM NV in 2019. In addition, lending products of €0.5 billion and contingent liabilities and commitments of €4.7 billion were transferred from NWB to NWM NV in relation to the transfer of the client relationship coverage of the Western European Portfolio. Certain customers may also request their existing transactions to be transferred to NWM NV as part of a bilaterally negotiated migration.

  Trading with EEA transfer customers is now conducted from NWM NV instead of NWM Plc and, as a result, these transactions are booked in NWM NV as well as some existing transactions by such customers if they are renegotiated or refinanced, resulting in asset and liability transfers from NWM Plc to NWM NV.

  For a significant portion of the transactions NWM NV executes with EEA transfer customers, the Issuer expects NWM NV to enter into a corresponding trade-level-hedge transaction with it and accordingly the customer revenue earned on EEA transfer customers will be earned by the Issuer. The capacity of NWM NV to service new customers and accept transfers of back book transactions is subject to regulatory permissions.

  The Issuer entered into a number of transfer pricing arrangements with NWM NV reflecting new intragroup relationships arising due to the EEA transfer customer moves. These agreements are concluded on an arm's length basis in order to compensate the Issuer and NWM NV appropriately. They are designed to provide the Issuer and NWM NV with a commercial share of the profits derived by NWM NV taking into account the relative risks assumed, functions undertaken and assets utilised by the two entities involved. Accordingly, the Issuer continues to receive a share of profits from certain trades executed by EEA transfer customers. However following Brexit and in part as a result of the EEA transfer customer moves, NWM Plc's business is now split across NWM Plc and NWM NV and it is expected that NWM Plc's profitability may be adversely affected as a consequence of this arrangement.

  The impact of the Transfer Scheme and such other transactions on the NWM Group and customer reactions cannot yet be fully predicted. Once the transfer pricing arrangements have been fully implemented and the transition period is over, the impact on the Issuer's income statement can be fully assessed. From 29 November 2019, NWM NV has been consolidated in the NWM Group financial statements.

- ***The coverage of Western European customers moved from the ring-fenced bank to NWM NV and NWM Plc.*** NatWest Group plc transferred the client relationship coverage of its Western European corporate portfolio ('**Western European Portfolio**') – which principally covers term funding and revolving credit facilities – from NWB, which is currently part of the ring-fenced bank, to NWM NV. This is being accompanied by the transfer of lending facilities from NWB to NWM NV and NWM Plc (the '**Western European Transfers**'). From March 2019, the Western European Transfers have occurred on a bilateral basis at 'lifecycle events' (e.g. an amendment or refinancing) subject to counterparty agreement, where required. Transactions are booked in either NWM Plc or NWM NV depending on the specific regulatory framework of the jurisdiction in which the activity is to take place and taking into account client preference. 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 in NWM Group may be transferred to NatWest Bank Plc. The timing and quantum of such transfers is uncertain.

As the terms of contracts subject to the Western European Transfers are typically negotiated on a trade-by-trade basis, the timing of the completion of the Western European Transfers is uncertain. The weighted average life of the book is approximately three years.

In connection with any transaction by (i) Western European Portfolio customers that are transferred from NWB to NWM NV, and (ii) EEA transfer customers that are transferred from NWM Plc to NWM NV, resulting in a default exposure of greater than 10 per cent of NWM NV's capital, NWM Plc is expected to provide credit protection to NWM NV in the form of a funded guarantee of up to £2.6 billion in aggregate (the '**Funded Guarantee**'). At 31 December 2020, NWM NV was in receipt of £0.8 billion of the Funded Guarantee from NWM Plc. NWM Plc cash collateralises the Funded Guarantee in full and deposits funds with NWM NV where they are used for general corporate purposes. See '*Operating and Financial Review–Contingent Liabilities*'.

- ***NatWest Group plc's transfer of NWM NV to the Issuer.*** NatWest Group plc had previously announced its intention for NWM NV's parent, a subsidiary of NatWest Group plc, to become a subsidiary of the Issuer during 2019. The transfer ('**NV Transfer**') was completed on 29 November 2019 following the completion of the sale of the consortium holding in Alawwal Bank (the '**Alawwal Sale**') and receiving the required regulatory approvals. The merger of Alawwal Bank and Saudi British Bank ('**SABB**') (and together the '**Combined Saudi Bank**') was completed on 16 June 2019. NatWest Group plc's economic interest in the Combined Saudi Bank amounted to 4.1 per cent and was acquired by NWM Plc from NWM NV on the same day. This was subject to a lock-up agreement which expired on 16 December 2019. NWM Plc acquired all the shares in RBSH for a value of €2.165bn (c. £1.9bn). The purchase was funded by an equity contribution of €2.165bn (c. £1.9bn) from NatWest Group plc to NWM Plc. The impact of the acquisition on NWM Plc's CET1 ratio was accretive by c. 30bps.

  In addition, the Issuer and NWM NV entered into certain risk sharing agreements ('**RSAs**') pursuant to which the Issuer guaranteed up to £400 million of NWM NV's exposures in relation to the legacy portfolio held by NWM NV following the sale of Alawwal and the planned divestiture of certain other portfolios. The RSA is cash collateralised with a value of €185m

  NWM NV, through its parent RBSH was consolidated as part of the NWM Group financial statements from 31 December 2019. The value of third party assets and liabilities of RBSH that were acquired by NWM were £12,093m and £7,905m respectively. Whilst the purchase of NWM NV did not result in a change to the Issuer's scope of activities, the purchase did result in the NWM Group increasing its exposure to Western European customers, specifically in relation to term funding and revolving credit facilities, as a result of the Western European Portfolio transfers mentioned above.

Relationship with NatWest Group

Shared Services

Following the implementation of the UK ring-fencing regime and the separation of the ring-fenced subgroup and the entities outside the ring-fence, such as the NWM Group, the NWM Group is reliant on other NatWest Group companies for a range of services, including property, financial accounting and regulatory reporting. A failure to adequately supply these services may result in increased costs to the NWM Group should the NWM Group have to increase its capacity to provide these services internally or by outsourcing to third parties for these services. Because the NWM Group relies on certain services provided by NatWest Group plc and other entities within NatWest Group, these may become more expensive or cheaper over time than the cost which could be achieved independently by the NWM Group. These differences, over time, may impact on the NWM Group's results of operations.

Revenue Share Agreements

The NWM Group continues to provide access to markets, products and services for the corporate franchise of the ring-fenced sub-group of NatWest Group and on 6 November 2018 entered into a series of revenue share agreements (the '**Revenue Share Agreements**') with certain entities within NatWest Group's ring-fenced sub-group, including NWB, RBS Plc and Ulster Bank Ireland DAC (collectively, the '**RFB Entities**'), and with a non ring-fenced entity, RBSI (together with the RFB Entities, the '**Revenue Sharing Entities**'). The Revenue Share Agreements reflect the provision of products and services across the NWM Group's Rates, Currencies and Financing products to customers that have their primary banking relationship with the Revenue Sharing Entities. The allocation of income from customers that have their primary banking relationship with the Revenue Sharing Entities across the relevant counterparties within NatWest Group is referred to as 'revenue share.' This operating model reflects NatWest Group plc's UK ring-fencing design to locate the entirety of its markets activity within the NWM Group, and for customers from other Revenue Sharing Entities to be referred to the NWM Group for risk management and financing products, although Revenue Sharing Entities are not required to refer customers solely to the NWM Group for such products. UK ring-fencing legislation and tax legislation dictates that all transactions with these entities are established on an arm's-length basis. Accordingly, the Revenue Share Agreements have been prepared on this basis.

The NWM Group leverages its market making, institutional business and distribution capabilities to offer a commercially relevant proposition to UK and European large corporates that are current customers of the Revenue Sharing Entities. The NWM Group entities and the Revenue Sharing Entities follow an integrated customer-planning approach to maximise connectivity, which includes customer account planning, allocation decision-making, and opportunity identification.

The NWM Group derives a significant portion of its income from customers of the Revenue Sharing Entities and expects this to continue. Accordingly, it has transferred, and expects to continue to transfer, under the Revenue Sharing Agreements, a significant amount of its income to the Revenue Sharing Entities. For example, in the year ended 31 December 2020, the NWM Group transferred £193 million in income, representing approximately 17 per cent of the NWM Group's total income for that year to other segments of NatWest Group (principally the commercial, private banking and personal banking businesses of the Revenue Share Entities). This amount is lower compared to the amount of revenue share transfers for the year ended 31 December 2019 which amounted to £208 million, or 29 per cent of total income for that year, principally due to lower revenue on FX-related products.

Because a significant proportion of NWM Plc revenues are driven by customers of NatWest Group entities inside the ring-fence, with the NWM Group acting as the product provider, the NWM Group's results of operations are limited to shifts in the volume of transactions and number of customers referred to the NWM Group by the Revenue Sharing Entities pursuant to the Revenue Share Agreements, and can be impacted by the market perception of, and other external factors affecting, the core businesses of the Revenue Sharing Entities. As a result, a decrease or increase in the volume of transactions or number of customers referred to the NWM Group by the Revenue Sharing Entities pursuant to the Revenue Share Agreements would materially impact the NWM Group's results of operations and financial condition. The NWM Group reports its results of operations in its Financial Statements on a post-revenue share basis.

Other Arrangements

In the year ended 31 December 2019, the NWM Group entered into certain arrangements, including transfer pricing arrangements, a Funded Guarantee and RSAs, with NWM NV in relation to the EEA customer transfers and the Western European Transfers. Following the acquisition of NWM NV, such arrangements are now intragroup (in terms of the NWM Group) arrangements. These arrangements remain outstanding. See, *'—Recent Changes to the NWM Group's Scope of Activities Relating to the UK's Exit From The EU'*.

Macroeconomic Environment

The NWM Group's activities are primarily related to the economic environment in the UK, Europe and the US.

The NWM Group derives a substantial majority of its income from its operations in the UK. Accordingly, the NWM Group's business, results of operations and financial position depend upon the economic conditions prevailing in its primary market, in particular economic growth and the general level of interest rates and volume of transactions. The NWM Group's operations are also affected by the level of competition in these primary markets, particularly from other major banking groups and specialist providers. Lower demand and the financial and economic crisis in these markets have adversely affected, and could in the future adversely affect, the business, results of operations and financial position of the NWM Group. Economic crises and financial market stress in certain markets can also benefit the results of operations and financial position of the NWM Group. This can arise from areas such as providing structuring and advisory services to Financial Institutions and corporates within those markets.

	2020	2019	2018
UK Gross Domestic Product Growth YoY (%)	-9.9	1.4	1.3
UK unemployment rate (October-December) (%)	5.1	3.8	4.0
Number of people in employment in the UK (October-December) (millions)	32.4	32.9	32.6
BoE base rate as at 31 December (%)	0.10	0.75	0.75

In the UK, for 2020 as a whole, GDP fell 9.9 per cent compared to a 1.4 per cent rise in 2019. Between the third and fourth quarter of the year ended 31 December 2020 business investment increased 1.3 per cent, but was down 10.3 per cent compared with the same period in the year ended 31 December 2019.

The labour market softened in 2020 with employment declining to 32.4 million in the year ended 31 December 2020, from 32.9 million in the year ended 31 December 2019. The unemployment rate increased modestly to 5.1 per cent in the year ended 31 December 2020, compared to 3.8 per cent in the year ended 31 December 2019. Total annualised pay growth increased 4.7 per cent in the year ended 31 December 2020, from 2.7 per cent in the year ended 31 December 2019 and vacancies dropped to 599,000 in the three months to January 2021, down 210,000 from the same period a year ago. The BoE's mounting concerns about the negative impact of COVID-19 on the UK economy prompted the BoE to cut the bank rate twice in March 2020, from 0.75 per cent to 0.25 per cent on March 10 and from 0.25 per cent to 0.1 per cent on March 19, a record low.

During 2020, the COVID-19 pandemic brought the global economy to an abrupt halt. The oil price shock following a disagreement between Saudi Arabia and Russia has been another negative factor weighing on global demand and global trade. The IMF estimates that global growth fell 3.5 per cent in 2020 and expects global growth to increase 5.5 per cent in 2021. Euro-area and US growth declined sharply in the year ended 31 December 2020, down 6.8 per cent and 3.5 per cent, respectively. UK economic growth increased 1% in the three months ended 31 December 2020, driven by higher government spending. Uncertainty persists over the length of the current lockdown, the effectiveness of vaccines and the possibility of further waves of the pandemic. Consumption growth has fallen sharply in 2020, following the lockdown of the UK economy, judging from a record fall in retail sales in 2020 and is likely to remain weak given the likelihood of higher unemployment in coming months, though recent measures implemented by the government should help to cushion this impact.

Exposures to Non-Traded Market Risk

The NWM Group's revenues are principally driven by the volume of trades booked and by fees obtained on services provided or per trade booked. As a result, in contrast to a traditional deposit-taking bank, the NWM Group's results are less driven by changes in interest rates and the spreads thereon but are particularly impacted indirectly by any increase or decrease in the volume of trades booked, which can be driven by changes in interest rates applicable to the trade, but can also be driven by wider macroeconomic factors as they influence NWM Group's customers' trading flows. Therefore, market volatility as discussed under '*—Market Conditions*' is a more direct driver of the Company's results than volatility in interest rates.

However, the NWM Group's results are affected by volatility in non-traded markets, which relates 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.

Interest Rates

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.

Credit Spreads

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 'lender's option borrower's option' (LOBO) loans classified as 'fair value through profit or loss' (FVTPL) and on loan portfolios classified as 'fair value through other comprehensive income' (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.

Foreign Exchange

Non-traded foreign exchange risk arises from structural FX movements related to the capital deployed in foreign subsidiaries, joint arrangements and related currency funding where it differs from sterling, and non-trading book FX movements, which arise from customer transactions and profits and losses that are in a currency other than the functional currency of the transacting operation.

NWM Group seeks to mitigate the potential volatility impact on NWM Plc's CET1 ratio from movements in foreign exchange rates. NWM Group maintains a structural open currency position to manage CET1 ratio volatility within predefined limits set internally. The structural open position arises from FX instruments such as FX forwards or FX options and from investments in foreign subsidiaries, branches and associates and their currency funding. 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 movements primarily arising from the retranslation of non-sterling-denominated RWAs. Gains or losses on FX options and FX forwards are recognized in the income statement unless hedge accounting is available (e.g. net investment hedge of a branch). Sensitivity is minimised where, for a given currency, the ratio of structural open position to RWAs equals the CET1 ratio. The FX sensitivity of NWM Plc's CET1 ratio feeds into the VaR limit set by the Board. The structural open position is managed within lower level 'dealing authority' limits.

Regulatory landscape and Continuing Uncertainty

The 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. The NWM Group expects government and regulatory intervention in the financial services industry to remain high for the foreseeable future. Recent regulatory changes, proposed or future developments and heightened levels of public and regulatory scrutiny in the UK, Europe 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.

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. Among 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), enhanced data privacy and IT resilience requirements, enhanced regulations in respect of the provision of 'investment services and activities,' There has also been increased regulatory focus on areas such as conduct, consumer protection , AML, anti-bribery, anti-tax evasion, payment systems, sanctions and anti-terrorism laws and regulations and environmental, social and governance matters.

Areas in which, and examples of where, governmental policies, regulatory and accounting changes and increased public and regulatory scrutiny could have an impact on the NWM Group's operational and financial performance include:

- Continued delays around the Basel 'IV' reforms addressing, amongst other things, the variability of banks' internal models, creating ongoing international uncertainty. The overall impact of the Basel 'IV' reforms is expected to result in a 5 to 10 per cent phased increase of the NWM Group's RWAs across 2021 to 2023.

- In relation to regulatory capital, new rules set by the PRA, the introduction of the Capital Requirements Directive V (CRD V), the Capital Requirements Regulation 2 (CRR2) and the anticipated introduction of a revised prudential framework for banks and investment firms in the UK are expected to impact the NWM Group The NWM Group's results of operations will particularly be impacted by any changes made by UK regulators to the Leverage Ratio and NSFR.

- EMIR in the EU imposes requirements on entities dealing in derivatives and securities trading as both customers and service providers such as the NWM Group. EMIR requires certain types of OTC derivative contracts to be centrally cleared, imposes an obligation to report trades to a trade repository and mandates that parties incorporate risk mitigation procedures into their trading documentation in respect of uncleared derivatives. EMIR and the delegated legislation adopted thereunder have been incorporated into UK law. The bifurcation of the regulation of OTC derivatives and the potential for diverging standards to emerge creates a more complex trading environment for the NWM Group. Collectively, these developments are changing market dynamics and in some areas reducing returns for banks, including the NWM Group.

- In the EU, the revised Markets in Financial Instruments Directive and the associated Regulation (MiFID II / MiFIR) took effect on 3 January 2018. MiFID II, among other things, introduced substantial new regulation of exchanges and trading venues, including new pre-trade and post-trade transparency requirements, a ban on the practice of using commission on transactions to compensate for research services and substantial new conduct requirements for financial services firms when dealing with clients. Although MiFID II and MiFIR have been implemented into UK law, it is possible that the UK may diverge from these EU standards in the future, creating regulatory uncertainty and additional compliance burdens for the NWM Group.

- The requirement set out in the CRD V for third country groups of financial institutions with a substantial presence in the EU and that have two or more institutions within the EU to establish an intermediate parent undertaking in the EU under which institutions within that group would operate.

- The direct and indirect effects of the UK's exit from the EU and the EEA have and will continue to affect many aspects of the NWM Group's business and operating environment (see also, '*Risk Factors— Economic and political risk— 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.'*'). In addition, the longer term effects of Brexit on the NWM Group's operating environment are difficult to predict and are subject to wider global macro-economic trends and events, but may significantly impact the NWM Group and its customers and counterparties who are themselves dependent on trading with the EU or personnel from the EU and may result in periodic financial volatility and slower economic growth, in the UK in particular, but also in Republic of Ireland, Europe and potentially the global economy.

- UK and international regulators are driving a transition from the use of IBORs, including LIBOR, to alternative RFRs. In the UK, the FCA has asserted that they will not compel LIBOR submissions beyond 2021, thereby jeopardising its continued availability, and have strongly urged market participants to transition to RFRs, as has the CFTC and other regulators in the US. On 5 March 2021, the FCA published a statement announcing the dates that panel bank submissions for all LIBOR settings will cease, after which representative LIBOR rates will no longer be available. All LIBOR settings will either cease to be provided or will no longer be representative on the following dates: (i) immediately after 31 December 2021 for all sterling, euro, Swiss franc and Japanese yen settings, and the 1-week and 2-month US dollar settings; and (ii) immediately after 30 June 2023 for the remaining USD settings. The FCA does not expect that any LIBOR settings will become unrepresentative before these dates, following undertakings received from the panel banks. The NWM Group has significant exposure to IBORs primarily on its derivatives and legacy securities. The implementation of any alternative RFRs may be impossible or impracticable under the existing terms of such financial instruments and could have an adverse effect on the value of, return on and trading market for such financial instruments.

- In the context of the COVID-19 pandemic, central banks, governments, regulators and legislatures in many of the NWM Group's key markets, including the UK, Europe and the US, announced historic levels of support and various mandated schemes for impacted businesses and individuals with various forms of financial assistance and legal and regulatory initiatives, including further reductions in interest rates. There is no certainty as to the extent to which these measures may directly and indirectly mitigate negative impacts of the COVID-19 pandemic on the NWM Group and its clients. In addition, the range of prudential regulatory forbearance has made planning and forecasting for the NWM Group more complex, and may result in uncertainty impacting the risk profile of the NWM Group and/or that of the wider banking industry.

Competitive landscape

The NWM Group predominantly 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 the NWM Group to continue to innovate.

During 2020, NWM Group refined its products and services so that the offering is relevant to the NatWest Group's core 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.

The investment banking industry generally performed well during 2020, 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.

Market Conditions

NWM Group's business, results of operations and financial position are impacted by the economic conditions prevailing in its primary markets, the UK, Europe and the US. In particular the economic growth and the general level of interest rates and volume of transactions in those transactions may affect NWM Group.

The UK, European and US economies contracted in the first half of 2020 as measures were introduced to prevent the spread of COVID-19. Governments responded with support schemes to support firms and consumers with transfers and loan guarantees, whilst central banks eased monetary policy by cutting policy rates and increasing quantitative easing. Economic growth in the second half of 2020 was volatile as restrictions were first 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 weighted on business investment. Asset prices were volatile during 2020, 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, NWM Group remained focused on meeting the diverse needs of customers across the UK and internationally.

The NWM Group's ability to achieve planned revenues is dependent on customer activity across the NWM Group's various product lines and net trading income derived from management of its trading portfolio. Customer activity can shift, as a result of a market dislocation, customer sentiment and ceasing of activity, or more gradually over time as a result of a change in customer preferences (for example, in a particular hedging product or foreign exchange pair). As an example, appetite for customers to raise funding in the capital markets through bond issuance may reduce in a period of market uncertainty and widening of credit spreads, resulting in a reduction in fees earned by the NWM Group on issuance activity.

The NWM Group trades a considerable amount of financial instruments (including derivatives) and volatile market conditions could result in a significant decline in the 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 the NWM Group's counterparty risk.

Market volatility, illiquid market conditions and disruptions in the credit markets may make it difficult to value certain of the NWM Group's financial instruments, particularly during periods of market displacement which could cause a decline in the value of the NWM Group's financial instruments, which may have an adverse effect on the NWM Group's results of operations in future periods, or inaccurate carrying values for certain financial instruments.

Actual or perceived difficult global economic conditions can create challenging economic and market conditions and a difficult operating environment for the NWM Group's businesses and its clients and counterparties, thereby affecting its financial performance, including as a result of the COVID-19 pandemic. The value of the NWM Group's financial instruments may be materially affected by market risk, including as a result of market fluctuations.

The NWM Group has lending exposure to, among others, Financial Institutions and European Corporate customers and therefore, has exposure to the related relevant credit risk arising from such lending activities. The credit quality of the NWM Group's borrowers and other counterparties is impacted by prevailing economic and market conditions 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 impact the NWM Group's ability to enforce contractual security rights.

The NWM Group's risk management and monitoring processes seek to quantify and mitigate the NWM Group's exposure to more extreme market moves. However, severe market events have historically been difficult to predict and the NWM Group could realise significant losses if extreme market events were to occur.

See also '*—The impact of the COVID-19 pandemic*' above.

Reporting Segments

As of 31 December 2020, the business operations of the NWM Group were organised into the following reporting segments:

- '*NatWest Markets*' which is a single operating reportable segment offering 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*' which includes corporate functions and other activity not managed in the NatWest Markets segment. In 2020 income reported within this segment predominantly related to the gain recognised on transfer of a service entity to NWH Ltd, and costs largely related to litigation and conduct costs associated with the historical trading activities of a joint venture subsidiary. In 2019 this was substantially comprised of reimbursement under indemnification agreements with third parties and certain one-off cost recoveries. In 2018 the balances largely related to legacy litigation issues, interest expense associated with certain NatWest Group Treasury liabilities for the period prior to transfer to the NatWest Markets segment, disposal groups in the relevant periods and other assets not managed by the NatWest Markets segment.

Recent Developments

The impact of the COVID-19 pandemic

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 and NatWest Markets' 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.

In the uncertain and rapidly changing environment brought about by the COVID-19 pandemic, the NWM Group's priority has been to continue serving customers while protecting and supporting colleagues. NWM Group quickly mobilised business continuity plans in line with guidance from respective public health authorities to ensure that the business remains fully operational with the vast majority of colleagues now working remotely. The NWM Group has continued to actively engage with customers on their financing and risk management needs and supported them on a number of significant transactions. NWM Group is working across the ring-fence with NatWest Group's Commercial Banking business to facilitate existing, as well as new, customers' access to the BoE's COVID-19 Corporate Financing Facility ('CCFF') (ending on 23 March 2021).

The NWM Group has managed risk appropriately during the crisis and balance sheet, capital and liquidity metrics remained strong at 31 December 2020. 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.

Please also refer to '*Risk Factors—Risks relating to the COVID-19 pandemic.*'

Update on the UK's withdrawal from the EU ('Brexit')

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. On 26 March 2021 technical discussions on the text of the Memorandum of Understanding were concluded and formal steps need to be undertaken by the UK and the EU in order to sign the Memorandum of Understanding. Once signed, the Memorandum of Understanding creates the framework for voluntary regulatory cooperation in financial services between the UK and the EU.

NatWest Group has engaged in significant and costly Brexit planning and contingency planning and NatWest Group and NWM Group continue to monitor regulatory developments and continue to seek advice on any transitional regimes being introduced by individual EU countries. NatWest Group and NWM Group are updating their operating model accordingly.

Please also refer to '*Risk Factors—Economic and political risk— 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.*'

Credit Ratings

As at the date of this Registration Document 2021, the long-term credit ratings of the Issuer are A3 (positive outlook) by Moody's, A- (negative outlook) by S&P and A+ (negative outlook) by Fitch. Additionally, the Issuer is rated A (stable outlook) by Japan Credit Rating Agency Ltd.

A credit or financial strength rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating organisation. Each rating should be evaluated independently of any other rating. There is no guarantee that any rating of the Issuer assigned by any such rating agency will be maintained following the date of this Registration Document, and the Issuer may seek to obtain ratings from other rating agencies. Up-to-date information should always be sought by direct reference to the relevant rating agency. S&P is established in the EU and Moody's and Fitch are each established in the UK. S&P is included in the list of credit rating agencies registered in accordance with Regulation (EC) No. 1060/2009 (as amended) (the '**CRA Regulation**') and Moody's and Fitch are each included in the list of credit rating agencies registered in accordance with the CRA Regulation, as it forms part of UK domestic law by virtue of the EUWA (the '**UK CRA Regulation**'). A list of credit rating agencies registered under the CRA Regulation is available on the ESMA website at *www.esma.europa.eu/page/List-registered-and-certified-CRAs* (list last updated on 4 January 2021). A list of credit rating agencies registered under the UK CRA Regulation is available on the FCA website at *https://www.fca.org.uk/markets/credit-rating-agencies/registered-certified-cras* (list last updated on 31 December 2020).

Consolidated Financial Information for the Years Ended and as at 31 December 2020 and 2019

Income Statement

Consolidated

The following table sets forth a summary of the NWM Group's results of operations for the years indicated.

	2020	2019
	£m	£m
Interest receivable	531	697
Interest payable	(591)	(847)
Net interest income	(60)	(150)
Fees and commissions receivable	386	324
Fees and commissions payable	(287)	(337)
Income from trading activities	1,088	805
Other operating income	31	77
Non-interest income	1,218	869
Total income	1,158	719
Staff costs	(670)	(691)
Premises and equipment	(107)	(111)
Other administrative expenses	(629)	(177)
Depreciation and amortisation	(25)	(18)
Operating expenses	(1,431)	(997)
Loss before impairment (losses)/releases	(273)	(278)
Impairment (losses)/releases	(42)	48
Operating loss before tax	(315)	(230)
Tax (charge)/credit	(12)	109
Loss for the year	(327)	(121)

The operating loss before tax of £315 million compares with a loss of £230 million in the year ended 31 December 2019. Total income of £1,158 million increased by £439 million, or 61 per cent, driven by strong customer activity in response to the COVID-19 pandemic, and lower trading income in challenging market conditions in the prior year. Net interest income, representing funding costs of the business partially offset by interest income from lending activity and capital hedges, was a net expense of £60 million for the year ended 31 December 2020, compared with a net expense of £150 million in 2019. Non-interest income increased by £349 million to £1,218 million compared with £869 million for the year ended 31 December 2019, driven by strong customer activity in response to the COVID-19 pandemic, and challenging trading conditions and elevated hedging costs in the prior year that particularly affected Fixed Income.

Operating expenses increased by £434 million, or 44 per cent, to £1,431 million in the year ended 31 December 2020 from £997 million in the year ended 31 December 2019. This reflects a significant increase in other administrative expenses and a smaller increase in depreciation and amortisation; partially offset by decreases in staff costs and premises and equipment expenses. Within these figures, litigation and conduct costs of £134 million for the year ended 31 December 2020 primarily related to historical trading activities of a joint venture subsidiary, and were £228 million higher than a credit of £94 million in the prior year, which included £162 million reimbursement under indemnification agreements with third parties. Strategic costs increased by £20 million to £191 million in the year ended 31 December 2020, compared with £171 million in the prior year, driven by the refocusing of NWM Group following the strategic announcements of 14 February 2020. Other operating expenses increased by £186 million, or 20 per cent, to £1,106 million for the year ended 31 December 2020, largely due to certain one-off cost recoveries during the prior year.

Net Interest Income

The NWM Group’s net interest income for the year ended 31 December 2020 amounted to a net expense of £60 million, an increase of £90 million as compared to a net expense of £150 million for the year ended 31 December 2019. The increase was largely a result of interest payable which decreased to £591 million during the year ended 31 December 2020 from £847 million in the comparative period, and exceeded the impact of decreased interest receivable, which decreased to £531 million from £697 million in the prior year.

The NWM Group’s interest receivable for the year ended 31 December 2020 amounted to £531 million, a decrease of £166 million, or 24 per cent, as compared to £697 million for the year ended 31 December 2019. The decrease was principally due to lower interest received on loans to customers and other financial assets, including debt securities held, during the year ended 31 December 2020.

The NWM Group’s interest payable for the year ended 31 December 2020 amounted to £591 million, a decrease of £256 million, or 30 per cent, as compared to £847 million for the year ended 31 December 2019. The decrease was principally due to reduced funding costs for the business in the year ended 31 December 2020.

Non-Interest Income

The following table sets forth the NWM Group’s non-interest income data as at the dates and for the years indicated.

	2020	2019
	£m	£m
Net fees and commissions	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 - 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

	2020	2019
	£m	£m
Changes in the fair value of financial assets and liabilities designated at fair value through profit or loss	(54)	(31)
Changes in fair value of other financial assets fair value through profit or loss	—	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 (1)	26	49
	31	77
Total Non-Interest Income	1,218	869

(1) Includes income from activities other than banking.

The NWM Group's non-interest income for the year ended 31 December 2020 amounted to £1,218 million, an increase of £349 million, or 40 per cent, as compared to £869 million for the year ended 31 December 2019. The increase was principally due to higher income from trading activities, driven by increased levels in 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 NV following acquisition on 29 November 2019. In addition, income in the prior year was affected by the challenging trading environment, which particularly impacted the Fixed Income business, most significantly during the three months ended 30 September 2019. Other operating income for the year ended 31 December 2020 amounted to a profit of £31 million compared to a profit of £77 million in the prior year.

The NWM Group's net fees and commissions for the year ended 31 December 2020, largely comprising those in respect of the NWM Group's Capital Markets business, amounted to a net income of £99 million as compared to an expense of £13 million for the year ended 31 December 2019. The increase was principally due to the impact of the consolidation of the full year results of NWM NV, which in addition to increasing the NWM Group's net fees and commissions income from third parties, meant the elimination of the fees and commissions payable by NWM Plc to NWM NV in relation to the provision of services to EEA customers.

The NWM Group's income from trading activities for the year ended 31 December 2020, which primarily includes trading and flow-related income across its core product offerings as well as legacy positions, amounted to £1,088 million, an increase of £283 million, or 35 per cent, as compared to £805 million for the year ended 31 December 2019. The increase was principally due to the increased levels of customer activity in response to the COVID-19 pandemic, in addition to the challenging trading environment in the prior year which particularly impacted the Fixed Income business, most significantly during the three months ended 30 September 2019. Within income from trading activities, own credit adjustments represented a £24 million loss in the year ended 31 December 2020 compared with a loss of £80 million in the year ended 31 December 2019, largely reflecting the tightening of spreads. The NWM Group's other operating income for the year ended 31 December 2020 amounted to a gain of £31 million, a decrease of £46 million as compared to a gain of £77 million for the year ended 31 December 2019.

Operating Expenses

The NWM Group's operating expenses for the year ended 31 December 2020 amounted to £1,431 million, an increase of £434 million, or 44 per cent, as compared to £997 million for the year ended 31 December 2019, primarily reflecting higher litigation costs and strategic costs, and the non-repeat of reimbursement under indemnification agreements with third parties and other one-off cost recoveries during the year ended 31 December 2019.

The IFRS and management view of operating expenses are set out as follows.

	2020	2019
	£m	£m
IFRS view		
Staff costs	(670)	(691)
Premises and equipment	(107)	(111)
Other administrative expenses	(629)	(177)
Depreciation and amortisation	(25)	(18)
Total operating expenses	(1,431)	(997)
Management view(1)(3)		
Strategic costs(2)	(191)	(171)
Litigation and conduct costs	(134)	94
Other expenses	(1,106)	(920)
Statutory operating expenses	(1,431)	(997)

(1) The management view of operating expenses allows strategic costs and litigation and conduct expenses to be tracked separately from the underlying costs of the business.
(2) Strategic costs include restructuring expenses and costs associated with the transformation of the NWM Group.
(3) A reconciliation between the statutory and non-statutory presentations of operating expenses is set out in the table below:

	2020				2019			
Operating expenses	Strategic costs (a)	Litigation and conduct costs (b)	Other expenses	Statutory operating expenses	Strategic costs (a)	Litigation and conduct costs (b)	Other expenses	Statutory operating expenses
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
Total	**191**	**134**	**1,106**	**1,431**	171	(94)	920	997

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

The NWM Group's staff costs for the year ended 31 December 2020 amounted to £670 million, a decrease £21 million, or 3 per cent, as compared to £691 million for the year ended 31 December 2019. The decrease was principally due to lower temporary and contract costs and bonus awards, offset partially by higher social security and pension costs.

The NWM Group's premises and equipment costs for the year ended 31 December 2020 amounted to £107 million, a decrease of £4 million, or 4 per cent, as compared to £111 million for the year ended 31 December 2019. The decrease was principally due to ongoing cost reductions.

The NWM Group's other administrative expenses for the year ended 31 December 2020 amounted to £629 million, an increase of £452 million, or 255 per cent, as compared to £177 million for the year ended 31 December 2019. The increase was principally due to the non-repeat of reimbursement under indemnification agreements with third parties and certain other one-off cost recoveries during the year ended 31 December 2019.

The NWM Group's depreciation and amortisation for the year ended 31 December 2020 amounted to £25 million, an increase of £7 million as compared to £18 million for the year ended 31 December 2019. The increase was primarily driven by depreciation in respect of lease assets.

Impairment (Losses)/Releases

The NWM Group's impairment losses for the year ended 31 December 2020 amounted to £42 million, an increase of £90 million, or 188 per cent, as compared to releases of £48 million for the year ended 31 December 2019. The current year charge was principally due to the credit deterioration of an individual counterparty and the impact of expected credit losses recognised following the COVID-19 pandemic, and the releases in the prior year related to recoveries on IFRS 9 Stage 3 defaulted positions and a release relating to the reduction in Stage 2 loans.

Operating Loss Before Tax

The NWM Group's operating loss before tax for the year ended 31 December 2020 amounted to £315 million, a decrease of £85 million, or 37 per cent, as compared to loss of £230 million for the year ended 31 December 2019, due to the factors described above for each income and expense line.

Tax (Charge)/Credit

The NWM Group's total tax charge for the year ended 31 December 2020 amounted to £12 million, an increase of £121 million as compared to a tax charge of £109 million for the year ended 31 December 2019.

Net Loss for the Year

The NWM Group's net loss for the year ended 31 December 2020 amounted to £327 million, a decrease of £206 million as compared to a loss of £121 million for the year ended 31 December 2019.

NatWest Markets

The following table sets forth a summary of the results of the continuing operations of the NatWest Markets segment for the years indicated.

	Net interest income	Net fees and commissions	Other non-interest income	Total income	Operating expenses	Depreciation and amortisation	Impairment (losses)/ releases	Operating loss
				£m				
2020								
NatWest Markets	(62)	99	1,081	1,118	(1,292)	(25)	(40)	(239)
2019								
NatWest Markets	(160)	(19)	869	690	(1,261)	(18)	48	(541)

Total Income

NatWest Markets' total income for the year ended 31 December 2020 amounted to £1,118 million, an increase of £428 million, or 62 per cent, as compared to £690 million for the year ended 31 December 2019. The increase was principally due to increased customer activity in response to the COVID-19 pandemic, and reflecting the impact of the consolidation of the full year results of NWM NV following acquisition on 29 November 2019. In addition, income in 2019 was affected by challenging market conditions that particularly affected Fixed Income, most significantly during the three months ended 30 September 2019. Operating expenses of £1,292 million excluding depreciation and amortisation, increased by £31 million compared to the year ended 31 December 2019, driven by higher strategic costs and the impact of the consolidation of the full year results of NWM NV, offset by cost reductions in the current year. Impairment losses were £40 million for the year ended 31 December 2020, driven by the credit deterioration of an individual counterparty during the year and the impact of expected credit losses recognised following the COVID-19 pandemic. This compared to releases of £48 million for the year ended 31 December 2019, which included recoveries on Stage 3 defaulted assets and a release relating to the reduction in Stage 2 loans.

NatWest Markets' net interest expense for the year ended 31 December 2020 amounted to £62 million, an increase of £98 million, as compared to £160 million net interest expense for the year ended 31 December 2019. The increase was principally due to lower interest payable, which decreased due to lower funding costs for the business in the year ended 31 December 2020. NatWest Markets' net fees and commissions for the year ended 31 December 2020 amounted to a gain of £99 million, an increase of £118 million, as compared to a loss of £19 million for the year ended 31 December 2019. The increase was principally due to the impact of the consolidation of the full year results of NWM NV, which increased fees and commissions receivable from third parties and reduced fees and commissions payable due to the elimination of amounts paid to NWM NV by NWM Plc in relation to the provision of services to EEA customers. NatWest Markets' other non-interest income for the year ended 31 December 2020 amounted to £1,081 million, an increase of £212 million, or 24 per cent, as compared to £869 million for the year ended 31 December 2019. The increase was primarily due to higher income from trading activities, reflecting the increased customer activity in response to the COVID-19 pandemic and the challenging trading environment in the prior year which particularly impacted the Fixed Income business, most significantly during Q3 2019. Within income from trading activities, own credit adjustments were a £24 million loss in the year ended 31 December 2020 compared with a £80 million loss in the year ended 31 December 2019, due to the tightening of spreads in the year.

Operating Expenses

NatWest Markets' operating expenses for the year ended 31 December 2020 amounted to £1,292 million, an increase of £31 million, or 2 per cent, as compared to £1,261 million for the year ended 31 December 2019. The increase was principally due to higher strategic costs and the impact of the consolidation of the full year results of NWM NV, partially offset by cost reductions in the current year.

The IFRS and management view of operating expenses, excluding depreciation and amortisation, within the NatWest Markets segment are set out as follows.

	2020	2019
	£m	£m
IFRS view		
Staff costs	(686)	(690)
Premises and equipment	(107)	(111)
Other administrative expenses	(524)	(460)
Total operating expenses	(1,317)	(1,261)
Management view(1)		
Strategic costs(2)	(207)	(162)
Litigation and conduct costs	(4)	(18)
Other expenses	(1,106)	(1081)
Statutory operating expenses	(1,317)	(1,261)

(1) The management view of operating expenses allows strategic costs and litigation and conduct expenses to be tracked separately from the underlying costs of the business.

(2) Strategic costs include restructuring expenses and costs associated with the transformation of the NWM Group.

Depreciation and Amortisation

NatWest Markets' depreciation and amortisation for the year ended 31 December 2020 amounted to £25 million, an increase of £7 million as compared to a depreciation and amortisation of £18 million for the year ended 31 December 2019. The increase was driven by depreciation in respect of lease assets during the year.

Impairment (Losses)/Releases

NatWest Markets' impairment losses for the year ended 31 December 2020 amounted to £40 million, driven by the credit deterioration of an individual counterparty during the year and the impact of expected credit losses recognised following the COVID-19 pandemic. This compared to releases of £48 million for the year ended 31 December 2019, which was driven by recoveries on IFRS 9 Stage 3 defaulted positions and a release relating to the reduction in Stage 2 loans.

Operating Loss for the Year

NatWest Markets' operating loss for the year ended 31 December 2020 amounted to £239 million, an increase of £302 million, as compared to the loss of £541 million for the year ended 31 December 2019, due to factors explained above.

Central Items & Other

The following table sets forth a summary of the results of the continued operations of the Central Items & Other segment for the years indicated.

	Net interest income	Net fees and commissions	Other non-interest income	Total income	Operating expenses	Depreciation and amortisation	Impairment losses	Operating loss
				£m				
2020								
Central items & other	2	—	38	40	(114)	—	(2)	(76)
2019								
Central items & other..............	10	6	13	29	282	—	—	311

Total Income

Central Items & Other's total income for the year ended 31 December 2020 amounted to £40 million, an increase of £11 million, as compared to £29 million for the year ended 31 December 2019. The increase was principally due to higher other non-interest income, largely representing the gain recognised on transfer of a service subsidiary to NatWest Group during the year.

Central Items & Other's net interest income for the year ended 31 December 2020 amounted to £2 million, a decrease of £8 million, as compared to a net interest income of £10 million for the year ended 31 December 2019. The decrease was principally due to lower interest receivable.

Central Items & Other's net fees and commissions for the year ended 31 December 2020 amounted to nil, a decrease of £6 million from the prior year.

Central Items & Other's other non-interest income for the year ended 31 December 2020 amounted to £38 million, an increase of £25 million as compared to an income of £13 million for the year ended 31 December 2019. The increase was principally due to the gain recognised on transfer of a service subsidiary to NatWest Group during the year, as part of the strategic refocusing of NatWest Markets.

Operating Expenses

Central Items & Other's operating expenses for the year ended 31 December 2020 amounted to £114 million, an increase of £396 million as compared to a credit of £282 million for the year ended 31 December 2019. The increase is principally due to litigation and conduct costs incurred in the current year, which were primarily related to the historical trading activities of a joint venture subsidiary, and reimbursement under indemnification agreements with third parties and certain one-off cost recoveries during the year ended 31 December 2019.

Impairment Releases

Central Items & Other's impairment losses for the year ended 31 December 2020 amounted to £2 million, compared to nil in the year ended 31 December 2019, primarily due to the increase in ECL provisions on intra-NatWest Group exposures during the year.

Operating (Loss)/Profit for the Year

Central Items & Other's operating loss for the year ended 31 December 2020 amounted to £76 million, a decrease of £387 million, as compared to a £311 million operating profit for the year ended 31 December 2019, due to the factors explained above.

Balance Sheet

The following table sets forth the NWM Group's consolidated and NWM Plc's unconsolidated balance sheet data as at the dates indicated.

	NWM Group		NWM Plc	
	As at 31 December		As at 31 December	
	2020	2019	2020	2019
	£m		£m	
Assets				
Cash and balances at central banks	15,771	12,729	11,736	9,953
Trading assets(2)	68,689	76,540	52,169	57,768
Derivatives(1)	165,619	148,696	164,104	147,458
Settlement balances	2,296	4,339	1,084	3,353
Loans to banks – amortised cost	1,003	1,088	701	238
Loans to customers – amortised cost	8,444	8,361	7,477	6,910
Amounts due from holding company and fellow subsidiaries	1,587	1,231	7,606	7,145
Other financial assets	9,041	12,305	8,043	11,636
Investment in group undertaking	—	—	2,600	2,905
Other assets(3)	688	847	562	687
Total assets	273,138	266,136	256,082	248,053
Liabilities				
Bank deposits	1,808	2,089	1,762	2,038
Customer deposits	2,618	3,703	1,469	2,247
Amounts due to holding company and fellow subsidiaries	8,134	8,300	16,189	16,858
Settlement balances	2,248	4,022	604	2,648
Trading liabilities(2)	72,252	73,836	56,916	53,576
Derivatives(1)	157,332	144,142	153,754	142,390
Other financial liabilities	18,170	18,445	15,370	17,470
Other liabilities(3)	1,234	1,689	866	1,195
Total liabilities	263,796	256,226	246,930	238,422
Owners' equity	9,388	9,907	9,152	9,631
Non-controlling interests	(46)	3	—	—
Total equity	9,342	9,910	9,152	9,631
Total liabilities and equity	273,138	266,136	256,082	248,053

(1) Derivatives are presented net of IFRS offsets, corresponding predominantly to positions settled through clearing houses.

(2) The line items 'Trading assets' and 'Trading liabilities' are further analysed as follows.

	NWM Group		NWM Plc	
	As at 31 December		As at 31 December	
	2020	2019	2020	2019
	(£m)			
Trading assets				
Reverse repos	19,404	24,095	11,071	12,716
Derivative cash collateral given	18,459	20,467	15,389	19,074
Securities	29,215	30,124	24,212	24,492
Other loans	1,611	1,854	1,497	1,486
Total	68,689	76,540	52,169	57,768
Trading liabilities				
Repos	19,036	27,885	5,928	10,007
Derivative cash collateral received	23,226	21,506	22,267	20,945
Short positions	26,779	21,187	25,513	19,371
Other deposits and issuance	3,211	3,258	3,208	3,253
Total	72,252	73,836	56,916	53,576

(3) The line items 'Other assets' and 'Other liabilities' are further analysed as follows

	NWM Group		NWM Plc	
	As at 31 December		As at 31 December	
	2020	2019	2020	2019
	(£m)			
Other assets				
Accrued income	25	31	19	23
Tax recoverable	221	264	207	279
Pension schemes in net surplus	264	271	264	271
Property, plant and equipment	106	136	19	36
Other assets	70	118	51	78
Assets of disposal groups	—	26	—	—
Deferred tax	2	1	2	—
Total	688	847	562	687
Other liabilities				
Current tax	54	76	16	17
Accruals	108	283	79	186
Deferred income	25	27	16	15
Deferred tax	417	501	380	462
Other liabilities	48	137	67	131
Retirement benefit liabilities	63	63	54	54
Provisions for liabilities and charges	448	505	238	302
Lease liabilities	71	97	16	28
Total	1,234	1,689	866	1,195

The NWM Group's balance sheet profile as at 31 December 2020 can be summarized as follows.

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

(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 collateral relating to banks of £7.4 billion (2019 - £7.6 billion) and customers of £11.0 billion (2019 - £12.9 billion).

(4) Comprises derivative collateral relating to banks of £11.8 billion (2019 - £11.9 billion) and customers of £11.4 billion (2019 - £9.6 billion).

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

The table below presents a summary of the NWM Group's balance sheet exposures as at the year ended 31 December 2020.

	2020 Total: £bn
RWAs	25.6
Total net credit exposures (banking book and counterparty credit)	38.6
of which: net non-investment grade credit exposures	2.7
of which: IFRS 9 Stage 3 exposures	0.2
and: IFRS 9 Stage 3 ECL	0.1

The NWM Group's balance sheet is predominantly comprised of trading assets and liabilities and derivative assets and liabilities, centred around its product offering of Fixed Income, Currencies and Capital Markets. Trading assets and liabilities largely include debt securities, reverse repos and derivative collateral, together with short positions, repos and derivative collateral respectively. Derivative assets and liabilities include interest rate and foreign exchange contracts as well as smaller volumes of credit, equity and commodity derivatives. Banking book assets and liabilities are limited to amortised cost portfolios of corporate lending and deposits, as well as Treasury activities such as the management of the liquidity portfolio of cash and bonds, and the issuance of senior unsecured, subordinated and equity instruments.

As the NWM Group is not primarily a deposit-taking and lending institution, metrics such as net interest margin (NIM) have limited significance for NWM Plc and do not relate to the basis on which the business is managed. The short term and fluctuating nature of the trading business can result in relatively large intra-period movements in the balance sheet with trading assets and liabilities primarily moving in unison. This is due to the flow nature of the trading business activities and balance sheet profile which is largely matched across trading and derivative assets, and trading and derivative liabilities. Risks and exposures may be managed on a net basis.

Assets

As at 31 December 2020, the NWM Group's total assets amounted to £273,138 million, an increase of £7,002 million, or 3 per cent, as compared to £266,136 million as at 31 December 2019. The increase largely reflects higher derivative fair values, driven by the downward shift in interest rate yields and FX rate fluctuation across major currencies during the year.

As at 31 December 2020, the NWM Group's cash and balances at central banks amounted to £15,771 million, an increase of £3,042 million, or 24 per cent, as compared to £12,729 million as at 31 December 2019. The increase reflected surplus liquidity following a reduction in trading assets in the year ended 31 December 2020.

As at 31 December 2020, the NWM Group's trading assets amounted to £68,689 million, a decrease of £7,851 million, or 10 per cent, as compared to £76,540 million as 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.

As at 31 December 2020, the NWM Group's derivatives amounted to £165,619 million, an increase of £16,923 million, or 11 per cent, as compared to £148,696 million as at 31 December 2019. The increase in mark-to-market value was principally due to downward shifts in interest rate yields and FX rate fluctuation across major currencies during the year ended 31 December 2020.

As at 31 December 2020, the NWM Group's loans to customers (amortised cost) amounted to £8,444 million, an increase of £83 million, or 1 per cent, as compared to £8,361 million as at 31 December 2019.

As at 31 December 2020, the NWM Group's other financial assets amounted to £9,041 million, a decrease of £3,264 million, or 27 per cent, as compared to £12,305 million as at 31 December 2019. The decrease was principally due to a reduction in debt securities held at amortised cost and FVOCI, in addition to the disposal of the equity position in SABB during the year.

As at 31 December 2020, the NWM Group's other assets amounted to £688 million, a decrease of £159 million, or 19 per cent, as compared to £847 million as at 31 December 2019.

Liabilities

As at 31 December 2020, the NWM Group's total liabilities amounted to £263,796 million, an increase of £7,570 million, or 3 per cent, as compared to £256,226 million as at 31 December 2019. The increase largely reflects higher derivative fair values, driven by the downward shift in interest rate yields and FX rate fluctuation across major currencies during the year ended 31 December 2020.

As at 31 December 2020, the NWM Group's customer deposits amounted to £2,618 million, a decrease of £1,085 million, or 29 per cent, as compared to £3,703 million as at 31 December 2019. The decrease was primarily related to reduced funding requirements as at 31 December 2020.

As at 31 December 2020, the NWM Group's trading liabilities amounted to £72,252 million, a decrease of £1,584 million, or 2 per cent, as compared to £73,836 million as at 31 December 2019.

As at 31 December 2020, the NWM Group's derivatives amounted to £157,332 million, an increase of £13,190 million, or 9 per cent, as compared to £144,142 million as at 31 December 2019. The increase in mark-to-market value was principally due to downward shifts in interest rate yields and FX rate fluctuation across major currencies during the year ended 31 December 2020.

As at 31 December 2020, the NWM Group's other liabilities amounted to £1,234 million, a decrease of £455 million, or 27 per cent, as compared to £1,689 million as at 31 December 2019.

Cash Flows

The following table sets forth the NWM Group's cash flow data as at the dates and for the years indicated.

	NWM Group	
	For the years ended	
	2020	2019
	£m	
Cash flows from operating activities		
Operating loss before tax	(315)	(230)
Adjustments for:		
Impairment losses/(releases) on loans to customers	42	(48)
Amortisation of discounts and premiums of other financial assets	17	7
Depreciation, amortisation and impairment of other assets	25	18
Change in fair value taken to profit or loss of other financial assets	(43)	(30)
Change in fair value taken to profit or loss on other financial liabilities and subordinated liabilities	132	281
Elimination of foreign exchange differences	(841)	548
Other non-cash items	99	(250)
Income receivable on other financial assets	(198)	(257)
Loss on sale of other financial assets	13	9
Profit on sale of subsidiaries and associates	(64)	(18)
Loss on sale of other assets and net assets/liabilities	3	—
Interest payable on MREL and subordinated liabilities	329	443
Loss on sale of MREL and subordinated liabilities	16	—
Charges and releases on provisions	106	10
Defined benefit pension schemes	10	6
Net cash flows from trading activities	(669)	489
Decrease in trading assets	4,127	2,054
Increase in derivative assets	(16,905)	(10,805)
Decrease/(increase) in settlement balance assets	2,043	(4)
(Increase)/decrease in net loans to banks	(137)	424
(Increase)/decrease in net loans to customers	(152)	116
(Increase)/decrease in amounts due from holding company and subsidiaries	(179)	1,343
Decrease in other financial assets	212	603
Decrease in other assets	40	179
Decrease in bank deposits	(281)	(667)
(Decrease)/increase in customer deposits	(1,085)	427
Increase/(decrease) in amounts due to holding company and fellow subsidiaries	40	(5,346)
(Decrease)/increase in settlement balance liabilities	(1,774)	41
Decrease/(increase) in trading liabilities	(1,584)	(372)
Increase in derivative liabilities	13,190	10,011
(Decrease)/increase in other financial liabilities	(297)	1,574
Decrease in other liabilities	(506)	(705)
Changes in operating assets and liabilities	(3,248)	(1,127)
Income taxes (paid)/received	(73)	315
Net cash flows from operating activities(1)	(3,990)	(323)
Cash flows from investing activities		
Sale and maturity of other financial assets	10,735	3,905
Purchase of other financial assets	(8,020)	(4,860)
Interest received on other financial assets	198	257
Net movement in business interests and intangible assets	358	3,705
Sale of property, plant and equipment	2	8
Purchase of property, plant and equipment	(2)	(1)
Net cash flows from investing activities	3,271	3,014
Cash flows from financing activities		
Movement in MREL	(191)	(182)
Movement in subordinated liabilities	(548)	(80)
Dividends paid	(68)	(560)
Capital contribution	22	—

	NWM Group	
	For the years ended	
	2020	2019
	£m	
Net cash flows from financing activities	(785)	(822)
Effects of exchange rate changes on cash and cash equivalents	841	(953)
Net (decrease)/increase in cash and cash equivalents	(663)	916
Cash and cash equivalents at 1 January	27,043	26,127
Cash and cash equivalents at 31 December	26,380	27,043

(1) Includes interest received of £671 million (2019 - £579 million) and interest paid of £632 million (2019 - £840 million).

Total cash outflow from trading activities was £669 million for the year ended 31 December 2020; a decrease of £1,158 million as compared to a cash inflow of £489 million for the year ended 31 December 2019. The change was principally attributable to the increase in loss before tax (£315 million in 2020, £230 million in 2019) and the foreign exchange differences in the year ended 31 December 2020 compared to the year ended 31 December 2019, offset by other non-cash item inflows

Total cash outflow from changes in operating assets and liabilities was £3,248 million for the year ended 31 December 2020; a decrease of £2,121 million compared to the £1,127 million outflow for the year ended 31 December 2019. The increase in outflow was principally attributable to an increase in cash outflows in relation to derivative assets and amounts due from holding companies and fellow subsidiaries of NatWest Group, offset by an increase in cash inflows in relation to derivative liabilities and amounts due to holding companies and fellow subsidiaries in the year ended 31 December 2020 compared to the year ended 31 December 2019.

Total cash outflow from operating activities was £3,990 million for the year ended 31 December 2020; a decrease of £3,667 million compared to the £323 million outflow for the year ended 31 December 2019.

The increase in outflow was principally attributable to an increase in operating loss (£230 million in 2019 to £315 million in 2020), an increase in foreign exchange differences, the change in derivative assets and amounts due from holding companies and subsidiaries, tax related cash outflow of £73 million (from £315 million inflow 2019), offset by the change in derivative and liabilities and amounts due to holding companies and subsidiaries.

Total cash inflow from investing activities was £3,271 million for the year ended 31 December 2020; an increase of £257 million as compared to the cash inflow of £3,014 million for the year ended 31 December 2019. The increase in inflow was principally attributable to additional sales of debt securities and treasury bills, offset by the additional cash outflow from the increased purchase of debt securities and the reduction of cash inflow from the reduced asset disposals compared to the year ended 31 December 2019.

Total cash outflow from financing activities was £785 million for the year ended 31 December 2020, an increase of £37 million, as compared to the cash outflow of £822 million for the year ended 31 December 2019. The decrease was principally due to reduced cash inflows as there were no new subordinated liability issuances in the year ended 31 December 2020. This was offset by lower dividends paid in the year and cash inflows through a capital injection from Natwest Group plc.

Consolidated Financial Information for the Years Ended and as at 31 December 2019 and 2018

Income Statement

Consolidated

The following table sets forth a summary of the NWM Group's results of operations for the years indicated.

	2019	2018
	£m	**£m**
Interest receivable	697	406
Interest payable	(847)	(673)
Net interest income	(150)	(267)
Fees and commissions receivable	324	260
Fees and commissions payable	(337)	(233)
Income from trading activities	805	1,045
Gain on redemption of own debt	—	101
Other operating income	77	(48)
Non-interest income	869	1,125
Total income	719	858
Staff costs	(691)	(579)
Premises and equipment	(111)	(120)
Other administrative expenses	(177)	(1,524)
Depreciation and amortisation	(18)	(14)
Operating expenses	(997)	(2,237)
Loss before impairment releases/(losses)	(278)	(1,379)
Impairment releases/(losses)	48	102
Operating loss before tax	(230)	(1,277)
Tax (charge)/credit	109	33
Loss from continuing operations	(121)	(1,244)
Profit from discontinued operations, net of tax	—	2,461
Profit/(loss) for the year	(121)	1,217

The operating loss before tax of £230 million compares with a loss of £1,277 million in the year ended 31 December 2018. Total income of £719 million decreased by £139 million, or 16 per cent, primarily reflecting lower trading income in challenging market conditions. Net interest income, reflecting funding costs of the business, was a net expense of £150 million for the year ended 31 December 2019, compared with a net expense of £267 million in 2018. Non-interest income decreased by £256 million to £869 million compared with £1,125 million for the year ended 31 December 2018, as Rates income was particularly impacted by the challenging trading environment, most significantly during the three months ended 30 September 2019. Elevated hedging costs caused by reduced liquidity and wider bid-offer spreads as the market experienced sustained curve flattening across global fixed income markets were key drivers of the decrease in the Rates income. Other operating income of £77 million for the year ended 31 December 2019 increased by £125 million relative to the prior year, reflecting the non-recurrence of reserves recycling and disposal losses in the prior year. There was no gain on redemption of own debt during the year ended 31 December 2019 compared with £101 million in the prior year.

Operating expenses decreased by £1,240 million, or 55 per cent, to £997 million in the year ended 31 December 2019 from £2,237 million in the year ended 31 December 2018. This reflects a significant reduction in other administrative expenses and a decrease in premises and equipment expenses, partially offset by increases in staff costs and depreciation and amortisation. Within these figures, strategic costs and litigation and conduct costs decreased to £171 million and a credit of £94 million from expenses of £208 million and £969 million respectively in the prior year. The decrease in litigation and conduct costs primarily reflects the non-repeat of the RMBS-related settlement with the US Department of Justice (DoJ) in the prior year as well as reimbursement under indemnification agreements with third parties during the year ended 31 December 2019. Other operating expenses decreased £140 million, or 13 per cent, to £920 million for the year ended 31 December 2019, largely due to certain one-off cost recoveries during the year.

Net Interest Income

The NWM Group's net interest income for the year ended 31 December 2019 amounted to a net expense of £150 million, a decrease of £117 million as compared to a net expense of £267 million for the year ended 31 December 2018. The decrease was largely as a result of interest received which increased to £697 million during the year ended 31 December 2019 from £406 million in the comparative period and exceeded the impact of increased interest payable, which increased to £847 million from £673 million in the prior year.

The NWM Group's interest receivable for the year ended 31 December 2019 amounted to £697 million, an increase of £291 million, or 72 per cent, as compared to £406 million for the year ended 31 December 2018. The increase was principally due to interest received on loans to customers and other financial assets, including debt securities held, during the year ended 31 December 2019

The NWM Group's interest payable for the year ended 31 December 2019 amounted to £847 million, an increase of £174 million, or 26 per cent, as compared to £673 million for the year ended 31 December 2018. The increase was principally due to increased customer deposits in the year ended 31 December 2019, partially offset by a reduction on interest payable in respect of other financial liabilities including debt securities issued.

Non-Interest Income

The following table sets forth the NWM Group's non-interest income data as at the dates and for the years indicated.

	2019	**2018**
	£m	**£m**
Net fees and commissions	(13)	27
Income from trading activities		
Foreign exchange	273	387
Interest rate	582	515
Credit	32	41
Changes in fair value of own debt attributable to own credit - debt securities in issue and derivative liabilities	(80)	92
Equities and other	(2)	10
	805	1,045
Gain on redemption of own debt	—	101
Other operating income		
Operating lease and other rental income	6	14
Changes in the fair value of financial assets and liabilities designated at fair value through profit or loss	(31)	(16)
Changes in fair value of other financial assets fair value through profit or loss	24	(46)
Hedge ineffectiveness	6	(1)
Loss on disposal of amortised cost assets	20	(73)
Loss/(profit) on disposal of fair value through other comprehensive income assets	(9)	(8)
Profit on sale of property, plant and equipment	—	1
Dividend income	21	7
Share of profits of associated entities	—	—
(Loss)/profit on disposal of subsidiaries and associates	(9)	(12)
Other income (1)	49	86
	77	(48)
Total Non-Interest Income	869	1,125

(1) Includes income from activities other than banking. 2018 includes insurance recoveries of £140 million (relating to agreement reached in July 2018 between NatWest Group and certain insurers and third parties in respect of claims made under certain 2007 – 2009 insurance policies which provided coverage to NatWest Group subsidiaries for certain losses) offset by reserves recycling.

The NWM Group's non-interest income for the year ended 31 December 2019 amounted to £869 million, a decrease of £256 million, or 23 per cent, as compared to £1,125 million for the year ended 31 December 2018. The decrease was principally due to lower income from trading activities, reflecting the challenging trading environment which particularly impacted the Rates business, most significantly during the three months ended 30 September 2019. The Rates business income was impacted 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. The Rates business income is reflected in various lines of the product split shown in the table above, including foreign exchange, interest rate and credit. The gain on redemption of own debt was nil compared with £101 million in the year ended 31 December 2018. Other operating income was £77 million compared with a other operating loss of £48 million in the prior year, with the increase of £125 million largely driven by the non-repeat of reserves recycling and disposal losses in the year ended 31 December 2018.

The NWM Group's net fees and commissions for the year ended 31 December 2019, largely comprising those in respect of the NWM Group's debt capital markets, integrated financing and risk management solutions for customers, amounted to an expense of £13 million as compared to £27 million for the year ended 31 December 2018. The decrease was principally due to higher fees and commissions payable including those payable to NatWest Markets NV in relation to the provision of services to EEA customers for the period prior to its acquisition by NWM Plc, which more than offset the increase in fees and commissions receivable in the period.

The NWM Group's income from trading activities for the year ended 31 December 2019, which primarily includes trading and flow-related income across its core product offerings as well as legacy positions, amounted to £805 million, a decrease of £240 million, or 23 per cent, as compared to £1,045 million for the year ended 31 December 2018. The decrease was principally due to the challenging trading environment which particularly impacted the Rates business, most significantly during the three months ended 30 September 2019. The Rates business income was impacted 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. The Rates business income is reflected in various lines of the product split shown in the table above, including foreign exchange, interest rate and credit. Within income from trading activities, own credit adjustments represented a £80 million loss in the year ended 31 December 2019 compared with a gain of £92 million in the year ended 31 December 2018, largely reflecting the tightening of spreads. The NWM Group's other operating income for the year ended 31 December 2019 amounted to a gain of £77 million, an increase of £125 million as compared to a loss of £48 million for the year ended 31 December 2018. The increase was principally driven by the non-repeat of reserves recycling and disposal losses in the comparative period.

Operating Expenses

The NWM Group's operating expenses for the year ended 31 December 2019 amounted to £997 million, a decrease of £1,240 million, or 55 per cent, as compared to £2,237 million for the year ended 31 December 2018 primarily reflecting the non-repeat of RMBS-related settlement with the US Department of Justice (DoJ) in the prior year as well as reimbursement under indemnification agreements with third parties and certain other one-off cost recoveries during the year ended 31 December 2019.

The IFRS and management view of operating expenses are set out as follows.

	2019	2018
	£m	£m
IFRS view		
Staff costs	(691)	(579)
Premises and equipment	(111)	(120)
Other administrative expenses	(177)	(1,524)
Depreciation and amortisation	(18)	(14)
Total operating expenses	(997)	(2,237)
Management view(1)		
Strategic costs(2)	(171)	(208)
Litigation and conduct costs	94	(969)
Other expenses	(920)	(1,060)
Statutory operating expenses	(997)	(2,237)

(1) The management view of operating expenses allows strategic costs and litigation and conduct expenses to be tracked separately from the underlying costs of the business.

(2) Strategic costs include restructuring expenses and costs associated with the transformation of the NWM Group.

The NWM Group's staff costs for the year ended 31 December 2019 amounted to £691 million, an increase of £112 million, or 19 per cent, as compared to £579 million for the year ended 31 December 2018. The increase was principally due to higher salary and wage expenses relative to the prior year, in addition to the income statement impact of bonus awards when compared to the year ended 31 December 2018, driven by a reduction in deferred award forfeiture.

The NWM Group's premises and equipment costs for the year ended 31 December 2019 amounted to £111 million, a decrease of £9 million, or 8 per cent, as compared to £120 million for the year ended 31 December 2018. The decrease was principally due to ongoing cost reductions, including property exits.

The NWM Group's other administrative expenses for the year ended 31 December 2019 amounted to £177 million, a decrease of £1,347 million, or 88 per cent, as compared to £1,524 million for the year ended 31 December 2018. The decrease was principally due to the non-repeat of RMBS-related settlement with the US DoJ in the prior year as well as reimbursement under indemnification agreements with third parties and certain other one-off cost recoveries during the year ended 31 December 2019.

The NWM Group's depreciation and amortisation for the year ended 31 December 2019 amounted to £18 million, an increase of £4 million as compared to a depreciation and amortisation of £14 million for the year ended 31 December 2018. The increase was primarily driven by depreciation in respect of lease assets.

Impairment Releases

The NWM Group's impairment releases for the year ended 31 December 2019 amounted to £48 million, a decrease of £54 million, or 53 per cent, as compared to £102 million for the year ended 31 December 2018. The decrease was principally due to a reduction in recoveries on IFRS 9 Stage 3 defaulted positions, partially offset by a release relating to the reduction in Stage 2 loans during 2019.

Operating Loss Before Tax

The NWM Group's operating loss before tax for the year ended 31 December 2019 amounted to £230 million, a decrease of £1,047 million, or 82 per cent, as compared to loss of £1,277 million for the year ended 31 December 2018, due to the factors described above for each income and expense line.

Tax Credit

The NWM Group's total tax credit for the year ended 31 December 2019 amounted to £109 million, an increase of £76 million as compared to a tax charge of £33 million for the year ended 31 December 2018.

Profit from Discontinued Operations, Net of Tax

The NWM Group's profit from discontinued operations, net of tax for the year ended 31 December 2019 amounted to nil as compared to £2,461 million for the year ended 31 December 2018. The NWM Group has ceased to report discontinued operations with effect from 1 January 2019 following the conclusion of the ring-fencing related structural reorganisation of the NWM Group in 2018.

Net Loss for the Year

The NWM Group's net loss for the year ended 31 December 2019 amounted to £121 million, a decrease of £1,338 million as compared to a profit of £1,217 million for the year ended 31 December 2018, primarily due to the loss for the year ended 31 December 2019 being favourable when compared with the loss for the prior year from continuing operations, but offset by the non-repeat of profit from discontinued operations for the year ended 31 December 2018, related to the result of the businesses within NatWest Holdings prior to its transfer out of the NWM Group after the first half of the year ended 31 December 2018.

NatWest Markets

The following table sets forth a summary of the results of the continuing operations of the NatWest Markets segment for the years indicated.

	Net interest income	Net fees and commissions	Other non-interest income	Total income	Operating expenses	Depreciation and amortisation	Impairment releases	Operating loss
					£m			
2019								

	Net interest income	Net fees and commissions	Other non-interest income	Total income	Operating expenses	Depreciation and amortisation	Impairment releases	Operating loss
				£m				
NatWest Markets	(160)	(19)	869	690	(1,261)	(18)	48	(541)
2018								
NatWest Markets	5	32	981	1,018	(1,381)	(14)	88	(289)

Total Income

NatWest Markets' total income for the year ended 31 December 2019 amounted to £690 million, a decrease of £328 million, or 32 per cent, as compared to £1,018 million for the year ended 31 December 2018. The decrease was principally due to lower income which particularly affected the Rates business, including the impact 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 significantly during the three months ended 30 September 2019. Legacy losses increased relative to the prior year, mainly as a result of the absorption of net interest expenses that were previously reflected in Central items & other. Operating expenses of £1,261 million excluding depreciation and amortisation, decreased compared to the year ended 31 December 2018, due to lower litigation and conduct and strategic costs. Impairment releases decreased during the year ended 31 December 2019, due to lower recoveries on Stage 3 defaulted assets relative to the comparative period, partially offset by a release relating the reduction in Stage 2 loans during the year.

NatWest Markets' net interest expense for the year ended 31 December 2019 amounted to £160 million, a decrease of £165 million , as compared to £5 million net interest income for the year ended 31 December 2018. The decrease was principally due to the absorption of net interest expenses, representing funding costs of the business, that were previously reflected in Central items & other in the year ended 31 December 2018. NatWest Markets' net fees and commissions for the year ended 31 December 2019 amounted to a loss of £19 million, a decrease of £51 million, as compared to £32 million for the year ended 31 December 2018. The decrease was principally due to higher fees and commissions payable, including those payable to NWM NV relating to the provision of services to EEA customers, for the period prior to its acquisition by NWM Plc. NatWest Markets' other non-interest income for the year ended 31 December 2019 amounted to £869 million, a decrease of £112 million, or 11 per cent, as compared to £981 million for the year ended 31 December 2018. The decrease was primarily due to lower income from trading activities, reflecting the challenging trading environment which particularly impacted the Rates business, most significantly during Q3 2019. The Rates business income was impacted 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. Within income from trading activities, own credit adjustments were a £80 million loss in the year ended 31 December 2019 compared with a £92 million gain in the year ended 31 December 2018, due to the tightening of spreads in the year. Offsetting the reduction in income from trading activities was an increase in other operating income, largely due to the non-repeat of disposal losses and the recycling of foreign exchange and other reserves in the year ended 31 December 2018.

Operating Expenses

NatWest Markets' operating expenses for the year ended 31 December 2019 amounted to £1,261 million, a decrease of £120 million, or 9 per cent, as compared to £1,381 million for the year ended 31 December 2018. The decrease was principally due to lower litigation and conduct costs and strategic costs, partially offset by moderate increases in other operating expenses including salary and wages and bonus expense.

The IFRS and management view of operating expenses, excluding depreciation and amortisation, within the NatWest Markets segment are set out as follows.

	2019	2018
	£m	£m
IFRS view		
Staff costs	(690)	(579)
Premises and equipment	(111)	(120)
Other administrative expenses	(460)	(682)
Total operating expenses	(1,261)	(1,381)

Management view(1)

Strategic costs(2)	(162)	(178)
Litigation and conduct costs	(18)	(142)
Other expenses	(1081)	(1,060)
Statutory operating expenses	(1,261)	(1,381)

(1) The management view of operating expenses allows strategic costs and litigation and conduct expenses to be tracked separately from the underlying costs of the business.

(2) Strategic costs include restructuring expenses and costs associated with the transformation of the NWM Group.

Depreciation and Amortisation

NatWest Markets' depreciation and amortisation for the year ended 31 December 2019 amounted to £18 million, an increase of £4 million as compared to a depreciation and amortisation of £14 million for the year ended 31 December 2018. The increase was driven by depreciation in respect of lease assets during the year.

Impairment Releases

NatWest Markets' impairment releases for the year ended 31 December 2019 amounted to £48 million, a decrease of £40 million, or 45 per cent, as compared to £88 million for the year ended 31 December 2018. The decrease was principally due to a reduction in recoveries on IFRS 9 Stage 3 defaulted positions, partially offset by a release relating to the reduction in Stage 2 loans during 2019.

Operating Loss for the Year

NatWest Markets' operating loss for the year ended 31 December 2019 amounted to £541 million, an increase of £252 million, or 87 per cent, as compared to the loss of £289 million for the year ended 31 December 2018, primarily due to lower income as a result of challenging market conditions, which particularly impacted the Rates business, most significantly in the three months ended 30 September 2019, as well as the absorption of net interest expenses previously within Central items & other. This was offset by operating cost reductions relative to the year ended 31 December 2019, primarily due to lower litigation and conduct costs.

Central Items & Other

The following table sets forth a summary of the results of the continued operations of the Central Items & Other segment for the years indicated.

	Net interest income	Net fees and commissions	Other non-interest income	Total income	Operating expenses	Depreciation and amortisation	Impairment releases	Operating loss
				£m				
2019								
Central items & other	10	6	13	29	282	—	—	311
2018								
Central items & other	(272)	(5)	117	(160)	(842)	—	14	(988)

Total Income

Central Items & Other's total income for the year ended 31 December 2019 amounted to £29 million, an increase of £189 million, as compared to a loss of £160 million for the year ended 31 December 2018. The increase was principally due to lower net interest expenses, representing funding costs that have transferred to the NatWest Markets segment, partially offset by the reduction in other non-interest income which principally represents the non-repeat of the gain on redemption of own debt in the prior year.

Central Items & Other's net interest income for the year ended 31 December 2019 amounted to a net interest income of £10 million, an increase of £282 million, as compared to a net interest expense of £272 million for the year ended 31 December 2018. The increase was principally due to net interest expenses, representing funding costs of the business, that have transferred to the NatWest Markets segment during the year.

Central Items & Other's net fees and commissions for the year ended 31 December 2019 amounted to £6 million , an increase of £11 million, as compared to (£5) million for the year ended 31 December 2018. The increase principally resulted from a number of insignificant items during the year.

Central Items & Other's other non-interest income for the year ended 31 December 2019 amounted to £13 million, a decrease of £104 million as compared to an income of £117 million for the year ended 31 December 2018. The decrease was principally due to the non-repeat of the gain on redemption of own debt in the prior year.

Operating Expenses

Central Items & Other's operating expenses for the year ended 31 December 2019 amounted to a credit of £282 million, an increase of £1,124 million, or 133 per cent, as compared to expenses of £842 million for the year ended 31 December 2018. The increase is principally due to reimbursement under indemnification agreements with third parties, as well as certain one-off cost recoveries during the year ended 31 December 2019, offset by the non-repeat of RMBS related litigation and conduct costs from the prior year.

Impairment Releases

Central Items & Other's impairment releases for the year ended 31 December 2019 amounted to nil as compared to £14 million for the year ended 31 December 2018, primarily due to the reduction of exposures related to Central items & other during the year.

Operating Loss for the Year

Central Items & Other's operating profit for the year ended 31 December 2019 amounted to £311 million gains, an increase of £1,299 million, as compared to a £988 million operating loss for the year ended 31 December 2018, due to higher income as a result of the transfer of net interest expense to NatWest Markets segment during the year, litigation and conduct credits and certain other one-off cost recoveries during the year ended 31 December 2019, as well as the non-repeat of RMBS related litigation and conduct costs in the prior year.

Balance Sheet

The following table sets forth the NWM Group's consolidated and NWM Plc's unconsolidated balance sheet data as at the dates indicated.

	NWM Group		NWM Plc	
	As at 31 December		As at 31 December	
	2019	2018	2019	2018
	£m		£m	
Assets				
Cash and balances at central banks	12,729	11,188	9,953	11,095
Trading assets(2)	76,540	74,972	57,768	61,990
Derivatives(1)	148,696	134,250	147,458	134,291
Settlement balances	4,339	2,705	3,353	1,421
Loans to banks – amortised cost	1,088	626	238	454
Loans to customers – amortised cost	8,361	8,366	6,910	7,908
Amounts due from holding company and fellow subsidiaries	1,231	3,398	7,145	11,800
Other financial assets	12,305	11,268	11,636	10,995
Investment in group undertaking	—	—	2,905	1,151
Other assets(3)	847	1,108	687	936
Total assets	266,136	247,881	248,053	242,041
Liabilities				
Bank deposits	2,089	2,749	2,038	2,777
Customer deposits	3,703	2,580	2,247	2,390
Amounts due to holding company and fellow subsidiaries	8,300	10,161	16,858	23,505
Settlement balances	4,022	2,914	2,648	1,977
Trading liabilities(2)	73,836	72,289	53,576	54,540
Derivatives(1)	144,142	129,914	142,390	129,974
Other financial liabilities	18,445	16,279	17,470	16,279
Other liabilities(3)	1,689	1,906	1,195	1,677
Total liabilities	256,226	238,792	238,422	233,119
Owners' equity	9,907	9,087	9,631	8,922
Non-controlling interests	3	2	—	—
Total equity	9,910	9,089	9,631	8,922
Total liabilities and equity	266,136	247,881	248,053	242,041

(1) Derivatives are presented net of IFRS offsets, corresponding predominantly to positions settled through clearing houses.

(2) The line items 'Trading assets' and 'Trading liabilities' are further analysed as follows.

	NWM Group		NWM Plc	
	As at 31 December		As at 31 December	
	2019	2018	2019	2018
	(£m)			
Trading assets				
Reverse repos	24,095	24,758	12,716	15,915
Derivative cash collateral given	20,467	18,898	19,074	18,898
Securities	30,124	30,014	24,492	26,243
Other loans	1,854	1,302	1,486	(934)
Total	76,540	74,972	57,768	61,990
Trading liabilities				
Repos	27,885	25,645	10,007	9,784
Derivative cash collateral received	21,506	20,129	20,945	20,129
Short positions	21,187	23,827	19,371	21,939
Other deposits and issuance	3,258	2,688	3,253	2,688
Total	73,836	72,289	53,576	54,540

(3) The line items 'Other assets' and 'Other liabilities' are further analysed as follows

	NWM Group		NWM Plc	
	As at 31 December		As at 31 December	
	2019	2018	2019	2018
	(£m)			
Other assets				
Prepayments	13	11	10	8
Accrued income	31	71	23	68
Tax recoverable	264	441	279	455
Pension schemes in net surplus	271	299	271	299
Interests in associates	1	5	1	1
Property, plant and equipment	136	32	36	1
Other assets	104	130	67	104
Assets of disposal groups	26	119	—	—
Deferred tax	1	—	—	—
Total	847	1,108	687	936
Other liabilities				
Current tax	76	26	17	26
Accruals	283	228	186	137
Deferred income	27	44	15	45
Deferred tax	501	487	462	446
Other liabilities	137	110	131	258
Retirement benefit liabilities	63	115	54	114
Provisions for liabilities and charges	505	895	302	651
Lease liabilities	97	—	28	—
Liabilities of disposal groups	—	1	—	—
Total	1,689	1,906	1,195	1,677

The NWM Group's balance sheet profile as at 31 December 2019 can be summarized as follows.

Assets	£bn	Liabilities	£bn
Cash and balances at central banks	12.7		
Trading assets	76.6	Trading liabilities	73.8
Securities	30.1	Short positions	21.2
Reverse repos(1)	24.1	Repos(2)	27.9
Derivative collateral(3)	20.5	Derivative collateral(4)	21.5
Other trading assets	1.9	Other trading liabilities	3.2
Loans - amortised cost	9.5	Deposits - amortised cost	5.8
Settlement balances	4.3	Settlement balances	4.0
Amounts due from holding company and fellow subsidiaries	1.1	Amounts due to holding company and fellow subsidiaries	8.3
Other financial assets	12.3	Other financial liabilities	18.5
Other assets	0.9	Other liabilities	1.7
Funded assets	117.4	Liabilities excluding derivatives	112.1
Derivative assets	148.7	Derivative liabilities	144.1
Total assets	266.1	Total liabilities	256.2
		of which: wholesale funding(5)	21.9
		of which: short-term wholesale funding(5)	8.8
Net derivative assets	4.3	Net derivative liabilities	4.2

(1) Comprises bank reverse repos of £4.9 billion (2018 - £8.0 billion) and customer reverse repos of £19.2 billion (2018 - £16.8 billion).

(2) Comprises bank repos of £6.6 billion (2018 - £5.0 billion) and customer repos of £21.3 billion (2018 - £20.6 billion).

(3) Comprises derivative collateral relating to banks of £7.6 billion (2018 - £7.3 billion) and customers of £12.9 billion (2018 - £11.6 billion).

(4) Comprises derivative collateral relating to banks of £11.9 billion (2018 - £11.0 billion) and customers of £9.6 billion (2018 - £9.1 billion).

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

The table below presents a summary of the NWM Group's balance sheet exposures as at the year ended 31 December 2019. The legacy positions consist predominantly of the residual exposures which were reported within the reportable segment formerly known as 'Capital Resolution' until its closure after the three months ended 30 September 2017. These exposures are primarily derivatives or loan agreements that are either being sold or run down over time.

	2019	
	Total:	**Of which legacy**
	£bn	
RWAs	35.2	4.5
Total net credit exposures (banking book and counterparty credit)	43.4	4.1
of which: net non-investment grade credit exposures	2.5	0.7
of which: IFRS 9 Stage 3 exposures	0.2	0.2
and: IFRS 9 Stage 3 ECL	0.1	0.1

The NWM Group's balance sheet is predominantly comprised of trading assets and liabilities and derivative assets and liabilities, centred around its product offering of Rates, Currencies and Financing. Trading assets and liabilities largely include debt securities, reverse repos and derivative collateral, together with short positions, repos and derivative collateral respectively. Derivative assets and liabilities include interest rate and foreign exchange contracts as well as smaller volumes of credit, equity and commodity derivatives. Banking book assets and liabilities are limited to amortised cost portfolios of corporate lending and deposits, as well as Treasury activities such as the management of the liquidity portfolio of cash and bonds, and the issuance of senior unsecured, subordinated and equity instruments.

As the NWM Group is not primarily a deposit-taking and lending institution, metrics such as net interest margin (NIM) have limited significance for NWM Plc and do not relate to the basis on which the business is managed. The short term and fluctuating nature of the trading business can result in relatively large intra-period movements in the balance sheet with trading assets and liabilities primarily moving in unison. This is due to the flow nature of the trading business activities and balance sheet profile which is largely matched across trading and derivative assets, and trading and derivative liabilities. Risks and exposures may be managed on a net basis.

Assets

As at 31 December 2019, the NWM Group's total assets amounted to £266,136 million, an increase of £18,255 million, or 7.4 per cent, as compared to £247,881 million as at 31 December 2018. The increase largely reflects derivative fair values, driven by the downward shift in interest rate yields, as well as new business in the year, partially offset by sterling having strengthened against major currencies.

As at 31 December 2019, the NWM Group's cash and balances at central banks amounted to £12,729 million, an increase of £1,541 million, or 13.8 per cent, as compared to £11,188 million as at 31 December 2018. The increase was driven by a range of factors including net issuance activity during the year ended 31 December 2019, as well as the acquisition of NWM NV.

As at 31 December 2019, the NWM Group's trading assets amounted to £76,540 million, a moderate increase of £1,568 million, or 2.1 per cent, as compared to £74,972 million as at 31 December 2018, as the balance sheet was managed within limits.

As at 31 December 2019, the NWM Group's derivatives amounted to £148,696 million, a decrease of £14,446 million, or 10.8 per cent, as compared to £134,250 million as at 31 December 2018. The increase in mark-to-market value was principally due to downward shifts in interest rate yields, as well as new business during the year ended 31 December 2019, offset partially by the sterling having strengthened relative to major currencies.

As at 31 December 2019, the NWM Group's loans to customers (amortised cost) amounted to £8,361 million, a decrease of £5 million, or 0.1 per cent, and therefore broadly unchanged as compared to £8,366 million as at 31 December 2018.

As at 31 December 2019, the NWM Group's other financial assets amounted to £12,305 million, an increase of £1,037 million, or 9.2 per cent, as compared to £11,268 million as at 31 December 2018. The increase was principally due to the equity position in SABB, which was acquired by NWM Plc following the merger of Alawwal and SABB which completed in June 2019.

As at 31 December 2019, the NWM Group's other assets amounted to £847 million, a decrease of £261 million, or 23.6 per cent, as compared to £1,108 million as at 31 December 2018. The decrease was principally due to a reduction in tax recoverable during the year ended 31 December 2019.

Liabilities

As at 31 December 2019, the NWM Group's total liabilities amounted to £256,226 million, an increase of £17,434 million, or 7.3 per cent, as compared to £238,792 million as at 31 December 2018. The increase largely reflects derivative fair values, driven by the downward shift in interest rate yields, as well as new business in the year, partially offset by sterling having strengthened against major currencies.

As at 31 December 2019, the NWM Group's customer deposits amounted to £3,703 million, an increase of £1,123 million, or 43.5 per cent, as compared to £2,580 million as at 31 December 2018. The increase was primarily related to new funding raised during the year ended 31 December 2019.

As at 31 December 2019, the NWM Group's trading liabilities amounted to £73,836 million, a moderate increase of £1,547 million, or 2.1 per cent, as compared to £72,289 million as at 31 December 2018 as exposures were managed within limits.

As at 31 December 2019, the NWM Group's derivatives amounted to £144,142 million, an increase of £14,228 million, or 11.0 per cent, as compared to £129,914 million as at 31 December 2018. The increase in mark-to-market value was principally due to downward shifts in interest rate yields, as well as new business during the year ended 31 December 2019.

As at 31 December 2019, the NWM Group's other liabilities amounted to £1,689 million, a decrease of £217 million, or 11.4 per cent, as compared to £1,906 million as at 31 December 2018. The decrease was primarily related to a reduction in provisions for liabilities and charges.

Cash Flows

The following table sets forth the NWM Group's cash flow data as at the dates and for the years indicated.

	NWM Group	
	For the years ended	
	2019	2018
	£m	
Cash flows from operating activities		
Operating (loss)/profit before tax from continuing operations	(230)	(1,277)
Profit/(loss) before tax from discontinued operations	—	2,893
Interest on subordinated liabilities	(32)	199
Interest on other financial assets	(257)	(92)
Interest on MRELs	248	—
Impairment releases on loans to banks and customers	(7)	67
(Gain)/loss on sale of subsidiaries and associates	—	(30)
Loss/(gain) on sale of securities	9	(961)
Defined benefit pension schemes	6	7
Change in fair value taken to profit or loss of other financial assets	(30)	(2,503)
Change in fair value taken to profit or loss of subordinated liabilities	—	6,264
Change in fair value taken to profit or loss of MRELSs	123	—
Provisions: expenditure in excess of charges	10	895
Depreciation, amortisation and impairment of property, plant, equipment, goodwill and intangibles	12	384
Gain on sale of property, implant and equipment	—	(22)
Gain on redemption of own debt	—	(153)
(Gain)/loss on sale of subsidiaries and associates	(18)	—
Write-down of investment in subsidiaries	—	—
Elimination of foreign exchange differences	548	(233)
Other non-cash items	(79)	(3,640)
Net cash (outflow)/inflow from trading activities	303	1,664
Decrease/(increase) in net loans to banks	424	(8,127)
Decrease/(increase) in net loans to customers	75	(1,940)
Decrease/(increase) in trading assets	2,054	8,695
Increase in derivative assets	(10,805)	24,297
Increase in settlement balance assets	(4)	(197)
Decrease/(increase) in amounts due from holding companies and subsidiaries	1,343	(3,182)
Decrease/(increase) in other financial assets	603	(673)
Decrease/(increase) in other assets	179	(14,507)
(Decrease)/increase in bank and customer deposits	(240)	1,177
(Decrease)/increase in amounts due to holding companies and subsidiaries	(5,346)	4,946
Decrease in trading liabilities	(372)	(9,671)
Increase/(decrease) in derivative liabilities	10,011	(23,422)
Increase in settlement balance liabilities	41	98
Increase in other financial liabilities	1,574	4,606
(Decrease)/increase in other liabilities	(705)	18,860
Changes in operating assets and liabilities	(1,168)	960
Income taxes received/(paid)	315	(116)
Net cash flows from operating activities(1)	(550)	2,508
Cash flows from investing activities		
Sale and maturity of other financial assets	3,905	5,567
Purchase of other financial assets	(4,860)	(9,112)

	NWM Group	
	For the years ended	
	2019	2018
	£m	
Interest on other financial assets	257	92
Sale of property, plant and equipment	8	60
Purchase of property, plant and equipment	(1)	(37)
Net divestment of business interests and intangible assets	3,705	1,547
Net cash flows from investing activities	3,014	(1,883)
Cash flows from financing activities		
Issue of other equity instruments: Additional Tier 1 capital notes	—	749
Issue of subordinated liabilities	1,047	—
Share issued under employee share schemes	—	(2)
Non-controlling interest equity withdrawn and disposals	—	(21)
Redemption of subordinated liabilities	(896)	(3,769)
Issuance of MRELs	—	5,125
Interest on MRELs	(182)	—
Service cost of other equity instruments	(560)	(2,550)
Interest on subordinated liabilities	(4)	(238)
Net cash flows from financing activities	(595)	(706)
Effects of exchange rate changes on cash and cash equivalents	(953)	525
Net (decrease)/increase in cash and cash equivalents	916	444
Cash and cash equivalents at 1 January	26,127	25,683
Cash and cash equivalents at 31 December	27,043	26,127

(1) NWM Group includes interest received of £579 million (2018 - £323 million) and interest paid of £840 million (2018 - £586 million), and NWM Plc includes interest received of £730 million (2018 - £428 million) and interest paid of £936 million (2018 - £2,479 million).

(2) 2018 has been re-presented to align the balance sheet classification. MREL was previously presented in Operating activities and is now presented in Financing activities.

Total cash inflow from trading activities was £303 million for the year ended 31 December 2019; a decrease of £1,361 million, or 82 per cent, as compared to a cash inflow of £1,664 million for the year ended 31 December 2018. The decrease was principally attributable to the decrease in profit before tax from discontinued operations (nil in 2019, profit of £2,893 million in 2018) and other non-cash item outflows in the year ended 31 December 2019 compared to the year ended 31 December 2018, offset by a lower operating loss before tax from continuing operations (loss of £230 million in 2019, compared to a loss of £1,277 million in 2018)

Total cash outflow from changes in operating assets and liabilities was £1,168 million for the year ended 31 December 2019; a decrease of £2,128 million compared to the £960 million inflow for the year ended 31 December 2018. The increase in outflow was principally attributable to a reduction in cash inflows in relation to other assets and other liabilities in the year ended 31 December 2019 compared to the year ended 31 December 2018.

Total cash outflow from changes in operating activities was £550 million for the year ended 31 December 2019; a decrease of £3,058 million compared to the £2,508 million inflow for the year ended 31 December 2018.

The increase in outflow was principally attributable to a reduction in operating profit (from profit of £1,616 million in 2018 to an operating loss £230 million in 2019), the change in operating assets and liabilities of £2,128 million (from a £960 million inflow in 2018 to an £1,168 million outflow in 2019), offset by the change in tax cashflow of £431 million (from a £116 million outflow in 2018 to an £315 million outflow in 2019) in the year ended 31 December 2019 compared to the year ended 31 December 2018.

Total cash inflow from investing activities was £3,014 million for the year ended 31 December 2019; an increase of £4,897 million as compared to the cash outflow of £1,883 million for the year ended 31 December 2018. The change was principally attributable to net inflows of cash in respect of acquisitions and assets disposals.

Total cash outflow from financing activities was £595 million for the year ended 31 December 2019, a decrease of £111 million, or 16 per cent, as compared to £706 million for the year ended 31 December 2018. The decrease was principally due to fewer redemptions of subordinated liabilities, no new MREL related issuance inflows and lower service costs of other equity instruments in the year ended 31 December 2019 compared with the year ended 31 December 2018.

Contingent Liabilities

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.

The NWM Group uses a variety of loan-related financial instruments to meet customers' financial requirements. Instruments include loan offers and other credit facilities, guarantees and instruments not recognised in the balance sheet. If an instrument is likely to result in a payment obligation, a liability is recognised under other liabilities corresponding to the present value of expected payments.

The following table sets forth the NWM Group's guarantees and other contingent liabilities as at the dates indicated.

	NWM Group			NWM Plc		
	For the years ended			For the years ended		
	2020	2019	2018	2020	2019	2018
	£m			£m		
Contingent liabilities and commitments						
Guarantees and assets pledged as collateral security	638	972	278	195	134	278
Other contingent liabilities	137	155	186	136	152	186
Standby facilities, credit lines and other commitments	12,292	15,805	10,659	7,534	10,218	10,654
	13,067	16,932	11,123	7,865	10,504	11,118

Note: 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. The 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 the NWM Group's normal credit approval processes.

Guarantees

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

Capital Support Deed

As a pre-requisite for ring-fencing, from 1 November 2018 the Issuer has left NatWest Group's CSD to which it was party to until that date. The Issuer, together with its UK subsidiaries outside the ring-fenced subgroup, is now party to a new CSD. Under the terms of the CSD, the Company may be required, if compatible with its legal obligations, to make distributions on, or repurchase or redeem, its ordinary shares. The amount of this obligation is limited to the Company's capital resources in excess of the capital and financial resources needed to meet its regulatory requirements. The CSD also provides that, in certain circumstances, funding received by the Company from other parties to the CSD becomes immediately repayable, such repayment being limited to the Company's available resources.

The CSD, particularly compared to NatWest Group's CSD, has limited significance to NWM Plc as it is the only member bank and the other entities have modest capitalisations.

Risk Sharing Agreements

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

(i) A Funded Guarantee of up to £2.6 billion in aggregate by NWM Plc to NWM NV in connection with any transactions by (i) Western European Portfolio customers that are transferred from NWB to NWM NV, and (ii) EEA transfer customers that are transferred from NWM Plc to NWM NV, in each case if such transactions result in a default exposure of greater than 10 per cent of NWM NV's capital. At 31 December 2020, NWM NV was in receipt of £0.8 billion of the Funded Guarantee from NWM Plc and the guarantee fees amounted to £7.6 million. NWM Plc cash collateralises the Funded Guarantee in full and deposits funds with NWM NV where they are used for general corporate purposes.

(ii) The provision of funded and unfunded guarantees by NWM Plc in respect of NWM NV'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.

Following the acquisition of NWM NV in the year ended 31 December 2019, these arrangements are now intragroup (in terms of the NWM Group). See '*Operating and Financial Review—Primary Factors Affecting the NWM Group's Results of Operations—Recent Changes to the NWM Group's Scope of Activities Relating to the UK's Exit From The EU*.'

Indemnity Deed

In April 2019, NWM Plc and NWB 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 NatWest Group's structural re-organisation. Under the agreement, NWM Plc is indemnified by NWB against losses relating to the NWB transferring businesses and ring-fenced bank obligations and NWB 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.

Funding and Liquidity

Funding

The Issuer monitors its funding mix to ensure that it is well diversified in terms of funding sources, maturities and currencies. A well-balanced portfolio of liabilities is intended to generate a stable flow of funding and provides protection against market disruptions. The NWM Group seeks to diversify its funding base as much as reasonably possible and as part of this looks to supplement wholesale funding securities issuance by sourcing term deposits from a broad range of counterparties. The Issuer regularly considers various market funding options and accesses the debt capital markets in a variety of issuance formats, currencies and tenors from time to time in connection with executing its funding plans.

The Issuer has five main types of funding:

- Trading liabilities, including repos, which are largely matched by trading assets;
- Capital and funding (including internal MREL), which totalled £12.7 billion as at 31 December 2020 and which is structurally subordinated to the Issuer's senior creditors;
- Term senior unsecured issuances, which totalled £12.8 billion as at 31 December 2020, of which £2.5 billion was issued in the year ended 31 December 2020. The Issuer expects to have limited term senior unsecured issuance requirements in 2021, as it continues to refocus the business and reduce RWAs;
- Money market instruments, principally certificates of deposit and commercial paper, which totalled £3.4 billion as at 31 December 2020; and
- Deposits consisting of customer deposits and wholesale deposits, which totalled £4.4 billion as at 31 December 2020.

In addition, the Issuer also funds itself on a secured and unsecured basis across a number of different formats, including private bilateral transactions such as bilateral loans.

The Issuer may also participate in a number of schemes operated by the BoE in the normal course of business. In particular, the Issuer is a participant in the BoE's Sterling Monetary Framework ('**SMF**') and may access SMF operations such as the Discount Window Facility ('**DWF**') and Indexed Long-Term Repo ('**ILTR**') operations by placing eligible collateral with the BoE.

As such, the Issuer seeks to cover its funding requirements from an increasingly wider investor base with a split between secured and unsecured, as well as some deposits. The funding plan shows a clear hierarchy of funding instruments and estimated market capacity. Diversification of funding types is designed to ensure the Issuer has access to a range of options to minimise the risk of losing access to chosen markets, currencies, counterparties or instruments that enables it to meet its obligations as they fall due. A predetermined range of alternate and contingent funding options have been identified.

The NWM Group's primary access to incremental funding is through wholesale funding markets. As such, the NWM Group maintains a close dialogue with its rating agencies.

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. NWM expects to have limited term senior unsecured issuance requirements in 2021, given the balance sheet reduction as business refocuses with a reversion to more normal funding levels from 2022. The table below shows the 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
	£m	£m	£m	£m	£m	£m	£m	£m	£m
2020									
Less than 1 year	527	527	3,253	4,441	—	7,694	—	—	8,221
1-3 years (1)	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

(1) With respect to MTNs only, £4,881 million will mature in 2021, £2,816 million will mature in 2022, £1,749 million will mature in 2023, £2,046 million will mature in 2024 and £1,494 million will mature in 2025. Certain of these MTNs were issued by the former Royal Bank of Scotland Plc to service NatWest Group at the time and now form part of NWM Plc's maturity profile. As a result of the combination of these inherited positions with newly issued MTNs by NWM Plc, the maturity concentration of NWM Plc's MTN portfolio is larger than it expects it to be going forward.

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

	GBP	USD	EUR	Other	Total
	£m	£m	£m	£m	£m
2020					
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

The Issuer runs a liquid trading-led balance sheet that is comprised mainly of short-term rates products including repo, debt securities and derivative contracts, with the remainder being the LAB and Banking Book portfolio. The following table sets forth the NWM Group's funding sources as at the dates indicated:

	2020			2019		
	Short-term less than 1 year	Long-term more than 1 year	Total	Short-term less than 1 year	Long-term more than 1 year	Total
	£m	£m	£m	£m	£m	£m
Bank deposits	1,294	514	1,808	1,302	787	2,089
of which: repos (amortised cost)	200	—	200	*380*	—	*380*
Customer deposits	2,526	92	2,618	3,176	527	3,703
Trading liabilities (1)						
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
Other financial liabilities						
Debt securities in issue	616	180	796			

commercial paper and certificates of deposits				2,699	6	2,705
medium term notes (MTNs)(3)	3,253	168	3,421	4,386	10,218	14,604
Subordinated liabilities	4,441	8,407	12,848	107	1,029	1,136
	—	1,105	1,105	7,192	11,253	18,445
Amounts due to holding company and fellow subsidiaries (4)	8,310	9,860	18,170			
CRR-compliant internal MREL				—	5,120	5,120
Other bank deposits	—	5,181	5,181	877	38	915
Other customer deposits	925	—	925	74	—	74
Subordinated liabilities	—	1,753	1,753	—	2,020	2,020
	925	6,934	7,859	951	7,178	8,129
Total funding	56,662	19,266	75,928	63,271	21,744	85,015
Of which: available in resolution (5)	—	8,039	8,039	*107*	*8,169*	*8,276*

(1) Funding sources excludes short positions of £26,779 million (2019 – £21,187 million) reflected as trading liabilities on the balance sheet.

(2) Comprised 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) With respect to MTNs only, £4,881 million will mature in 2021, £2,816 million will mature in 2022, £1,749 million will mature in 2023, £2,046 million will mature in 2024 and £1,494 million will mature in 2025. Certain of these MTNs were issued by the former Royal Bank of Scotland Plc to service NatWest Group at the time and now form part of NWM Plc's maturity profile. As a result of the combination of these inherited positions with newly issued MTNs by NWM Plc, the maturity concentration of NWM Plc's MTN portfolio is larger than it expects it to be going forward.

(4) Amount due to holding company and fellow subsidiaries relating to non-financial instruments of £275 million (2019 – £171 million) have been excluded from the table.

(5) 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 BoE including the Statement of Policy published in June 2018.

Liquidity Requirements

The Issuer adheres to two regulatory liquidity requirements. The Basel III, transposed in Europe by the CRD and Capital Requirements Regulation (575/2013) ('**CRR**') framework (together, '**CRD IV**'), establish a consistent and integrated regulatory framework for many aspects of bank management, including liquidity, and will provide a homogeneous standard under a unified set of prudential rules. The Issuer is required to comply with a LCR requirement as defined by the CRD IV. The LCR is a regulatory liquidity stress ratio measuring the ability of an entity's liquid asset resources to absorb stressed net outflows over a 30-day period. The Issuer monitors compliance with LCR on a daily basis using a set of liquidity and funding indicators. As at 31 December 2020, the Issuer's LCR was 268 per cent (as at 31 December 2019, the Issuer's LCR was 254 per cent). The ratio, in part, reflects pre-funding and heightened awareness around Brexit risks.

In addition to the LCR, the Basel Committee on Banking Supervision has issued new liquidity standards in the form of the NSFR. The Issuer monitors NSFR even though the NSFR requirements are not yet binding on the Issuer until implemented as part of the Capital Requirements Regulation 2 (CRR2) reforms in 2022 for UK banks. The NSFR is intended to ensure a sound funding structure by promoting an increase in long-term funding. It is monitored against a risk appetite of greater than or equal to 100 per cent. The ratio uses a weighting mechanism for assets and liabilities and calculates an aggregate 'stability weighting' for liabilities (liabilities and equity securities having maturities over one year are preferred) and a 'liquidity weighting' for assets. The less liquid the assets are, the more stable the funding must be.

The following table sets forth the NWM Plc's liquidity portfolio by LCR product, with the incorporation of discounts (or haircuts) used within the internal SOC. Secondary liquidity comprises assets eligible for discount at central banks, which do not form part of the liquid asset portfolio for LCR or SOC purposes.

	Liquidity value (1)	
	2020	2019
	£m	£m
NWM Plc		
Cash and balances at central banks	11,773	9,929
	7,207	
AAA to AA- rated governments	79	4,399
A+ and lower rated governments (2)	—	1,277
government guaranteed issuers, Public sector entities and government sponsored entities	144	—
International Organisations and Multilateral development banks	7,430	244
LCR level 1 bonds	19,203	5,920
	—	
LCR level 1 Assets	—	15,849
	19,203	
LCR level 2 Assets	224	—
	19,427	
Non-LCR Eligible Assets	11,773	5
Primary liquidity	7,207	15,854
	79	
Secondary liquidity (3)	—	244
Total liquidity value	144	16,098

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

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

(1) Liquidity value was aligned to the internal SOC, which is stated after discounts (or haircuts) are applied to the instruments, at 31 December 2020. The liquidity values for 2019 have been re-presented.

(2) The split between ratings bands has been restated for 2019.

(3) Comprises assets eligible for discounting at the BoE and other central banks.

Liquidity Risk Management

The Issuer operates independently for liquidity and funding as a non ring-fenced bank within NatWest Group. The Issuer monitors and manages liquidity and funding risks against defined risk appetites. The liquidity and funding indicators are an important part of the daily management process since they are used as an early warning of potential issues and are reported to senior management.

Funding risk appetite is maintained by a maturity mismatch measure, in addition to the regulatory NSFR, which assesses whether the behavioural tenor of liabilities is longer than assets across various tenor buckets. The Issuer monitors the maturity mismatch by tenor in order to assess that the funding profile is manageable and in line with strategy.

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 at least monthly. Liquidity Condition Indicators are monitored daily. This ensures any build-up of stress is detected early and the response escalated appropriately through recovery planning.

Under the liquidity risk management framework, the NWM Group maintains compliance with rules set out by the PRA for the Internal Liquidity Adequacy Assessment Process (ILAAP). Liquidity risk appetite is maintained by the internal SOC ratio, in addition to the regulatory LCR. The SOC ratio measures the ability of the liquidity portfolio to absorb net outflows over a range of tenors which are calculated using internally approved assumptions and methodologies. The ratio measures the low point in each tenor and considers a suite of severe but plausible stress scenarios which can be categorised into three themes: Idiosyncratic, Market-Wide and Combined, as detailed in the table below. The Issuer has assumptions defined for each scenario in the suite and uses the worst scenario result to quantify impacts in the SOC metric.

Idiosyncratic scenarios	The market perceives the 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 scenarios	A market stress event affecting all participants in a market through contagion, potential counterparty failure and other market risks. The NWM Group is affected under these scenarios but no more severely than any other participants with equivalent exposure.
Combined scenarios	These scenarios model the combined impact of an idiosyncratic and market stress occurring at once, severely affecting funding markets and the liquidity of some assets.

The key risk drivers which lead to a change in liquidity metrics include, but are not limited to, intraday risk from timing mismatches between receipts and payments, off balance sheet items and both secured and unsecured wholesale funding. The Issuer has at its disposal a number of business as usual and contingency funding options in the event there is an indication of a future deterioration of the funding and liquidity position.

Capital and Solvency

General

The Issuer is a licensed financial services provider and is therefore subject to regulatory supervision in relation to the levels and quality of capital it is required to hold in connection with its business, including as a result of the transposition of the Basel Committee on Banking Supervision's regulatory capital framework ('**Basel III**') in Europe by CRD IV. The UK transposed the CRD IV framework, which applies to the Issuer and its financial subsidiaries in the UK. Similarly, the Issuer's financial subsidiaries outside the UK must comply with local capital requirements. The Issuer's ICAAP is based on capital management policies and practices.

The Issuer is regulated and discloses capital ratios and RWAs on a legal entity basis and is currently targeting a CET1 ratio of above 15 per cent , an MREL ratio of at least 30 per cent and a leverage ratio of at least 4 per cent in the medium term. The Issuer's CET1 ratio increased to 21.7 per cent at 31 December 2020, from 17.3 per cent at 31 December 2019. The CET1 ratio at year end 2020 reflects RWA reductions and capital increases as result of capital optimisation initiatives as well as dividends from subsidiaries. Additionally, in 2020 the Bank paid a total of £500 million in dividends to NatWest Group plc. NWM NV's target CET1 ratio of above 15 per cent on a consolidated basis takes into account the potential transfers of EEA client exposure from NWM Plc and NWB to NWM NV due to Brexit.

As at 31 December 2020, NWM Plc legal entity RWAs were £25.6 billion.

Total Capital

Capital consists of instruments and financial resources as laid down by applicable regulation and is categorised 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. Tier 1 capital consists of CET1 instruments and reserves, including ordinary shares and retained earnings, which must be perpetual and capable of unrestricted and immediate use to cover risks or losses as soon as these occur. There are further two capital instruments constituting Tier 1 capital:

- Additional Tier 1 (AT1) capital —In the case of the Issuer, these instruments will be written down if NWM Plc's CET1 ratio falls to 7 per cent in accordance with the terms of the instrument.

- Tier 1 eligible (legacy) preferred share capital – This capital instrument with a non-cumulative coupon is perpetual in nature and is Tier 1 regulatory qualifying capital subject to CRR grandfathering rules. It will be fully derecognized by 1 January 2022.

Tier 2 instruments, used to absorb losses on a gone concern basis after Tier 1 capital, typically consist of subordinated debt securities with a minimum maturity of five years.

From 1 January 2019, MREL requirements apply to NWM Plc. MREL includes TCR (i.e. the sum of all Tier 1 and Tier 2 capital) together with the portion of Tier 2 capital subject to the derecognition of capital treatment in the fifth year to twelve months prior to maturity where issued to other NatWest Group entities and 'gone concern' loss absorbing (MREL-eligible) securities of greater than one year residual maturity. Given NatWest Group has a Single Point of Entry resolution strategy, NWM Plc only issues internal MREL-eligible securities to NatWest Group plc. Total MREL for NWM Plc at 31 December 2020 was £12.7 billion, or 49.6 per cent of RWAs.

At present NWM Plc sources the majority of its capital funding from NatWest Group plc. Currently, six out of the nine NWM Plc Tier 2 instruments with a notional value of £0.4 billion are issued externally as at 31 December 2020; the notional value of all Tier 2 instruments is £1.6 billion. The externally issued Tier 2 instruments pre-date UK ring-fencing legislation and are subject to i) CRR legacy grandfathering or ii) regulatory amortisation within 5 years of maturity for the purpose of Own Funds Capital. All Tier 1 and senior MREL eligible instruments are held by NatWest Group plc. Going forward, NatWest Group plc is expected to be the sole subscriber of NWM Plc's AT1 and Tier 2 instruments and its senior MREL eligible instruments. This supports NatWest Group plc's single point of entry resolution strategy and ensures an NatWest Group plc-level capital efficiency in relation to its external issuance programme.

NWM Plc's future ability to meet its internal AT1, Tier 2 and MREL requirements will be dependent on NatWest Group plc maintaining sufficient amounts of capital externally and use the proceeds thereof as required to subscribe to NWM Plc instruments. NWM Plc currently holds adequate regulatory capital and CRR compliant senior debt instruments to meet its minimum requirements. The table below outlines NWM Plc's regulatory capital levels and ratios as at 31 December 2020.

In the year ended 31 December 2020, NWM Plc issued neither internal AT1 nor internal Tier 2 debt to NatWest Group plc. There was redemption of £0.3 billion internal Tier 2 instruments issued to NatWest Group plc and maturity of £0.1 billion Tier 2 instruments issued externally.

NWM Plc has non-equity capital holdings in two of its subsidiaries, RBSH and NWMSI. RBSH's AT1 (notional €250m) capital was acquired in November 2019, as part of the transfer of NWM NV from NatWest Group plc to NWM Plc, and Tier 2 (notional €150m) was subscribed to in December 2019. NWM Plc continues to provide subordinated funding to NWMSI, amounting to $370 million at 31 December 2020.

	31 December 2020		**31 December 2019**		**31 December 2018**	
	£m	**%**	**£m**	**%**	**£m**	**%**
CET1	5,547	21.7	6,097	17.3	6,369	15.6
AT1	886	3.5	906	2.6	983	2.4
Tier 1	6,433	25.2	7,003	19.9	7,352	18.0
Tier 2	1,320	5.1	1,498	4.3	1,405	3.5
Total	7,753	30.3	8,501	24.2	8,757	21.5
MREL-eligible securities (including Tier 2 amortisation)	4,926	19.3	5,009	14.2	5,125	12.5
MREL	12,679	49.6	13,510	38.4	13,882	34.0

In line with paragraph 135 of IAS 1 '*Presentation of Financial Statements*', the Issuer manages capital having regard to regulatory requirements. Regulatory capital is monitored and reported on an individual regulated bank legal entity basis.

	31 December 2020	**31 December 2019**	**31 December 2018**
		£m	
RWAs			
Credit risk	6,902	9,825	9,234
Counterparty credit risk	8,130	11,060	13,285
Market risk	8,150	11,229	14,106
Operational risk	2,382	3,039	4,152
Total RWAs	25,564	35,153	40,777

Credit Risk. The Issuer uses approved Advanced Internal Ratings Based (AIRB) and Internal Model Method ('**IMM**') models alongside the standardised approach for the calculation of credit risk. The Issuer's advanced internal measures of Credit Risk are based on assessments of the risk characteristics of both the borrower and the specific transaction. In the standardised approach the risk weights used in the capital calculation are determined by the regulator.

Market Risk. The Issuer uses a comprehensive set of methodologies and techniques to measure traded market risk, namely VaR, SVaR and the Incremental Risk Charge ('**IRC**'). Risks that are not adequately captured by VaR or SVaR are captured by the Risks not in VaR ('**RNIV**') framework to ensure that the Issuer is adequately capitalised for market risk.

Operational Risk. The Issuer uses the 'Standardised Approach' for the calculation of Operational Risk. Capital requirements are determined by multiplying three years' historical qualifying gross income by a percentage determined by the regulator. The percentage ranges from 12 per cent to 18 per cent, depending on the type of underlying business undertaken.

The Issuer's relevant capital ratios are outlined in the table below.

Risk asset ratios (%)	**31 December 2020**	**31 December 2019**	**31 December 2018**
CET1	21.7	17.3	15.6
Tier 1	25.2	19.9	18.0
Total	30.3	24.2	21.5

Expected Capital Developments

Areas in which, and examples of where, governmental policies, regulatory and accounting changes and increased public and regulatory scrutiny could have an impact on the NWM Group's operational and financial performance include:

- In February 2021, the PRA issued a consultation paper in respect of implementing the majority of those Basel 3 reforms which make up the UK equivalent to the outstanding elements of EU CRR2, targeting an implementation date of 1 January, 2022. Key elements for NWM Plc include:
    - The introduction of the Net Stable Funding Ratio.
    - The move from VaR to expected shortfall models for market risk RWAs.
    - The introduction of a new standardised approach (SA-CCR) to counterparty credit risk RWAs and exposure calculation.
- The PRA has indicated that it expects to consult on the introduction of a binding leverage requirement at individual bank level later in 2021.
- The UK countercyclical capital buffer (CCyB) rate was reduced from 1% to 0% on 11 March 2020 and the FPC have indicated that this rate will apply until March 2022 at the earliest. The FPC have still indicated that they expect the long term steady state CCyB to be 2.0%.

Capital Requirements and Adequacy

Capital adequacy is the amount of capital supply required, in terms of size and composition of the Issuer's balance sheet, to cover the risks to which the Issuer is exposed. Capital adequacy consists of the regulatory minimum capital level for risks covered under Pillar I (Credit Risk including Counterparty Credit Risk, Market Risk and Operational Risk). The ICAAP evaluates capital requirements under Pillar II which includes part A (for risks not covered or adequately captured under Pillar I) and part B (for a forward-looking assessment of capital requirements in stress conditions). The total of Pillar I and Pillar IIA informs the TCR set by the PRA. The TCR is the minimum level of regulatory capital that the Issuer is required to hold at all times.

As part of the ICAAP under Pillar II, capital adequacy is determined on the basis of an internal assessment of the Issuer's risk profile in relation to the minimum capital requirement. An important part of this process is determining adequacy and evaluating whether capital calculations take into account all material risks to which the Issuer is exposed under Pillar IIA. The Issuer uses its internal models as well as expert judgment and PRA benchmark models (where appropriate) to quantify whether the regulatory framework indicates that additional capital is needed.

CRD IV introduced a combined buffer that applies in addition to capital adequacy needs. For NWM Plc, the combined buffer consists of the capital conservation buffer and the countercyclical buffer.

The capital conservation buffer and the countercyclical buffer are designed to ensure that credit institutions accumulate a sufficient capital base over and above the Pillar I and Pillar IIA requirements during periods of economic growth to absorb losses during periods of stress. From 1 January 2019, the capital conservation buffer is 2.5 per cent of RWA. The countercyclical buffer requirement, which is set between 0 per cent and 2.5 per cent, is calculated as a weighted average of the national buffers in effect in the jurisdictions in which a bank has credit exposures. The determination of national buffers is made by host regulators, primarily informed by assessments of national GDP performance. Breaches of the Issuer's combined buffer requirement would result in regulatory restrictions on capital distributions, including the payment of dividends, payments on Additional Tier 1 capital instruments and variable remuneration.

The FSB makes an annual assessment of each financial institution to determine whether it should be considered a Global Systemically Important Bank ('**G-SIB**') based on methodology developed by the Basel Committee on Banking Supervision. If designated as a G-SIB, a bank would be required to hold an additional capital buffer. NWM did not meet the requirements to be classified as a G-SIB and therefore it does not hold a G-SIB buffer. The PRA uses its discretion allowable within the EBA framework to designate some UK entities that would otherwise not be considered as G-SIBs to be classified as such (often referred to as D-SIBs). NWM Plc is not considered a G-SIB or a D-SIB.

The table below summarises the minimum capital requirements as at 31 December 2020 as a percentage of RWAs that the Issuer is expected to maintain exclusive of the Pillar IIA requirement as at 1 January 2019. The Pillar IIA requirement is a confidential metric which the Issuer does not disclose.

Type	CET1	Total Tier 1	Total capital
Minimum capital requirements (CRR)	4.5%	6.0%	8.0%
Capital conservation buffer	2.5%	2.5%	2.5%
Countercyclical capital buffer (1)	0.0%	0.0%	0.0%
Total (excluding Pillar IIA add-on)	7.0%	8.5%	10.5%

(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 the COVID-19 pandemic 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.

Capital Planning

General

The NWM Group's capital planning takes into account both short- and long-term horizons in order to give the Board of Directors a comprehensive view of current and future capital levels. The capital plan includes a forecast of the NWM Group's expected capital performance based on budgets and takes pending regulation into account when future capital requirements are assessed. The NWM Group also uses stress tests in its internal capital planning and compliance with regulatory capital requirements.

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

The NWM Group's capital planning process is summarised below:

Produce capital plans	• 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. • 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.
Assess capital adequacy	• Capital plans are developed to ensure that capital of sufficient quantity and quality is planned to be available to support the NWM Group's business and strategic plans over the planning horizon within approved risk appetite, as determined via stress testing, and minimum regulatory requirements. • Impact assessment captures input from across the NWM Group including from businesses.
Inform capital actions	• Capital planning informs potential capital actions including managing capital through new issuance, redemptions or internal transactions. • Decisions on capital actions will be influenced by strategic and regulatory requirements, the cost and prevailing market conditions. • As part of capital planning, NWM Group will monitor its portfolio of capital securities and assess the optimal blend.

Stress Tests

Stress testing is a key risk management tool and a fundamental component of the Issuer's approach to capital management. It is used to quantify, evaluate and understand the potential impact of specified changes to risk factors on the financial strength of the Issuer, including its capital position. A macroeconomic scenario which specifies a hypothetical future state of the world is translated into risk drivers and used to test the business model.

The results of both internal and regulatory stress tests show that the NWM Group is robust in the event of unfavourable economic developments in the selected stress test scenarios.

Internal Stress Tests

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

When the Issuer uses stress tests in its capital planning, it identifies Bank-specific vulnerabilities and risks, defines scenarios that examine those risks and assesses the impact of the scenario on income, costs and risk exposures held. Stressing income and costs affect the Issuer's capital, while stressing risk exposures affect its capital adequacy requirements. Scenario results are used to inform the Issuer's business and capital plans.

The Issuer uses stress testing in its annual ICAAP for the purpose of projecting its capital adequacy needs in various unfavourable scenarios, as an essential part of the Issuer's capital planning. 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 make an assessment of NWM Plc's specific capital requirements through the Pillar II framework. NWM NV submits an ICAAP to its regulator, DNB.

The Issuer also conducts '**Reverse Stress Testing**'. This examines circumstances that can lead to specific defined outcomes such as business failure. Reverse Stress Testing starts from an outcome of business failure and identifies scenarios and circumstances where this might occur. Reverse Stress Testing allows the Issuer to examine potential vulnerabilities in its business model more fully.

Regulatory Stress Tests

The Issuer's parent, NatWest Group plc, takes part in a number of external stress tests which the Issuer supports, including the BoE's annual solvency stress test. The requirements for these stress tests do not extend to the Issuer. However, NWM Plc provides support to its parent in conducting enterprise-wide stress tests.

Leverage Ratio

The leverage ratio represents a non-risk-adjusted capital requirement implemented to serve as a further backstop measure for risk-based capital. Since January 2014, CRD IV rules have required that a credit institution calculate, monitor and report on its leverage ratio (defined as Tier 1 capital as a percentage of total exposure). 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 ratios to individual legal entities and sub Groups during 2021.

The following table sets forth certain information with respect to the NWM Group's leverage ratio as at the dates indicated.

Leverage	**31 December 2020**	**31 December 2019**	**31 December 2018**
Tier 1 capital (£m)	6,433	7,003	7,352
CRR leverage exposure (£m)	123,927	136,505	148,502
CRR leverage ratio (%)(1)	5.2	5.1	5.0

(1) Due to the decrease in Tier 1 capital the Issuer's leverage ratio increased by 10bps year-on-year despite the £12 billion reduction in leverage exposure as result of changes in the Issuer's balance sheet. The Issuer's target leverage ratio is at least 4 per cent in the medium term.

Derivative Instruments

The NWM Group enters into fair value hedges, cash flow hedges and hedges of net investments in foreign operations.

The majority of the NWM Group's interest rate hedges relate to the management of the NWM Group's non-trading interest rate risk. The 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.

The majority of the NWM Group's fair value hedges involves interest rate swaps hedging the fixed interest rate risk in recognised financial assets and financial liabilities.

Cash flow hedges 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.

For cash flow hedge relationships of interest rate risk, the hedged items are actual and forecast variable interest rate cash flows arising from financial assets with interest rates linked to the relevant benchmark rate LIBOR, EURIBOR or the BoE Official Bank Rate. The financial assets are loans to banks and customers. 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 the NWM Group. This risk component comprises the majority of cash flow variability risk.

For cash flow hedging relationships the NWM Group determines that there is an economic relationship between the hedged item and hedging instrument via assessing the initial and ongoing effectiveness by comparing movements in the fair value of the expected highly probable forecast interest cash flows 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 feels appropriate. The method of calculating hedge ineffectiveness is the hypothetical derivative method. The NWM Group uses the actual ratio between the hedged item and hedging instrument to establish the hedge ratio for hedge accounting.

For fair-value hedge relationships of interest rate risk, the hedged items are typically large corporate fixed-rate loans, government securities, fixed rate finance leases, fixed rate medium-term notes or preference shares classified as debt. 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. This risk component is identified using the risk management systems of the NWM Group. This risk component comprises the majority of the hedged items fair value risk.

For fair value hedge relationships the NWM Group determines that there is an economic relationship between the hedged items and hedging instrument via assessing the initial and ongoing effectiveness by comparing movements in the 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.

The NWM Group hedges the currency risk of its net investment in foreign currency-denominated operations with currency borrowings and forward foreign exchange contracts. The 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 movements.

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. The following tables set forth certain information regarding currency contracts, interest rate contracts, equity contracts and credit derivatives of the NWM Group as at the dates indicated.

	NWM Group								
	2020			2019			2018		
	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
	£bn	£m	£m	£bn	£m	£m			
Exchange rate contracts	3,331	52,524	54,863	3,799	44,983	47,138	3,444	36,635	38,346
Interest rate contracts	10,412	112,926	102,073	11,020	103,433	96,581	10,287	97,226	91,327
Credit derivatives	15	161	388	16	280	375	16	346	226
Equity and commodity contracts	1	8	8	3	—	48	1	43	15
		165,619	157,332		148,696	144,142		134,250	129,914

As at 31 December 2020, the NWM Group's derivative assets amounted to £165,619 million, an increase of £16,933 million, or 11 per cent, as compared to £148,696 million as at 31 December 2019. The increase in mark-to-market value was principally due to downward shifts in interest rate yields and FX rate fluctuation across major currencies during the year ended 31 December 2020.

As at 31 December 2020, the NWM Group's derivative liabilities amounted to £157,332 million, an increase of £13,190 million, or 9 per cent, as compared to £144,142 million as at 31 December 2019. The increase in mark-to-market value was principally due to downward shifts in interest rate yields and interest rate fluctuation across major currencies during the year ended 31 December 2020.

Credit Exposure

The table below summarises the net credit 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.

	Cash & balances at central banks	Sovereign debt securities	Loans & other lending	Other debt securities	Collateralised rate risk management	Uncollateralised rate risk management	Repo & reverse repo	Off-balance sheet items	Leasing	Total
	£m									
2020										
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
2019										
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
2018										
AQ1-AQ4	11,230	6,964	7,773	2,191	3,976	2,356	1,630	380	144	36,644
AQ5-AQ8	—	—	896	4	354	536	157	59	—	2,006
AQ9	—	—	23	3	2	—	—	—	—	28
AQ10	—	—	602	6	—	23	—	5	5	641
Current exposure	11,230	6,964	9,294	2,204	4,332	2,915	1,787	444	149	39,319
Potential exposure	11,230	6,964	18,516	2,204	15,097	6,634	2,882	2,594	149	66,270

Note: Measured against the NWM Group's asset quality scale, 92 per cent of total current exposure was rated in the AQ1-AQ4 bands at 31 December 2020. When considered against external credit ratings, 93 per cent (£36 billion) of current exposure was equivalent to an investment grade rating (BBB- or better).

As at 31 December 2020, the NWM Group's current net credit exposure totalled £38,570 million, as compared to £43,422 million as at 31 December 2019. The decrease in total exposure in the period primarily reflects lower levels of credit and counterparty credit risk due to ongoing risk reduction following the strategic announcements made in 2020. Non-investment grade credit exposures, representing those allocated to AQ5-AQ10 on the internal credit rating scale, were concentrated within loans & other lending, collateralised and uncollateralised rates risk management.

For additional information on the NWM Group's credit exposure, please refer to '*Risk Management*' which provides further detail on credit risk exposures across both trading activities and banking activities.

Material Contracts

Revenue Share Agreements

The NWM Group continues to provide access to markets products and services for the corporate franchise of NatWest Group's ring-fenced sub-group and on 6 November 2018 entered into a series of Revenue Share Agreements with certain Revenue Sharing Entities. The Revenue Share Agreements reflect the provision of products and services across the NWM Group's Rates, Currencies and Financing products to customers that have their primary banking relationship with the Revenue Sharing Entities. The allocation of income from customers that have their primary banking relationship with the Revenue Sharing Entities across the relevant counterparties within NatWest Group is referred to as 'revenue share.' This operating model reflects NatWest Group plc's UK ring-fencing design to locate the entirety of its markets activity within the NWM Group, and for customers from other Revenue Sharing Entities to be referred to the NWM Group for risk management and financing products. UK ring-fencing legislation and tax legislation dictates that all transactions with these entities are established on an arm's-length basis. Accordingly, the Revenue Share Agreements have been prepared on this basis. For further information, please refer to '*Operating and Financial Review—Primary Factors Affecting the NWM Group's Results of Operations—Relationship with NatWest Group—Revenue Share Agreements*.'

Critical Accounting Policies and Key Accounting Estimates

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 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).

Tax contingencies

The 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. The 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

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 £9 million 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.

Overseas tax losses

NWM NV - NWM NV 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 NV.

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.

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.

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.

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.

Recent Accounting Developments

A number of IFRSs and amendments to IFRS were in issue at 31 December 2020 that would affect the NWM Group from 1 January 2021 or later:

- 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.

Information used for significant estimates

Since 31 December 2020, the COVID-19 pandemic has continued to cause significant economic and social disruption. The NWM Group continues to serve and support its customers throughout the pandemic while maintaining the safety and well-being of staff.

Key financial estimates are based on the NWM Group's expectation that the significant socio-economic disruption and the necessity for large scale government interventions would result in a temporary economic shock before returning to normal; this is based on the reasonable and supportable information available at 31 December 2020. Measurement of valuation reserves and ECLs are highly sensitive to reasonably possible changes in those assumptions. 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 the judgements and assumptions could result in a material adjustment to key estimates in the next reporting periods.

DESCRIPTION OF THE NWM GROUP

Overview

NatWest Markets Plc is a wholly owned subsidiary of NatWest Group plc, a banking and financial services group. It is a strategically important part of NatWest Group.

The NWM Group provides liquidity and risk management in Currencies and Fixed Income. The Capital Markets business provides an integrated proposition across financing, solutions and advisory services. NWM Group provides services principally to corporates, sponsors, financial institutions and sovereigns as well as the broader NatWest Group. NWM Group's climate strategy also supports and contributes to NatWest Group's ambition and is focused on helping customers to achieve their climate ambitions, proactively supporting their transition to a low carbon economy while managing NWM Group's operations with respect to carbon emissions.

Income derived from customers whose primary banking relationship is with other NatWest Group plc entities is referred to as 'revenue share.' The NWM Group and other entities within the broader NatWest Group follow an integrated customer-planning approach to maximise connectivity, which includes customer account planning, allocation decision-making, and opportunity identification. Approximately 19 per cent of the NWM Group's total income for the year ended 31 December 2020 was sourced from customers referred to the NWM Group by other NatWest Group entities, compared to 30 per cent for the year ended 31 December 2019.

The core business lines of the NWM Group are:

- **Fixed Income.** A range of cash bond, repo and interest rate derivatives products that support customers' financing and hedging needs, together with the provision of liquidity and credit trading capabilities to support Capital Markets activities.

- **Currencies.** Access to cash / spot FX, forwards and FX options in more than 60 currency pairs.

- **Capital Markets.** Access to global debt capital markets, offering mainstream bond financing activities, asset-backed financing and primary lending products.

The NWM Group is focussed on leveraging technology and automation to add value for customers. The NWM Group has developed digital self-service applications covering, among others, FX, rates, risk management, and international payments services. NWM's strategists and content experts across Currencies, Fixed Income and Capital Markets offer content and ideas alongside market-leading economic insights in the key economies where its customers do business.

The NWM Group's operations are centred around the UK, a market in which it has a strong positioning and a competitive value proposition. The NWM Group targets customers in the UK and Europe and its activities in the US and the APAC region are focused on providing risk distribution capability and access to institutional clients in those regions. For the year ended 31 December 2020, 74 per cent (2019 - 58 per cent) of the NWM Group's total income was generated in the UK and Europe, 15 per cent (2019 - 27 per cent) was generated in the US and 11 per cent (2019 - 15 per cent) was generated in the rest of the world. See '*—Geographic Footprint'* for further details.

As further discussed under '*Business Description—The NWM Group's History and Development*,' in the year ended 31 December 2018 NatWest Group restructured its group legal entities and business model to meet the requirements of UK ring-fencing legislation. Following this, NWM Plc became the principal holding and operating company for NatWest Group's operations outside the ring-fence and the NWM Group's business, operations and financial condition cannot be compared to its business, operations and financial condition prior to the implementation of the UK ring-fencing regime. The implementation of the UK ring-fencing regime had a material impact on the NWM Group's operational footprint, balance sheet composition, funding strategy, capital requirements and credit ratings. Accordingly, the NWM Group adapted its strategy and business model and adopted new processes and structures for, among other things, financial reporting, risk management and corporate governance and has also implemented a shared services model with the ring-fenced entities for certain other services.

Due to the exit of the UK from the EU, financial institutions and some of their customers that previously accessed European markets through the UK were required to relocate activities to Europe to ensure business continuity and minimise disruption to customers. To manage the risks arising from Brexit, NWM NV began transacting new business on 25 March 2019 to ensure continuity of service to EEA customers following the UK's exit from the EU. In November 2019, NWM NV and its holding company, RBSH, were acquired by NWM Plc from NatWest Group plc.

In February 2020, NatWest Group plc announced that it will become a purpose-led organisation, operating with the purpose to champion potential, helping people, families and businesses to thrive. This strategy entails balancing the interests and changing needs of all stakeholders, with a focus on the three core areas where NatWest Group plc believes it can make a unique contribution to the broader issues that are impacting the lives of its customers and communities, being Enterprise, Learning and Climate change.

As part of this new strategy, NatWest Group plc undertook a review of its core businesses to inject greater discipline in its approach to customer and capital allocation. Following this review, NWM Plc is being refocussed to support a more integrated corporate and institutional customer offering, which is intended to result in it having a sustainable future within NatWest Group plc. As a result, NWM Plc and NWM franchise RWAs are expected to be significantly reduced, initially through, among others, optimising inefficient capital and accelerating the exit of historic credit exposures. This is expected to result in NatWest Group's NWM franchise reducing RWAs by c.50 per cent to around £20bn, becoming c.10 per cent of NatWest Group's total RWAs in the medium term. As of 31 December 2020, NWM Plc's RWA had reduced by £10bn to £25.6bn and the majority of the remaining medium term RWA reduction is expected to be achieved by the 31 December 2021.

NWM Plc CET 1 capital is also expected to reduce as a result of the reduction in RWAs. On the 18 February 2021, the NWM Plc Board approved an interim dividend of £500 million, declared and paid to NatWest Group plc on 19 February 2021. In the medium term, NWM Plc is targeting at CET1 capital ratio above 15%, although it is expected that NWM Plc will operate with CET1 capital above this target during the period of refocus. Other factors may also influence the CET 1 ratio. For more information, please refer to '*Risk Factors—Financial resilience risk*.'

It is expected that NWM Plc will be in a period of significant transformation and incur material costs as it implements this strategy over a medium term transition period.

The NWM Group's History and Development

NWM Plc is a public limited company incorporated in Scotland on 31 October 1984 with registration number SC090312. Prior to the implementation of the ring-fencing regime, NWM Plc was named RBS Plc and was NatWest Group's principal operating subsidiary, holding, directly or indirectly, the majority of the assets and operations of NatWest Group as intermediate holding company.

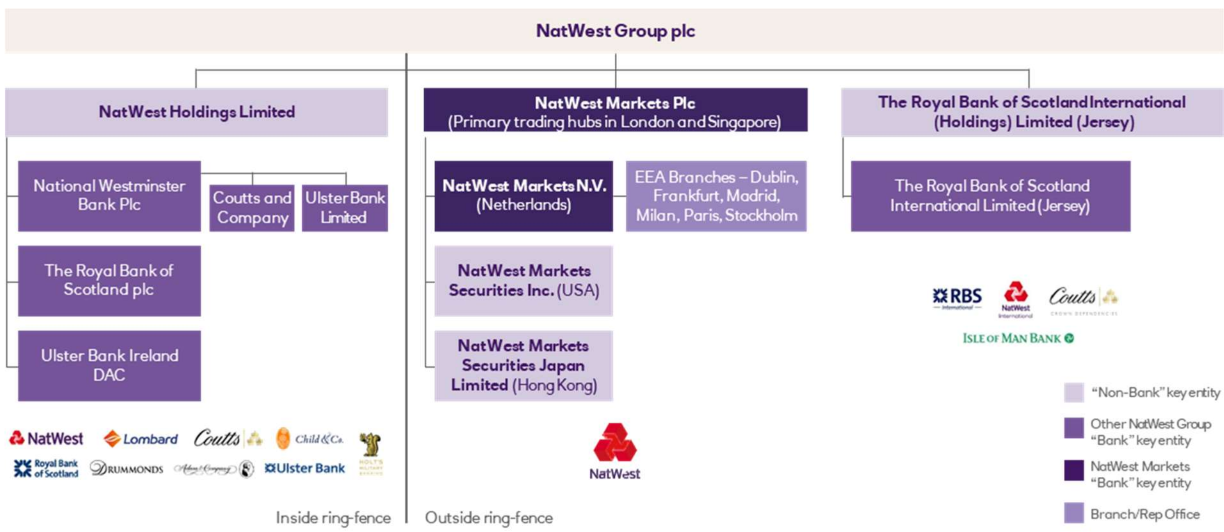
Over time, the size and shape of the NWM Group's business and products and services offering has changed significantly. The NWM Group historically had a large, global investment banking presence, including as a result acquisition of NWB in 2000 and the acquisition of ABN AMRO in 2007 in a consortium with Fortis and Banco Santander but, in 2009, initiated a significant restructuring of its wholesale investment and corporate banking business following NatWest Group's strategic shift towards retail, commercial and institutional banking in the UK and Europe. In the context of this multi-year transformation, the NWM Group simplified its operating model, reduced its geographic footprint and products offering, refocused its core strengths and capabilities and created a more focused corporate and institutional bank built on its existing Fixed Income, Currencies and Capital Markets product and service strengths. This exercise also involved running down a consolidated portfolio of NatWest Group legacy assets with high long-term capital intensity and high credit risk exposure, pooled in the NatWest Group business segment formerly known as 'Capital Resolution.' This business segment was wound up at the end of 2017, but the remaining tail of the legacy assets portfolio has been integrated back into the NWM Group's structure.

In 2013, the UK government passed legislation which required UK banks to separate their retail and investment banking activities by 1 January 2019. These measures aimed to protect the core retail banking services on which customers rely by 'ring-fencing' such activities from risks associated with other activities, which remain outside the ring-fence. To comply with this legislation, NatWest Group undertook a reorganisation of its group legal entity structure and business model. Following the reorganisation, NatWest Group has been split into ring-fenced and non ring-fenced entities.

NWM Plc, which prior to the implementation of the UK ring-fencing regime was NatWest Group's principal operating subsidiary, is the principal holding and operating company for NatWest Group's operations outside the ring-fence. Throughout 2018, all activities which could only be provided by a ring-fenced entity were moved out of the NWM Group together with certain activities that could be provided within a ring-fenced or non ring-fenced entity, but which NatWest Group believed were best provided from inside the ring-fence, including large corporate banking activities. As a result, the NWM Group's business, operations and financial condition cannot be compared to its predecessor, RBS Plc, prior to the implementation of the UK ring-fencing regime.

To ensure continuity of service to EEA customers following the UK's exit from the EU, NWM NV began transacting new business on 25 March 2019. On 29 November 2019, NWM Plc acquired NWM NV and its holding company, RBSH, from NatWest Group plc. On 16 June 2019, the merger of Alawwal Bank and SAAB was completed. NatWest Group plc's economic interest in the newly-merged entity (amounting to 4.1 per cent) was acquired by NWM Plc from NWM NV on the same day.

The chart below indicates NatWest Group's current structure:



Note: Legal entity structure represents key entities only.

1 NWM Services India Private Limited.
2 NWM Plc branch in Poland.

The NWM Group previously announced changes to the scope of its activities as a result of structural changes implemented as part of NatWest Group's strategy. Certain of these changes concluded during 2019, including (i) the Issuer's EEA transfer customers transferring to NWM NV under a court-approved FSMA scheme, with such transfers being substantially completed in the first half of 2019, and (ii) NatWest Group plc transferring ownership of NWM NV, so that it became a subsidiary of the Issuer with effect from 29 November 2019, following the completion of the Alawwal Sale and the subsequent unwinding of the consortium arrangements with respect to the ownership of RFS Holdings BV. Other changes, including the transfer of loans and lending facilities in respect of the Western European corporate customers, primarily from NatWest Bank Plc to NWM NV, remain ongoing. These changes are discussed further under '*Operating and Financial Review—Primary Factors Affecting the NWM Group's Results of Operations—Recent Changes to the NWM Group's Scope of Activities Relating to the UK's Exit From The EU*.' The volume and pace of further changes, including in respect of the transfer of Western European corporate customers, will depend on the terms and circumstances of the UK's exit from the EU, as well as the specific contractual terms of the affected products and the agreement of certain customers, amongst other variables. 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 in NWM Group may be transferred to NatWest Bank Plc. The timing and quantum of such transfers is uncertain. The NWM Group's business operations are also subject to further potential changes including as a result of the UK's departure from the EU. See '*Risk Factors–Economic and political risk–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.*'

The NWM Group's Products and Customers

The NWM Group's Products

The suite of the products and services that are offered by the NWM Group centre around three pillars:

- **Fixed Income.** Products include government bonds, repo financings, swaps (including inflation swaps), options and inflation. The NWM Group offers primary dealer services to 12 national debt management offices and is a market maker in sterling, euro and dollar debt as well as offering interest rate derivatives. NatWest Markets also provides Credit trading capabilities to support Capital Markets activities. Fixed Income represented 35 per cent of the NWM Group's income excluding asset disposals/strategic risk reduction and OCA for 2020 prior to revenue share (2019 - 41 per cent).

- **Currencies.** The NWM Group provides FX services offering high value content, bespoke risk management solutions with digital delivery through electronic platforms and venues. Currencies products include spot FX, FX forwards, FX swaps and FX options across G10 and emerging markets currencies. The NWM Group provides these products through electronic transfer platforms such as FXmicropay, as well as the NWM Group's single-dealer platform, AgileMarkets™, providing FX trading, analysis, desk strategy, sales commentary and post-trade commentary to the NWM Group's customers. In addition, the NWM Group's Algo Suite allows clients to execute large flows while minimising market impact. The business provides a key service for its core customers and is a market leading UK corporate FX products provider. For the year ended 31 December 2020, income from Currencies products represented 40 per cent of the NWM Group's income excluding asset disposals/strategic risk reduction and OCA prior to revenue share (2019 - 42 per cent).

- **Capital Markets.** The NWM Group's Capital Markets offering helps customers access global debt capital markets across a wide variety of products and target markets, including bonds, loans, commercial paper, medium term notes, hybrids, liability management and private placements as well as the provision of bespoke financing solutions and primary lending products. For the year ended 31 December 2020, income from Capital Markets products represented 26 per cent of the NWM Group's income excluding asset disposals/strategic risk reduction and OCA prior to revenue share (2019 - 34 per cent).

Customer Segments and Ownership

The NWM Group is focused on its core UK and European corporate customer base, Financial Institutions and the provision of products and services to customers of the broader NatWest Group plc Group, where NWM Plc provides access to markets products and services for NatWest Group entities across NatWest Group plc's commercial, private banking and personal banking customer segments. As such, the NWM Group as the non ring-fenced bank entity and NatWest Group entities inside the ring-fence continue to work together to deliver an integrated products and services proposition for relevant NatWest Group customers.

In addition to serving its own customers, the NWM Group provides Fixed Income, Currency and Capital Markets products to corporate, commercial, business and select retail clients of other NatWest Group entities. Income derived from customers whose primary banking relationship is with other NatWest Group plc entities is referred to as 'revenue share.' The NWM Group and these other NatWest Group entities follow an integrated customer-planning approach to maximise connectivity, which includes customer account planning, allocation decision-making, and opportunity identification. Ring-fence legislation has dictated that all transactions with these entities are established on an arm's-length, third-party basis. See also, '*Operating and Financial Review—Primary Factors Affecting the NWM Group's Results of Operations—Relationship with NatWest Group—Revenue Share Agreements.*'

The NWM Group's customer base is split into three customer segments:

- Financial Institutions, for which the NWM Group owns the client relationship;
- Corporates, for which the ring-fenced bank generally owns the client relationship and the NWM Group delivers markets products, with the exception of relationships with Western European corporates, which are currently shared between the ring-fenced bank, NWM Plc and NWM NV; and
- SMEs, for which the ring-fenced bank owns the client relationship and for which the NWM Group delivers select markets products.

As mentioned previously, in February 2020 NatWest Group plc announced that the NWM Group will become a more customer-focussed business, with a stronger alignment with NatWest Group's core customers. The NWM Group plans to support customers as one bank, increasing penetration with NatWest Group's customers that play a critical role in the development of the UK economy. A single customer view of the NWM franchise customers and large and mid corporate customers from Commercial Banking will be developed to provide a clearer view of customer needs and the products required to manage their finances.

The NWM Group's Strategy

In February 2020, NatWest Group plc announced that it will become a purpose-led organisation, operating with the purpose to champion potential, helping people, families and businesses to thrive. This strategy will mean balancing the interests and changing needs of all stakeholders, with a focus on the three core areas where NatWest Group plc believes it can make a unique contribution to the broader issues that are impacting the lives of its customers and communities. These are:

- Enterprise - Addressing barriers to enterprise and business creation: the biggest supporter of start-ups in the UK and RoI;
- Learning - Skill building particularly around financial confidence: a leading learning organisation; enhancing the financial ability of the UK and RoI and the skills of employees; and
- Climate change - Supporting the necessary transition to a lower carbon economy: a leading bank in the UK and RoI helping to address the climate challenge.

As part of this new strategy, NatWest Group plc undertook a review of its core businesses to inject greater discipline in its approach to customer and capital allocation. Following this review, the NWM franchise is being refocussed to support a more integrated corporate and institutional customer offering, which is intended to result in it having a sustainable future within NatWest Group plc.

The NWM Group has an important role in delivering this future strategy by connecting NatWest Group's corporate and institutional customers with international capital markets and helping them to manage their financing and risk management needs.

The NWM Group intends to implement a leaner operating model and will focus capital towards supporting NatWest Group's customers' needs and increasing its focus on digital solutions. Alongside this, it plans to reduce its RWAs, managing down and optimising inefficient capital and activities. It is expected that the business will be in a period of significant transformation and incur material costs as it implements this strategy.

The purpose-led approach is supported by NWM Group's strategic priorities and, taken together with the NWM Group's and NatWest Group's financial targets, set out how the NWM Group expects to create value and deliver sustainable financial returns for the benefit of all NWM Group stakeholders.

NWM Plc aligns itself to NatWest Group's strategy, which was approved by the NatWest Group Board and is being implemented by NWM management, who are overseen by the NWM Board.

Supporting customers

The NWM Group is focused on stronger alignment to NatWest Group's core customers, applying capital markets expertise and thought leadership in areas across a Fixed Income, Currencies and Capital Markets offering.

The NWM Group plans to support the customers as one bank and increase penetration with NatWest Group's customers that play a critical role in the development of the UK economy.

NWM Group undertook a review of its core businesses to inject greater discipline in its approach to customer and capital allocation and has implemented a new customer segmentation framework to ensure resource deployment to core customers. NWM Group also re-organised its customer facing teams under a new organisational construct built around Trading, Customer Sales and Capital Markets, with aim to elevate customers focus across the organisation. NWM has taken steps to simplify its product offering to focus on where it can excel and ensure alignment with the needs of its customers.

The NWM Group's commitment to excel in customer service is evidenced by numerous awards received in the years ended 31 December 2020, including:

- #1 in UK Corporates FX Quality Leader (Greenwich Associates);
- #1 European Government Bonds by Estimated Notional Share – Gilts (Greenwich Associates, 2020)
- 'Most Impressive FIG House in Sterling' in the Global Capital Bond Awards (2020); and
- Most Accurate UK Economy Forecaster of 2019 by Consensus Economics (Awarded in 2020).

Simple to deal with

As part of the transformation programme, NWM Group transferred some support functions including Risk and Treasury from NWM Group to NatWest Holdings Limited. Following this transfer, the services performed by these functions are procured back to NWM Group by way of service level agreements. The NWM Plc 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 the NWM Plc Board at regular intervals in order to ensure proper oversight of service levels. These changes are part of promoting and operating under a one bank model for functions and services across NatWest Group.

In 2020 NWM Group has also transferred certain customer facing teams to NatWest Holdings Limited to consolidate coverage activities and service customers under a one bank approach. NWM has also taken steps to rightsize and make refinements to regional operating models in US and Asia across customer facing and functional teams.

Powered by innovation & partnerships

In August 2020 NWM Group entered into an agreement with BNP Paribas for execution and clearing of listed derivatives following its review and decision to cease offering client clearing or execution services for Exchange Traded Derivatives.

Sharpened customer focus & capital allocation

The NWM Group aims to refocus to support a more integrated corporate and institutional customer offering, with full service financing and risk management. This includes focusing on serving core NWM Group customers and large / mid corporate customers from the Commercial Bank.

Capital deployment is intended to be deployed towards activities supporting NatWest Group's corporate and institutional customers and the NWM Group's RWAs are expected to be significantly reduced, initially through optimising inefficient capital and accelerating the exit of historic credit exposures.

NWM Plc has exceeded its original 2020 RWA reduction target and delivered an £11bn reduction and intends to deliver the majority of the RWA reduction by 2021 and reduce RWA consumption to approximately 10% of the NatWest Group's consolidated RWAs. NWM Group will focus capital towards supporting NatWest Group's customers' needs and increasing its focus on digital solutions.

NWM Group has established a Capital Management Unit and oversea the delivery of capital reduction and optimisation across the business, whilst increasing rigour around capital allocation.

Competitive Position and Main Markets

The NWM Group predominantly 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 the NWM Group to continue to innovate.

During 2020, NWM Group refined its products and services so that the offering is relevant to the NatWest Group's core 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.

The year of 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.

Geographic Footprint

NWM offers its customers global market access, providing them with trading, risk management and financing solutions through its trading and sales operations in Amsterdam, London, Singapore and Stamford, and sales offices across key locations in the UK, EU, US and APAC.

NWM Plc maintains the following geographic footprint:

- UK & Western Europe: NWM Plc has its primary trading and origination hub in London whilst NWM NV operates its trading and sales operations in Amsterdam and branches in select EEA locations to provide continuity of services for our European customers;
- Asia: Trading and sales origination hub based in Singapore with sales offices supporting risk distribution and access to investor capital in Tokyo and Hong Kong;

US: NatWest Markets Securities Inc. (NWMSI), our broker-dealer in Stamford, provides access to US capital markets and USD products, while sales offices in San Francisco and San Jose connect us with customers on the West Coast.

For the year ended 31 December 2020, 74 per cent (2019 - 58 per cent) of the NWM Group's total income was generated in the UK and Europe, 15 per cent (2019 - 27 per cent) was generated in the US and 11 per cent (2019 - 15 per cent) was generated in the rest of the world. In the US and APAC region, the NWM Group provides customers mainly with risk management solutions but only has a limited customer business in primary markets.

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 profit/(loss) before tax	(313)	(84)	35	47	(315)
Total assets					

	2020				
	UK £m	USA £m	Europe £m	ROW £m	Total £m
Total liabilities	225,345	25,452	20,108	2,233	273,138
Net assets attributable to equity shareholders and non-controlling interests	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 profit/(loss) before tax	(365)	187	(76)	24	(230)
Total assets	222,213	33,121	9,171	1,631	266,136
Total liabilities	216,479	31,717	7,025	1,005	256,226
Net assets attributable to equity shareholders and non-controlling interests	5,734	1,404	2,146	626	9,910
Contingent liabilities and commitments	9,838	—	7,092	2	16,932

Legal and Arbitration Proceedings

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.

Other than those discussed below, the NWM Group is not involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened) which may have, or have had during the 12 months preceding the date of this Registration Document, a significant effect on the financial position or profitability of the NWM Group. The 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 the NWM Group's litigation, investigations and reviews, see '*Risk Factors—Legal, regulatory and conduct risk—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.*'

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 Pound Sterling LIBOR in August 2019, and the case relating to Swiss Franc LIBOR in September 2019. Plaintiffs are appealing each of these three 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 fourth 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. On 17 March 2021, the United States Court of Appeals for the Second Circuit reversed the SDNY's prior dismissal of the fifth class action, which asserts claims against NWM Plc and others relating to the Singapore Interbank Offered Rate and Singapore Swap Offer Rate.

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.

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 NV 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 NV 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 NV 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 NV, holding that, even with the proposed amendments, the complaint would fail as a matter of law to state a valid claim against NWM NV 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 NV 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 took place in March 2021 and judgement is awaited.

US Anti-Terrorism Act litigation

NWM NV 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.

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 '*Risk Factors—Legal, regulatory and conduct risk— 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.*'

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.

On 15 March 2021, the FCA notified NatWest Group that it had commenced criminal proceedings against National Westminster Bank Plc for offences under regulation 45(1) of the MLR 2007 for alleged failures to comply with regulations 8(1), 8(3) and 14(1) of the MLR 2007 between 11 November 2011 and 19 October 2016, arising from the handling of the accounts of a UK incorporated customer.

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.

Facilities and Equipment

In the UK, the NWM Group leases its facilities from NWB.

In addition, the NWM Group Stamford premises (previously reported as a disposal asset held for sale) were sold during the year ended 31 December 2019, with the NWM Group leasing back the floors occupied by it.

IT

During 2020 NWM Group completed a review of the way its Digital and Technology activities are delivered across NWM Group and created Chief Digital and Information Officer (CDIO) roles across each of NWM Group's customer businesses to deliver a 'One Bank' approach and maximise opportunities to deliver for our customers, whilst managing its cost base effectively.

NWM Group's CDIOs are a global team spanning locations in the UK, US, India, and APAC focussed on transforming the technology organisation and its' capability to be smart, simple and safe for all stakeholders.

For customer experience, NWM Group's key strategic opportunities in technology are focused on three areas:

- FX Capability Revenue generation associated with capturing internal FX flows: converting customers to using our cross-currency products and winning back clients who are using third party FX brokers for cross border payments via a One Bank strategy.
- Client Journey Building: a single client view that gives a holistic view of overarching picture of client need, client risk and activity across the entire client journey.
- Data Building: a simple data fabric, joining data sources and enabling people to access and use it effectively.

For colleague experience, NWM Group's key strategic opportunities in technology are focused on leveraging and deploying modern bank-wide approaches and tooling:

- Ways of Working: transforming NatWest Markets using agile principles and methodology.
- Workplace of the Future: building collaborative communities, both digitally and virtually.
- Single Colleague Platform: building a modern and standardised desktop and tooling experience for colleagues, consistent with and leveraging NatWest Group capabilities.

For our technology platforms and infrastructure, NWM Group's key strategic opportunities focus on two principal areas:

- Simplifying the current NWM technology estate and increasing automation and efficiencies by providing a front to back platform to support the NWM business.
- Infrastructure Transformation: leveraging key technology capability and expertise in the NWM Group technology areas to simplify application management, adopt a common workload placement approach to hosting and infrastructure usage.

Employees

As at 31 December 2020, the NWM Group employed 2,208 people (full-time equivalent basis, including temporary workers). The majority of the NWM Group's employees are located in the UK, with a significant number also based in India who provide back office services and support.

The number of persons employed by the NWM Group in continuing operations at 31 December 2020, excluding temporary staff, was as follows (rounded to the nearest hundred):

	2020	2019	2018
UK	1,119	2,100	2,100
USA	328	400	500
Europe	543	600	300
Rest of the World(1)	218	1,800	1,600
Total	2,208	4,900	4,500

(1) In 2020, Rest of the World included India, Singapore, Japan and Hong Kong. Headcount does not include a number of central and support staff who are currently paid by NWB, with related costs recharged to the NWM Group (details of all related costs are included in Note 3 to the 2020 Financial Statements.). These staff are not included in the average number of persons employed.

Material Adverse Change and Significant Change

Except as disclosed in this Registration Document, there has been no:

(i) significant change in the financial performance and financial position of the NWM Group since 31 December 2020, the end of the last financial period in respect of which the most recent financial statements of the NWM Group have been prepared; and

(ii) material adverse change in the prospects of the Issuer since 31 December 2020, the date of its last published audited financial statements.

SELECTED STATISTICAL DATA AND OTHER INFORMATION

The following information is included for analytical purposes and should be read in connection with, and is qualified in its entirety by, the Financial Statements incorporated by reference into this Registration Document, as well as 'Operating and Financial Review.' The information included in this section has not been derived from the Financial Statements. This information has been derived from the Issuer's accounting records and has not been audited.

The information included in this section is not intended to, and does not, comply with Regulation S-K, Industry Guide 3 – 'Statistical Disclosure by Bank Holding Companies' under the Securities Act applicable to offerings of securities by bank holding companies that are registered with the SEC.

Trading Portfolio Assets and Liabilities

The table below summarises debt securities held at mandatory fair value through profit or loss by Issuer as well as ratings based on the lowest of S&P's, Moody's and Fitch.

	Central and local government					
	UK	**US**	**Other**	**Financial institutions**	**Corporate**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
2020						
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	—	—	—	—	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)
2019						
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)
2018						
AAA	—	—	2,093	1,459	7	3,559
AA to AA+	6,834	4,689	3,161	773	120	15,577
A to AA-	—	—	4,571	482	51	5,104
BBB- to A-	—	—	3,592	802	285	4,679
Non-investment grade	—	—	81	832	237	1,150
Unrated	—	—	—	570	8	578
Total	6,834	4,689	13,498	4,918	708	30,647
Short positions	(6,394)	(2,008)	(13,500)	(1,724)	(201)	(23,827)

Trading assets and liabilities held at fair value in trading portfolios are analysed as follows.

	NWM Group			NWM Plc		
	2020	2019	2018	2020	2019	2018
	£m	£m	£m	£m	£m	£m
Trading Assets						
Loans						
– Reverse repos	19,404	24,095	24,758	11,071	12,716	15,915
– Cash collateral given	18,459	20,467	18,898	15,389	19,074	18,898
– Other loans	1,611	1,854	1,302	1,497	1,486	934
Total loans	39,474	46,416	44,958	27,957	33,276	35,747
Securities						
– Central and local government						
– UK	4,184	4,897	6,834	4,184	4,897	6,834
– US	5,149	5,458	4,689	498	293	1,498
– Other	16,436	14,902	13,498	16,390	14,748	13,498
– Other securities	3,446	4,867	4,993	3,140	4,554	4,413
Total securities	29,215	30,124	30,014	24,212	24,492	26,243
Total	68,689	76,540	74,972	52,169	57,768	61,990
Trading Liabilities						
Deposits						
– Repos	19,036	27,885	25,645	5,928	10,007	9,784
– Cash collateral received	23,226	21,506	20,129	22,267	20,945	20,129
– Other deposits	1,803	1,496	1,786	1,800	1,491	1,786
Total deposits	44,065	50,887	47,560	29,995	32,443	31,699
Debt securities in issue	1,408	1,762	902	1,408	1,762	902
Short positions	26,779	21,187	23,827	25,513	19,371	21,939
Total	72,252	73,836	72,289	56,916	53,576	54,540

Companies within the NWM Group transact derivatives as principal either as a trading activity or to manage balance sheet foreign exchange, interest rate and credit risk. Further details are set out in the table below.

	NWM Group								
	2020			2019			2018		
	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
	£bn	£m	£m	£bn	£m	£m	£bn	£m	£m
Exchange rate contracts	3,331	52,524	54,863	3,799	44,983	47,138	3,444	36,635	38,346
Interest rate contracts	10,412	112,926	102,073	11,020	103,433	96,581	10,287	97,226	91,327
Credit derivatives	15	161	388	16	280	375	16	346	226
Equity and commodity contracts	1	8	8	3	—	48	1	43	14
		165,619	157,332		148,696	144,142		134,250	129,914

	NWM Plc								
	2020			2019			2018		
	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
	£bn	£m	£m	£bn	£m	£m	£bn	£m	£m
Exchange rate contracts	3,362	53,182	55,514	3,831	45,175	47,347	3,444	36,636	38,349
Interest rate contracts	8,606	110,753	97,850	9,577	102,001	94,627	10,267	97,226	91,384
Credit derivatives	15	161	382	18	282	368	16	346	226
Equity and commodity contracts	1	8	8	3	—	48	1	43	15
		164,104	153,754		147,458	142,390		134,291	129,974

Refer to Note 11 to the 2020 Financial Statements for further information on the amounts due to/from fellow NatWest Group subsidiaries.

Investment Securities

Investment securities, comprising debt securities held outside of trading portfolios, are broken down in the following table. For further information please refer to Note 16 to the 2020 Financial Statements.

	NWM Group Debt securities				
	Central and local government				
	UK	US	Other	Other debt	Total
	£m				
2020					
Mandatory fair value through profit or loss	—	—	—	84	84
Fair value through other comprehensive income	212	3,372	1,691	891	6,166
Amortised cost	—	—	—	2,575	2,575
Total	212	3,372	1,691	3,550	8,825
2019					
Mandatory fair value through profit or loss	—	—	—	305	305
Fair value through other comprehensive income	233	3,484	2,890	627	7,234
Amortised cost		—	—	3,984	3,984
Total	233	3,484	2,890	4,916	11,523
2018					
Designated as at fair value through profit or loss	—	—	—	668	668
Available-for-sale	—	2,930	4,078	139	7,147
Loans and receivables	—	—	—	2,698	2,698
Total	—	2,930	4,078	3,505	10,513

	NWM Plc Debt securities				
	Central and local government				
	UK	US	Other	Other debt	Total
	£m				
2020					
Mandatory fair value through profit or loss	—	—	—	84	84
Fair value through other comprehensive income	108	3,298	1,497	376	5,279
Amortised cost	—	—	—	2,535	2,535
Total	108	3,298	1,497	2,995	7,898
2019					
Mandatory fair value through profit or loss	—	—	—	305	305
Fair value through other comprehensive income	233	3,484	2,652	294	6,663
Amortised cost	—	—	—	3,954	3,954
Total	233	3,484	2,652	4,553	10,922
2018					
Designated as at fair value through profit or loss	—	—	—	667	667
Available-for-sale	—	2,930	4,054	—	6,984
Loans and receivables		—	—	2,698	2,698
Total	—	2,930	4,054	3,365	10,349

Deposits and Short-Term Borrowings

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

	2020			2019		
	Short-term less than 1 year	**Long-term more than 1 year (5)**	**Total**	**Short-term less than 1 year**	**Long-term more than 1 year**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Bank deposits	1,294	514	1,808	1,302	787	2,089
of which: repos (amortised cost)	*200*	—	*200*	*380*	—	*380*
Customer deposits	2,526	92	2,618	3,176	527	3,703
Trading liabilities (1)						
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
Other financial liabilities						
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
Amounts due to holding company and fellow subsidiaries (3)						
CRR-compliant internal MREL	—	5,181	5,181	—	5,120	5,120
Other bank deposits 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
Total funding	56,662	19,266	75,928	63,271	21,744	85,015
Of which: available in resolution (4)	—	*8,039*	*8,039*	*107*	*8,169*	*8,276*

(1) Funding sources excludes short positions of £26,779 million (2019 – £21,187 million) reflected as trading liabilities on the balance sheet.

(2) Comprised 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 BoE including the Statement of Policy published in June 2018.

(5) With respect to MTNs only, £4,881 million will mature in 2021, £2,816 million will mature in 2022, £1,749 million will mature in 2023, £2,046 million will mature in 2024 and £1,494 million will mature in 2025. Certain of these MTNs were issued by the former Royal Bank of Scotland Plc to service NatWest Group at the time and now form part of NWM Plc's maturity profile. As a result of the combination of these inherited positions with newly issued MTNs by NWM Plc, the maturity concentration of NWM Plc's MTN portfolio is larger than it expects it to be going forward.

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 (1)	Total	Commercial paper and CDs	MTNs	Subordinated liabilities	Total	CRR-compliant internal MREL	Subordinated liabilities	Total notes in issue
	£m	£m	£m	£m	£m	£m	£m	£m	£m
2020									
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

(1) With respect to MTNs only, £4,881 million will mature in 2021, £2,816 million will mature in 2022, £1,749 million will mature in 2023, £2,046 million will mature in 2024 and £1,494 million will mature in 2025. Certain of these MTNs were issued by the former Royal Bank of Scotland Plc to service NatWest Group at the time and now form part of NWM Plc's maturity profile. As a result of the combination of these inherited positions with newly issued MTNs by NWM Plc, the maturity concentration of NWM Plc's MTN portfolio is larger than it expects it to be going forward.

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

	GBP	USD	EUR	Other	Total
	£m	£m	£m	£m	£m
2020					
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

Maturity

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

	NWM Group								
	2020			2019			2018		
	Less than 12 months	More than 12 months	Total	Less than 12 months	More than 12 months	Total	Less than 12 months	More than 12 months	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Assets									
Cash and balances at central bank	15,771	—	15,771	12,729	—	12,729	11,188	—	11,188
Trading assets	41,736	26,953	68,689	51,620	24,920	76,540	48,982	25,990	74,972
Derivatives	46,232	119,387	165,619	40,667	108,029	148,696	28,606	105,644	134,250
Settlement balances	2,296	—	2,296	4,339	—	4,339	2,705	—	2,705
Loans to banks—amortised cost	891	112	1,003	1,083	5	1,088	588	38	626
Loans to customers—amortised cost	4,535	3,909	8,444	3,716	4,645	8,361	4,540	3,826	8,366
Amounts due from holding company and fellow subsidiaries(1)	1,295	225	1,520	950	241	1,191	2,980	188	3,168
Other financial assets	3,152	5,889	9,041	3,589	8,716	12,305	4,316	6,952	11,268
Liabilities	1,294	514	1,808						
Bank deposits	2,526	92	2,618	1,302	787	2,089	2,749	—	2,749
Customer deposits	942	6,934	7,876	3,176	527	3,703	2,549	31	2,580
Amounts due to holding company and fellow subsidiaries(2)	2,248	—	2,248	982	7,180	8,162	2,727	7,177	9,904
Settlement balances	45,033	27,219	72,252	4,022	—	4,022	2,914	—	2,914
Trading liabilities	47,138	110,194	157,332	52,934	20,902	73,836	50,608	21,681	72,289
Derivatives	8,310	9,860	18,170	41,214	102,928	144,142	29,250	100,664	129,914
Other financial liabilities	21	50	71	7,192	11,253	18,445	6,368	9,911	16,279

(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 the Issuer 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 the Issuer have been excluded from the tables.

The table below shows the timing of cash outflows to settle financial liabilities, prepared on the following basis.

Financial liabilities are included at the earliest date on which the counterparty can require repayment regardless of whether or not such early repayment results in a penalty. If repayment is triggered by, or is subject to, specific criteria such as market price hurdles being reached, the liability is included at the earliest possible date that the conditions could be fulfilled without considering the probability of the conditions being met. For example, if a structured note automatically prepays when an equity index exceeds a certain level, the cash outflow will be included in the less-than-three-months' period whatever the level of the index at the year end. The settlement date of debt securities issued by certain securitisation vehicles consolidated by the 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.

Liabilities with a contractual maturity of greater than 20 years — 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.

Held-for-trading liabilities — Held-for-trading liabilities of £230 billion (2019—£218 billion) for the NWM Group and £217 billion (2019—£203 billion) for the Issuer, have been excluded from the tables.

	NWM Group					
	0-3 months	3-12 months	1-3 years	3-5 years	5-10 years	10-20 years
2020	£m	£m	£m	£m	£m	£m
Liabilities by contractual maturity						
Bank deposits	458	819	498	37	—	—
Customer deposits	1,664	863	84	1	1	20
Amounts due to holding companies and fellow subsidiaries	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
Other liabilities(1)	4	15	21	8	21	2
	6,896	7,831	11,247	4,317	689	217
Guarantees and commitments notional amount						
Guarantees(2,3)	638	—	—	—	—	—
Commitments(4)	11,348	—	—	—	—	—
	11,986	—	—	—	—	—
2019						
Liabilities by contractual maturity						
Bank deposits	931	374	748	38	—	—
Customer deposits	1,915	1,273	520	1	—	17
Amounts due to holding companies and fellow subsidiaries	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(1)	—	—	—	—	—	—
	10,754	5,479	10,644	7,027	777	321
Guarantees and commitments notional amount						
Guarantees(2,3)	972	—	—	—	—	—
Commitments(4)	14,472	—	—	—	—	—
	15,444	—	—	—	—	—
2018						
Liabilities by contractual maturity						
Bank deposits	2,728	21	—	—	—	—
Customer deposits	1,659	891	25	4	2	2
Amounts due to holding companies and fellow subsidiaries	2,094	211	41	5,453	920	59
Settlement balances	2,914	—	—	—	—	—
Derivatives held for hedging	—	10	26	6	(2)	1
Other financial liabilities	1,302	5,066	6,494	2,359	837	200
Other liabilities(1)	45	—	—	—	—	—
	10,742	6,199	6,586	7,822	1,757	262
Guarantees and commitments notional amount						
Guarantees(2,3)	278	—	—	—	—	—
Commitments(4)	8,927	—	—	—	—	—
	9,205	—	—	—	—	—

	NWM Plc					
	0-3 months	3-12 months	1-3 years	3-5 years	5-10 years	10-20 years
2020	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Liabilities by contractual maturity						
Bank deposits	456	775	498	37	—	—
Customer deposits	878	529	61	1	1	3
Amounts due to holding companies and fellow subsidiaries	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
Other liabilities(1)	2	7	7	—	—	—
	4,868	6,133	12,086	4,214	735	198
Guarantees and commitments notional amount						
Guarantees(2)	195	—	—	—	—	—
Commitments(3)	6,678	—	—	—	—	—
	6,873	—	—	—	—	—
2019						
Liabilities by contractual maturity						
Bank deposits	922	374	706	38	—	—
Customer deposits	1,431	795	30	1	—	—
Amounts due to holding companies and fellow subsidiaries	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
Other liabilities(1)	—	—	—	—	—	—
	9,173	4,849	10,747	7,417	891	234
Guarantees and commitments notional amount						
Guarantees(2)	134	—	—	—	—	—
Commitments(3)	8,941	—	—	—	—	—
	9,075	—	—	—	—	—
2018						
Liabilities by contractual maturity						
Bank deposits	2,756	21	—	—	—	—
Customer deposits	1,469	891	25	4	2	2
Amounts due to holding companies and fellow subsidiaries	3,286	2,788	571	6,538	1,801	59
Settlement balances	1,977	—	—	—	—	—
Derivatives held for hedging	—	10	23	4	(5)	-
Other financial liabilities	1,302	5,066	6,494	2,359	837	200
Other liabilities(1)	45	—	—	—	—	—

	10,835	8,766	7,113	8,905	2,635	261
Guarantees and commitments notional amount						
Guarantees(2)	278	—	—	—	—	—
Commitments(3)	8,922	—	—	—	—	—
	9,200	—	—	—	—	—

(1) Other liabilities includes notes in circulation.

(2) The NWM Group is only called upon to satisfy a guarantee when the guaranteed party fails to meet its obligations. The NWM Group expects most guarantees it provides to expire unused.

(3) The 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. The NWM Group does not expect all facilities to be drawn, and some may lapse before drawdown.

RISK MANAGEMENT

Presentation of Information

Capital and risk management are 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.

Risk Management Framework

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.

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.

Code of Conduct

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.

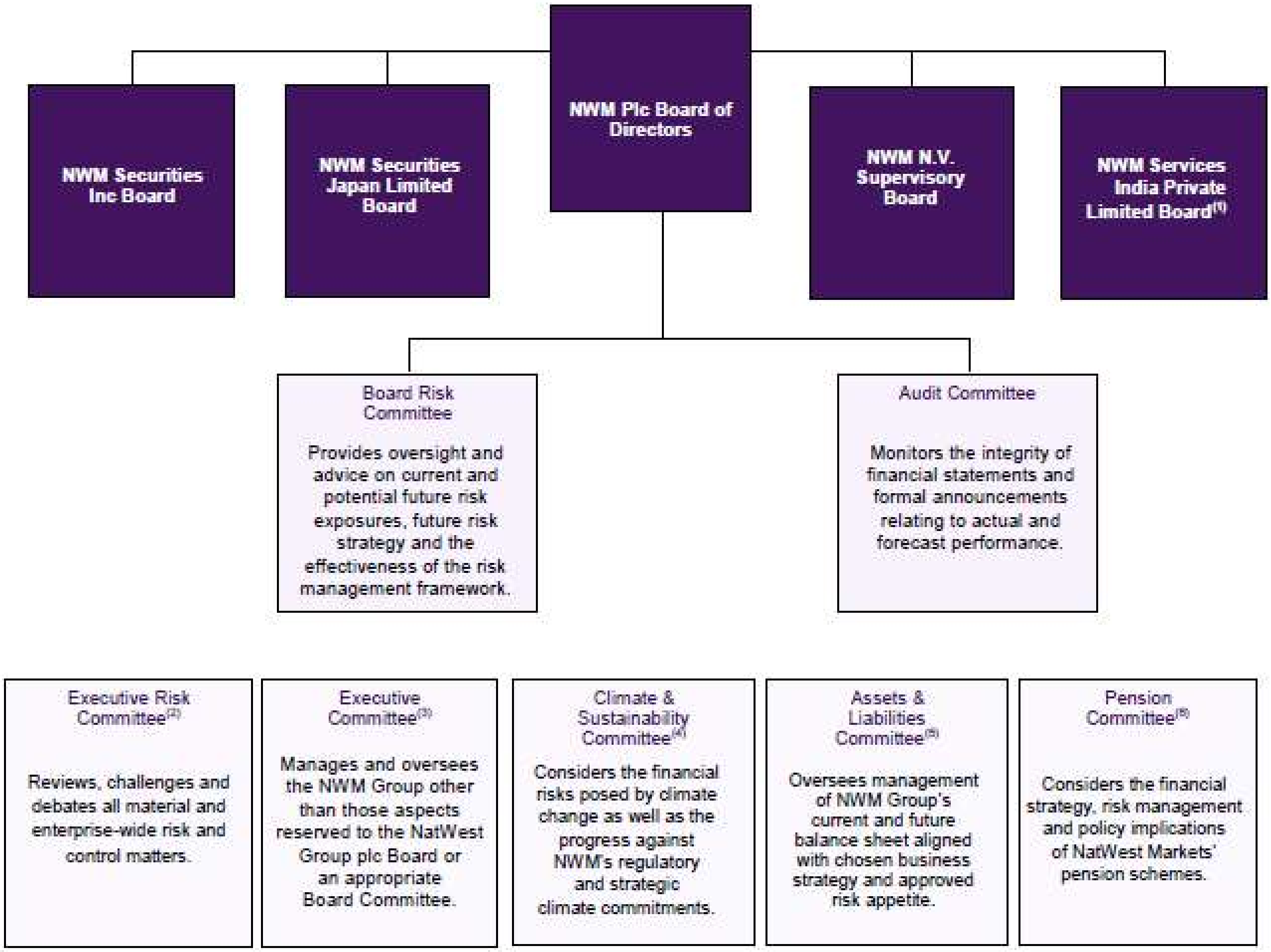
These principles cover conduct-related issues as well as wider business activities. They focus on desired outcomes, with practical guidelines to align the values with commercial strategy and actions. The embedding of these principles facilitates sound decision making and a clear focus on good customer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

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.

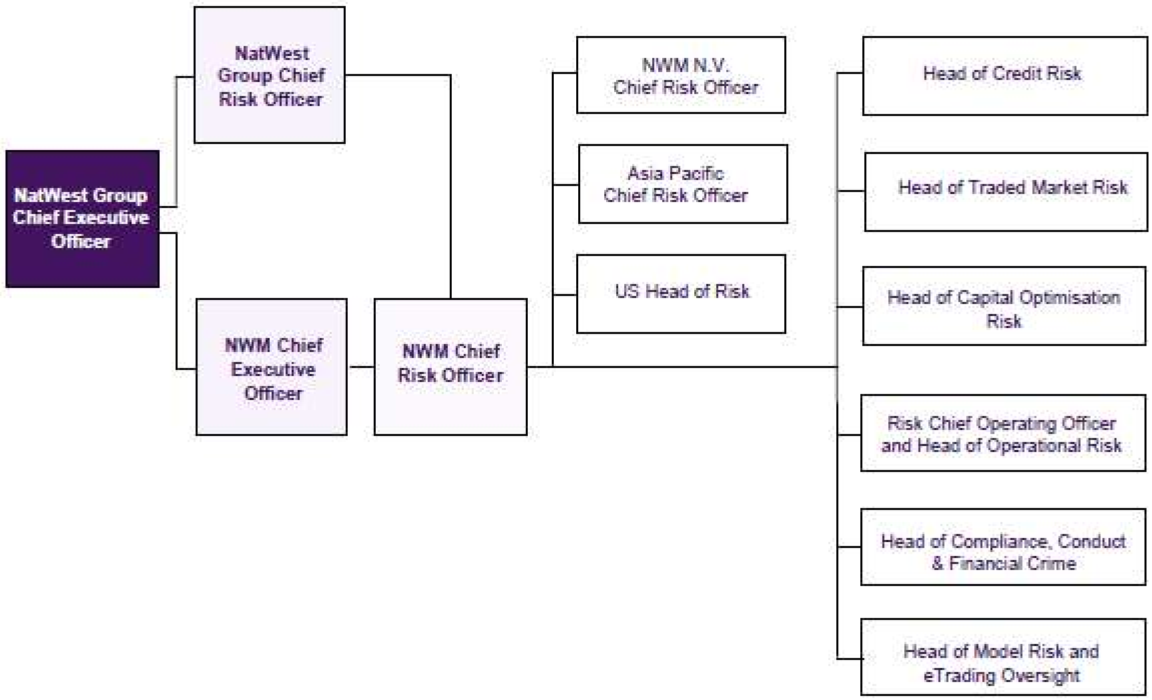
(5) The Assets & Liabilities Committee is chaired by the NWM Chief Financial Officer and supports him in discharging his individual accountabilities relating to treasury and balance sheet management.

(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 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 NV 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.

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.

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 – 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	• Identify NWM-specific vulnerabilities and risks. • Define and calibrate scenarios to examine risks and vulnerabilities. • Formal governance process to agree scenarios.
Assess impact	• Translate scenarios into risk drivers. • Assess impact to current and projected P&L and balance sheet. • Impact assessment captures input from across NWM Group.
Calculate results and assess implications	• Aggregate impacts into overall results. • Results form part of risk management process. • Scenario results are used to inform NWM Group's business and capital plans.
Develop and agree management actions	• Scenario results are analysed by subject matter experts and appropriate management actions are then developed. • Scenario results and management actions are reviewed and agreed by senior management through senior committees including the Executive Risk Committee, the Board Risk Committee and the Board.

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.

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

Type	Description
	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 LCR requirement.

Stress testing – recovery and resolution planning

Within NWM Group, both NWM Plc and NWM NV 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.

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.

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.

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.

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).

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.

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.

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.
- 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.

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 NV on 29 November 2019, traded internal VaR for NWM Group is presented on a consolidated basis.

	2020				2019
	Average	Maximum	Minimum	Period end	Period end
	£m	£m	£m	£m	£m
Traded internal VaR (1-day 99%)					
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)
Total	16.1	25.7	10.1	10.2	14.1

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.

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.
- 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 per cent 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	Maximum	Minimum	Period end	Period end
	£m	£m	£m	£m	£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.

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.

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.

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.

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.

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 NV, refer to the appropriate key point below the table.

	2020				2019			
	Average	Maximum	Minimum	Period end	Average	Maximum	Minimum	Period end
	£m	£m	£m	£m	£m	£m	£m	£m
NWM Plc								
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)
Total	16.0	19.7	11.8	11.8	20.4	32.2	10.2	13.4

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 NV, 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 from LOBO loans classified as fair value through profit or loss FVTPL and on loan portfolios classified as 'fair value through other comprehensive income' (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.

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	Net investment hedges	Structural foreign currency exposures	Economic hedges	Residual structural foreign currency exposures(1)
2020	**£m**	**£m**	**£m**	**£m**	**£m**
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	404	—	404	—	404
	4,237	(410)	3,827	(842)	2,985
2019					
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	586	(45)	541	—	541
	4,439	(708)	3,731	(871)	2,860

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.

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: • Short-term (less than 1 year) unsecured money market funding; • Commercial paper and certificates of deposit; • Secured repo market funding.
Term debt.....................................	Includes: • Issuance of long-term (typically more than 1 year) senior unsecured and secured debt securities. • Issuance of long-term subordinated liabilities.
Internal capital and MREL	Includes: • Equity, AT1, Tier 2 capital instruments and MREL issued to NatWest Group plc (under the Single Point of Entry regime).

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.

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.

Produce capital plans	• 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. • 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.
Assess capital adequacy.........	• 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. • Impact assessment captures input from across NWM Group including from businesses.
Inform capital actions	• Capital planning informs potential capital actions including managing capital

through new issuance, redemptions or internal transactions.

- Decisions on capital actions will be influenced by strategic and regulatory requirements, the cost and prevailing market conditions.
- As part of capital planning, NWM Group will monitor its portfolio of capital securities and assess the optimal blend.

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.

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
	£m	£m
Capital(1)		
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
Capital adequacy ratios	%	%
CET1	21.7	17.3
Tier 1	25.2	19.9
Total	30.3	24.2
Leverage		
Tier 1 capital (£m)	6,433	7,003
CRR leverage exposure (£m)	123,927	136,505
CRR leverage ratio (%)	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.

Leverage Exposure

The leverage exposure is based on the CRR Delegated Act.

Leverage	2020	2019
	£m	£m
Cash and balances at central banks	11,736	9,953
Trading assets	52,169	57,768
Derivatives	164,104	147,458
Net loans to customers	23,827	25,929
Other assets	4,246	6,945
Total assets	256,082	248,053
Derivatives		

Leverage	2020	2019
	£m	£m
- 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)
Leverage exposure	123,927	136,505

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.

	Liquidity value (1)	
	2020	2019
	£m	£m
NWM Plc		
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
Total liquidity value	19,427	16,098

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

Total liquidity portfolio	GBP	USD	EUR	Other	Total
	£m	£m	£m	£m	£m
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.

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	Long-term more than 1 year	Total	Short-term less than 1 year	Long-term more than 1 year	Total
	£m	£m	£m	£m	£m	£m
Bank deposits	1,294	514	1,808	1,302	787	2,089
of which: repos (amortised cost)	200	—	200	380	—	380
Customer deposits	2,526	92	2,618	3,176	527	3,703
Trading liabilities(1)						
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
Other financial liabilities						
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
Amounts due to holding company and fellow subsidiaries(3)						
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
Total funding	56,662	19,266	75,928	63,271	21,744	85,015
Of which: available in resolution(4)	—	8,039	8,039	107	8,169	8,276

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.

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
	£m	£m	£m	£m	£m	£m	£m	£m	£m
2020									
Less than 1 year	527	527	3,253	4,441	—	7,694	—	—	8,221

	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
	£m	£m	£m	£m	£m	£m	£m	£m	£m
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.

	GBP	USD	EUR	Other	Total
	£m	£m	£m	£m	£m
2020					
Commercial paper and CDs	324	695	2,402	—	3,421
MTNs	303	3,007	8,571	2,275	14,256
External subordinated liabilities	97	216	792	—	1,105
CRR-compliant internal MREL due to RBSG plc	—	3,247	1,934	—	5,181
Subordinated liabilities due to RBSG plc	—	864	889	—	1,753
Total	724	8,029	14,588	2,375	25,716
2018 Total	1,944	7,536	15,624	2,243	27,347

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.
- 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.

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.

ECL modelling

The unprecedented nature of COVID-19 required various interventions in ECL modelling to ensure reasonable and supportable ECL estimates.

Credit grading models

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

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

Impairment, provisioning and write-offs

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

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.

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.

ECL post model adjustments	2020	2019
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:

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.

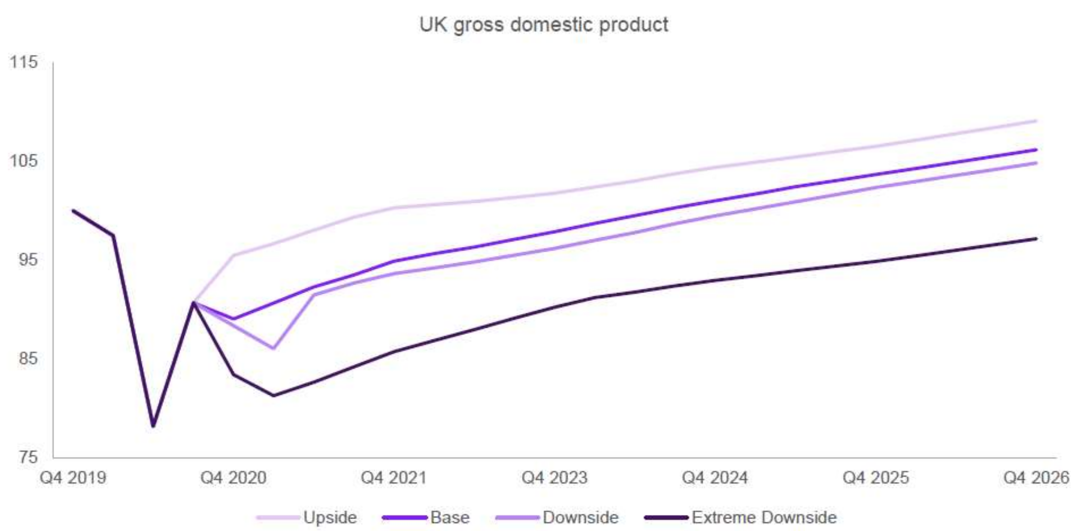
The main macroeconomic variables for each of the four scenarios used for ECL modelling are set out in the main macroeconomic variables table below. The compound annual growth rate (CAGR) for GDP is shown. It also shows the five-year average for unemployment and the Bank of England base rate. The House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

	2019				2018				
	Upside	Base case	Downside	Extreme downside	Upside 2	Upside 1	Base case	Downside 1	Downside 2
Five-year summary	%	%	%	%	%	%	%	%	
UK									
GDP – CAGR	3.6	3.1	2.8	1.3	2.5	2.3	1.6	1.3	0.9

Five-year summary	2019 Upside	2019 Base case	2019 Downside	2019 Extreme downside	2018 Upside 2	2018 Upside 1	2018 Base case	2018 Downside 1	2018 Downside 2
	%	%	%	%	%	%	%	%	
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.



Annual figures

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

UK unemployment rate – annual average	Upside	Base case	Downside	Extreme downside
	%	%	%	%
2020	4.4	4.4	4.9	5.4

UK unemployment rate – annual average	Upside	Base case	Downside	Extreme downside
	%	%	%	%
2021	5.6	6.3	8.5	12.3
2022	4.5	6.3	7.7	12.0
2023	3.8	5.5	6.7	9.0
2024	3.8	5.1	6.2	7.5
2025	3.9	5.1	6.2	7.3

UK House Price Inflation – four quarter growth	Upside	Base case	Downside	Extreme downside
	%	%	%	%
2020	2.7	1.5	(1.8)	(5.2)
2021	2.2	(3.0)	(7.4)	(26.9)
2022	1.7	3.6	6.5	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

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

Worst points

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

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

Peak (Q3 2020)	**31 December 2020**			
	Upside	**Base case**	**Downside**	**Extreme downside**
	%	**%**	**%**	**%**
UK				
GDP (year-on-year)	—	(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.

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.

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 Financial Statements 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.

31 December 2020	Actual	Upside	Downside	Extreme downside
UK				
State 1 modelled exposure (£m)	7,677	8,066	7,677	6,977
State 1 modelled ECL (£m)	12	10	12	16
State 1 coverage (%)	0.16%	0.12%	016%	0.23%
State 2 modelled exposure (£m)	1,600	1,211	1,600	2,300
State 2 modelled ECL (£m)	49	45	50	58
State 2 coverage (%)	3.06%	3.72%	3.13%	2.52%
State 1 and Stage 2 modelled exposure (£m)	[illegible]	[illegible]	[illegible]	[illegible]
State 1 and Stage 2 modelled ECL (£m)	61	55	62	74
State 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 Financial Statements for the sensitivity analysis carried out at that time.

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	Of which: can be offset	Outside netting arrangements	Total	Of which: can be offset	Outside netting arrangements
	£m	£m	£m	£m	£m	£m
2020						
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	—	—
2019						
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

	Reverse repos			Repos		
	Total	Of which: can be offset	Outside netting arrangements	Total	Of which: can be offset	Outside netting arrangements
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		
	UK	US	Other	institutions	Corporate	Total
	£m	£m	£m	£m	£m	£m
2020						
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)
2019						
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 points

- 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.

Derivatives

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

	2020							2019		
	Notional									
	GBP	USD	Euro	Other	Total	Assets	Liabilities	Notional	Assets	Liabilities
	£bn	£bn	£bn	£bn	£bn	£m	£m	£bn	£m	£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	14,681	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	350
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.

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 over the counter						
	Traded on recognised exchanges	Settled by central counterparties	Not settled by central counterparties	Total	Traded on recognised exchanges	Traded over the counter	Traded on recognised exchanges	Traded over the counter
	£bn	£bn	£bn	£bn	£m	£m	£m	£m
2020								
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
Total	1,034	7,074	5,589	13,697	—	164,252	—	155,787
2019								
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
Total	1,596	6,788	6,350	14,734	—	147,681	—	143,093

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.

	Cash & balances at central banks	Sovereign debt securities	Loans & other lending	Other debt securities	Collateralised rate risk management	Uncollateralised rate risk management	Repo & reverse repo	Off-balance sheet items	Leasing	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
2020										
AQ1-AQ4	15,771	5,958	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
2019										
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.

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	2019
	£bn	£bn
Balance sheet total gross AC/FVOCI	36.5	38.6
In scope of IFRS 9 ECL framework	33.9	33.5
% in scope	93%	87%
Loans – in scope	9.5	9.6
Stage 1	7.8	9.2
Stage 2	1.6	0.2
Stage 3	0.1	0.2
Other financial assets – in scope	24.4	23.9
Stage 1	24.4	23.9
Out of scope of IFRS 9 ECL framework	2.7	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).

Portfolio summary

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

	2020	2019
	£m	
Loans – amortised cost		
Stage 1	7,799	9,260
Stage 2	1,566	180
Stage 3	171	169
Of which: individual	162	158
Of which: collective	9	11
Inter-Group (1)	755	738
Total	10,291	10,347
ECL provisions (2)		
Stage 1	12	10
Stage 2	49	4
Stage 3	132	132
Of which: individual	124	123
Of which: collective	8	9
Inter-Group (%)	1	—
Total	194	146
ECL provisions coverage (3,4)		
Stage 1 (%)	0.15	—
Stage 2 (%)	3.13	—
Stage 3 (%)	77.19	—
Inter-Group (%)	0.13	—
Total	2.02	1.52
Impairment losses		
ECL charge		
Stage 1	(2)	—
Stage 2	55	(7)
Stage 3	(12)	(41)
Of which: individual	(3)	(35)
Of which: collective	(9)	(6)
Third party	41	(48)
Inter-Group (%)	1	—
Total	42	(48)
ECL loss rate – annualised (basis points) (3)	43	(50)
Amounts written off	11	15
Of which: individual	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 the previous page 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.

	Property	Corporate	FI(1)	Sovereign	Total
	£m	£m	£m	£m	£m
2020					
Loans by geography	190	958	8,208	180	9,536
- UK	50	167	3,726	66	4,009
- Other Europe	140	577	1,573	44	2,334
- RoW	—	214	2,909	70	3,193
Loans by stage	190	958	8,208	180	9,536
- 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
Weighted average life *					
- ECL measurement (years)	2	4	4	—	3
Weighted average 12 months PDs *					
- IFRS 9 (%)	0.61	2.22	1.29	0.98	1.34
- Basel (%)	0.75	2.08	1.04	0.03	1.10
ECL provisions by geography	11	124	55	3	193
- UK	7	5	7	1	20
- Other Europe	4	62	42	—	108
- RoW	—	57	6	2	65
ECL provisions by stage	11	124	55	3	193
- Stage 1	1	1	7	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
ECL provisions coverage (%)	5.79	12.94	0.67	1.67	2.02
- 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
ECL charge – Third party	(1)	(2)	43	1	41
ECL loss rate (%)	(0.53)	(0.21)	0.52	0.56	0.43
Amounts written-off	1	9	1	—	11
Other financial assets by asset quality	98	107	2,905	21,251	24,361
- AQ1-AQ4	—	107	2,648	21,231	23,986
- AQ5-AQ8	98	—	257	20	375
- AQ9	—	—	—	—	—
Off-balance sheet	478	6,421	6,204	37	13,140
- Loan commitments	446	6,291	5,591	37	12,365
- Financial guarantees	32	130	613	—	775
Off-balance sheet by asset quality (2)	478	6,421	6,204	37	13,140
- AQ1-AQ4	420	5,288	5,766	37	11,511
- AQ5-AQ8	52	1,101	432	—	1,585
- AQ9	1	—	—	—	1

	Property	Corporate	FI(1)	Sovereign	Total
	£m	£m	£m	£m	£m
- AQ10	5	32	6	—	43

*Not within audit scope.

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

	Property	Corporate	FI	Sovereign	Total
	£m	£m	£m	£m	£m
2019					
Loans by geography	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
Loans by stage	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
Weighted average life **					
- ECL measurement (years)	4	9	4	—	5
Weighted average 12 months PDs **					
- IFRS 9 (%)	0.31	0.67	0.26	0.02	0.27
- Basel (%)	0.46	0.83	0.23	0.02	0.30
ECL provisions by geography	12	122	10	2	146
- UK	8	5	3	1	17
- Other Europe	4	61	6	—	71
- RoW	—	56	1	1	58
ECL provisions by stage	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
ECL provisions coverage (%)	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
ECL charge – Third party	(35)	(5)	(8)	—	(48)
ECL loss rate (%)	(14.11)	(0.34)	(0.10)	—	(0.50)
Amounts written-off	1	11	3	—	15
Other financial assets by asset quality (1)	—	101	4,471	19,306	23,878
- AQ1-AQ4	—	101	4,078	19,285	23,464
- AQ5-AQ8	—	—	391	21	412
- AQ9	—	—	2	—	2
Off-balance sheet (2)	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
Off-balance sheet by asset quality (1,2)	613	7,595	8,974	38	17,220

	Property	Corporate	FI	Sovereign	Total
	£m	£m	£m	£m	£m
- 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 points

- The table above reflects the underlying asset quality of the NWM Group banking book exposures, with the vast majority of risk in Stage 1.

	Loans – amortised cost and FVOCI				Off-balance sheet		ECl provisions			
	Stage 1	Stage 2	Stage 3	Total	Loan Commitments	Contingent liabilities	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
2020										
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
Total	7,799	1,566	171	9,536	12,365	775	12	49	132	193
2019										
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	63	1	1	65	337	9	—	—	—	—

	Loans – amortised cost and FVOCI				Off-balance sheet		ECl provisions			
	Stage 1	Stage 2	Stage 3	Total	Loan Commitments	Contingent liabilities	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
logistics										
Leisure	—	48	—	48	464	—	—	—	—	—
Oil and gas	68	7	38	113	492	3	1	—	33	34
Retail	—	—	11	11	364	7	—	—	11	11
Potential exposure	9,260	180	169	9,609	16093	1,127	10	4	132	146

Forbearance

The table below shows forbearance, Heightened Monitoring and Risk of Credit Loss by sector.

	FI	Property	Sovereign	Other corporate	Total
	£m	£m	£m	£m	£m
2020					
Forbearance (flow)	—	8	—	33	41
Forbearance (stock)	—	8	—	33	41
Heightened Monitoring and Risk of Credit Loss	—	29	—	295	324
2019					
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).

			Maximum credit risk		CREM by type			CREM coverage		Exposure post CREM	
	Gross exposure	ECL	Total	Stage 3	Financial (1)	Property	Other (2)	Total	Stage 3	Total	Stage 3
2020	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Financial assets											
Cash and balances at central banks	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	—
Total financial assets	33.9	0.2	33.7	—	2.2	—	—	2.2	—	31.5	—
Contingent liabilities and commitments	13.1	—	13.1	—	2.0	—	—	2.0	—	11.1	—
Total off-balance sheet	13.1	—	13.1	—	2.0	—	—	2.0	—	11.1	—
Total exposure	47.0	0.2	47.0	—	4.2	—	—	4.2	—	42.6	—
2019											
Financial assets											
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	—
Total financial assets	33.5	0.1	33.4	—	—	—	0.2	0.2	—	33.2	—
Contingent liabilities and commitments	17.2	—	17.2	—	0.2	—	1.8	2.0	—	15.2	—
Total off-balance sheet	17.2	—	17.2	—	0.2	—	1.8	2.0	—	15.2	—
Total exposure	50.7	0.1	50.6	—	0.2	—	2.0	2.2	—	48.4	—

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.

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	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
NWM Group	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 1 January 2020	32,877	10	188	4	184	132	33,249	146
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)	—	—	—	—
Acquisition of RBSH.	—	—	(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)
Income statement (releases)/charges		(2)		55		(12)		41
Amounts written-off	—	—	—	—	(11)	(11)	(11)	(11)
At 31 December 2020	33,327	12	1,671	49	167	132	35,165	193
Net carrying amount	33,315		1,622		35		34,972	
At 1 January 2019	32,499	6	670	11	671	91	33,840	108
2018 movements	378	4	(482)	(7)	(487)	41	(591)	38
At 31 December 2019	32,877	10	188	4	184	132	33,249	146
Net carrying amount	32,867		184		52		33,103	

Key points

- The increase in ECL in Stage 1 and Stage 2 was primarily due to the deterioration in the economic outlook, causing both PDs and LGDs to increase.

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.

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.

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.

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.

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 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.

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.

REGULATION AND SUPERVISION

The UK Financial Services Regulatory System

The UK financial services regulatory system is comprised of three main regulatory bodies: the FPC, which is a committee of the BoE; The PRA, a subsidiary of the BoE; and the FCA. Separately, the BoE has responsibility for the regulation of certain financial market infrastructures such as central securities depositaries and central counterparties, as well as for taking action to manage the failure of financial institutions as the UK resolution authority.

FPC

The FPC was established in 2013 as part of an overhaul of the UK regulatory system to improve financial stability following the financial crisis. The FPC is responsible for macro-prudential regulation, meaning that it monitors the stability and resilience of the UK financial system as a whole, identifying and taking action where necessary in order to reduce systemic risk. The FPC can direct the PRA and FCA to take certain actions to reduce systemic risk but it does not have direct regulatory responsibility for UK authorised firms.

PRA

The PRA has responsibility for the authorisation, prudential regulation and supervision of firms such as banks, building societies, insurers and systemically important investment firms. Firms that are subject to regulation by the PRA are referred to as PRA-authorised firms, or dual-regulated firms, as the FCA has responsibility for regulating the conduct of such firms. The PRA's general objective is to promote the safety and soundness of PRA-authorised firms.

FCA

The FCA is responsible for the authorisation, prudential regulation and supervision of all other authorised firms in the UK and it is the conduct regulator of firms authorised by the PRA. In discharging its responsibilities, the FCA must have regard to its strategic objective and its operational objectives. The FCA's strategic objective is to ensure that financial markets in the UK function well. Its strategic objectives include the protection of consumers, protecting and enhancing the integrity of the UK financial system, and promoting effective competition in the interests of consumers. The FCA also oversees the Payment Systems Regulator, which is an operationally independent subsidiary of the FCA that regulates payment systems in the UK.

UK regulatory legislation

UK banking and financial services firms were previously subject to both domestic and EU-derived regulation. Following the UK's withdrawal from the EU, UK banking and financial services firms are subject to domestic regulation, although much of the EU-derived regulation that applied previously has been incorporated into UK domestic law through the European Union (Withdrawal) Act 2018. EU-derived legislation which now forms part of UK domestic law is referred to as retained EU law. The primary UK financial services statute is the FSMA, as amended, and its subordinate legislation. The FSMA provides that no person can perform a regulated activity without being authorised or exempt. A regulated activity is a specific activity that relates to a specified type of investment. The FSMA (Regulated Activities) Order 2001, which is a statutory instrument made under the FSMA, specifies the types of activities that, when performed in relation to specified products or investments, are regulated activities in the UK. These activities include: dealing in investments as agent and as principal, deposit taking, issuing electronic money, insurance related activities, advising on investments and managing investments.

The PRA and FCA rules establish criteria for the authorisation of banks and other financial services firms that carry on regulated activities in the UK. Any person holding or proposing to hold 10 per cent or more of the shares or voting power of a bank or other financial services firm, or of its parent undertaking, are subject to prior approval by the PRA or FCA. The threshold is 20 per cent is respect of certain types of financial services firms. The PRA or FCA may object on the basis of reputation or prudential considerations. The PRA is the competent authority of NWM Plc and of NatWest Group plc, and receives information on the capital adequacy of NatWest Group as a whole.

The Capital Requirements Directive and Capital Requirements Regulation

Banks in the UK are subject to the CRD and the retained law version of the CRR, collectively referred to as the CRD V framework. Each of the CRR and the CRD, which implemented, among other things, Basel III in the UK and EU, covers a wide range of prudential requirements for banks across EU Member States, including capital requirements, the large exposures framework and liquidity and funding requirements. Subject to certain modifications, these requirements continue to apply to UK banks.

The CRD IV and the regulations issued pursuant thereto set up safeguards to protect depositors by establishing total capital ratios that require banks to have sufficient own funds such as common equity or subordinated debt in relation to assets. In addition, liquidity rules require banks to maintain sufficient liquid assets to meet depositor claims on demand or otherwise. The CRD IV was subject to extensive amendments as a result of the CRD V. EU Member States were required to adopt and publish the measures necessary to comply with the CRD V by 28 December 2020 and to apply the many of those measures from 29 December 2020. During the transition period agreed between the UK and EU, the UK was required to apply new EU legislation where the application date for that legislation fell within the transition period, which ended on 31 December 2020. For that reason, the UK was required to transpose and implement the CRD V.

The CRR was also subject to extensive amendments as a result of the CRR II. These amendments reflect reforms made by the Basel Committee on Banking Supervision ('**BCBS**') relating to the leverage ratio and the net stable funding ratio, as well as provisions implementing the FSB's TLAC standard. Although the CRR II applied from June 2019, many of the changes it makes to the CRR do not come into force until June 2021, which is after the end of the transition period agreed between the UK and EU. The UK has therefore exercised its discretion not to apply all of those provisions of the CRR II and instead proposes to introduce a revised prudential regime for UK credit institutions that is similar to the CRR II. The detailed regulatory capital rules are primarily set out in the CRR, which is directly applicable in each EU Member State and, as noted above, has been incorporated into UK domestic law following the UK's withdrawal from the EU. The PRA implemented many of the governance requirements impacting banks contained in the CRD IV by incorporating these provisions into its Rulebook. Amendments to the governance requirements introduced by the CRD V will be implemented through updates to the PRA's Rulebook.

Under the CRR, banks must calculate and hold capital against credit risk, market risk and operational risk.

The standard method for credit risk assessment is based on the defined credit risks of various groups of assets, taking into consideration the nature of the counterparty and the counterparty's obligation. The CRR allows a bank to apply a standard method or an advanced method to calculate credit risks. According to the standard method, claims on OECD governments and UK local authorities are given a risk weighting of zero, whereas unsecured claims on corporate and private customers are typically risk weighted within a range of 20 per cent to 150 per cent. The advanced method normally varies between these two extremes.

Market risk arises from changes in interest rates, exchange rates and share prices. Market risks include the risk of loss with respect to on- and off-balance sheet positions resulting from market price movements involving debt instruments and equity securities in a bank's trading portfolio, as well as foreign exchange risk and commodities risk incurred by such bank.

Banks must also maintain capital with respect to operational risk, which is the risk of losses resulting from internal process or systems failures as well as from external events.

The total capital requirement applicable to a bank is established by measuring all exposures weighted according to credit, market, and operational risk against the capital of the relevant bank. Accordingly, the capital of a bank must amount to a certain minimum percentage (as described below) of the risk-weighted exposure amount (which includes the calculated items associated with market risk) of such bank (see below).

For purposes of complying with the capital requirements of the CRR, the capital base is divided into three main categories: CET1 capital, additional tier 1 capital and tier 2 capital. CET1 capital consists of equity capital adjusted for statutory deductions whereas the tier 1 capital consists of CET1 capital plus additional tier 1 capital adjusted for statutory deductions. CET1 capital primarily includes paid-up share capital and reserves (excluding revaluation reserves), and is reduced by, among other items, losses (if any) incurred during the current financial year and the Issuer's holdings of its own shares. Certain capital interests in other financial institutions in excess of certain limited amounts have to be deducted from the total amount of CET1 capital, additional tier 1 capital and tier 2 capital.

Tier 2 capital for banks consists of subordinated debt instruments issued by a bank. Subordinated debt instruments are debt obligations, which, in case of a bankruptcy or liquidation, are subordinated to ordinary claims on the issuing bank (which in turn are at least equal to the claims of depositors). Subordinated debt instruments must include interest deferral and principal reduction features, and can, therefore, be applied towards covering losses of the issuing bank even if that bank is allowed to carry on its business. However, the subordinated debt instruments may not contain any incentive to redeem or repurchase before five years after the date of issuance. In addition, the instrument must be amortised beginning on the first day of the final five-year period of the contractual maturity. The CRD IV provided for another form of capital, denominated additional tier 1 capital instruments, which may be included in tier 1 capital to meet the solvency/TCR, subject to certain conditions and limitations. The limitations and conditions are that additional tier 1 capital must be converted during emergency situations and may be converted at the initiative of the competent authority or if a certain contractual capital trigger is reached. Additionally, additional tier 1 capital instruments may not contain any incentive for the credit institution to redeem and must be perpetual.

Under the CRR, institutions are required to hold a minimum amount of regulatory capital equal to 8 per cent of risk-weighted assets. In addition to these so-called the minimum own funds Pillar I requirements, the CRD (including, but not limited to, Article 104(1)(a), as amended, and Article 104a which was introduced by the CRD V) contemplates that competent authorities may require additional Pillar II capital to be maintained by an institution relating to elements of risks which are not fully captured by the minimum own funds Pillar I requirements or to address macro-prudential requirements.

The board of directors and management of a bank must ensure that the Issuer has adequate base capital and has internal procedures for risk measurement and risk management for regular assessments and maintenance of a base capital of a size, type and distribution adequate to cover the risks of the institution.

The board of directors and management of a bank must, on the basis of the above-mentioned assessment, calculate the individual solvency need of the Issuer (ICAAP procedure). The solvency need shall be expressed as the adequate base capital as a percentage of the risk-weighted assets. The solvency need may not be less than the solvency requirement and the minimum capital requirement.

CRD IV introduced a combined buffer that applies in addition to the Pillar I and Pillar II capital requirements. The combined buffer consists of a countercyclical buffer, a capital conservation buffer and a SIFI buffer.

The capital conservation buffer and the countercyclical capital buffer are designed to ensure that credit institutions accumulate a sufficient capital base during periods of economic growth to absorb losses during periods of stress. The capital conservation buffer was phased in to a final level of 2.5 per cent in 2019. The countercyclical buffer requirement is calculated as a weighted average of the national buffers in effect in the jurisdictions in which a bank has credit exposures.

Under Article 141 of the CRD, Member States required institutions that fail to meet the combined buffer requirement to be subject to restrictions on '**discretionary payments**' (which are defined broadly by the CRD as distributions in connection with CET1 capital, payments on additional tier 1 instruments and payments of variable remuneration). The restrictions are scaled according to the extent of the breach of the combined buffer requirement.

According to the implementation of the CRD IV in the UK, the combined buffer requirement is stacked on top of the Pillar II capital requirements. If the combined buffer requirement is breached, the institution must submit a capital conservation plan for approval by the PRA. However, for the purpose of determining automatic restrictions on discretionary payments (i.e. the maximum distributable amount or MDA), Pillar II capital requirements should not be taken into account. Nonetheless, the PRA may choose to impose restrictions on discretionary payments on the basis of the submitted capital conservation plan. There can be no assurance as to the relationship between any of the aforementioned or future incremental own funds requirements, any combined buffer requirement and the associated restrictions on discretionary payments. Under the amendments made by the CRD V, it will be easier for firms to use the combined buffer. The Pillar II capital requirements should be taken into account when the combined buffer requirement is breached and the MDA is determined. Furthermore, the combined buffer is also stacked on top of the MREL requirement. Consequently, MREL also needs to be taken into account in the calculation of the MDA, subject to a six-month grace period in case of inability to issue eligible debt, during which restrictions relating to MDA would not be triggered, but authorities would be able to take other appropriate measures.

In addition, the CRD IV included a requirement for credit institutions to calculate, report, monitor and publish their leverage ratios, defined as their tier 1 capital as a percentage of their total exposure measure. According to the rules defined in the CRR, the Issuer had a leverage ratio of 5.2 per cent as at 31 December 2020. A minimum leverage ratio requirement will be implemented at the EU level with the implementation of the EU Banking Reform package. Specifically, the CRD V will, from 28 June 2021, impose a leverage ratio requirement of 3 per cent of tier 1 capital that firms must meet in addition to their risk-based requirements. Until this time regulators may apply such measures as they consider appropriate. In the UK, the risk of excessive leverage is addressed as part of the Pillar II capital requirements.

As regards liquidity, the CRR imposes two liquidity ratios: the LCR and the NSFR. The LCR stipulates that banks must have a liquidity buffer that ensures a survival horizon of at least 30 calendar days in the case of a seriously stressed liquidity situation. The PRA began to phase in the LCR in October 2015. As required by the CRR, the LCR reached 100 per cent on 1 January 2018. The NSFR is intended to ensure a sound funding structure by promoting an increase in long-dated funding. The CRR does not currently impose any binding requirements relating to the NSFR, although there is a general requirement that firms should ensure that long-term obligations are adequately met with a diversity of stable funding requirements under both normal and stressed conditions. However, from 28 June 2021, amendments introduced by the CRR II will introduce a binding NSFR that will require credit institutions and systemic investment firms to finance their long-term activities with stable sources of funding.

As at 31 December 2020, the Issuer complies with all liquidity requirements.

The NWM Group is subject to similar regulation in jurisdictions other than the UK, including EU States that have also implemented the EU directives mentioned above. Typically, the NWM Group is subject to stand-alone requirements in each of the jurisdictions in which it operates, but according to the co-operation agreement between EU regulators, the Issuer is mainly regulated by the PRA.

Other changes made by the CRD V and CRR II include, inter alia:

- changes to the market risk by implementing the fundamental review of the trading book market (FRTB) standards as a reporting requirement;

- changes to the counterparty credit risk framework to introduce the Basel Committee on Banking Supervision's standardised approach for the calculation of the exposures value of derivatives contracts;

- revisions to the Pillar II framework including the introduction of the concept of Pillar II guidance and setting out the conditions under which competent authorities can impose additional Pillar II capital requirements;

- revisions to the framework concerning interest rate risk in the banking book (IRRBB), including the introduction of a standardised methodology; and

- the introduction of a requirement for non-EU financial groups to establish an IPU where (i) two or more institutions (including credit institutions and investment firms) established in the EU have the same ultimate parent undertaking in a third country and (ii) the NWM Group has been identified as a non-EU global systemically important institution ('**G-SII**') or has entities in the EU with total assets of at least EUR 40 billion.

The NWM Group does not expect these changes to have any significant effect on its overall capital requirements.

The Bank Recovery and Resolution Directive

At the EU level, the BRRD provides a framework for the recovery and resolution of credit institutions, including requirements for banks, in addition to the quantitative capital requirements under the amended CRD and CRR, to maintain at all times a sufficient aggregate amount of own funds and eligible liabilities that are capable of being bailed-in known as MREL. The current UK MREL regime will be phased in until 1 January 2022. It took effect on 1 January 2019 for material subsidiaries of G-SIIs and on 1 January 2020 for all other firms. The UK MREL regime has been designed to be broadly compatible with the term sheet published by the FSB on TLAC requirements for global systemically important banks (referred to as G-SIIs under the EU proposals).

The Banking Act implements the BRRD in the UK and creates the SRR. Under the SRR, HM Treasury, the BoE and the PRA and FCA are granted substantial powers to resolve and stabilise UK-incorporated financial institutions that are failing or likely to fail. Specifically, there are five options available to regulatory authorities under the current SRR to stabilise a failing financial institution: (i) transfer all of the business of the failing institution or the shares of the failing institution to a private sector purchaser; (ii) transfer all or part of the business of the failing institution to a bridge bank that is wholly-owned by the BoE; (iii) transfer part of the assets, rights or liabilities of the failing institution to one or more asset management vehicles; (iv) write-down, conversion, transfer, modification, or suspension of the failing institution's equity, capital instruments and liabilities; and (v) temporary public ownership of the failing institution.

These tools may be applied to NatWest Group plc as the parent company or to the 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, the SRR provides for modified insolvency and administration procedures for relevant entities, and confers ancillary powers on UK regulatory authorities, including the power to modify or override certain contractual arrangements in certain circumstances. Regulatory authorities are also empowered to amend the law for the purpose of enabling the powers under the SRR to be used effectively. Such orders may apply retrospectively.

UK regulatory 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, under which creditors should not incur losses greater that they would have incurred had the failing institution been wound-up under normal insolvency proceedings, may not apply to the 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. However, holders of debt instruments which are subject to the power may have ordinary shares transferred to or issued to them by way of compensation.

The European Commission's proposal for EU banking reform included amendments to the BRRD ('**BRRD II**'), which entered into force along with CRD V in June 2019. The amendments under BRRD II include, inter alia:

- enhancing the stabilisation tools in the BRRD with the introduction of a moratorium tool, whereby resolution authorities will have the power, when certain conditions are met, to suspend the payment or delivery obligations pursuant to any contract to which an institution that is subject to the BRRD is a party;
- a revised MREL framework which aligns the existing MREL requirements in the BRRD with the TLAC standard; and
- the integration of the minimum total TLAC standard into EU legislation.

EU Member States were required to publish the measures necessary to comply with BRRD II by 28 December 2020 and to apply those measures from that date, with certain exceptions.

During the transition period agreed between the UK and EU, the UK was required to implement EU directives where the application date for those directives fell within the transition period, which ended on 31 December 2020. Consequently, the UK was required to implement the majority of BRRD II requirements.

The UK had the discretion not to transpose those requirements in the BRRD II that did not require compliance by firms until after the end of the transition period. HM Treasury decided not to transpose Article 1(17) of the BRRD II, which inserted new Articles 45 to 45m into the BRRD concerning MREL, as the deadline for compliance with the revised end-state MREL requirements is 1 January 2024. The decision was based on the fact that the UK already has an MREL framework that applies the FSB TLAC standard.

A number of provisions of the BRRD II have been implemented in the UK by the Bank Recovery and Resolution (Amendment) (EU Exit) Regulations 2020 (SI 2020/1350) as well as through changes to the PRA Rulebook.

The Markets in Financial Instruments Directive and Regulation

In January 2018 the Markets in Financial Instruments Directive was replaced by the recast MiFID II and the MiFIR. MiFID II and MiFIR set out the licensing requirements, conduct of business rules and organisational standards with which firms providing investment services and activities must comply. MiFID II has been implemented into UK law by way of various statutory instruments and updates to the FCA Rulebook (and to a lesser extent the PRA Rulebook). MiFIR has been incorporated into UK law as retained EU law. Although MiFID II and MiFIR primarily apply to investment firms, credit institutions such as the Issuer are subject to certain provisions when providing one or more investment services and/or performing investment activities.

Forthcoming Regulatory Changes and Relevant Regulatory Initiatives

The UK Government introduced the Financial Services Bill 2019-21 ('**FS Bill**') in 2020 as the first major piece of UK primary legislation intended to address issues relating to financial services and financial regulation arising from the UK's withdrawal from the EU. The FS Bill will make extensive reforms to the financial services regulatory frameworks. In particular, the FS Bill will amend the FSMA and the retained law versions of various EU regulations relating to financial services.

The FS Bill amends the retained law version of the CRR so that it will no longer apply to investment firms other than certain PRA-designated investment firms. The amendments to the retained law version of the CRR are set out in Schedule 1 of the FS Bill. The FS Bill also provides a mechanism for HM Treasury and the PRA to implement into UK law provisions of the CRR II that give effect to certain Basel standards as well as the final Basel III standards that are not covered in the CRR II. The FS Bill grants the PRA substantial rule-making powers in relation to the prudential standards applicable to UK banks.

The FS Bill establishes the framework for the development of a new prudential regime for investment firms, referred to as the Investment Firms Prudential Regime ('IFPR'). This regime will be based on the EU Investment Firms Regulation (EU) 2019/2033 and the Investment Firms Directive (EU) 2019/2034, neither of which were required to be implemented in the UK. In addition to removing investment firms from the scope of the retained law version of the CRR, Schedule 2 of the FS Bill grants rule-making powers to the FCA in relation to investment firms that fall within the IFPR and parent undertakings of in-scope investment firms.

In a joint statement published in November 2020, HM Treasury, the PRA and the FCA announced that they intended to implement reforms to the UK prudential requirements for banks based on the Basel reforms set out in the CRR II on 1 January 2022, which is also the target implementation date for the IFPR.

AML Initiatives and Countries Subject to Sanctions

In recent years, combating money laundering and terrorist financing has been a major focus of governmental policy towards financial institutions. Applicable bank regulatory authorities are imposing, and industry groups and participants are adopting, heightened standards, and law enforcement authorities have been taking a more active role in prosecuting potential violations. If a financial institution would fail to comply with relevant regulations or to maintain and implement adequate and appropriate programs to that end, this could have serious legal and reputational consequences for that institution.

Significant changes were made to the UK's AML and terrorist financing regime in the year ended 31 December 2017. The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 replaced the Money Laundering Regulations 2007 and the Transfer of Funds (Information on the Payer) Regulations 2007 with provisions that implemented the EU Fourth Anti-Money Laundering Directive and the EU Funds Transfer Regulation.

In the EU, the MLD5 entered into force in July 2018, with a requirement for Member States, including the UK, to transpose it by 10 January 2020. A key change in MLD5 is a requirement on entities to take steps to mitigate the risks arising from their business relationships with persons in certain designated 'high risk' jurisdictions, including by undertaking prescribed enhanced due diligence measures and by limiting business relationships and transactions with such persons. This may impact the amount of business that the Issuer can conduct in these jurisdictions. MLD5 has been implemented in the UK by the Money Laundering and Terrorist Financing (Amendment) Regulations 2019 which amend the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017.

The Issuer's AML policy directly reflects relevant national and international laws, regulations and industry standards. All client engagements, products and services are in scope of this policy.

The requirements in the Issuer's AML policy cover minimum standards and controls related to: money laundering, terrorist financing, export trade controls, proliferation financing, sanctions (economic, financial and trade) and countries designated by the Issuer as UHRC. The effectiveness of those controls is reviewed periodically.

The Issuer's AML policy takes into account risks presented by doing business in certain specified countries that are targeted by UK, EU and/or US sanctions regimes. The Issuer's policy is not to enter into new relationships with clients from these countries, and processes remain in place to discontinue legacy relationships involving these countries. At present, these countries are North Korea, Sudan, Syria, Iran and Cuba. Each of these countries is subject to UK, EU and/or US sanctions regimes. Iran, Sudan, North Korea and Syria are identified by the US as state sponsors of terrorism and are subject to US economic sanctions and export controls.

The Issuer continues to improve its sanctions compliance controls to respond to risks of new or expanding sanctions regimes.

MANAGEMENT AND SHAREHOLDINGS

Board of Directors

The Board is the main decision-making body for the Issuer. It has overall responsibility for the management of the business and affairs of the Issuer and supervises the Executive Management, whereas the Executive Management is in charge of the day-to-day management observing the guidelines issued by the Board of Directors. Please refer to '*Management and Shareholdings—Executive Management*.' Under the current governance structure, the Board of Directors sets the strategic targets of the Issuer and its subsidiaries, ensures that the necessary resources are in place for the Issuer to meet its obligations, is responsible for approving the capital and funding plans and reviews the operational and financial performance of the Issuer. The Board of Directors monitors and maintains the consistency of the Issuer's activities within the strategic direction of NatWest Group, and ensures the Issuer manages risk effectively through approving and monitoring the Issuer's risk appetite, considering Group stress scenarios and agreed mitigants and identifying longer-term strategic threats to the Issuer's business operations. The Board of Directors' Terms of Reference includes key aspects of the Issuer's affairs reserved for the Board of Directors' decision and are reviewed at least annually. The Board of Directors is collectively responsible for the long-term success of NWM Plc and the delivery of sustainable value to its shareholders.

Other than the matters reserved specifically for the Board, the Board has delegated responsibility to the Chief Executive Officer. This includes responsibility for the operational management of the Issuer's businesses, as well as reviewing high-level strategic issues and considering risk appetite, risk policies and risk management strategies in advance of these being considered by the Board of Directors and/or its Committees. Specific delegated authorities are also in place in relation to business commitments across the NWM Group. The Board of Directors appoints and dismisses the Chief Executive Officer.

The members of the Board of Directors as at the date of this Registration Document are as follows:

	First elected to the Board of Directors
Non-Executive Directors	
Frank Dangeard, *Chairman*	2016
Brendan Nelson	2010
Sarah Wilkinson	2018
Vivek Ahuja	2018
Tamsin Rowe	2019
Anne Simpson	2020
Executive Directors	
Robert Begbie, *Chief Executive Officer*	2019
David King, *Chief Financial Officer*	2020

The business address for the current members of the Board of Directors is NWM Plc, 250 Bishopsgate, London EC2M 4AA, United Kingdom.

Mr. Frank Dangeard

As well as being Chairman of the Issuer, Mr. Dangeard is Chairman of NortonLifeLock Inc (US) and serves on the boards of NatWest Group plc, and Arqiva (UK). He is an 'advisory' board member of various listed and non-listed companies, principally in the technology/telecom, finance and energy industries.

Mr. Dangeard is also a Director-in-Residence at INSEAD and Co-Chairman of the Advisory Board of Hawkamah, the corporate governance institute of the MENA region, based in Dubai.

In the financial industry, Mr. Dangeard has served on the boards of Crédit Agricole CIB (France) and Home Credit (Czech Republic). In the technology/telecom industry, he has served on the boards of Orange, Equant and Wanadoo (France Télécom/Orange Group), Eutelsat (France), Sonaecom (Portugal), and has served as Deputy Chairman and Acting Chairman of Telenor (Norway). In the energy industry, he has served on the boards of EDF (France) and Hindustan Power (India). He has also chaired the Strategy Board of PwC (France), and has been a member of the Advisory Boards of the Harvard Business School (US) and of École des Hautes Études Commerciales (France).

From 2004 to 2008, Mr. Dangeard served as Chairman and CEO of Thomson SA (France) and prior to that as Deputy CEO of France Télécom. Mr. Dangeard earlier career was predominantly spent in investment banking, where he served as a Managing Director of SG Warburg & Co in London and Madrid, and latterly as Chairman of SG Warburg France. From 1986 to 1988, he was with Sullivan & Cromwell LLP, a US law firm, in New York and London.

Mr. Dangeard serves on the following principal Committees of the Issuer:

- Nominations Committee (Chair)

Mr. Brendan Nelson

Mr. Nelson is a chartered accountant. He was made a partner of KPMG in 1984, and served as a member of KPMG's UK board from 2000 to 2006. In 2006, Mr. Nelson was appointed vice chairman of KPMG's UK board, a position he held until his retirement in 2010.

Mr. Nelson was also Chairman of the Audit Committee of the Institute of Chartered Accountants of Scotland from 2005 to 2008, and served as President of the Institute from 2013-2014. Mr. Nelson is currently a Non-executive director and chairman of the audit committee of BP plc.

Mr. Nelson serves on the following principal Committees of the Issuer:

- Board Risk Committee
- Audit Committee (Chair)
- Performance & Remuneration Committee
- Nominations Committee

Ms. Sarah Wilkinson

Ms. Wilkinson is presently the Chief Executive Officer of NHS Digital (UK government), a role she has held since August 2017, having previously been the Chief Digital, Data and Technology Officer at the Home Office (UK government). Prior to that, Ms. Wilkinson held a number of senior leadership roles at top-tier global financial institutions in Technology, IT Strategic Transformation and Risk Management. Ms. Wilkinson also sits on the Audit, Risk and Compliance Committee of Kings College London, is a member of the Imperial College Department of Computing Advisory Board and the Oxford University Department of Mathematics Advisory Board, and is a member of The Tech Partnership.

Ms. Wilkinson was voted UK Chief Digital Officer of the Year 2017 by the CDO Club and named No. 2 in the UK Tech 50 in 2017 by Computer Weekly. She has over 20 years' experience in CIO leadership roles, extensive experience of implementing change through complex technology programs and has strong knowledge and experience of the financial services industry.

Ms. Wilkinson serves as a member on the following principal Committees of the Issuer:

- Audit Committee
- Performance & Remuneration Committee
- Nominations Committee

Mr. Vivek Ahuja

Mr. Ahuja is presently Group CEO & Partner at Terra Firma Capital Partners Limited. He has significant experience working in global finance with over 20 years in senior CFO leadership roles.

Prior to joining Terra Firma, he was most recently with Standard Chartered Bank, where he was the Deputy Group CFO and prior to that Group CFO (Wholesale Banking) and Regional CFO (Middle East & South Asia). He has also worked with other top-tier global financial institutions in a variety of roles spanning finance, strategy, and corporate & institutional banking.

Mr. Ahuja is a Fellow of the Institute of Chartered Accountants in England & Wales and has also been a member of Council and the Financial Services Faculty Board.

Mr. Ahuja serves as a member of the following principal Committees of the Issuer:

- Board Risk Committee (Chair)
- Audit Committee
- Performance & Remuneration Committee
- Nominations Committee

Ms. Tamsin Rowe

Ms. Rowe joined the NatWest Markets Board following her retirement in 2019 from Morgan Stanley, where she spent 31 years and was most recently Head of International HR.

During her time at Morgan Stanley, Tamsin was a sounding board and counsellor for the international business and led the HR department to support the business to deliver a range of projects including driving excellence in talent management; conduct and culture; assessing and supporting acquisitions, integrations and divestures; and remuneration.

Tamsin began her career in HR with Thomson Travel, prior to joining Morgan Stanley. Tamsin is a graduate of the University of Kent and London School of Economics and is a member of the Guild of Human Resources Professionals and the Institute of Personnel and Development.

Ms. Rowe serves as a member of the following principal Committees of the Issuer:

- Board Risk Committee
- Performance & Remuneration Committee (Chair)
- Nominations Committee

Ms. Anne Simpson

Anne Simpson joined the NWM Board in September 2020. Ms Simpson is a Chartered Accountant and spent her career with PwC working across audit, accounting consultancy, regulatory and governance roles advising major international banks. She also led a number of high profile reviews on behalf of the UK regulators covering a wide range of topics including IT, governance and regulatory reporting. Most recently, she was Senior Partner in the firm’s Banking & Capital Markets Regulatory team and Chair of the firm’s UK Supervisory Board. She was a member of the ICAEW Risk and Regulatory Committee from 2009-2017.

Ms. Simpson serves as a member of the following principal Committees of the Issuer:

- Board Risk Committee
- Audit Committee
- Performance & Remuneration Committee
- Nominations Committee

Mr. Robert Begbie

Mr Begbie has worked for NatWest for 40 years and has extensive experience in treasury and capital markets. During his career, he has built successful capital markets businesses across fixed income, derivatives, asset management and cash markets and led teams in the UK, Europe, Asia and the US.

After spending 20 years in the NatWest Group Markets business, Robert joined NatWest Treasury in 2009 where he was instrumental in transforming the NatWest balance sheet. In 2017 Robert was appointed as NatWest Treasurer with responsibilities for all aspects of Treasury and the management of the Bank’s balance sheet.

He holds an MBA from CASS Business School and is a former president of the Chartered Institute of Bankers Scotland (London Branch).

Mr. David King

Mr King was appointed Chief Financial Officer of NatWest Markets Plc in June 2020. David has more than 20 years' experience in financial services, beginning his career in audit with KPMG before moving into banking. David joins NatWest Markets Plc having most recently worked at MUFG Securities EMEA PLC where he spent nine years, first as Chief Financial Officer before being appointed Chief Executive Officer in 2014. Prior to this, he worked for Lloyds, HBOS, Halifax and RBS in a range of finance and treasury roles. He is a Mathematics graduate of University of Surrey and a qualified accountant (ACA).

Executive Management

The Executive Directors of NWM Plc act as the Executive Management and have responsibility for the day-to-day management of the Issuer.

The members of the Executive Management as at the date of this Registration Document are as follows:

	Position	Year of birth	Appointed on the Executive Management
Robert Begbie	Chief Executive Officer	1961	2019
David King	Chief Financial Officer	1968	2020

Conflict of Interest

The Issuer has procedures in place to ensure that the Board's management of conflicts of interest and its powers for authorising certain conflicts are operating effectively. On appointment, each director is provided with the Issuer's guidelines for referring conflicts of interest to the Board. Each director is required to notify the Board of any actual or potential situational or transactional conflicts of interest and to update the Board with any changes to the facts and circumstances surrounding such conflicts.

Situational conflicts can be authorised by the Board in accordance with the Companies Act 2006 and the Issuer's articles of association. The Board considers each request for authorisation on a case by case basis and has the power to impose conditions or limitations on any authorisation granted as part of the process.

Except as set out in the biographies listed in this disclosure, no potential conflicts of interest exist between any duties to the Issuer of the directors listed above and their private interests and/or other duties.

Remuneration and Benefits

Remuneration of the Board of Directors

	2020	2019
	£	
Directors' remuneration		
Non-Executive Directors	368	326
Chairman and executive directors – emoluments	1,877	3,356
Amounts receivable under LTIPs, share option and other plans	269	—
Total	2,514	3,682

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.

Non-executive directors receive a basic fixed fee for service on the Board. They are not eligible to participate in the Issuer's incentive programs and do not receive performance-based remuneration. The fixed fee is determined in accordance with market standard and reflects the qualifications and competencies required in view of the Issuer's size and complexity, the responsibilities and the time non-executive directors are expected to allocate to discharge their obligations as Board members. The Chairman of the Board receives an annual fixed fee.

In addition to the base fixed fee, non-executive directors receive additional compensation if they also serve as members of one or more of the Board Committees. The Chairman of a Board Committee also receives an additional fee.

For information on the remuneration for Executive directors, as well as for other members of the Board of Directors, see note 30 to the 2020 Financial Statements incorporated by reference into this Registration Document.

Remuneration of the Executive Management

The compensation of the key management is outlined in the table below.

	2020	2019
	£	
Short term benefits	16,922	22,889
Post-employment benefits	278	283
Share based payments	2,789	484
	19,989	23,656

For additional information regarding remuneration of the members of the Executive Management, see Notes 31 and 31 to the 2020 Financial Statements incorporated by reference into this Registration Document.

Severance Terms for the Executive Management

Mr. Begbie and Mr. King may terminate their service contracts by giving 6 months' notice. The Issuer may terminate the service contract of Mr Begbie and Mr. King with 6 months' notice. Members of the Executive Management are not entitled to any severance pay other than salary while under notice.

Performance-based Share Remuneration Program

Mr Begbie and Mr. King may participate in NatWest Group's long-term incentive plans and share save schemes and details of the interests in NatWest Group plc's shares arising from their participation are given in the Directors' remuneration report in the Report and Accounts of NatWest Group plc.

Board Practices

An Annual General Board Meeting shall be held once every year, at such time (subject to statutes) and place as may be determined by the Board. The directors may whenever they think fit, and shall on requisition in accordance with the statutes, proceed to convene a General Board Meeting.

The quorum necessary to proceed with a General Board Meeting may be fixed by the Board and unless so fixed at any other number shall be three. A meeting of the Board at which a quorum is present shall be competent to exercise all powers and discretions for the time being exercisable by the Board. The external auditors and the Chief Internal Auditor are invited to participate in meetings of the Board where matters relevant to the auditing or the financial reporting of the Issuer are considered.

The Board may delegate any of its powers, authorities or discretions (including, for the avoidance of doubt, any powers, authorities or discretions relating to the remuneration of directors, the varying of directors' terms and conditions of employment or the conferring of any benefit on directors) to committees consisting of such directors, or any other person, as the directors think fit.

Committees

General

The Board has established four committees: the Risk Committee, the Audit Committee, the Performance & Remuneration Committee, and the Nomination Committee. The tasks of the committees are laid out in the Terms of Reference for each committee, which are reviewed at least once a year.

The Audit Committee comprises at least two independent non-executive directors and assists the Board in discharging its responsibilities for the disclosure of the financial affairs of the Issuer. It reviews the accounting policies, financial reporting and regulatory compliance practices of the Issuer, the Issuer's system and standards of internal controls, and monitors the Issuer's processes for internal audit and external audit and reviews the practices of the segmental Risk and Audit Committees.

The Board Risk Committee comprises at least two independent non-executive directors. It provides oversight and advice to the Board on current and potential future risk exposures of the Issuer and risk strategy. It reviews the Issuer's performance on risk appetite and oversees the operation of the Issuer's Policy Framework.

The Performance & Remuneration Committee comprises at least four independent non-executive directors and oversees the implementation of NatWest Group's policy on remuneration. It also considers and makes recommendations on remuneration arrangements for senior executives of the Issuer.

The Nominations Committee comprises four non-executive directors, and is chaired by the Chairman of the Issuer. 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.

Declaration on Corporate Governance

By adhering to sound principles of corporate governance, the Issuer wishes to maintain the confidence of investors, achieve its financial objectives and act with integrity towards all its stakeholders. The Issuer aims to create transparency for shareholders and other stakeholders by describing aspects of its organisation and processes through its annual report and accounts approved by the Board.

Shareholdings

NatWest Group plc owns 100 per cent of the shares in the Issuer and therefore controls the entity, including the election of members of the Board.

RELATED PARTY TRANSACTIONS

Pursuant to IFRS, a related party to the NWM Group is either a party over which the NWM Group has control or significant influence or a party that has control or significant influence over the NWM Group. All entities over which the NWM Group has control are consolidated and are therefore not considered a related party in relation to the NWM Group.

Certain significant contractual and other relationships with NatWest Group entities are described, amongst others, in '*Operating and Financial Review – Primary Factors Affecting the NWM Group's Results of Operations – Relationship with NatWest Group*' and *'Operating and Financial Review—Primary Factors Affecting the NWM Group's Results of Operations—Recent Changes to the NWM Group's Scope of Activities Relating to the UK's Exit From The EU'*.

UK government

On 1 December 2008, the UK government through HM Treasury became the ultimate controlling party of NatWest Group plc. The UK government's shareholding is managed by UKGI, a company wholly owned by the UK government. As a result, the UK government and UK government controlled bodies became related parties of the NWM Group.

In 2015, HM Treasury sold 630 million of NatWest Group plc's ordinary shares and a further 925 million in Junes 2018. As of the date hereof, HM Treasury's holding in NatWest Group plc's ordinary shares was 59.8 per cent.

The NWM Group enters into transactions with many of these bodies on an arm's length basis. Transactions include the payment of: taxes principally UK corporation tax 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.

BoE Facilities

The NWM Group may participate in a number of schemes operated by the BoE in the normal course of business.

Members of the NWM Group that are UK authorised institutions are required to maintain non-interest bearing (cash ratio) deposits with the BoE amounting to 0.368 per cent of their average eligible liabilities in excess of £600 million. They also have access to BoE reserve accounts: sterling current accounts that earn interest at the BoE 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 per cent 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 ISSUER

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