Dated 13 May 2020

NatWest Markets Plc

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

2020 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 (the '**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 a member state ('**Member State**') of the European Economic Area ('**EEA**') or the United Kingdom (the '**UK**') or apply to have admitted to trading on a regulated market situated or operating within such a Member State or the UK, 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 Regulation (EU) 2017/1129. The FCA only approves this Registration Document as meeting the standards of completeness, comprehensibility and consistency imposed by Regulation (EU) 2017/1129. 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 unaudited consolidated financial statements of the NWM Group for the three months ended 31 March 2020, set forth on pages 6 to 12 of the Issuer's interim report which was published via the regulated news service of the London Stock Exchange ('**RNS**') on 1 May 2020 (the '**Q1 2020 Financial Statements**');

(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

(d) the audited consolidated financial statements of the NWM Group, together with the audit report thereon, for the year ended 31 December 2018, set forth in the section 'Financial Statements' on pages 52 to 123 and in section 'Capital and Risk Management' on pages 10 to 48 (except information identified as 'unaudited') of the Issuer's annual report which was published via RNS on 15 February 2019 (the '**2018 Financial Statements**' and, together with the Q1 2020 Financial Statements and the 2019 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://www.investors.rbs.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 statements in this Registration Document, including certain statements set forth under '*Risk Factors*,' '*Operating and Financial Review*,' '*Risk Management*,' '*Description of the NWM Group*,' and '*Regulation and Supervision*,' are based on the beliefs of the Issuer, as well as assumptions made by and information currently available to the Issuer, and such statements may constitute forward-looking statements. These forward-looking statements (other than statements of historical fact) regarding the NWM Group's future results of operations, financial condition, cash flows, business strategy, plans and objectives of the NWM Group's management for future operations can generally be identified by terminology such as 'targets,' 'believes,' 'estimates,' 'expects,' 'aims,' 'intends,' 'plans,' 'seeks,' 'will,' 'may,' 'anticipates,' 'would,' 'could,' 'continues' or similar expressions or the negatives thereof.

Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of the NWM Group, or industry results, to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Such risks, uncertainties and other important factors include, among others:

- strategic risk, including in respect of:
  - the implementation and execution of the NWM Refocusing;
  - the impact of the RBS Group's Purpose-led Strategy and climate ambition on the NWM Group; and
  - the risk that the NWM Group may not achieve its targets;
- financial resilience risk, including in respect of:
  - the NWM Group's ability to meet targets. generate returns or implement its strategy effectively;
  - the recent structural change as a result of the UK ring-fencing regime and the acquisition of NWM NV;
  - the NWM Group's reliance on access to global capital markets to meet its funding commitments;
  - the ability of the NWM Group to meet prudential regulatory requirements for capital and liquidity;
  - NWM Plc's ability to adequately access sources of liquidity and funding;
  - NWM Plc's (and its subsidiaries) ability to manage its capital, liquidity or funding effectively;
  - changes in the credit ratings of RBSG, any of its subsidiaries or any of its respective debt securities;
  - the highly competitive markets in which the NWM Group operates;
  - the RBS Group's ability to meet requirements of regulatory stress tests;
  - deteriorations in borrower and counterparty credit quality;
  - possible losses or the requirement to maintain higher levels of capital as a result of limitations or failure of various models;
  - sensitivity of the NWM Group's financial statements to underlying accounting policies, judgments, assumptions and estimates;
  - changes in applicable accounting policies or rules; and
  - the application of UK statutory stabilisation or resolution powers;

- operational and IT resilience risk, including in respect of:
  - the NWM Group being subject to cyberattacks;
  - operational risks inherent in the NWM Group's business;
  - the NWM Group's operations being highly dependent on its IT systems;
  - the NWM Group relying on attracting, retaining, developing and remunerating senior management and skilled personnel and maintaining good employee relations;
  - the NWM Group's risk management framework; and
  - reputational risk;
- economic and political risk, including in respect of:
  - the uncertainty surrounding the Covid-19 pandemic and its impact on NWM Group;
  - increased political and economic risks and uncertainty in the UK and global markets;
  - prevailing uncertainty surrounding the terms of the UK's withdrawal from the European Union;
  - climate change and the transition to a low carbon economy;
  - changes in interest rates;
  - changes in foreign currency exchange rates; and
  - HM Treasury's ownership of RBSG and the possibility that it may exert a significant degree of influence over the RBS Group;
- legal, regulatory and conduct risk, including in respect of:
  - the NWM Group's businesses being subject to substantial regulation and oversight;
  - legal, regulatory and governmental actions and investigations;
  - the transition of LIBOR and IBOR rates to alternative risk free rates; and
  - changes in tax legislation.

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 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:

'**2018 Financial Statements**'..	the audited consolidated financial statements of the NWM Group as at and for the year ended 31 December 2018 as well as the 'Capital and Risk Management' section (except for information identified therein as 'unaudited').
'**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').
'**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.'*
'**AML**'..	anti-money laundering.
'**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.
'**Board Risk Measures**'..	The subset of the most material risk appetite measures.
'**BoE**'..	the Bank of England.
'**BRRD**'...	the EU Bank Recovery and Resolution Directive
'**CDOs**'...	collateralised debt obligations.
'**CET1**'...	common equity tier 1.
'**Combined Saudi Bank**'...	Alawwal and Saudi British Bank.
'**Consortium Shareholders**'	has the meaning assigned thereto in the section '*Operating and Financial Review—Primary Factors Affecting the NWM Group's Results of Operations—Relationship with the RBS Group—Revenue Share Agreements'*
'**CRD**'...	the Capital Requirements Directive (2013/36/EU).
'**CRD IV**'	The CRD and CRR, together.

'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.
'CSD'	Capital Support Deed.
'DDOS'	Distributed Denial of Service.
'DoJ'	the US Department of Justice.
'D-SIB'	Domestic Systemically Important Banks.
'EAD'	exposure at default.
'EBA'	the European Banking Authority.
'ECB'	the European Central Bank.
'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.
'FCA'	the United Kingdom Financial Conduct Authority.
'FDIC'	the Federal Deposit Insurance Corporation.
'Federal Reserve'	the Board of Governors of the Federal Reserve System.
'FICC'	fixed income, currencies and commodities.
'Fitch'	Fitch Ratings Ltd. or successors thereto.
'Financial Institutions'	commercial banks, insurance companies, pension funds, hedge funds and sovereign wealth funds.
'Financial Statements'	the 2018 Financial Statements, the 2019 Financial Statements and the Q1 2020 Financial Statements,

	collectively.
‘FPC’	the Financial Policy Committee.
‘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.’*
‘Funded RSA’	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.’*
‘G10’	Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom and the United States.
‘GAAP’	generally accepted accounting principles.
‘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.
‘IFRS’	International Financial Reporting Standards issued by the IASB, as adopted by the EU.
‘IRB’	internal ratings-based.
‘IT’	information technology.
‘IPU’	intermediate parent undertaking.
‘LAB’	Liquid Asset Buffer.
‘LCR’	liquidity coverage ratio.
‘Member State’	Member State of the EU.
‘MiFID II’	The Directive 2014/65/EU.
‘MiFIR’	the Markets in Financial Instruments Regulation.
‘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.
'**NatWest Holdings Group**'	NWH Ltd and its subsidiaries.
'**NAV**'	net asset value.
'**NLFT**'	has the meaning assigned thereto in the section '*Operating and Financial Review—Primary Factors Affecting the NWM Group's Results of Operations—Relationship with the RBS Group—Revenue Share Agreements'*
'**nm**'	not meaningful.
'**NSFR**'	net stable funding ratio.
'**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.
'**OFAC**'	Office of Foreign Assets Control.
'**pounds sterling**'	the currency of the United Kingdom.
'**PRA**'	the Prudential Regulation Authority.
'**Prospectus Regulation**'	Regulation (EU) 2017/1129, as amended.
'**Q1 2020 Financial Statements**'	the unaudited consolidated financial statements of the NWM Group as at and for the three months ended 31 March 2020.
'**RBS Group**'	RBSG together with its subsidiary and associated undertakings.
'**RBS plc**'	The Royal Bank of Scotland Plc.
'**RBSG**'	The Royal Bank of Scotland Group plc., which is intended to be renamed NatWest Group plc later in 2020.
'**RBSH**'	RBS Holdings N.V.

'RBSI'	RBS International.
'RCR'	RBS Capital Resolution.
'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 the RBS 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 the RBS 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.
'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.
'SEC'	the US Securities and Exchange Commission.
'Securities Act'	the United States Securities Act of 1933, as amended.
'SIFI'	systemically important financial institution.
'SOC'	the stressed outflow coverage.
'SRR'	the special resolution regime.
'SVaR'	Stressed value-at-risk.
'TCR'	the total capital requirements.
'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 DoLSub**'	the UK Domestic Liquidity Subgroup.
'**UKGI**'..	UK Government Investments Limited.
'**US**'	the United States.
'**US dollar**' or '**US$**'	the currency of the United States.
'**VaR**'	value-at-risk.
'**VAT**'..	value-added-tax.

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 2019 Financial Statements and the 2018 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 2019, 2018 and 2017 and have been audited by Ernst & Young LLP. The Q1 2020 Financial Statements include consolidated interim financial information of the NWM Group as at and for the three months ended 31 March 2020 and have been reviewed by Ernst & Young LLP. The Financial Statements and the reports of Ernst & Young LLP on the 2019 Financial Statements and the 2018 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 (as adopted by the EU).

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 the RBS Group's NatWest Markets Franchise financial information to the Issuer

The RBS Group's 'NatWest Markets' franchise reporting segment does not correspond to the NWM Plc legal entity or the NWM Group. The RBS 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, the holding company of NWM NV, was acquired by NWM Plc from RFS Holdings BV, itself a direct subsidiary of RBSG, which is intended to be renamed NatWest Group plc later in 2020 ('**RBSG**'). 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, the RBS 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 the RBS 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. RBS 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 RBSG. Comparisons 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 the RBS 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 RBSG 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 the RBS Group) was transferred by the NWM Group to be a direct subsidiary of RBSG with effect from 2 July 2018 thereby creating the legal separation of those RBS 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 the RBS Group resulting from the UK ring-fencing legislation was completed by 31 December 2018, the NWM Group's financial statements for the year ended 31 December 2019 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 the RBS 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) RBSG 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. Other changes, including the transfer of loans and lending facilities in respect of the Western European customers, primarily from NWB to NWM NV, remain ongoing. 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—Prevailing uncertainty regarding the terms of the UK's withdrawal from the EU has adversely affected and will continue to affect the NWM Group.*').

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 (as adopted by the EU) 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.

Additionally, the NWM Group presents a management view of core and legacy positions for income, funded assets and RWAs. Legacy positions consist predominantly of the residual exposures which were reported in the reportable segment formerly known as 'Capital Resolution' until its closure after the third quarter of the year ended 31 December 2017, as well as certain funding costs.

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 materialize 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.

Strategic risk

The RBS Group has announced a new strategy that will require changes in the NWM Group's business, including reductions in capital allocated to the NWM Group, its cost base and complexity. This entails material execution, commercial and operational risks for the NWM Group.

On 14 February 2020, the RBS Group announced a new strategy, focused on becoming a Purpose-led business. This new strategy will require changes in the NWM Group's business, including an increased focus on serving the RBS Group's corporate and institutional customer base. Over the medium term, NWM Group intends to simplify its operating model and technology platform, as well as reduce its cost base and capital requirements. Together, these initiatives are referred to as the 'NWM Refocusing'. The changes required are substantial, will be implemented over several years, and may not result in the expected outcome within the timeline and in the manner contemplated.

A part of the NWM Refocusing is the intended reduction in NWM Group's level of RWAs. This includes an expected reduction in NWM Plc's RWAs by £14-18 billion in the medium term, through accelerating the exit of exposures and an optimisation of inefficient capital across the NWM Group, especially in relation to its Rates products. The NWM Refocusing entails significant commercial, operational and execution risks, including an increased dependency on the RBS Group's corporate and institutional customer base. Certain material assumptions on which it is based may also 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 the NWM Group will generate operating losses over the course of the transition plan period and therefore the 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 the NWM Group or the RBS Group may be triggered. 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, which could have a material adverse effect on the NWM Group's financial condition and results of operations.

The NWM Refocusing is highly complex and the 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 the NWM Group, especially during the planning and implementation period. The NWM Refocusing is resource-intensive and disruptive, and will divert management resources, adding to the challenge for the new senior management team of the NWM Group. In addition, the scale of changes being concurrently implemented will require the implementation and application of robust governance and controls frameworks and further consolidation of IT systems and there is no guarantee that the NWM Group will be successful in doing so.

The focus on meeting cost reduction targets 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. A significant proportion of the cost savings are dependent on simplification of the IT systems and therefore may not be realised in full if IT capabilities are not delivered in line with assumptions. These risks will be present throughout the period of refocusing and alignment which is expected to last for the medium term.

Each of these risks could jeopardise the delivery and implementation of the NWM Refocusing, result in higher than expected costs, impact the NWM Group's products and services offering, reputation with customers or business model and adversely impact the 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 the NWM Group's results of operations, financial condition and prospects. The NWM Refocusing envisages a smaller scaled business and its successful implementation will result in substantially lower revenues.

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

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

As part of the NWM Refocusing, the NWM Group has set a number of financial, capital and operational targets and expectations. These include (but are not limited to) expectations relating to reductions in RWAs and the timing thereof, and CET1 ratio.

The successful implementation of the NWM Refocusing is highly complex and the ability to meet associated targets and expectations is subject to various internal and external factors and risks. These include, but are not limited to, market, regulatory, economic and political uncertainties, operational risks, insufficient cost reduction plans, risks relating to the RBS Group's and NWM Group's business models and strategies and delays or difficulties in implementing the NWM Refocusing. The successful implementation of the NWM Refocusing will also depend on how the NWM Refocusing is perceived by its customers, regulators, rating agencies, stakeholders and the wider market, how that impacts its business, and the NWM 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 risk-weighted assets will be accompanied by the recognition of disposal losses which may be higher than anticipated, including due to future stresses which may place NWM Plc's capital ratios under pressure. Furthermore, regulatory pressures or changes in the economic and political and regulatory environment in which the NWM Group operates or regulatory uncertainty or economic volatility, including (but not limited to) as a result of the continued uncertainty surrounding the terms of the UK's exit from the EU, or changes in the scale and timing of policy responses on climate change, may require the NWM Group to adjust aspects of the NWM Refocusing or the timeframe for its implementation.

The 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 the NWM Group's business model as a result may be more adverse than expected and previously anticipated revenue and profitability levels may not be achieved in the timescale envisaged or at all. An adverse macroeconomic environment, including sustained low interest rates, continued political and regulatory uncertainty and/or strong market competition may also pose significant challenges to the successful implementation of the NWM Refocusing and the achievement of its targets. The prolonged period of implementation and changed nature of the NWM Group's business may also adversely affect the credit rating assigned to NWM Plc and certain of its subsidiaries (including NWM NV) or any of their respective debt securities, which could adversely affect the availability and cost of funding for the NWM Group and negatively impact the NWM Group's liquidity position.

Should the NWM Group not be able to implement or execute the NWM Refocusing as contemplated, it may negatively impact revenues for the NWM Group, its ability to meet targets and expectations and could lead to revisions to the NWM Refocusing strategy, including management actions by the RBS Group. Such changes and revisions could have a material adverse effect on the NWM Group's financial condition and results of operations, and may affect its ability to be a viable and competitive business.

The RBS Group has announced a new Purpose-led Strategy which will further influence the NWM Refocusing and the go-forward strategy of the NWM Group.

On 14 February 2020 the RBS 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. The strategy has three areas of focus – climate change, enterprise and learning – where the RBS Group believes it can have the greatest positive impact. Together, these strategic initiatives are referred to as the RBS Group's 'Purpose-led Strategy'. To deliver against this purpose and deliver sustainable returns, the RBS Group intends to: focus on the lifeycles of its customers using insights about customers to evolve product and service offerings; re-engineer and simplify the RBS Group by updating operational capability and technology and strengthening governance and control frameworks to reduce costs and improve customer journeys; focus on innovation and partnership to drive change and achieve growth in new product areas and customer segments; and have a sharper focus on capital allocation and deploy it more effectively for customers, in particular through the NWM Refocusing.

The implementation of the new Purpose-led Strategy is highly complex and will require the NWM Group to set supporting targets and implement a large number of concurrent and interdependent actions and initiatives, including the NWM Refocusing, any of which could fail to be implemented in the manner and to the extent contemplated, due to operational, legal, execution or other issues. The anticipated changes for NWM Group to support the RBS Group's successful implementation of the Purpose-led Strategy are expected to be substantial and some will take many years to fully embed and may not result in the expected outcome on the timeline and in the manner contemplated. See also '*—The RBS Group's Purpose-led Strategy includes one area of focus on climate change which entails significant execution risk and is likely to require material changes to the business model of the RBS Group (including the NWM Group) over the next ten years*'.

As part of its new Purpose-led Strategy, the RBS Group has set a number of financial, capital and operational targets and expectations, both for the short term and throughout the implementation period. In addition to the NWM Refocusing, the RBS Group will require significant reductions to its wider cost base. In addition to requiring additional cost reductions within the NWM Group, this could affect the cost and scope of the RBS Group's provision of services to the NWM Group, which individually and collectively may impact the NWM Group's competitive position and its ability to meet its other targets. The implementation and delivery of the Purpose-led Strategy by the RBS Group could have a material adverse impact on the NWM Group's results of operations, financial condition and prospects.

The RBS Group's Purpose-led Strategy includes one area of focus on climate change which entails significant execution risk and is likely to require material changes to the business model of the RBS Group (including the NWM Group) over the next ten years.

The RBS Group's new strategy on climate change, together with its commitments under the UN Principles on Responsible Banking to align its strategy to the 2015 Paris Agreement will require the NWM Group to dedicate resource to the RBS Group's efforts to develop the capacity and methodology to understand, and measure the climate impact of the emissions from its financing activity. The RBS Group must identify its approach to this on a short time scale to meet its target of setting and publishing sector-specific targets by 2021 and its goal of setting comprehensive climate impact scenario-based reduction targets and plans for alignment to the 2015 Paris Agreement by 2022, and be able to adequately define and benchmark its current climate impact to demonstrate its progress against its ambition to reduce this by half over the next ten years.

The NWM Group therefore expects to set targets for reductions to the NWM Group's financed emissions which are currently unknown in scope and nature but are expected to be significant. These targets, together with the impact of embedding climate into its risk framework and other regulatory, policy and market changes, is likely to necessitate far reaching changes to the NWM Group's operating model and existing exposures, and potentially on timescales outside of risk appetite. Whilst the risks presented by climate change are unprecedented, how the NWM Group implements the RBS Group's strategy to respond to climate change may also have a material adverse effect on the NWM Group's business and funding, and its future profitability over the short, medium and long term. Once established, there is no certainty that the NWM Group will be able to meet its climate change targets and ambitions and seeking to do so may have a material adverse impact on the NWM Group's financial condition, results of operations and competitive position. See also '*—Economic and political risk—The NWM Group expects to face significant risks in connection with climate change and the transition to a low carbon economy*'.

Financial resilience risk

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

As part of the RBS Group's Purpose-led Strategy and the NWM Refocusing, the NWM Group has stated 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.

The 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, client and staff behaviour and actions, market, regulatory, economic and political factors, developments relating to litigation, governmental actions, investigations and regulatory matters, and operational risks and risks relating to the NWM Group's business model and strategy (including risks associated with ESG issues) and the NWM Refocusing. See also '*—The NWM Group may not be able to successfully implement the NWM Refocusing and it may not achieve its targets and the NWM Group may not ultimately result in a viable, competitive business*'.

A number of factors may impact NWM 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. In addition, the exit of capital optimisation positions in NWM Plc will give rise to disposal losses which may be partially recognised prior to the disposal, and which may be higher than anticipated.

The 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 the 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 a material adverse impact on the NWM Group's financial condition and results of operations (in particular, the income from its Rates business) and may adversely affect its ability to achieve its targets and execute its strategy. There is no certainty that the NWM Group's strategy will be successfully executed, that it will meet its targets and expectations, or that it will be a viable, competitive or profitable banking business.

The NWM Group has recently undergone significant structural change, as a result of the implementation of the UK ring-fencing regime, and the acquisition of NWM NV.

Prior to the implementation of the UK ring-fencing regime, NWM Plc was the RBS 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 the RBS Group's operations outside the ring-fence (excluding RBSI). As a result, the NWM Group can no longer accept deposits from certain retail and small business customers located in the EEA (and post-Brexit, in the EEA and the UK) and the remaining operations of the NWM Group comprise the businesses serving financial institutions and UK and European corporate customers, providing them with risk management, trading solutions and debt financing. These business operations are subject to further potential changes as a result of the UK's departure from the EU.

The implementation of the UK ring-fencing regime has had a significant impact on NWM Plc with a reduction in its operational footprint, changes in Board composition, balance sheet composition, its cost-to-income and CET1 ratios, risk profile, its funding strategy, capital requirements and credit ratings. Accordingly, NWM Plc has been required to adapt its strategy, structure and business model and has adopted processes and structures for, among other things, financial reporting, risk management and corporate governance. It has also implemented a shared services model with the ring-fenced entities for certain other services, the execution of which is subject to various internal and external factors and risks, including the implementation of the NWM Refocusing. See also, '*—Strategic risk—The RBS Group has announced a new strategy that will require changes in the NWM Group's business, including reductions in capital allocated to the NWM Group, its cost base and complexity. This entails material execution, commercial and operational risks for the NWM Group*' and '*—Strategic risk—The NWM Group may not be able to successfully implement the NWM Refocusing and it may not achieve its targets and the NWM Group may not ultimately result in a viable, competitive business*'. Moreover, the NWM Group has entered into Revenue Share Agreements with some entities within the RBS Group's ring-fenced sub-group (including NWM Plc, RBS plc and Ulster Bank Ireland DAC) as well as a non ring-fenced entity (RBSI). 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 the NWM Plc acquisition of RBSH and its wholly-owned subsidiary, NWM NV, 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.

These structural changes may have a material adverse effect on the NWM Group's financial condition and results of operations and there can be no certainty that the NWM Group will be a viable, competitive or profitable banking business. See also, '*—The NWM Group may not be able to successfully implement the NWM Refocusing and it may not achieve its targets and the NWM Group may not ultimately result in a viable, competitive business*'.

The NWM Group is reliant on access to the global capital markets to meet its funding requirements, both directly, and indirectly through its parent for the subscription to its internal MREL.

The NWM Group's funding plan currently anticipates that in 2020 the NWM Group will issue £3-5 billion in senior unsecured funding in order to meet its near-term debt re-financing and funding requirements, based on its current and anticipated business activities. The NWM Group is therefore reliant on frequent access to the global capital markets for funding, and on terms that are acceptable to it. Such access entails execution risk and could be impeded by a number of internal or external factors, including, those referred to below in '*—Economic and political risk—The NWM Group faces market risk as a result of increased political and economic risks and uncertainty in the UK and global markets*', '*—Economic and political risk—Prevailing uncertainty regarding the terms of the UK's withdrawal from the EU has adversely affected and will continue to affect the NWM Group*' and '*—Any reduction in the credit rating assigned to RBSG 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 the NWM Group, reduce the NWM Group's liquidity position and increase the cost of funding*'.

In addition, NWM Plc receives capital and funding from the RBS Group. 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, RBSG plc, in all cases with a residual maturity of at least one year. The BoE has identified that the preferred resolution strategy for RBS Group is as a single point of entry. As a result, only RBSG 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 on RBSG plc to fund its internal capital targets and its ability to source appropriate funding at an RBSG plc level to support this. NWM Plc is also dependent on RBSG plc to continue to fund NWM Plc's internal MREL target 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 the 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 have a material adverse effect on the financial condition and results of operations of the NWM Group, such that the 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).

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

The 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 the NWM Group financial flexibility in the face of turbulence and uncertainty in the global economy and specifically in its core UK and European markets.

NWM Plc's 2020 target CET1 ratio is above 15 per cent (on a solo (i.e. unconsolidated) basis). This target CET1 ratio is based on regulatory requirements, internal modelling and risk appetite (including under stress). NWM NV's 2020 target CET1 ratio is above 15 per cent on a consolidated basis. This target CET1 ratio is based on expected regulatory requirements, internal modelling and risk appetite (including under stress), taking into account the anticipated extent of transfers of EEA clients from NWM Plc and NWB to NWM NV due to Brexit.

As at 31 March 2020, NWM Plc's CET1 ratio was 15.7 per cent. 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 RBSG plc, NWM Plc's parent company).

Other factors that could influence the NWM Plc and NWM NV's CET1 ratios include, amongst other things (see also, '*—Strategic risk—The RBS Group has announced a new strategy that will require changes in the NWM Group's business, including reductions in capital allocated to the NWM Group, its cost base and complexity. This entails material execution, commercial and operational risks for the 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 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 in 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 De Nederlandsche Bank ('DNB')), including Pillar 2 requirements and regulatory buffers (including the increased 2 per cent countercyclical capital buffer for UK banks with effect from 16 December 2020), as well as any applicable scalars;

- further developments of prudential regulation (for example, the CCR2 and 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;

- the timing of planned liquidation, disposal and/or capital releases of capital optimisation activity or legacy entities owned by NWM Plc and NWM NV; or

- the risk in relation to an adverse market movement impacting the value of our SAR denominated shareholding in Saudi British Bank (SABB). NWM Plc acquired a 4.1 per cent equity non-significant investment in SABB from NWM NV in June 2019 on completion of the merger of Alawwal Bank with SABB.

NWM Plc has a CSD, which facilitates capital support amongst the participating entities in the NWM Group.

Any capital management actions taken under a stress scenario may affect, among other things, the 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 the 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 '*The RBS Group (including the NWM Group entities) 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 the NWM Group entities' Eligible Liabilities*'. Any failure by the NWM Group to meet the prudential regulatory requirements for capital and MREL may have a material adverse effect on the NWM Group's financial condition and results of operations.

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

The 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 2019, the NWM Group held £5.8 billion in deposits from banks and customers. The level of deposits and wholesale funding may fluctuate due to factors outside the NWM Group's control. These include loss of confidence (including in individual NWM Group entities or the UK banking sector or the banking sector as a whole) and increasing competitive pressures for bank funding or the reduction or cessation of deposits and other funding by foreign counterparties, which could result in a significant outflow of deposits or reduction in wholesale funding within a short period of time. See also, '*—The NWM Group has significant exposure to counterparty and borrower risk*'. An inability to grow, roll-over, or any material decrease in, the 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 the NWM Group's ability to satisfy its liquidity needs.

The 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 the 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 the NWM Group balance sheet, then unsecured funding from other sources would be required to replace such financing. There is a risk that the NWM Group is unable to replace such financing on acceptable terms or at all, which could adversely affect its liquidity position and have a material adverse effect on the NWM Group's financial condition and results of operations. In addition, because the "fee base borrow" transactions are conducted off-balance sheet (due to the collateral being borrowed) investors may find it more difficult to gauge the NWM Group's creditworthiness, which may be affected if these transactions were to be unwound in a stress scenario, and any lack of or perceived lack of creditworthiness may adversely affect the NWM Group.

As at 31 March 2020, the NWM Group reported a LCR of 287 per cent. If its liquidity position were to come under stress and if the 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 and it might be unable to meet deposit withdrawals on demand, buy back requests, to repay borrowings as they mature, to meet its obligations under committed financing facilities, to comply with regulatory funding requirements, to undertake certain capital and/or debt management activities, or to fund new loans, investments and businesses. The NWM Group may need to liquidate unencumbered assets to meet its liabilities, including disposals of assets not previously identified for disposal to reduce its funding commitments. This could also lead to higher funding costs. In a time of reduced liquidity, or market stress, the NWM Group may be unable to sell some of its assets, or may need to sell assets at depressed prices, which in either case could negatively affect the NWM Group's results.

The NWM Group independently manages liquidity risk on a stand-alone basis, including through holding its own liquidity portfolio. It has restricted access to liquidity or funding from other RBS Group entities. As a result, NWM Plc's liquidity position could be adversely affected, which may require unencumbered assets to be liquidated or may result in higher funding costs which may adversely impact the NWM Group's margins and profitability. NWM Plc's management of its own liquidity portfolio and the new structure of capital support are subject to operational and execution risk, as NWM Plc is now required to meet its own liquidity and capital requirements. Any failure by NWM Group to adequately access sources of liquidity and funding may have a material adverse effect on the NWM Group's financial condition and results of operations.

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 BRRD, as implemented in the UK, the NWM Group must maintain a recovery plan acceptable to its regulator, such that a breach of NWM Plc's applicable capital or leverage or liquidity requirements would trigger consideration of NWM Plc's recovery plan, and in turn may prompt consideration of the RBS Group's recovery plan. If, under stressed conditions, the capital or leverage ratio were to decline, there are a range of recovery management actions (focused on risk reduction and mitigation) that NWM Plc could undertake that may or may not be sufficient to restore adequate capital and leverage ratios. Additional management options relating to existing capital issuances, asset or business disposals, capital payments and dividends from NWM Plc to its parent, could also be undertaken to support NWM Plc's capital and leverage requirements. The RBS Group may also address a shortage of capital in NWM Plc by providing parental support to NWM Plc, subject to evidence that the conditions set out in Article 23 of the BRRD have been met. The RBS Group's (and NWM Plc's) regulator may also request that the NWM Group carry out additional capital management actions. The BoE has identified single point-of-entry as the preferred resolution strategy for RBS Group. However, under certain conditions set forth in the BRRD, as the UK resolution authority, the BoE also has the power to execute the 'bail-in' of certain securities of the NWM Group without further action at the RBS Group level.

Any capital management actions taken under a stress scenario may have a material adverse effect on, among other things, the NWM Group's financial condition and results of operations, product offering, credit ratings, ability to operate its businesses and pursue its current strategies and strategic opportunities as well as negatively impacting investor confidence and the value of the NWM Group's securities. See also, '*—The RBS Group (including the 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 the 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, all of which may adversely impact the NWM Group's operating performance, financial conditions and results of operations.

Any reduction in the credit rating assigned to RBSG 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 the NWM Group, reduce the NWM Group's liquidity position and increase the cost of funding.

Rating agencies regularly review RBSG plc, NWM Plc and other RBS Group entity credit ratings, which could be negatively affected by a number of factors that can change over time including, the credit rating agency's assessment of the NWM 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 the NWM Group operates; the implementation of structural reform; the legal and regulatory frameworks applicable to the 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 the NWM Group's key markets (including the impact of Brexit and any further Scottish independence referendum); any reduction of the UK's sovereign credit rating and market uncertainty. See also, '*—Strategic risk—The RBS Group has announced a new strategy that will require changes in the NWM Group's business, including reductions in capital allocated to the NWM Group, its cost base and complexity. This entails material execution, commercial and operational risks for the NWM Group.*'

In addition, credit ratings agencies are increasingly taking into account ESG factors, including climate risk, as part of the credit ratings analysis, as are investors in their investment decisions.

Any reductions in the credit ratings of RBSG plc, NWM Plc or of certain other RBS 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 the 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 the NWM Group's (and, in particular, NWM Plc's) cost of funding and its access to capital markets and could limit the range of counterparties willing to enter into transactions with the NWM Group (and, in particular, NWM Plc). This could in turn adversely impact its competitive position and threaten the prospects of the NWM Group in the short to medium-term, any of which could have a material adverse impact on the NWM Group's financial condition and results of operations.

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

The markets in which the NWM Group operates are highly competitive, and competition may intensify in response to evolving customer behaviour, technological changes, competitor behaviour, new entrants to the market, industry trends resulting in increased disaggregation or unbundling of financial services, the impact of regulatory actions and other factors. Innovations such as biometrics, artificial intelligence, the cloud, blockchain, and quantum computing may also rapidly facilitate industry transformation.

Increasingly many of the products and services offered by the NWM Group are, and will become, technology intensive and the NWM Group's ability to develop such services and comply with related regulatory changes has become increasingly important to retaining and growing the NWM Group's client businesses across its geographical footprint. There can be no certainty that the 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 the NWM Group to continue to grow such services in the future.

In addition, certain of the NWM Group's current or future competitors may be more successful in implementing innovative technologies for delivering products or services to their clients. Furthermore, these competitors may be better able to attract and retain clients and key employees and may have access to lower cost funding and/or be able to attract deposits or provide investment banking services on more favourable terms than the NWM Group. Although the 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 the NWM Group's focus on its cost savings targets. This may limit additional investment in areas such as financial innovation and therefore could affect the NWM Group's offering of innovative products or technologies for delivering products or services to clients and its competitive position. The 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 the NWM Group's ability to produce underlying high quality data, failing which its ability to offer innovative products may be compromised.

If the NWM Group is unable to offer competitive, attractive and innovative products that are also profitable, it will lose market share, incur losses on some or all of its activities and lose opportunities for growth. In this context, the NWM Group is investing in the automation of certain solutions and interactions within its customer-facing businesses, including through artificial intelligence. Such initiatives may result in operational, reputational and conduct risks if the technology used is defective, or is not fully integrated into the NWM Group's current solutions or does not deliver expected cost savings. The investment in automated processes will likely also result in increased short-term costs for the NWM Group.

In addition, recent and future disposals and restructurings by the NWM Group, the implementation of the NWM Refocusing and the RBS Group's Purpose-led Strategy (including its climate ambition), cost-reduction measures, as well as employee remuneration constraints, may also have an impact on its ability to compete effectively and intensified competition from incumbents, challengers and new entrants in the NWM Group's core markets could affect the NWM Group's ability to provide satisfactory returns. See also, '*—Strategic risk—The NWM Group may not be able to successfully implement the NWM Refocusing and it may not achieve its targets and the NWM Group may not ultimately result in a viable, competitive business*'. Moreover, activist investors have increasingly become engaged and interventionist in recent years, which may pose a threat to the RBS Group's strategic initiatives. Furthermore, continued consolidation in certain sectors of the financial services industry could result in the NWM 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. These and other changes in the NWM Group's competitive environment could have a material adverse effect on the NWM Group's business, margins, profitability, financial condition and prospects.

The NWM Group may be adversely affected if the RBS Group fails to meet the requirements of regulatory stress tests.

The RBS Group is subject to annual stress tests by its regulator in the UK and is also subject to stress tests by European regulators with respect to RBSG plc, NWM 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 RBS Group and/or NWM Group may need to take action to strengthen their capital positions.

Failure by the RBS Group to meet its quantitative and qualitative requirements of the stress tests set forth by its UK regulators or those elsewhere may result in: the RBS Group's regulators requiring the RBS Group to generate additional capital, reputational damage, increased supervision and/or regulatory sanctions and/or loss of investor confidence, which may have a material adverse impact on the NWM Group's financial condition, results of operations and prospects.

The 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. Through the NWM NV business and the NWM Group's other activities, the 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 the 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. The NWM Group is exposed to credit risk if a customer, borrower or counterparty defaults, or under IFRS 9, suffers a sufficiently significant deterioration of credit quality such that, under SICR ('significant increases in credit risk') rules, it moves to Stage 2 for impairment calculation purposes. Credit risk may arise from a variety of business activities, including, but not limited to: extending credit to clients through various lending commitments; entering into swap or other derivative contracts under which counterparties have obligations to make payments to the NWM 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 management—Credit Risk*'. Any negative developments in the activities listed above may negatively impact the NWM Group's clients and credit exposures, which may, in turn, adversely impact the NWM Group's profitability.

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 adversely impact the NWM Group's ability to enforce contractual security rights. See also, '*—Economic and political risk—The NWM Group faces market risk as a result of increased political and economic risks and uncertainty in the UK and global markets*'.

Concerns about, or a default by, a financial institution could lead to significant liquidity problems and losses or defaults by other financial institutions, since the commercial and financial soundness of many financial institutions is closely related and inter-dependent as a result of credit, trading, clearing and other relationships. Any perceived lack of creditworthiness of a counterparty may lead to market-wide liquidity problems and losses for the NWM 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 the NWM Group interacts on a daily basis. See also, '*—Financial resilience risk—The NWM Group is reliant on access to the global capital markets to meet its funding requirements, both directly, and indirectly through its parent for the subscription to its internal MREL*'.

As a result of the above, borrower and counterparty credit quality may cause accelerated impairment charges under IFRS 9, increased repurchase demands, higher costs, additional write-downs and losses for the NWM Group and an inability to engage in routine funding transactions which would have a material adverse effect on the NWM Group's results of operations, financial condition and prospects.

The 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 the 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 EBA 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 such exposure. If the 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 have a material adverse impact on the NWM Group's financial condition, results of operations and prospects.

The 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 the NWM Group's business, strategy and capital requirements, the 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 the RBS Group's mandated stress testing). In addition, the 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. The NWM Group's models, and the parameters and assumptions on which they are based, are periodically reviewed and updated to maximise their accuracy.

Such models are inherently designed to be predictive in nature. Failure of these models, including due to errors in model design or inputs, to accurately reflect changes in the micro and macroeconomic environment in which the NWM Group operates, to capture risks and exposures at the subsidiary level, to be updated in line with the NWM Group's current business model or operations, or findings of deficiencies by the RBS Group (and in particular, the NWM Group's) regulators (including as part of the RBS Group's mandated stress testing) may result in increased capital requirements or require management action. The 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. Risks arising from the use of models could have a material adverse effect on the NWM Group's business, financial condition and results of operations, minimum capital requirements and reputation.

The 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. Due to the inherent uncertainty in making estimates (particularly those involving the use of complex models), future results may differ from those estimates. Estimates, judgments, assumptions and models take into account historical experience and other factors, including market practice and expectations of future events that are believed to be reasonable under the circumstances.

The accounting policies deemed critical to the NWM Group's results and financial position, based upon materiality and significant judgments and estimates, which include loan impairment provisions, are discussed in '*Operating and Financial Review—Critical Accounting Policies and Key Accounting Estimates*'. New accounting standards and interpretations that have been issued by the IASB but which have not yet been adopted by the NWM Group are discussed in '*Operating and Financial Review—Critical Accounting Policies and Key Accounting Estimates*'. Changes resulting from such new accounting standards and interpretations could have a material adverse effect on the NWM Group's financial condition, results of operation and capital position.

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 the NWM Group having to recognise additional liabilities on its balance sheet, or in further write-downs or impairments to its assets and could have a material adverse effect on the financial condition, results of operations and prospects of the NWM Group.

The NWM Group's trading assets amounted to £76.5 billion as at 31 December 2019. The valuation of financial instruments, including derivatives, measured at fair value can be subjective, in particular where models are used which include unobservable inputs. Generally, to establish the fair value of these instruments, the NWM Group relies on quoted market prices or, where the market for a financial instrument is not sufficiently credible, internal valuation models that utilise observable market data. In certain circumstances, the data for individual financial instruments or classes of financial instruments utilised by such valuation models may not be available or may become unavailable due to prevailing market conditions. In such circumstances, the NWM Group's internal valuation models require the 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 the NWM Group to recognise fair value losses, which may have an adverse effect on the NWM Group's financial condition and results of operations.

With effect from 1 January 2019, the NWM Group adopted IFRS 16 Leases, as disclosed in the Accounting Policies. This increased Other assets by £56 million and Other liabilities by £62 million. While adoption of this standard has had no effect on the NWM Group's cash flows, it has impacted financial ratios, which may influence investors' perception of the financial condition of the NWM Group.

The RBS Group (including the 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 the NWM Group entities' Eligible Liabilities.

The Banking Act, implemented the BRRD in the UK and created the SRR. Under the SRR, HM Treasury, the BoE and the PRA and FCA (together 'Authorities') are granted substantial powers to resolve and stabilise UK-incorporated financial institutions. Five stabilisation options exist under the current SRR: (i) transfer of all of the business of a relevant entity or the shares of the relevant entity to a private sector purchaser; (ii) transfer of all or part of the business of the relevant entity to a 'bridge bank' wholly-owned by the BoE; (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 RBSG 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 the Authorities, including the power to modify or override certain contractual arrangements in certain circumstances. The Authorities are also empowered by order to amend the law for the purpose of enabling the powers under the SRR to be used effectively. Such orders 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 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 the powers granted to them under the Banking Act including the determination of actions undertaken in relation to the ordinary shares and other securities issued by RBS Group (including the NWM Group) and may depend on factors outside of the NWM Group's control. Moreover, the relevant provisions of the Banking Act remain untested in practice.

If the NWM Group (or any other RBS Group entity) is at or is approaching the point of non-viability such that regulatory intervention is required, any exercise of the resolution regime powers by the Authorities may adversely affect holders of the NWM Group's Eligible Liabilities that fall within the scope of resolution regime powers. This may result in various actions being undertaken in relation to the NWM Group and any Eligible Liabilities of the

NWM Group, including write-down, conversion, transfer or modification, any of which may have a material adverse effect on the financial condition, results of operations and prospects of the NWM Group.

The RBS Group is subject to BoE oversight in respect of resolution, and the RBS Group could be adversely affected should the BoE deem the RBS Group's preparations to be inadequate.

The RBS Group is subject to regulatory oversight by the BoE, and is required (under the PRA rulebook) to carry out an assessment of its preparations for resolution, submit a report of the assessment to the PRA, and disclose a summary of this report. The initial report is due to be submitted to the PRA on 2 October 2020 and the BoE's assessment of RBS Group's preparations is scheduled to be released on 11 June 2021.

The RBS Group has dedicated significant resources towards the preparation of the RBS Group for a potential resolution scenario. However, if the assessment reveals that the RBS Group is not adequately prepared to be resolved, or does not have adequate plans in place to meet resolvability requirements by 1 January 2022, the RBS Group may be required to take action to enhance its preparations to be resolvable, resulting in additional cost and the dedication of additional resources. Such actions may adversely affect the RBS Group and/or the NWM 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, which in turn could have a material adverse effect on the financial condition, results of operations and prospects of the NWM Group. This may also result in reputational damage and/or loss of investor confidence.

Operational and IT resilience risk

The NWM Group is subject to increasingly sophisticated and frequent cyberattacks.

The NWM Group is experiencing an increase in cyberattacks across both the entire NWM Group and against the NWM Group's supply chain, reinforcing the importance of due diligence and close working with the third parties on which the NWM Group relies. The 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, the NWM Group is required to continue to invest in additional capability designed to defend against emerging threats. In 2019, the NWM Group was subjected to a small number of DDOS attacks, which are a pervasive and significant threat to the global financial services industry. The focus is to mitigate the impact of the attacks and sustain availability of services for NWM Group's customers. The 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 and introduce malware (including ransomware) into the NWM Group's IT systems, and to exploit vulnerabilities. The NWM Group has information and cyber security controls in place, 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, '*—Operational and IT resilience risk—The NWM Group's operations are highly dependent on its complex IT systems, and any IT failure could adversely affect the NWM Group*'.

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

The NWM Group expects greater regulatory engagement, supervision and enforcement 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 the NWM Group. Due to the 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 the NWM Group.

In accordance with the GDPR, the NWM Group is required to ensure it implements timely appropriate and effective organisational and technological safeguards against unauthorised or unlawful access to data of the NWM Group, its clients and its employees. In order to meet this requirement, the 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 the NWM Group interacts. A failure to monitor and manage data in accordance with the GDPR requirements of the applicable legislation may result in financial losses, regulatory fines and investigations and associated reputational damage. In addition, whilst the NWM Group takes measures to prevent, detect and minimise attacks, the NWM Group's systems, and those of third party providers, are subject to frequent cyberattacks, which may have a material adverse effect on the NWM Group's results of operations, financial condition or prospects.

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

The NWM Group relies on the effective use of accurate data to support and improve its operations and deliver its strategy. Failure to produce underlying high quality data and/or the ineffective use of such data could result in a failure to satisfy its customers' expectations including by delivering innovative products and services. This could place NWM Group at a competitive disadvantage, inhibit its efforts to reduce costs and improve its systems, controls and processes, and result in a failure to deliver the NWM Group's strategy. The use of unethical or inappropriate data and/or non-compliance with customer data and privacy protection could give rise to conduct and litigation risks and could also increase the risk of an operational event or losses or other adverse consequences due to inappropriate models, systems, processes, decisions or other actions, any of which could have a material adverse effect on the NWM Group's results of operations, financial condition or prospects.

Operational risks are inherent in the 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. The NWM Group operates in many countries, offering a diverse range of products and services supported by 5,000 employees as at 31 December 2019; it therefore has complex and diverse operations. As a result, operational risks or losses can arise from a number of internal or external factors (including financial crime). These risks are also present when the NWM Group relies on third-party suppliers or vendors to provide services to it or its clients, as is increasingly the case as the NWM Group outsources certain functions, including with respect to the implementation of new technologies, innovation and responding to regulatory and market changes.

Operational risks continue to be heightened as a result of the implementation of the NWM Refocusing and the RBS Group's Purpose-led Strategy, the NWM 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. This may place significant pressure on the NWM Group's ability to maintain effective internal controls and governance frameworks. The NWM Group is also dependent on the RBS Group for certain shared critical services, including property, financial accounting, regulatory reporting and certain administrative and legal services, the cost for which are determined by RBS Group and which may increase from time to time. A failure to adequately supply these services may result in increased costs or other liabilities 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 utilises certain services provided by the RBS Group, changes in the cost of these services may adversely impact the NWM Group's results of operations. The effective management of operational risks is critical to meeting customer service expectations and retaining and attracting client business. Although the 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 the NWM Group. Ineffective management of such risks may have a material adverse effect on the NWM Group's business, financial condition, results of operations and prospects. See also, ' *—Strategic risk—The RBS Group has announced a new strategy that will require changes in the NWM Group's business, including reductions in capital allocated to the NWM Group, its cost base and complexity.This* *entails material execution, commercial and operational risks for the NWM Group*' and '*—Strategic risk—The RBS Group has announced a new Purpose-led Strategy which will further influence the NWM Refocusing and the go-forward strategy of the NWM Group*'.

The NWM Group's operations are highly dependent on its complex IT systems, and any IT failure could adversely affect the NWM Group.

The 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 the 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 RBSG plc or third parties), is critical to the 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 the 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 the 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 the NWM Group outsources certain functions and continues to innovate and offer new digital solutions to its clients as a result of the trend towards online and digital product offerings.

In 2019, the NWM 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, the NWM Group continues to develop and enhance digital services for its customers and seeks to improve its competitive position through enhancing controls and procedures and strengthening the resilience of services including cyber security. Should such investment and rationalisation initiatives fail to achieve the expected results or prove to be insufficient due to cost challenges or otherwise, which may have a material adverse effect on the NWM Group's operations, its reputation and ability to retain or grow its client business or adversely impact its competitive position, thereby adversely impacting the NWM Group's financial condition and results of operations. See also, '*—Strategic risk—The RBS Group has announced a new strategy that will require changes in the NWM Group's business, including reductions in capital allocated to the NWM Group, its cost base and complexity. This entails material execution, commercial and operational risks for the NWM Group*'.

The 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.

The NWM Group's current and future success depends on its ability to attract, retain, develop and remunerate highly skilled and qualified personnel, including senior management, directors, market trading specialists and key employees, in a highly competitive labour market, in an era of strategic change (including a recent change in executive management) and under internal cost reduction pressures. This entails risk, particularly in light of 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 the RBS Group, which may have an adverse effect on the NWM Group's ability to hire, retain and engage well-qualified employees. The market for skilled personnel is increasingly competitive, especially for technology-focussed roles, thereby raising 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. Any of these may have a material adverse impact on the NWM Group's business, financial condition and results of operations.

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

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

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

The NWM Group's operations are inherently exposed to conduct risks. These include business decisions, actions or reward mechanisms that are not responsive to or aligned with the NWM Group's regulatory obligations, client needs or do not reflect the NWM Group's customer-focussed strategy, ineffective product management, unethical or inappropriate use of data, implementation and utilisation of new technologies, outsourcing of customer service and product delivery, the possibility of mis-selling of financial products and mishandling of customer complaints. Some of these risks have materialised in the past and ineffective management and oversight of conduct risks may lead to further remediation and regulatory intervention or enforcement. The NWM Group's businesses are also exposed to risks from employee misconduct including non-compliance with policies and regulations, negligence or fraud (including financial crimes), any of which could result in regulatory fines or sanctions and serious reputational or financial harm to the NWM Group.

As part of the NWM Refocusing, the 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 the NWM Group from future instances of misconduct and no assurance can be given that the NWM Group's strategy and control framework will be effective. See also, '*—Strategic risk—The RBS Group has announced a new strategy that will require changes in the NWM Group's business, including reductions in capital allocated to the NWM Group, its cost base and complexity. This entails material execution, commercial and operational risks for the NWM Group*'. Any failure in the NWM Group's risk management framework could negatively affect the NWM Group and its financial condition through reputational and financial harm and may result in the inability to achieve its strategic objectives for its clients, employees and wider stakeholders, any of which could have a material adverse effect on the NWM Group's business, financial condition and results of operations.

The NWM Group's operations are subject to inherent reputational risk.

Reputational risk relates to stakeholder and public perceptions of the 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 the NWM Group, its employees or those with whom the NWM Group is associated. This includes brand damage, which may be detrimental to the 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 the NWM Group's ability to attract and retain clients. In particular, the 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 the NWM Group or any other member of the RBS Group conducts or modifies its business activities and operations, media coverage (whether accurate or otherwise), employee misconduct, the NWM Group's financial performance, IT systems failures or cyberattacks, data breaches, financial crime, the level of direct and indirect government support for RBSG plc, or the actual or perceived practices in the banking and financial industry in general, or a wide variety of other factors. See also, '*—Strategic risk—The RBS Group has announced a new strategy that will require changes in the NWM Group's business, including reductions in capital allocated to the NWM Group, its cost base and complexity. This entails material execution, commercial and operational risks for the NWM Group*'.

Modern technologies, in particular online social networks and other broadcast tools which facilitate communication with large audiences in short time frames and with minimal costs, may also significantly increase and accelerate the impact of damaging information and allegations.

Although the NWM Group has implemented a Reputational Risk Policy to improve the identification, assessment and management of customers and clients, transactions, products and issues which represent a reputational risk, the NWM Group cannot be certain that it will be successful in avoiding damage to its business from reputational risk. This could result in a material adverse effect on the NWM Group's business, financial condition, results of operations and prospects.

Economic and political risk

The direct and indirect effects of the Covid-19 pandemic are having an adverse impact on NWM Group's business and results of operations, which is likely to be material if conditions worsen or are prolonged, and may affect its ability to meet its targets and achieve its strategic objectives.

During the first quarter of 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. Many countries, including the UK (NWM Group's most significant market) have imposed strict social distancing measures and associated restrictions on non-essential activity in an attempt to slow the spread and reduce the impact of Covid-19. The UK commenced restrictions with its Coronavirus Action Plan on 3 March 2020 which now include restrictions on the movement of and gatherings by all individuals except those engaged in essential activity. 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 three months ended 31 March 2020 and outlook.

In February 2020, the RBS Group outlined a new 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 set a number of financial, capital and operational targets and expectations. 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 the RBS 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. See also '*—Strategic risk—The RBS Group has announced a new strategy that will require changes in the NWM Group's business, including reductions in capital allocated to the NWM Group, its cost base and complexity. This entails material execution, commercial and operational risks for the NWM Group'* and '*—Strategic risk—The NWM Group may not be able to successfully implement the NWM Refocusing and it may not achieve its targets and the NWM Group may not ultimately result in a viable, competitive business*'.

Countries have varying approaches as to how and when they will incrementally tighten or relax restrictions imposed in response to the Covid-19 pandemic. On 16 April 2020, Her Majesty's Government announced an extension of the UK restrictions for another three weeks, and continues to review the restrictions on an ongoing basis. Experts have warned that further waves of infection can be expected which may result in additional periods during which restrictions are imposed in affected countries, at least until a vaccine or effective treatment can be developed and widely administered, which may take 12-18 months or longer. Once restrictions are relaxed, there is no certainty as to the path or length of time required to achieve economic recovery.

In many of the NWM Group's key markets, including the UK, Europe and the US, central banks, governments, regulators and legislatures have 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, but if they continue or worsen they will have a material adverse effect on the NWM Group's financial results and operations in subsequent periods. The negotiations and final terms of the Withdrawal Agreement between Her Majesty's Government and the EU may also be impacted by the Covid-19 pandemic, with the effect of further challenging the NWM Group's operating environment. See also '*—The NWM Group faces market risk as a result of increased political and economic risks and uncertainty in the UK and global markets*' and '*—Prevailing uncertainty regarding the terms of the UK's withdrawal from the EU has adversely affected and will continue to affect the NWM Group*'.

As a result of this unprecedented economic uncertainty and limited available data the NWM Group, as part of the RBS Group, has applied an internal analysis of multiple economic scenarios (MES) to inform its IFRS 9 ECL overlay, which has increased by £5.6 million to £10.0 million in the three months ended 31 March 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 March 2020 may not prove to be adequate resulting in incremental ECL provisions for the NWM Group. See also '*—Financial resilience risk—The NWM Group could incur losses or be required to maintain higher levels of capital as a result of limitations or failure of various models' and '—Financial resilience risk—The NWM Group's financial statements are sensitive to underlying accounting policies, judgments, estimates and assumptions'.*

During the three months ended 31 March 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 March 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. See also '*—The NWM Group has significant exposure to counterparty and borrower risk*'.

In line with Her Majesty's Government and local guidance, the NWM Group has invoked business continuity plans and most of the NWM Group's employees are currently working-from-home on an indefinite basis. This has increased reliance on the NWM Group's IT systems that enable remote working and increased exposure to fraud, conduct, operational and other risk and may place additional pressure on the NWM Group's ability to maintain effective internal controls and governance frameworks. Certain areas of the NWM Group are experiencing workloads that are heavier than usual as a result of increased client requirements, or other related effects. Resources have been diverted from certain ordinary course activities, which may have implications on the execution of related deliverables. 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. Any of the above could, in turn, impair NWM Group's ability to serve its clients efficiently and effectively, and impact productivity across the NWM Group. This could have a material adverse effect on the NWM Group, including on its reputation, its ability to retain and attract critical staff and its ability to retain or grow its businesses and/or on its competitive position. See also '*—Operational and IT resilience risk—Operational risks are inherent in the NWM Group's businesses', '—Operational and IT resilience risk—The NWM Group's operations are highly dependent on its complex IT systems, and any IT failure could adversely affect the NWM Group' and '—Operational and IT resilience risk—A failure in the NWM Group's risk management framework could adversely affect the NWM Group, including its ability to achieve its strategic objectives'.*

In a statement dated 31 March 2020, the PRA stated that bank boards should be considering whether to take any appropriate further actions with regard to the accrual, payment and vesting of variable remuneration. Any changes to compensation could have an adverse effect on the NWM Group's ability to hire, retain and engage well qualified employees, especially at a senior level, which may have a material adverse impact on the NWM Group.

The Covid-19 pandemic has caused significant market volatility which has increased NWM Group's market risk and has caused RWA inflation. 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 future quarters. Furthermore, market volatility may result in increases to leverage exposure. Any downgrading to the credit ratings and/or outlooks assigned to RBSG plc, NWM Plc or certain other RBS Group entities and their respective debt securities could exacerbate funding and liquidity risk, and further changes may be possible and are uncertain in nature. Due 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. Depending on the severity and duration of market volatility 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 the 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. As a result of the Covid-19 pandemic, if RBSG plc is unable to issue securities externally as planned, this may have a negative impact on NWM Plc's current and forecasted MREL position, particularly if RBSG plc is unable to downstream capital and/or funding to NWM Plc. 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. All of the factors described above may result in a material adverse effect on the NWM Group's business, financial condition, results of operations and prospects. See also '*—Financial resilience risk—Any reduction in the credit rating assigned to RBSG 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 the NWM Group, reduce the NWM Group's liquidity position and increase the cost of funding', '—Financial resilience risk—The NWM Group is reliant on access to the global capital markets to meet its funding requirements, both directly, and indirectly through its parent for the subscription to its internal MREL', '—Financial resilience risk—NWM Plc and/or its regulated subsidiaries may not meet the prudential regulatory requirements for capital and MREL' and '—Financial resilience risk—NWM Plc may not be able to adequately access sources of liquidity and funding'.*

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

In the UK, significant economic and political uncertainty continues to surround the terms of Brexit and now also the future relationship between the UK and the EU (See also, '*—Economic and political risk—Prevailing uncertainty regarding the terms of the UK's withdrawal from the EU has adversely affected and will continue to affect the NWM Group.*') and may adversely affect the NWM Group.

The RBS Group faces additional political uncertainty as to how the Scottish parliamentary process (including, as a result of any further Scottish independence referendum or the next Scottish Parliament elections in May 2021) may impact the NWM Group. RBSG plc and a number of other RBS Group entities (including NWM Plc) are headquartered and/or incorporated 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 the RBS Group and its subsidiaries operate, and may require further changes to the RBS Group (including the NWM Group's structure), independently or in conjunction with other mandatory or strategic structural and organisational changes which could adversely impact the NWM Group.

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.

The value of the 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 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. This may have an adverse effect on the NWM Group's results of operations in future periods, or inaccurate carrying values for certain financial instruments. Similarly, 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. 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.

The outlook for the global economy over the medium-term remains uncertain due to a number of factors including: trade barriers and the increased possibility of trade wars, widespread political instability, an extended period of low inflation and low interest rates, and global regional variations in the impact and responses to these factors. Such conditions could be worsened by a number of factors including political uncertainty or macro-economic deterioration in the Eurozone, China or the US, the conflicts or tensions in the Middle East or Asia, increased instability in the global financial system and concerns relating to further financial shocks or contagion (for example, due to economic concerns in emerging markets), market volatility or fluctuations in the value of the pound sterling, new or extended economic sanctions, volatility in commodity prices or concerns regarding sovereign debt. This may be compounded by the ageing demographics of the populations in the markets that the NWM Group serves, or rapid change to the economic environment due to the adoption of technology and artificial intelligence. Any of the above developments could adversely impact the NWM Group directly (for example, as a result of credit losses) or indirectly (for example, by impacting global economic growth and financial markets and the NWM Group's clients and their banking needs).

In addition, the NWM Group is exposed to risks arising out of geopolitical events or political developments, such as trade barriers, exchange controls, sanctions and other measures taken by sovereign governments that may hinder economic or financial activity levels. Furthermore, unfavourable political, military or diplomatic events, including secession movements or the exit of other member states from the EU, armed conflict, pandemics and widespread public health crises (including the recent coronavirus outbreak, the impact of which will depend on future developments, which are highly uncertain and cannot be predicted), state and privately sponsored cyber and terrorist acts or threats, and the responses to them by governments and markets, any of which could have a material adverse effect on the business, financial condition and results of operations of the NWM Group, including as a result of the indirect effect on regional or global trade and/or the NWM Group's customers.

Prevailing uncertainty regarding the terms of the UK's withdrawal from the EU has adversely affected and will continue to affect the NWM Group.

Following the EU Referendum in June 2016, and pursuant to the exit process triggered under Article 50 of the Treaty on the EU in March 2017 and the ratification of the withdrawal agreement by the UK government and the EU (through the Council of Ministers), the UK ceased to be a member of the EU and the EEA on 31 January 2020 ('Brexit') and entered a transition period, currently due to expire on 31 December 2020. During this transition period, the UK retains the benefits of membership of the EU's internal market and the customs union, but loses its representation in the EU's institutions and its role in EU decision-making.

The UK and EU are currently seeking to determine the terms of their future relationship by the end of the transition period, and the resulting economic, trading and legal relationships with both the EU and other counterparties currently remain unclear and subject to significant uncertainty. If the UK and EU do not agree a new comprehensive trade agreement by the end of the transition period and the transition period is not extended, then, subject to separate agreements being made with third countries, the UK would be expected to operate on basic World Trade Organization terms, the outcome of which for the RBS Group would be similar in certain respects to a 'no-deal' Brexit and which may result in, amongst others, loss of access to the EU single market for goods and services, the imposition of import duties and controls on trade between the UK and the EU and related trade disruption.

The direct and indirect effects of the UK's exit from the EU and the EEA are expected to affect many aspects of the 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. See also '*—Economic and political risk—The NWM Group faces market risk as a result of increased political and economic risks and uncertainty in the UK and global markets*'. As a result of such anticipated effects, the NWM Group and the RBS Group has engaged in significant and costly Brexit planning and contingency planning and expects to continue to do so. The direct and indirect effects of the UK's exit from the EU and the EEA may also impede the NWM Group's ability to deliver the NWM Refocusing. See also, '*—Strategic risk—The RBS Group has announced a new strategy that will require changes in the NWM Group's business, including reductions in capital allocated to the NWM Group, its cost base and complexity. This entails material execution, commercial and operational risks for the NWM Group*' and '—

Strategic risk—The NWM Group may not be able to successfully implement the NWM Refocusing and it may not achieve its targets and the NWM Group may not ultimately result in a viable, competitive business'.

The longer term effects of Brexit on the NWM Group's operating environment depend significantly on the terms of the ongoing relationship between the UK and EU. They 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. They may result in, or be exacerbated by, periodic financial volatility and slower economic growth, in the UK in particular, but also in the ROI, the rest of Europe and potentially the global economy.

Significant uncertainty exists as to the respective legal and regulatory arrangements under which the NWM Group and its subsidiaries will operate once the transition period has ended. The legal and political uncertainty and any actions taken as a result of this uncertainty, as well as new or amended rules, could have a significant impact on the NWM Group's non-UK operations and/or legal entity structure, including attendant restructuring costs, level of impairments, capital requirements, regulatory environment and tax implications and as a result may have a material adverse impact on the NWM Group's profitability, competitive position, business model and product offering.

The RBS Group has obtained the requisite regulatory permissions (including third country licence branch approvals and access to TARGET2 clearing and settlement mechanisms) it currently considers are required for continuity of business as a result of the UK's departure from the EU. These are required in order to maintain the ability to clear euro payments and to serve non-UK EEA customers if there is a loss of access to the European Single Market. These changes to the NWM Group's operating model have been costly and may require further changes to its business operations, product offering and customer engagement. The regulatory permissions from the Dutch and German authorities are conditional in nature and will require on-going compliance with certain conditions, including maintaining minimum capital level and deposit balances as well as a defined local physical presence going forward; such conditions may be subject to change in the future. Maintaining these permissions and the RBS Group's access to the euro payment infrastructure will be fundamental to its business going forward and further changes to NWM Group's business operations may be required.

Any of the above risks may have a material adverse effect on the NWM Group's results of operations, financial condition or prospects.

The NWM Group expects to face significant risks in connection with climate change and the transition to a low carbon economy.

The risks associated with climate change are subject to rapidly increasing prudential and regulatory, political and societal focus both in the UK, the Netherlands and internationally. Embedding climate risk into the NWM Group's risk framework, and adapting the NWM Group's operations and business strategy to address the physical risks of climate change and the risk associated with a transition to a low carbon economy in line with the RBS Group's Purpose-led Strategy and ambition to reduce the climate impact of its financing activities and evolving regulatory requirements and market expectations is expected to have a significant impact on the NWM Group.

Multilateral agreements, in particular the 2015 Paris Agreement, and subsequent UK and Scottish government commitments to achieving net zero carbon emissions by 2050 and 2045, respectively, as well as proposals stemming from the EU Sustainable Finance Action plan, will require widespread levels of adjustment across all sectors of the UK economy and markets in which the NWM Group operates including the EU. Some sectors such as property, energy, infrastructure (including transport) and agriculture are expected to be particularly impacted. The nature and timing of the far-reaching commercial, technological, policy and regulatory changes that this transition will entail remain uncertain. The UK and Dutch governments and regulators, including the PRA, NWM's UK prudential regulator, have indicated it is a priority issue. The impact of such regulatory, policy, commercial and technological changes is expected to be highly significant and may be disruptive, especially if such changes do not occur in an orderly or timely manner or are not effective in reducing emissions sufficiently.

Furthermore, the nature and timing of the manifestation of the physical risks of climate change (which include more extreme specific weather events such as flooding and heat waves and longer term shifts in climate) are also uncertain, and their impact on the economy is predicted to be more acute if carbon emissions are not reduced on a timely basis or to the requisite extent. Recent data indicates that global carbon emissions are continuing to increase. The potential impact on the economy includes, but is not limited to, lower GDP growth, significant changes in asset prices and profitability of industries, higher unemployment and the prevailing level of interest rates.

See also, *'—Strategic risk—The RBS Group's Purpose-led Strategy includes one area of focus on climate change which entails significant execution risk and is likely to require material changes to the business model of the RBS Group (including the NWM Group) over the next ten years*', '*—Legal, regulatory and conduct risk—The NWM Group's businesses are subject to substantial regulation and oversight, which are constantly evolving and may adversely affect the NWM Group*' and '*—Financial resilience risk—Any reduction in the credit rating assigned to RBSG 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 the NWM Group, reduce the NWM Group's liquidity position and increase the cost of funding.*'

If the NWM Group does not adequately embed climate risk into its risk framework to appropriately measure, manage and disclose the various financial, transition and physical risks it faces associated with climate change, or if the RBS Group or the NWM Group fail to implement the RBS Group's new strategy on climate change and adapt its business model to the changing regulatory requirements and market expectations on a timely basis, it may have a material adverse impact on the NWM Group's level of business growth, its competitiveness, profitability, prudential capital requirements, ESG ratings, credit ratings, cost of funding, reputation, results of operation and financial condition.

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

Interest rate risk exists for the NWM Group, as monetary policy has been accommodative in recent years, including as a result of certain policies implemented by the BoE and HM Treasury such as the Term Funding Scheme, 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 direction of interest rates and pace of change (as set by the BoE and other major central banks) as well as the general UK political climate. Further decreases in interest rates and/or continued sustained low or negative interest rates could have a material adverse effect on the NWM Group's profitability and prospects. In addition, a continued period of low interest rates and flat yield curves has affected and may continue to affect the interest rate margin realised between lending and borrowing costs.

Conversely, while increases in interest rates may support NWM Group income, sharp increases in interest rates could lead to generally weaker than expected growth, or even contracting GDP, reduced business confidence, higher levels of unemployment or underemployment and adverse changes to levels of inflation, which may have a material adverse effect on the NWM Group's results of operations and financial condition.

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

As part of the RBS Group's strategy, the NWM Group has become the markets business for the RBS Group, and is engaged principally in providing financing, risk management and trading solutions to global customers across Europe, the USA and Asia. The 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 RBS Group increased NWM Plc's exposure to euro movements. NWM NV holds a significant loan portfolio denominated in euros (see also, '*Risk management—Credit Risk*'). In its day-to-day operations, the 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), income, RWAs, capital base and expenses and the reported earnings of NWM Plc's UK and non-UK subsidiaries and may have a material adverse effect on the NWM Group's reported consolidated financial condition, capital ratios or its income from foreign exchange dealing.

Decisions of major central banks (including by the BoE, the ECB and the US Federal Reserve) and political or market events (including in respect of Brexit and the general UK political climate), which are outside of the NWM Group's control, may lead to sharp and sudden variations in foreign exchange rates.

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

In its November 2018 Autumn Budget, the UK government announced its intention to continue the process of privatisation of RBSG plc and to carry out a programme of sales of RBSG plc ordinary shares with the objective of selling all of its remaining shares in RBSG plc by 2023-2024. On 6 February 2019, RBSG plc obtained shareholder approval to participate in certain directed share buyback activities. As of 31 December 2019, the UK government held 62.1 per cent of the issued ordinary share capital of RBSG plc. There can be no certainty as to the continuation of the sell-down process or the timing or extent of such sell-downs.

UKGI manages HM Treasury's shareholder relationship with the RBSG plc and, although HM Treasury has indicated that it intends to respect the commercial decisions of the RBS Group and that the RBS Group entities (including the NWM Group) will continue to have its own independent board of directors and management team determining their own strategy, its position as a majority shareholder (and UKGI's position as manager of this shareholding) means that HM Treasury or UKGI could exercise a significant degree of influence over, among other things, the election of directors and appointment of senior management, the RBS Group's (including the NWM Group's) capital strategy, dividend policy, remuneration policy or the conduct of the RBS Group's (including the NWM Group's) operations, and HM Treasury or UKGI's approach depends on government policy, which could change, including as a result of a general election. The exertion of such influence over RBS Group could in turn have a material adverse effect on the governance or business strategy of the NWM Group, which in turn may have a material adverse effect on the NWM Group's financial condition and results of operations.

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

Legal, regulatory and conduct risk

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

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, which may increase compliance and conduct risks. The 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 focussed on reforming the prudential regulation of the financial services industry and the manner in which the business of financial services is conducted. Amongst others, measures have included: enhanced capital, liquidity and funding requirements, implementation of the UK ring-fencing regime, implementation and strengthening of the recovery and resolution framework applicable to financial institutions in the UK, the EU and the US, financial industry reforms (including in respect of MiFID II), enhanced data privacy and IT resilience requirements, enhanced regulations in respect of the provision of 'investment services and activities', enhanced regulations in respect of the provision of 'investment services and activities', and increased regulatory focus in certain areas, including conduct, consumer protection regimes, AML, anti-bribery, anti-tax evasion, payment systems, sanctions and anti-terrorism laws and regulations. This has resulted in the NWM Group facing greater regulation and scrutiny in the UK, the US, the EU and other countries in which it operates.

In addition, there is significant oversight by competition authorities of the markets which the NWM Group operates in. The competitive landscape for banks and other financial institutions in the UK, the rest of Europe 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.

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. In particular, the 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. Serious consequences could arise should the NWM Group be found to be non-compliant with such regulatory requirements. Such changes may also result in an increased number of regulatory investigations and proceedings and have increased the risks relating to the NWM Group's ability to comply with the applicable body of rules and regulations in the manner and within the time frames required.

Any of these developments (including any failure to comply with new rules and regulations) could have a significant impact on the NWM Group's authorisations and licences, the products and services that the NWM Group may offer, its reputation and the value of its assets, the NWM Group's operations or legal entity structure, and the manner in which the NWM Group conducts its business. Areas in which, and examples of where, governmental policies, regulatory and accounting changes and increased public and regulatory scrutiny could have an adverse impact (some of which could be material) on the NWM Group include, but are not limited to, those set out above as well as the following:

- general changes in government, central bank, regulatory or competition policy, or changes in regulatory regimes that may influence investor decisions in the markets in which the NWM Group operates;
- amendments to the framework or requirements relating to the quality and quantity of regulatory capital to be held by the NWM Group as well as liquidity and leverage requirements, either on a solo, consolidated or subgroup level;
- changes to the design and implementation of national or supranational mandated recovery, resolution or insolvency regimes or the implementation of additional or conflicting loss-absorption requirements, including those mandated under UK rules, the BRRD, or MREL;
- rules and regulations relating to, and enforcement of, anti-corruption, anti-bribery, AML, anti-terrorism, sanctions, anti-tax evasion or other similar regimes;
- the imposition of additional restrictions on the NWM Group's ability to compensate its senior management and other employees and increased responsibility and liability rules applicable to senior and key employees;
- rules relating to foreign ownership, expropriation, nationalisation and confiscation of assets;
- changes to corporate practice and disclosure governance requirements, senior manager responsibility, corporate structures and conduct of business rules;
- financial market infrastructure reforms establishing new rules applying to investment services, short selling, market abuse, derivatives markets and investment funds;
- new or increased regulations relating to customer data and privacy protection as well as IT controls and resilience, including the GDPR;
- the introduction of, and changes to, taxes, levies or fees applicable to the NWM 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;
- laws and regulations in respect of climate change and sustainable finance (including ESG) considerations; and
- other requirements or policies affecting the NWM Group and its profitability or product offering, including through the imposition of increased compliance obligations or obligations which may lead to restrictions on business growth, product offerings, or pricing.

To support the UK's goal of Net Zero by 2050, the UK and Scottish governments and UK and international regulators, such as the PRA and European Commission, are actively seeking to develop new and existing regulations directly and indirectly focussed on climate change and the associated financial risks. Regulatory and policy developments, may have a significant impact on the markets in which the NWM Group operates, and its associated credit, market and financial risk profile.

In a Joint Declaration on Climate Change published in July 2019, the PRA, FCA, Financial Reporting Council and The Pensions Regulator set out their commitment to working collaboratively to address the risks of climate change. In October 2019, the RBS Group submitted its initial plan to meet the PRA's supervisory expectations in its supervisory statement (SS 3/19) which sets forth an expectation that regulated entities adopt a Board-level strategic approach to managing and mitigating the financial risks of climate change and embed the management of them into their governance frameworks, subject to existing prudential regulatory supervisory tools (including stress testing and individual and systemic capital requirements). In addition, The BoE announced in December 2019 that it will use the 2021 biennial exploratory scenario (BES) to stress banks on certain climate scenarios to 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. The prudential regulation of climate risk will be an important driver in how the RBS Group otherwise decides how it allocates capital and further develop its risk appetite for financing certain types of activity or engaging with counterparties that do not align to a transition to a net zero economy.

The FCA have also announced that climate change and green finance will be priorities with a focus on disclosure, integrating climate change into decision-making and consumers' access to green financial services. The NWM Group also recognises various legislative actions and proposals by, among others, the European Commission's Action Plan on Sustainable Finance which include a taxonomy on sustainable finance. Many of these legislative and regulatory initiatives, and especially the EU taxonomy, are focused on developing standardised definitions for the green and sustainable criteria of assets and liabilities, which could change over time and impact the NWM Group's recognition of its climate financing activity and lead to reputational and conduct risk on its own sustainable financing activity.

Changes in laws, rules or regulations, or in their interpretation or enforcement, or the implementation of new laws, rules or regulations, including contradictory or conflicting laws, rules or regulations by key regulators or policymakers in different jurisdictions, or failure by the NWM Group to comply with such laws, rules and regulations, may have a material adverse effect on the NWM Group's business, financial condition and results of operations. In addition, uncertainty and insufficient international regulatory coordination as enhanced supervisory standards are developed and implemented may adversely affect the NWM Group's ability to engage in effective business, capital and risk management planning.

The NWM Group is subject to a number of legal, regulatory and governmental actions and investigations as well as associated remedial undertakings, the outcomes of which are inherently difficult to predict, and which could have an adverse effect on the NWM Group.

The 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. The 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.

The NWM Group is subject to a number of ongoing reviews, investigations and proceedings (both formal and informal) by governmental law enforcement and other agencies and litigation proceedings, relating to, among other matters, the offering of securities, conduct in the foreign exchange market, the setting of benchmark rates such as LIBOR and related derivatives trading, the issuance, underwriting, and sales and trading of fixed-income securities (including government securities), product mis-selling, customer mistreatment, AML, antitrust and various other compliance issues. See also, '*Description of the NWM Group—Legal and Arbitration Proceedings*' for details of these matters. Legal and regulatory actions are subject to many uncertainties, and their outcomes, including the timing, amount of fines or settlements or the form of any settlements, which may be material and in excess of any related provisions, are often difficult to predict, particularly in the early stages of a case or investigation, and the NWM Group's expectations for resolution may change.

NWM Group companies are currently responding to a criminal investigation by the US Attorney for the District of Connecticut (USAO) and the US Department of Justice (DoJ), concerning securities trading in 2018 by certain former traders of NWM Plc, involving alleged spoofing. The trading activity occurred during the term of the non-prosecution agreement (NPA) that NWMSI entered into with the USAO in October 2017 in connection with alleged misrepresentations to counterparties relating to secondary trading in various forms of asset-backed securities. Under the NPA, 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 US securities law. See also, '*Description of the NWM Group—Litigation and Arbitration Proceedings*' for details of these matters.

The duration and outcome of the criminal investigation into alleged spoofing, which may include the extension, modification, or deemed violation of the NPA, remain uncertain. No settlement may be reached and further substantial additional provisions and costs may be recognised. Any finding of criminal liability by US authorities as to NWM Plc, NWMSI, or an affiliate (including as a result of pleading guilty), as to either the alleged spoofing or the conduct underlying the NPA, could have material collateral consequences for NWM Group's business. These may include consequences resulting from the need to reapply for various important licenses or obtain waivers to conduct certain existing activities of the 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 the NWM Group's business, in particular in the US, including if it results in the NWM Group being precluded from carrying out certain activities.

Adverse outcomes or resolution of current or future legal or regulatory actions and associated remedial undertakings could result in restrictions or limitations on the NWM Group's operations, and could adversely impact the NWM Group's capital position or its ability to meet regulatory capital adequacy requirements, which could in turn have a material adverse effect on the financial condition, results of operations and prospects of the NWM Group. Failure to comply with undertakings made by the NWM Group to its regulators may result in additional measures or penalties being taken against the NWM Group.

The NWM Group may not effectively manage the transition of LIBOR and other IBOR rates to alternative RFRs.

UK and international regulators are driving a transition from the use of interbank offer rates (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. The NWM Group has a significant exposure to IBORs, and continues to reference it in certain products, primarily its derivatives and legacy securities. Although the NWM Group is actively engaged with customers and industry working groups to manage the risks relating to such exposure, and is exploring ways to utilise RFRs to the extent possible, the legal mechanisms to effect transition cannot be confirmed, and the impact cannot be determined nor any associated costs accounted for, until such time that RFRs are utilised exclusively, and there is market acceptance on the form of alternative RFRs for different products, and certain IBOR obligations may not be able to be changed. The transition and uncertainties around the timing and manner of transition to RFRs represent a number of risks for the NWM Group, its clients and the financial services industry more widely. Following an analysis of the NWM Group's IBOR-linked financial products and instruments, the NWM Group has identified the following risks: legal risks (as changes will be required to documentation for new and the majority of existing transactions); financial risks (which may arise from any changes in valuation of financial instruments linked to benchmarks rates and may impact the NWM Group's cost of funds and its risk management related financial models); pricing risks (such as changes to benchmark rates could impact pricing mechanisms on certain instruments); operational risks (due to the requirement to adapt IT systems, trade reporting infrastructure and operational processes); and conduct risks (which include communication regarding the potential impact on customers, and engagement with customers during the transition period).

It is therefore currently difficult to determine to what extent the changes will affect the NWM Group, or the costs of implementing any relevant remedial action. Uncertainty as to the nature and extent of such potential changes, alternative reference rates or other reforms including the potential continuation of the publication of LIBOR may adversely affect financial instruments using LIBOR as benchmarks. The implementation of any alternative RFRs may be impossible or impracticable under the existing terms of such financial instruments and could have a material 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 certain rules (as proposed by the IASB) are still to be finalised.

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

In accordance with IFRS (as adopted by the EU), the 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 £75 million as at 31 December 2019. Changes to the treatment of certain deferred tax assets may impact the NWM Group's capital position. In addition, the 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, which may have a material adverse effect on the NWM Group's results of operations and financial condition.

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 2019 Financial Statements and the 2018 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 2019, 2018 and 2017 and have been audited by Ernst & Young LLP. The Q1 2020 Financial Statements include consolidated interim financial information of the NWM Group as at and for the three months ended 31 March 2020 and have been reviewed by Ernst & Young LLP. The Financial Statements and the reports of Ernst & Young LLP on the 2019 Financial Statements and the 2018 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			**For the three months ended 31 March**	
	2019	**2018**	**2017**	**2020**	**2019**
			£m		
Interest receivable	697	406	270	152	126
Interest payable	(847)	(673)	(222)	(195)	(162)
Net interest income	(150)	(267)	48	(43)	(36)
Fees and commissions receivable	324	260	282	92	91
Fees and commissions payable	(337)	(233)	(275)	(76)	(60)
Income from trading activities	805	1,045	737	599	221
Gain on redemption of own debt	—	101	—		
Other operating income	77	(48)	119	(32)	60
Non-interest income	869	1,125	863	583	312
Total income	719	858	911	540	276
Staff costs	(691)	(579)	(894)	(190)	(179)
Premises and equipment	(111)	(120)	(152)	(30)	(24)
Other administrative expenses	(177)	(1,524)	(1,389)	(228)	(23)
Depreciation and amortisation	(18)	(14)	49	(7)	(5)
Operating expenses	(997)	(2,237)	(2,386)	(455)	(231)
Profit/(Loss) before impairment losses	(278)	(1,379)	(1,475)	85	45
Impairment releases/(losses)	48	102	79	5	20
Operating profit/(loss) before tax	(230)	(1,277)	(1,396)	90	65
Tax (charge)/credit	109	33	160	(82)	53
Profit/(Loss) from continuing operations	(121)	(1,244)	(1,236)	8	(306)
Profit from discontinued operations, net of tax(1)	—	2,461	1,192	—	—
Profit/(loss) for the period	(121)	1,217	(44)	8	(306)

(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 RBSG.

Balance Sheet Data

	NWM Group					NWM Plc		
	As at 31 December			As at 31 March		As at 31 December		
	2019	2018	2017	2020	2019	2019	2018	2017
	£m			£m		£m		
Assets								
Cash and balances at central banks	12,729	11,188	153	11,837		9,953	11,095	93
Trading assets(1)	76,540	74,972	85,932	81,376		57,768	61,990	73,011
Derivatives	148,696	134,250	159,278	207,541		147,458	134,291	162,005
Settlement balances	4,339	2,705	2,497	9,785		3,353	1,421	1,614
Loans to banks – amortised cost	1,088	626	371	1,334		238	454	195
Loans to customers – amortised cost	8,361	8,366	9,638	12,209		6,910	7,908	9,133
Amounts due from holding company and fellow subsidiaries	1,231	3,398	216	1,917		7,145	11,800	6,470
Other financial assets	12,305	11,268	3,120	12,218		11,636	10,995	3,079
Investment in group undertaking	—	—	—	—		2,905	1,151	496
Other assets(2)	847	1,108	465,032	815		687	936	269,793
Total assets	266,136	247,881	726,237	339,032		248,053	242,041	525,889
Liabilities								
Bank deposits	2,089	2,749	528	3,784		2,038	2,777	527
Customer deposits	3,703	2,580	3,257	5,725		2,247	2,390	3,063
Amounts due to holding company and fellow subsidiaries	8,300	10,161	90	8,742		16,858	23,505	14,994
Settlement balances	4,022	2,914	2,817	8,905		2,648	1,977	1,372
Trading liabilities(1)	73,836	72,289	81,960	80,721		53,576	54,540	64,182
Derivatives	144,142	129,914	153,330	201,737		142,390	129,974	155,098
Other financial liabilities	18,445	16,279	11,255	17,387		17,470	16,279	11,255
Other liabilities(2)	1,689	1,906	437,740	1,999		1,195	1,677	230,876
Total liabilities	256,226	238,792	690,977	329,000		238,422	233,119	481,367
Owners' equity	9,907	9,087	35,203	10,079		9,631	8,922	44,522
Non-controlling interests	3	2	57	(47)		—	—	—
Total equity	9,910	9,089	35,260	10,032		9,631	8,922	44,522
Total liabilities and equity	266,136	247,881	726,237	339,032		248,053	242,041	525,889

(1) For a further analysis of the 'Trading assets' and 'Trading liabilities' see '*Operating and Financial Review—Consolidated Financial Information for the Three Months Ended and as at 31 March 2020 and 2019—Balance Sheet*', '*Operating and Financial Review—Consolidated Financial Information for the Years Ended and as at 31 December 2019 and 2018—Balance Sheet*' and '*Operating and Financial Review—Consolidated Financial Information for the Years Ended and as at 31 December 2018 and 2017—Balance Sheet.*'

(2) For 31 December 2017, this line principally represents assets and liabilities associated with the businesses of the ring-fenced bank, which were held by the NWM Group until the point of transfer of NatWest Holdings Group to RBSG. 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 2018 and 2017—Balance Sheet*' and '*Operating and Financial Review—Consolidated Financial Information for the Years Ended and as at 31 December 2018 and 2017—Balance Sheet.*'

Other Data

Performance key metrics and ratios(1)	Year ended 31 December 2019	Year ended 31 December 2018	Year ended 31 December 2017	For the three months ended 31 March 2020
LCR (%)(2)(3)	254	457	*nm*	287
Liquidity portfolio (£bn)(4)	16.1	16.6	*nm*	16.6
Stressed coverage ratio (%)(2)(5)	153	208	*nm*	-
Total wholesale funding (£bn)(6)	21.9	19.8	13.0	22.0
Total funding including repo (£bn)(7)	85.0	80.0	68.6	96.8
Common Equity Tier (CET 1) ratio (%)(8)	17.3	15.6	14.7	15.7
CRR leverage ratio (%)(9)	5.1	5.0	5.6	4.3
Risk-weighted assets (RWAs) (£bn)(10)	35.2	40.8	136.8	35.3
Total Capital ratio (%)(11)	24.2	21.5	18.7	22.8
Total CRR-compliant MREL (£bn)(2)	13.5	13.9	*nm*	13.3
MREL ratio (%)(2)(12)	38.4	34.0	*nm*	37.8

(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 the RBS Group. Leverage is based on the CRR end-point minimum requirement.

(2) These metrics have been presented for the NWM Plc solo legal entity / non-consolidated basis for 2019 and 2018 as managed internally, based on the establishment of the liquidity portfolio during 2018 and the legal entity being restructured into a standalone non ring-fenced bank. As a result of the restructure, the 2017 comparative is not meaningful ('**nm**').

(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. For the year ended 31 December 2019, 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. Liquidity portfolio values for 2018 have been presented on the same basis. The 2017 balances include those assets related to ring-fenced bank activity, and as both the ring-fenced business and its associated liquidity portfolio has been transferred into another legal entity, the liquidity portfolio is not meaningful for comparison. As a standalone bank NWM Plc manages its liquidity portfolio independently with effect from 2018.

(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, repo, customer deposits and intra-RBS Group balances. The 2017 data relates to continuing operations only. See '*Operating and Financial Review–Funding and Liquidity–Funding*' and '*Selected Statistical Data and Other Information –Deposits and Short-Term Borrowings*'.

(7) The 2017 data relates to continuing operations only.

(8) 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.

(9) 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.

(10) 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. The 2017 balances include those assets related to ring-fenced bank activity and accordingly are not directly comparable to the 2018 and 2019 balances.

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

(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 2019 Financial Statements and the 2018 Financial Statements have been 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 RBSG, a banking and financial services group.

The NWM Group provides risk management, trading solutions and debt financing principally to Financial Institutions and UK and European corporate customers to help these customers manage their financial risks and achieve their short- and long-term financial goals while navigating changing markets and regulation.

NWM Group provides Rates, Currency and Financing products to corporate, commercial, business and retail clients of other RBS Group entities, namely Ulster Bank Ireland DAC in the ring-fenced sub-group and RBSI, as well as RBS Group franchises. Income derived from customers whose primary banking relationship is with other RBSG entities is referred to as 'revenue share.' The NWM Group and other entities within the broader RBS Group follow an integrated customer-planning approach to maximise connectivity, which includes customer account planning, allocation decision-making, and opportunity identification. Approximately 30 per cent of the NWM Group's total income for the year ended 31 December 2019 was sourced from customers referred to the NWM Group by other RBS Group entities, compared to 20 per cent for the year ended 31 December 2018.

The three pillars of Rates, Currencies and Financing are summarised below:

- **Rates.** A range of interest rate products that support customers' financing and hedging needs.
- **Currencies.** Access to cash / spot FX, forwards and FX options in more than 60 currency pairs.
- **Financing.** Access to global debt capital markets, offering mainstream bond financing activities, asset backed financing and primary lending products as well as Credit trading capabilities.

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, Rates and Financing 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 2019, 58 per cent (2018: 72 per cent) of the NWM Group's total income was generated in the UK and Europe, 27 per cent (2018: 18 per cent) was generated in the US and 15 per cent (2018: 10 per cent) was generated in the rest of the world. See '*Description of the NWM Group—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 the RBS 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 the RBS 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 RBSG.

In February 2020, RBSG 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 RBSG 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, RBSG 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 RBSG but with a substantial reduction in NWM Plc's RWAs of around £14-18bn in the medium term.

Capital deployment is planned to be re-orientated towards activities supporting the RBSG's corporate and institutional customers and 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 the RBS Group's NWM franchise reducing RWAs by c.50 per cent to around £20bn, becoming c.10 per cent of the RBS Group's total RWAs in the medium term. A reduction of the NWM franchise RWAs to around £32bn is planned in 2020, which is expected to have a material impact on the size and shape of the NWM franchise and NWM Plc's RWAs.

NWM franchise CET 1 capital is also intended to reduce by c.50 per cent to around £3bn. Whilst the RWA reduction expected to be achieved by this refocusing is expected to be CET 1 capital ratio accretive in year one and over the course of the transition period, 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**
RWA reduction	c.£14-18bn
CET 1 ratio	Above 15%
MREL ratio(1)	At least 30%
Leverage ratio	At least 4%

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

Comparability of the NWM Group's Historical Financial Results

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

The RBS Group's 'NatWest Markets' franchise reporting segment does not correspond to the NWM Plc legal entity or the NWM Group. The RBS 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 RBSG. 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, the RBS 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 the RBS 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. RBS 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 RBSG. Comparisons 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 the RBS 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 RBSG 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 the RBS Group) was transferred by the NWM Group to be a direct subsidiary of RBSG with effect from 2 July 2018 thereby creating the legal separation of those RBS 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 the RBS Group resulting from the UK ring-fencing legislation was completed by 31 December 2018, the NWM Group's financial statements for the year ended 31 December 2019 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

During the first quarter of 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 three months ended 31 March 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 the RBS 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 have 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, but if they continue or worsen they will have a material adverse effect on the NWM Group's financial results and operations in subsequent periods.

As a result of this unprecedented economic uncertainty and limited available data the NWM Group, as part of the RBS Group, has applied an internal analysis of multiple economic scenarios (MES) to inform its IFRS 9 ECL overlay, which has increased by £5.6 million to £10.0 million in the three months ended 31 March 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 March 2020 may not prove to be adequate resulting in incremental ECL provisions for the NWM Group.

During the three months ended 31 March 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 March 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 has caused significant market volatility which has increased NWM Group's market risk and has caused RWA inflation. 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 future quarters. Furthermore, market volatility may result in increases to leverage exposure.

Please also refer to '*Risk Factors—Economic and political risk—The direct and indirect effects of the Covid-19 pandemic are having an adverse impact on NWM Group's business and results of operations, which is likely to be material if conditions worsen or are prolonged, and may affect its ability to meet its targets and achieve its strategic objectives.*'

Strategic changes to the NWM Group's scope of activities

On 14 February 2020 the RBS Group has 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 the RBS 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 level of RWAs. This includes an expected reduction in NWM Plc's RWAs by £14-18 billion in the medium term, through accelerating the exit of exposures and an optimisation of inefficient capital across the NWM Group, especially in relation to its Rates products. 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.

Each of these factors may have a material adverse effect on the NWM Group's results of operations, financial condition and prospects.

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, the RBS Group undertook a reorganisation of its group legal entity structure and business model. Following the reorganisation, the RBS 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 the RBS Group's principal operating subsidiary, is the principal holding and operating company for the RBS 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 the RBS 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.

The RBS Group's UK entities are parties to a legally binding CSD and a UK DoLSub arrangement. The CSD and the UK DoLSub are intra-group capital and liquidity support agreements that secure certain regulatory permissions authorised by the PRA. As a result of the legal entity restructuring in response to the UK government's ring-fencing legislation, NWM Plc ceased to form part of the UK DoLSuB on 1 November 2018 and entered into a new CSD comprising the UK entities outside the ring-fenced subgroup.

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 the RBS 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 the RBS 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 NWM Group's business operations are also subject to further potential changes, including the transition period agreed under the Withdrawal Agreement ratified by the UK government and the EU (through the Council of Ministers), which is expected to conclude on 31 December 2020. During this time, the UK and EU will continue negotiations on the terms of the relationship going forward. The UK government has said publicly that there will be no extension of the transition period. The future relationship for financial services remains unclear (see also, '*Risk Factors–Prevailing uncertainty regarding the terms of the UK's withdrawal from the EU has adversely affected and will continue to affect the NWM Group.*'). The volume and pace of these potential changes 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 discussed below.

There were three main changes to the scope of the NWM Group's activities during 2019 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, RBSG 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.

  In a scenario where there is an expectation of an immediate loss of access to the European Single Market (also known as 'Hard Brexit') by 31 December 2020, up to a further approximately £1.5 billion equivalent of third party assets and up to approximately £2.0 billion equivalent of third party liabilities could be transferred from the Issuer to NWM NV. 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. Phase III of the Transfer Scheme is expected to be implemented before 31 December 2020 upon notice by the Issuer to its EEA transfer customers. In addition, certain customers may 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.*** RBSG 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. The strategy relating to the Western European Transfers continues to evolve, including as a result of Brexit planning, and it is yet to be determined as to which third party assets will move as part of the Western European Transfers and what proportion of the Western European Portfolio will be transferred to NWM NV and NWM Plc, or may ultimately reside within the RBS Group's ring-fence bank.

  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 £3.0 billion in aggregate (the '**Funded Guarantee**'). At 31 December 2019, NWM NV was in receipt of £0.7 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*'.

- ***RBSG's transfer of NWM NV to the Issuer.*** RBSG had previously announced its intention for NWM NV's parent, a subsidiary of RBSG, 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. RBSG'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 RBSG to NWM Plc. The impact of the acquisition on NWM Plc's CET1 ratio was accretive by c. 30bp.

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 for 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 the RBS 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 RBS 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 RBSG and other entities within the RBS 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 the RBS Group and on 6 November 2018 entered into a series of revenue share agreements (the ‘**Revenue Share Agreements**’) with certain entities within the RBS 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 the RBS Group is referred to as ‘revenue share.’ This operating model reflects the RBSG 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 2019, the NWM Group transferred £208 million in income, representing approximately 29 per cent of the NWM Group’s total income for that year to other segments of the RBS Group (principally the commercial, private banking and personal banking businesses of the Revenue Share Entities). This amount is higher compared to the amount of revenue share transfers for the year ended 31 December 2018 which amounted to £171 million, or 20 per cent of total income for that year, principally due to the fact that the results for the year ended 31

December 2018 only included revenue share transfers for the period from April 2018. This broadly corresponded to the point in time of the transfer of businesses to subsidiaries of NatWest Holdings Group as part of the first ring-fence transfer scheme.

Because a significant proportion of NWM Plc revenues are driven by customers of the RBS 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. 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.

	2019	**2018**	**2017**
UK Gross Domestic Product Growth YoY (%)	1.4	1.3	1.9
UK unemployment rate (December – February) (%)	4.0	3.9	4.2
Number of people in employment in the UK (December – February) (millions)	33.1	32.7	32.3
BoE base rate as at 31 March (%)	0.1	0.75	0.50

In the UK, for 2019 as a whole, GDP rose 1.4 per cent compared to a 1.3 per cent rise in 2018. Between the third and fourth quarter of the year ended 31 December 2019 business investment fell 0.5 per cent, but was up 1.8 per cent compared with the same period in the year ended 31 December 2018. Business borrowing increased markedly towards the end of the period from January to March 2020, with loans to non-financial corporates up 8.2 per cent at the end of the three months ended 31 March 2020, compared with 2.6 per cent at the end of the three months ended 31 March 2019, driven by a sharp rise in lending activity of large companies.

The labour market remained strong in early 2020 with employment rising further to 33.1 million in the three months ended 28 February 2020, a new record high. However, the unemployment rate increased slightly to 4 per cent in the three months ended 28 February 2020, compared to 3.9 per cent in the three months to 28 February 2019. Total annualised pay growth increased 2.8 per cent in the three months ended 28 February 2020 and vacancies fell 6,000 in the three months to 28 February 2020. 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 early 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 now expects global growth to fall 3 per cent in 2020. Euro-area and US growth declined sharply in the year to March 2020, down 3.8 per cent and 4.8 per cent, respectively. UK economic growth appears to have fallen in early 2020, dragged down by the restrictive measures imposed by the UK government to contain the spread of COVID-19 pandemic. Uncertainty persists over the length of the current lockdown, possibility of a second wave of the pandemic and the nature of UK/EU trading relationship ahead of the deadline for the current negotiations on 31 December 2020. Consumption growth has fallen sharply in early 2020, following the lockdown of the UK economy, judging from a record monthly fall in retail sales in March 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**') arises from non-match-funded positions, capital hedges and portfolios held for liquidity purposes. 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. The NWM Group monitors its exposure to NTIRR through a limit framework that includes VaR, SVaR, basis point sensitivity, economic value of equity ('**EVE**'), and earnings-at-risk ('**EaR**') limits.

Credit Spreads

Volatility in credit spreads can also impact the NWM Group. Changes in the NWM Group's credit spreads arise from the economic impact of a change in the spread between asset yields and swap rates, where the bond portfolios are accounted at fair value through equity.

The NWM Group's credit spread risk primarily arises from bond portfolios comprising high-quality securities maintained as a liquidity buffer to ensure the NWM Group can continue to meet its obligations in the event that access to wholesale funding markets is restricted. Additionally other high-quality bond portfolios are held for collateral purposes and to support payment systems.

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 VaR and SVaR limits set by the Board. The structural open position is managed within lower level 'dealing authority' limits.

Equity

On 16 June 2019, NWM Plc acquired the RBS Group's 4.1 per cent economic interest in the newly merged Saudi British Bank (SABB) from NWM NV. The non-traded foreign exchange and equity risks arising from this shareholding – with a total VaR of £34 million as at 31 December 2019 – are monitored separately from non-traded market risk appetite reporting. The funding risk arising from the SABB shareholding is captured as structural interest rate exposure.

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.' enhanced regulations in respect of the provision of 'investment services and activities.' and increased regulatory focus in certain areas, including conduct, consumer protection regimes, AML, anti-bribery, anti-tax evasion, payment systems, sanctions and anti-terrorism laws and regulations.

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.

- New rules set by the PRA and the EBA, future changes that impact the NWM Group include the European Commission's implementation of the Basel IV and other reforms being implemented through the Capital Requirements Regulation 2 (CRR2) package of reforms. The NWM Group's results of operations are particularly impacted by the Leverage Ratio and NSFR components of the CRR2 package.

- EMIR in the EU imposes new requirements on entities dealing in derivatives and securities trading as both customers and service providers such as the NWM Group. EMIR is imposing changes in relation to requiring many OTC derivative contracts to be cleared, additional reporting to trade repositories and risk management regulations on bilaterally cleared derivatives. Collectively these 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, introduces 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.

- In December 2017, the European Commission made equivalence determinations for trading venues in Switzerland, the US, Australia and Hong Kong. The equivalence decisions were necessary to permit EU-domiciled institutions and clients to continue to execute transactions on non-EU-domiciled trading venues. The Swiss equivalence decision is limited to one year and is linked to the progress of negotiations on the future establishment of an EU-Swiss institutional agreement. Compliance with the new requirements has required significant investment and changes to operations for the NWM Group, its clients and other financial services firms. Given the scale of the change and, in some cases, the short time between finalisation of requirements and the effective date, the NWM Group expects that the changes introduced by MiFID II will result in changes to relevant markets and businesses, which may include a reduction in commission rates and trading margins. The NWM Group continues to assess the effect on its businesses, in particular the requirement to price research and execution services separately, and whether these changes affect the timing of recognition of certain fee income.

- The European Commission's proposal to impose a requirement for any bank established outside the EU, which has an asset base within the EU of a certain size and has two or more institutions within the EU, to establish an IPU 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 are expected to affect many aspects of the NWM Group's business and operating environment (see also, '*Risk Factors—Uncertainties surrounding the UK's withdrawal from the EU may adversely affect the NWM Group*'). 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. 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, have 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 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. Maintaining its competitive position in the market requires the NWM Group to continue to innovate.

Technology is disrupting a number of elements of the NWM Group's activities in the wider marketplace, with some new players targeting selected components of the value chain, providing highly targeted offerings to customers. Some of this increased competition requires the NWM Group become faster, more agile and more innovative in the way that it develops its technology and customer offering. The NWM Group has been investing in its technology platforms and IT infrastructure as described in the section '*Description of the NWM Group—Strategy*'.

Digital maturity is seen as critical to the future success of the NWM Group, as the financial services industry goes through a period of rapid technological change. Together with digital innovation and ongoing efforts to reduce costs, there is potential for significant disruption to traditional banking business models and customers may move faster in e-banking areas.

To respond to growing competitive pressures from new technology and new market participants, the NWM Group expects to continue to invest in improving its customer experience, products and services in order to increase market share.

One of the NWM Group's competitive advantages comes from the expertise and markets insight of its employees. Given the nature of the market, the ability to retain key people is required to maintain a strong offering against competitors. The NWM Group monitors people risk closely and has plans in place to support retention of key roles, with wider programmes supporting engagement and training. In common with European peers, the Issuer is subject to regulatory restraints on variable remuneration.

One of the trends seen since the global financial crisis has been the US banks increasing their client and product proposition in EMEA, gaining in market share across all FICC products.

They benefit from global reach, large universal product offering and very large balance sheet capacity to facilitate high-volume and low-margin activity. Further expansion in the UK and Europe, the NWM Group's main markets, could negatively impact on the results of operations and financial position. The NWM Group is responding to the threat by seeking to implement a differentiation strategy in the UK and Europe where it competes on specialist knowledge and market expertise rather than scale.

Another trend has been the increase in non-bank private firms using low latency technology and algorithmic trading to participate in high volume flow markets such as US Treasuries and Spot FX as non-bank liquidity providers, their volumes - now approaching the scale of banks. Further diminution of the role of banks in these high flow markets may impact the NWM Group's results of operations.

The NWM Group's revenue streams are relatively concentrated in fixed income-related markets across rates, currencies and financing. A secular shift in the use of banks in these markets (for example, a reduction in bond issuance activity or difficult market making conditions) may result in a reduction in the NWM Group's revenues that cannot be offset by growth in revenues from another product line.

Market Conditions

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 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.

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.

See also '*—The impact of the Covid 19 pandemic*' below.

Reporting Segments

As of 31 March 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 risk management, trading solutions and debt financing through its trading hubs in London, Amsterdam, Singapore and Stamford, sales offices across key locations in the UK, EU, US and Asia and services centres in Poland and India. The NatWest Markets segment includes legacy positions consisting predominantly of residual exposures which were reported within the reportable segment formerly known as 'Capital Resolution' until its closure after the third quarter of the year ended 31 December 2017, as well as certain funding costs. The legacy exposures are primarily derivatives or loan agreements that are either being sold or run down over time; and

- '*Central Items & Other*' which includes corporate functions and other activity not managed in the NatWest Markets segment. 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 RBS 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 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 the RBS Group's Commercial Banking business to facilitate existing, as well as new, customers' access to the BoE's Covid-19 Corporate Financing Facility ('CCFF').

The NWM Group has managed risk appropriately during the crisis and balance sheet, capital and liquidity metrics remained strong at 31 March 2020. However, the effects of the Covid-19 pandemic have had, and are likely to continue to have, a material adverse impact on the NWM Group's business operations and may affect its financial performance and ability to meet its targets going forward.

The NWM Group is committed to the strategy announced on 14 February 2020 and will continue to review opportunities for refocusing the business and reducing RWAs over the medium term.

Please also refer to '*Risk Factors—The direct and indirect effects of the Covid-19 pandemic are having an adverse impact on NWM Group's business and results of operations, which is likely to be material if conditions worsen or are prolonged, and may affect its ability to meet its targets and achieve its strategic objectives.*'

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

Following the EU Referendum in June 2016, and pursuant to the exit process triggered under Article 50 of the Treaty on EU in March 2017 and the ratification of the withdrawal agreement by the UK government and the EU (through the Council of Ministers), the UK ceased to be a member of the EU and the EEA on 31 January 2020 and entered a transition period, currently due to expire on 31 December 2020. During this transition period, the UK retains the benefits of membership of the EU's internal market and the customs union, but loses its representation in the EU's institutions and its role in EU decision-making. The UK and EU are currently seeking to determine the terms of their future relationship by the end of the transition period, and the resulting economic, trading and legal relationships with both the EU and other counterparties currently remain unclear and subject to significant uncertainty. Please also refer to '*Risk Factors – Prevailing uncertainty regarding the terms of the UK's withdrawal from the EU has adversely affected and will continue to affect the NWM Group.*'

Credit Ratings

As at 13 May 2020, the long-term credit ratings of the Issuer are Baa2 (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 13 May 2020, and the Issuer may seek to obtain ratings of the Issuer 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. Moody's, S&P and Fitch are included in the list of credit rating agencies registered in accordance with the CRA Regulation as of 13 May 2020. This list is available on the ESMA website at *www.esma.europa.eu/page/List-registered-and-certified-CRAs* (list last updated on 14 November 2019).

Consolidated Financial Information for the Three Months Ended and as at 31 March 2020 and 2019

Income Statement

Consolidated

The following table sets forth a summary of the NWM Group's results of operations as at the dates indicated.

	For the three months ended 31 March	
	2020	2019
	£m	
Interest receivable	152	126
Interest payable	(195)	(162)
Net interest income(1)	(43)	(36)
Fees and commissions receivable	92	91
Fees and commissions payable	(76)	(60)
Income from trading activities	599	221

	For the three months ended 31 March	
	2020	2019
	£m	
Other operating income	(32)	60
Non-interest income	583	312
Total income	540	276
Staff costs	(190)	(179)
Premises and equipment	(30)	(24)
Other administrative expenses	(228)	(23)
Depreciation and amortisation	(7)	(5)
Operating expenses	(455)	(231)
Profit/(loss) before impairment releases	85	45
Impairment releases	5	20
Operating profit/(loss) before tax	90	65
Tax (charge)/credit	(82)	53
Profit/(loss) for the period	8	118
Attributable to:		
Ordinary shareholders	54	118
Paid-in equity holders	17	—
Non-controlling interests	(63)	—
	8	118

Note:

(1) Negative interest on loans is reported as interest payable. Negative interest on customer deposits is reported as interest receivable.

Total income for the three months ended 31 March 2020 was £540 million, an increase of £264 million compared to the three months ended 31 March 2019, reflecting a positive trading performance in the three months ended 31 March 2020, as well as strong levels of customer activity as the Covid-19 crisis developed, partially offset by credit market write-downs and hedging costs.

Net interest income, reflecting funding costs of the business, was a net expense of £43 million in the three months ended 31 March 2020, compared with a net expense of £36 million in the three months ended 31 March 2019. Non-interest income increased by £271 million to £583 million in the three months ended 31 March 2020 compared with £312 million for the three months ended 31 March 2019, driven by a positive trading performance in the three months ended 31 March 2020 and strong customer flows as the Covid-19 crisis developed in the three months ended 31 March 2020. This was partly offset by traded credit write-downs and hedging costs. Own credit adjustments of £155 million in the three months ended 31 March 2020 increased significantly compared with the three months ended 31 March 2019, due to the widening of credit spreads across the market in the three months ended 31 March 2020.

Operating expenses were £455 million in the three months ended 31 March 2020, compared with £231 million in the three months ended 31 March 2019. Litigation and conduct costs of £104 million in the three months ended 31 March 2020, primarily related to historical trading activities by a joint venture subsidiary, were higher compared with a £6 million recovery in the three months ended 31 March 2019. Strategic costs were £32 million in the three months ended 31 March 2020, compared with £12 million in the three months ended 31 March 2019. Other operating expenses increased to £319 million in the three months ended 31 March 2020 from £225 million in the three months ended 31 March 2019, largely due to the inclusion of NatWest Markets NV for the full period and certain one-off cost recoveries in 2019. Impairment releases were £5 million in the three months ended 31 March 2020, comprised of recoveries of defaulted exposures partially offset by the impact of ECLs recognised following the Covid-19 pandemic.

The operating profit before tax for the three months ended 31 March 2020 was £90 million, an increase of £25 million compared to a profit of £65 million in the three months ended 31 March 2019, as a result of the factors described above.

NatWest Markets and Central Items & Other Segments

The following table sets forth the segmental analysis of NWM Group's key income statement line items as at the dates indicated.

	For the three months ended 31 March 2020		For the three months ended 31 March 2019	
	NatWest Markets	**Central items & other**	**NatWest Markets**	**Central items & other**
£m				
Income statement				
Net interest income	**(43)**	—	(33)	(3)
Non-interest income	**583**	—	312	—
Total income	**540**	—	279	(3)
Strategic costs	**(30)**	**(2)**	(12)	—
Litigation and conduct costs	**(2)**	**(102)**	6	—
Other operating expenses	**(325)**	**6**	(283)	58
Operating expenses	**(357)**	**(98)**	(289)	58
Operating profit/(loss) before impairments	**183**	**(98)**	(10)	55
Impairment releases	**5**	—	16	4
Operating profit/(loss) before tax	**188**	**(98)**	6	59
Tax (charge)/credit				
Profit/(loss) for the period				
Income				
Rates (1)	**276**	—	226	—
Currencies	**194**	—	105	—
Financing (1)	**(11)**	—	93	—
Revenue share paid to other RBSG segments	**(47)**	—	(50)	—
Core income excluding OCA	**412**	—	374	—
Legacy	**(27)**	—	(52)	—
Own credit adjustments (OCA)	**155**	—	(43)	—
Other	—	—	—	(3)
Total income	**540**	—	279	(3)
Total income excluding OCA	**385**	—	322	(3)

Note:

(1) Income of £34 million relating to business previously within Rates has been reallocated to Financing effective the three months ended 31 March 2020. Comparatives have not been restated. The equivalent amount was £35 million for the three months ended 31 March 2019.

Core income for NatWest Markets in the three months ended 31 March 2020 was £412 million compared to £374 million in the three months ended 31 March 2019, primarily due to the positive trading performance in the three months ended 31 March 2020, as well as strong levels of customer flows in Rates and Currencies as the Covid-19 crisis developed. This was partially offset by traded credit write-downs and hedging costs, primarily impacting Financing. Operating expenses of £357 million in the three months ended 31 March 2020 were higher when compared to £289 million in the three months ended 31 March 2019, driven by an increase in other operating expenses which included NatWest Markets NV for the three months ended 31 March 2020. The operating profit before tax was £188 million in the three months ended 31 March 2020 compared with a profit of £6 million in the three months ended 31 March 2019.

Central items & other operating loss before tax was £98 million in the three months ended 31 March 2020 compared with an operating profit of £59 million in the three months ended 31 March 2019. This was largely driven by higher litigation and conduct costs in the three months ended 31 March 2020 relative to the three months ended 31 March 2019. The three months ended 31 March 2019 also included certain one-off cost recoveries.

Balance Sheet

Consolidated

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

	As at 31	
	March 2020	**December 2019**
	£m	**£m**
Assets		
Cash and balances at central banks	11,837	12,729
Trading assets	81,376	76,540
Derivatives	207,541	148,696
Settlement balances	9,785	4,339
Loans to banks - amortised cost	1,334	1,088
Loans to customers - amortised cost	12,209	8,361
Amounts due from holding company and fellow subsidiaries	1,917	1,231
Other financial assets	12,218	12,305
Other assets	815	847
Total assets	339,032	266,136
Liabilities		
Bank deposits	3,784	2,089
Customer deposits	5,725	3,703
Amounts due to holding company and fellow subsidiaries	8,742	8,300
Settlement balances	8,905	4,022
Trading liabilities	80,721	73,836
Derivatives	201,737	144,142
Other financial liabilities	17,387	18,445
Other liabilities	1,999	1,689
Total liabilities	329,000	256,226
Equity		
Owners' equity	10,079	9,907
Non-controlling interests	(47)	3
Total equity	10,032	9,910
Total liabilities and equity	339,032	266,136

NWM Group's total assets and liabilities increased by £72.9 billion and £72.8 billion to £339.0 billion and £329.0 billion respectively at 31 March 2020, compared with 31 December 2019. The increases primarily reflect client flow activity, cash collateral given, as well as an increase in derivative fair values following a downward shift in interest rate yields and weaker sterling.

Trading assets, which primarily include securities and reverse repurchase agreements relating to client-led activity, as well as derivative cash collateral posted, increased by £4.8 billion to £81.4 billion at 31 March 2020, driven by increased levels of customer flow trading and cash collateral given compared to 31 December 2019. Trading liabilities, comprising mainly short positions, repurchase agreements and derivative cash collateral received, increased by £6.9 billion to £80.7 billion at 31 March 2020.

Derivative assets and derivative liabilities increased by £58.8 billion to £207.5 billion and by £57.6 billion to £201.7 billion respectively compared with 31 December 2019. The movements in mark-to-market were driven by a significant downward shift in interest rate yields, together with sterling having weakened against major currencies in the three months ended 31 March 2020.

Settlement balance assets and liabilities were up £5.4 billion and £4.9 billion to £9.8 billion and £8.9 billion respectively, reflecting increased trading compared with the seasonally low levels of client activity leading up to 31 December 2019.

Loans to customers – amortised cost were up £3.8 billion to £12.2 billion, reflecting new corporate lending and draw downs on existing facilities, as well as increased margin balances with exchanges and clearing houses following the recent market volatility.

Other financial assets, which include non-trading government debt securities of £6.2 billion, decreased marginally to £12.2 billion at 31 March 2020 (31 December 2019 - £12.3 billion). Other financial liabilities, which includes £12.6 billion of medium term notes, decreased to £17.4 billion at 31 March 2020 (31 December 2019 - £18.4 billion) largely driven by net maturities in the period.

Total equity increased by £0.1 billion to £10.0 billion at 31 March 2020 primarily due to reserves movements in the period.

Trading Assets and Liabilities

Consolidated

The following table sets forth the NWM Group's trading assets and liabilities comprise assets and liabilities held at fair value in trading portfolios as at the dates indicated.

	31 March 2020	31 December 2019
Assets	**£m**	**£m**
Loans		
- Reverse repos	21,207	24,095
- Collateral given	28,147	20,467
- Other loans	3,022	1,854
Total loans	52,376	46,416
Securities		
Central and local government		
- UK	5,323	4,897
- US	2,198	5,458
- other	16,261	14,902
Financial institutions and Corporate	5,218	4,867
Total securities	29,000	30,124
Total	81,376	76,540
Liabilities		
Deposits		
- Repos	27,911	27,885
- Collateral received	29,632	21,506
Other deposits	1,752	1,496
Total deposits	59,295	50,887
Debt securities in issue	2,005	1,762
Short positions	19,421	21,187
Total	80,721	73,836

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 the RBS Group and certain insurers and third parties in respect of claims made under certain 2007 – 2009 insurance policies which provided coverage to RBS 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 operating expenses	(920)	(1,060)
Total 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								
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 Core 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		

	2019	2018
	£m	£m
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 operating expenses	(1081)	(1,060)
Total 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-RBS 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)
Interest on other financial assets	257	92

	NWM Group	
	For the years ended	
	2019	2018
	£m	
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.

Consolidated Financial Information for the Years Ended and as at 31 December 2018 and 2017

Income Statement

Consolidated

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

	2018	2017
	£m	£m
Interest receivable	406	270
Interest payable	(673)	(222)
Net interest income	(267)	48
Fees and commissions receivable	260	282
Fees and commissions payable	(233)	(275)
Income from trading activities	1,045	737
Gain on redemption of own debt	101	—
Other operating income	(48)	119
Non-interest income	1,125	863
Total income	858	911
Staff costs	(579)	(894)
Premises and equipment	(120)	(152)
Other administrative expenses	(1,524)	(1,389)
Depreciation and amortisation	(14)	49
Operating expenses	(2,237)	(2,386)
Loss before impairment releases/(losses)	(1,379)	(1,475)
Impairment releases/(losses)	102	79
Operating loss before tax	(1,277)	(1,396)
Tax (charge)/credit	33	160
Loss from continuing operations	(1,244)	(1,236)
Profit from discontinued operations, net of tax	2,461	1,192
Profit/(loss) for the year	1,217	(44)

The operating loss before tax of £1,277 million compares with a loss of £1,396 million in the year ended 31 December 2017. Total income decreased by £53 million, or 5.8 per cent, as the increase in income from trading activities and the gain on redemption of own debt were offset by lower net interest income and a reduction in other operating income. Within income from trading activities, the increase was primarily driven by lower losses in legacy offset by reduced income in core, which reflected challenging FICC market conditions in the three months ended 31 December 2018, together with turbulence in European bond markets earlier in the year ended 31 December 2018. Other operating income reduced, as indemnity recoveries in the year were offset by reserves recycling and disposal losses. Other operating income was £119 million in the year ended 31 December 2017, which included certain non-repeat gains.

Operating expenses decreased by £149 million, or 6.2 per cent, to £2,237 million in the year ended 31 December 2018. This reflects reductions in staff costs, premises and equipment and other administrative expenses. Within these figures, strategic costs and other operating expenses reduced to £208 million and £1,060 million, respectively, from £305 million and £1,346 million, respectively, reflecting lower costs in both core and legacy. This was offset by higher litigation and conduct costs, including those in respect of the settlement with the DoJ relating to RMBS matters, which increased to £969 million in the year ended 31 December 2018 from £735 million in the year ended 31 December 2017.

<u>Net Interest Income</u>

The NWM Group's net interest income for the year ended 31 December 2018 amounted to a net expense of £267 million, a decrease of £315 million as compared to a net income of £48 million for the year ended 31

December 2017. The decrease was principally due to higher interest expenses relating to debt issuance and subordinated liabilities in the year ended 31 December 2017, the latter of which was reflected within discontinued operations in the year ended 31 December 2018.

The NWM Group's interest receivable for the year ended 31 December 2018 amounted to £406 million, an increase of £136 million, or 50.4 per cent, as compared to £270 million for the year ended 31 December 2017. The increase was principally due to NatWest Markets Treasury-related activity in the year ended 31 December 2018, compared with the year ended 31 December 2017 in which RBS Group Treasury activities were managed centrally and reflected within discontinued operations.

The NWM Group's interest payable for the year ended 31 December 2018 amounted to £673 million, an increase of £451 million, or 203.2 per cent, as compared to £222 million for the year ended 31 December 2017. The increase was principally due increased debt issuance and subordinated liability expenses in the year ended 31 December 2018 as well as other NatWest Markets Treasury-related activity in the year, compared with the year ended 31 December 2017 in which certain interest payable in respect of centrally managed RBS Group Treasury activities was reflected within discontinued operations.

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.

	2018	2017
	£m	£m
Net fees and commissions	27	7
Income from trading activities		
Foreign exchange	387	378
Interest rate	515	249
Credit	41	144
Changes in fair value of own debt attributable to own credit - debt securities in issue and derivative liabilities	92	(70)
Equities and other	10	36
	1,045	737
Gain on redemption of own debt	101	—
Other operating income		
Operating lease and other rental income	14	8
Changes in the fair value of financial assets and liabilities designated at fair value through profit or loss	(16)	(11)
Changes in fair value of other financial assets fair value through profit or loss	(46)	—
Hedge ineffectiveness	(1)	—
Loss on disposal of amortised cost assets	(73)	(38)
Loss/(profit) on disposal of fair value through other comprehensive income assets	(8)	61
Profit on sale of property, plant and equipment	1	—
Dividend income	7	—
Share of profits of associated entities	—	1
(Loss)/profit on disposal of subsidiaries and associates	(12)	81
Other income (1)	86	17
	(48)	119
Total Non-Interest Income	1,125	863

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

The NWM Group's non-interest income for the year ended 31 December 2018 amounted to £1,125 million, an increase of £262 million, or 30.4 per cent, as compared to £863 million for the year ended 31 December 2017. The increase was principally due to higher income from trading activities, which reflected lower losses in legacy offset by reduced income in Core. Core was impacted by challenging FICC market conditions in the three months ended 31 December 2018, together with turbulence in European bond markets earlier in the year. The gain on redemption of own debt was £101 million compared with nil in the 2017. Other operating income was a loss of £48 million as indemnity recoveries in the year were offset by reserves recycling and disposal losses. Other operating income was £119 million in the year ended 31 December 2017, which included certain non-repeat gains.

The NWM Group's net fees and commissions for the year ended 31 December 2018, largely comprising those in respect of the NWM Group's debt capital markets, integrated financing and risk management solutions for customers, amounted to £27 million as compared to £7 million for the year ended 31 December 2017. The increase was principally due to lower fees and commissions payable, which more than offset the reduction in fees and commissions receivable in the period as the business navigated volatile market conditions.

The NWM Group's income from trading activities for the year ended 31 December 2018, which primarily includes trading and flow-related income across its core product offerings as well as legacy positions, amounted to £1,045 million, an increase of £308 million, or 41.8 per cent, as compared to £737 million for the year ended 31 December 2017. The increase was principally due to lower trading losses within legacy, which decreased by £356 million to £287 million, offset by reductions in core income which was impacted by challenging FICC market conditions in the three months ended 31 December 2018, together with European bond market turbulence earlier in the year. Within income from trading activities, own credit adjustments represented a £92 million gain in the year ended 31 December 2018 compared with a loss of £70 million in the year ended 31 December 2017.

The NWM Group's other operating income for the year ended 31 December 2018 amounted to a loss of £48 million, a decrease of £167 million as compared to an income of £119 million for the year ended 31 December 2017. The decrease was principally due to disposal losses and reserves recycling which more than offset indemnity recoveries in the year ended 31 December 2018, which compared against non-repeat gains in the year ended 31 December 2017.

Operating Expenses

The NWM Group's operating expenses for the year ended 31 December 2018 amounted to £2,237 million, a decrease of £149 million, or 6.2 per cent, as compared to £2,386 million for the year ended 31 December 2017. The decrease was principally due to lower strategic costs and other operating expenses, reflecting reductions in both core and legacy. These reductions were partially offset by increased litigation and conduct costs.

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

	2018	**2017**
	£m	**£m**
IFRS view		
Staff costs	(579)	(894)
Premises and equipment	(120)	(152)
Other administrative expenses	(1,524)	(1,389)
Depreciation and amortisation	(14)	49
Total operating expenses	(2,237)	(2,386)
Management view(1)		
Strategic costs(2)	(208)	(305)
Litigation and conduct costs	(969)	(735)
Other operating expenses	(1,060)	(1,346)
Total operating expenses	(2,237)	(2,386)

(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 2018 amounted to £579 million, a decrease of £315 million, or 35.2 per cent, as compared to £894 million for the year ended 31 December 2017. The decrease was principally due to reductions across both core and legacy, including lower strategic costs.

The NWM Group's premises and equipment costs for the year ended 31 December 2018 amounted to £120 million, a decrease of £32 million, or 21.4 per cent, as compared to £152 million for the year ended 31 December 2017. The decrease was principally due to ongoing cost reductions, including the rundown of legacy.

The NWM Group's other administrative expenses for the year ended 31 December 2018 amounted to £1,524 million, an increase of £135 million, or 9.7 per cent, as compared to £1,389 million for the year ended 31 December 2017. The increase was principally due to an increase in litigation and conducts in respect of the civil settlement with the Department of Justice ('**DoJ**') in relation to RMBS matters.

The NWM Group's depreciation and amortisation for the year ended 31 December 2018 amounted to £14 million, a decrease of £63 million as compared to a depreciation and amortisation recovery of £49 million for the year ended 31 December 2017. The movement was driven by the non-repeat of one-off items in the year ended 31 December 2017.

Impairment Releases

The NWM Group's impairment releases for the year ended 31 December 2018 amounted to £102 million, an increase of £23 million, or 29.1 per cent, as compared to £79 million for the year ended 31 December 2017. The increase was principally due to an increase in expected recoveries on defaulted positions, as well as other credit improvements.

Operating Loss Before Tax

The NWM Group's operating loss before tax for the year ended 31 December 2018 amounted to £1,277 million, a decrease of £119 million, or 8.5 per cent, as compared to loss of £1,396 million for the year ended 31 December 2017, due to the factors described above.

Tax Credit

The NWM Group's total tax charge for the year ended 31 December 2018 amounted to £33 million, a decrease of £127 million as compared to a tax credit of £160 million for the year ended 31 December 2017.

Loss from Continuing Operations

The NWM Group's loss from continuing operations for the year ended 31 December 2018, amounted to £1,244 million, an increase of £8 million as compared to the loss of £1,236 million for the year ended 31 December 2017 as the reduction in total income and tax credit in the year was offset by lower operating expenses and impairment recoveries in the year ended 31 December 2018 when compared with the year ended 31 December 2017.

Profit From Discontinued Operations, Net of Tax

The NWM Group's profit from discontinued operations, net of tax for the year ended 31 December 2018 amounted to £2,461 million, an increase of £1,269 million, or 106.5 per cent, as compared to £1,192 million for the year ended 31 December 2017, largely driven by the results of the businesses within the ring-fenced sub-group of the RBS Group until the point of transfer from the NatWest Holdings Group to RBSG, the impact of significant recycling of foreign currency and other reserves, as well as the continued run down of Central items in preparation for ring-fencing compliance.

Net Profit for the Year

The NWM Group's net profit for the year ended 31 December 2018 amounted to £1,217 million, an increase of £1,261 million as compared to a loss of £44 million for the year ended 31 December 2017, due primarily to the profit from discontinued operations. The loss before tax from continuing operations decreased to £1,277 million from £1,396 million in the year ended 31 December 2017, as lower strategic costs and reductions in other expenses were offset by a modest reduction in total income.

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							
2018								
NatWest Markets	5	32	981	1,018	(1,381)	(14)	88	(289)
2017								
NatWest Markets	215	8	817	1,040	(1,914)	49	79	(746)

<u>Total Income</u>

NatWest Markets' total income for the year ended 31 December 2018 amounted to £1,018 million, a decrease of £22 million, or 2.2 per cent, as compared to £1,040 million for the year ended 31 December 2017. The decrease was principally due to challenging FICC market conditions in the three months ended 31 December 2018 and turbulence in European bond markets earlier in the year, which impacted core income. This was offset by a reduction in legacy trading losses. Net interest expenses increased, reflecting higher interest costs on debt issuance and subordinated liabilities. Other operating income was lower, driven by disposal losses and recycling of foreign exchange and other reserves in the year, compared against a gain in the year ended 31 December 2017 which included certain non-repeat items.

NatWest Markets' net interest income for the year ended 31 December 2018 amounted to £5 million, a decrease of £210 million, or 97.7 per cent, as compared to £215 million for the year ended 31 December 2017. The decrease was principally due to higher interest expenses relating to debt issuance and subordinated liabilities in the year ended 31 December 2018, the latter of which was reflected within discontinued operations in the year ended 31 December 2017.

NatWest Markets' net fees and commissions for the year ended 31 December 2018 amounted to £32 million, an increase of £24 million, or 300 per cent, as compared to £8 million for the year ended 31 December 2017. The increase was principally due to lower fees and commissions payable, which more than offset the reduction in fees and commissions receivable in the period as the business navigated volatile market conditions.

NatWest Markets' other non-interest income for the year ended 31 December 2018 amounted to £981 million, an increase of £164 million, or 20.1 per cent, as compared to £817 million for the year ended 31 December 2017. The increase was principally due to lower trading losses in legacy, which more than offset the decreased income from trading activities in core due to challenging FICC market conditions in the three months ended 31 December 2018 and turbulence in European bond markets earlier in the year. Own credit adjustments were a £92 million gain in the year ended 31 December 2018 compared with a £70 million loss in the year ended 31 December 2017. Offsetting the increase in income from trading activities were disposal losses and the recycling of foreign exchange and other reserves in the year ended 31 December 2018, which compared with certain non-repeat gains in the year ended 31 December 2017.

<u>Operating Expenses</u>

NatWest Markets' operating expenses for the year ended 31 December 2018 amounted to £1,381 million, a decrease of £533 million, or 27.9 per cent, as compared to £1,914 million for the year ended 31 December 2017. The decrease was principally due to lower strategic costs and other operating expenses in both core and legacy.

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

	2018	2017
IFRS view	**£m**	**£m**
Staff costs	(579)	(894)
Premises and equipment	(120)	(152)
Other administrative expenses	(682)	(868)
Total operating expenses	(1,381)	(1,914)
Management view(1)		
Strategic costs(2)	(178)	(305)
Litigation and conduct costs	(142)	(208)
Other operating expenses	(1,060)	(1,401)
Total operating expenses	(1,381)	(1,914)

(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 2018 amounted to £14 million, an increase of £63 million as compared to a recovery of £49 million for the year ended 31 December 2017. The movement was driven by the non-repeat of one-off items in the year ended 31 December 2017.

Impairment Releases

NatWest Markets' impairment releases for the year ended 31 December 2018 amounted to £88 million, a decrease of £9 million, or 11.4 per cent, as compared to £79 million for the year ended 31 December 2017. The decrease was principally due to an increase in expected recoveries on defaulted positions and other credit improvements in the year.

Operating Loss for the Year

NatWest Markets' operating loss for the year ended 31 December 2018 amounted to £289 million, an reduction of £457 million, or 61.3 per cent, as compared to the loss of £746 million for the year ended 31 December 2017, due primarily to the reductions in operating expenses in the year ended 31 December 2018, including strategic costs and other operating expenses in core and legacy when compared with the year ended 31 December 2017.

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				
2018								
Central items & other	(272)	(5)	117	(160)	(842)	—	14	(988)
2017								
Central items & other	(167)	(1)	39	(129)	(521)	—	—	(650)

Total Income

Central Items & Other's total income for the year ended 31 December 2018 amounted to a loss of £160 million, an increase in losses of £31 million, or 24.0 per cent, as compared to a loss of £129 million for the year ended 31 December 2017. The increase was principally due to higher net interest expenses on debt securities and subordinated liabilities for the period until these items were transferred to the NatWest Markets segment in the three months ended 30 September 2018. This was offset by a gain on the redemption of own debt of £101 million in the year, compared with nil in the year ended 31 December 2017.

Central Items & Other’s net interest income for the year ended 31 December 2018 amounted to a net interest expense of £272 million, an increase of £105 million, or 62.9 per cent, as compared to a net interest expense of £167 million for the year ended 31 December 2017. The increase was principally due to higher interest expenses on debt securities and subordinated liabilities for the period until these items were transferred to the NatWest Markets segment in the in the three months ended 30 September 2018.

Central Items & Other’s net fees and commissions for the year ended 31 December 2018 amounted to £5 million, an increase of £4 million, or 400.0 per cent, as compared to £1 million for the year ended 31 December 2017. The increase was principally due to normal business fluctuations.

Central Items & Other’s other non-interest income for the year ended 31 December 2018 amounted to £117 million, an increase of £78 million as compared to an income of £39 million for the year ended 31 December 2017. The increase was principally due to the gain on redemption of own debt in the year ended 31 December 2018 compared with nil in the year ended 31 December 2017.

Operating Expenses

Central Items & Other’s operating expenses for the year ended 31 December 2018 amounted to £842 million, an increase of £321 million, or 61.6 per cent, as compared to £521 million for the year ended 31 December 2017. The increase is principally due to higher litigation and conduct costs in 2018, relating to the settlement with the DoJ with respect to RMBS matters.

Impairment Releases

Central Items & Other’s impairment releases for the year ended 31 December 2018 amounted to £14 million, an increase of £14 million as compared to £nil for the year ended 31 December 2017, primarily due to credit improvements in the year.

Operating Loss for the Year

Central Items & Other’s operating loss for the year ended 31 December 2018 amounted to £988 million, an increase of £338 million, or 52.0 per cent, as compared to £650 million for the year ended 31 December 2017, due to higher litigation and conduct expenses and increased interest expense on issued debt and subordinated liabilities, offset by the gain on redemption of own debt during the 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	
	2018	2017	2018	2017
	£m		£m	
Assets				
Cash and balances at central banks	11,188	153	11,095	93
Trading assets(2)	74,972	85,932	61,990	73,011
Derivatives(1)	134,250	159,278	134,291	162,005
Settlement balances	2,705	2,497	1,421	1,614
Loans to banks – amortised cost	626	371	454	195
Loans to customers – amortised cost	8,366	9,638	7,908	9,133
Amounts due from holding company and fellow subsidiaries	3,398	216	11,800	6,470
Other financial assets	11,268	3,120	10,995	3,079
Investment in group undertaking	—	—	1,151	496
Other assets(3)	1,108	465,032	936	269,793
Total assets	247,881	726,237	242,041	525,889
Liabilities				
Bank deposits	2,749	528	2,777	527
Customer deposits	2,580	3,257	2,390	3,063
Amounts due to holding company and fellow subsidiaries	10,161	90	23,505	14,994
Settlement balances	2,914	2,817	1,977	1,372
Trading liabilities(2)	72,289	81,960	54,540	64,182
Derivatives(1)	129,914	153,330	129,974	155,098
Other financial liabilities	16,279	11,255	16,279	11,255
Other liabilities(3)	1,906	437,740	1,677	230,876
Total liabilities	238,792	690,977	233,119	481,367
Owners' equity	9,087	35,203	8,922	44,522
Non-controlling interests	2	57	—	—
Total equity	9,089	35,260	8,922	44,522
Total liabilities and equity	247,881	726,237	242,041	525,889

(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	
	2018	2017	2018	2017
	(£m)			
Trading assets				
Reverse repos	24,758	36,271	15,915	27,313
Derivative cash collateral given	18,898	21,513	18,898	21,513
Securities	30,014	27,506	26,243	23,589
Other loans	1,302	642	(934)	596
Total	74,972	85,932	61,990	73,011
Trading liabilities				
Repos	25,645	28,362	9,784	12,910
Derivative cash collateral received	20,129	22,673	20,129	22,667
Short positions	23,827	28,527	21,939	26,207
Other deposits and issuance	2,688	2,398	2,688	2,398
Total	72,289	81,960	54,540	64,182

(3) The line items 'Other assets' and 'Other liabilities' are further analysed as follows and for 31 December 2017 principally represent assets and liabilities associated with the businesses of the ring-fenced sub-group of the RBS Group, which were held by the NWM Group until the point of transfer of NatWest Holdings Group to RBSG. Balances as at 31 December 2017 for both assets and liabilities primarily relate to business classified as disposal groups.

	NWM Group		NWM Plc	
	As at 31 December		As at 31 December	
	2018	2017	2018	2017
	(£m)			
Other assets				
Prepayments	11	12	8	6
Accrued income	71	17	68	12
Tax recoverable	441	262	455	262
Pension schemes in net surplus	299	290	299	290
Interests in associates	5	2	1	1
Property, plant and equipment	32	159	1	5
Other assets	130	246	104	14
Assets of disposal groups	119	463,878	–	269,038
Deferred tax	–	166	–	165
Total	1,108	465,032	936	269,793
Other liabilities				
Current tax	26	140	26	30
Accruals	228	471	137	336
Deferred income	44	35	45	34
Deferred tax	487	128	446	100
Other liabilities	110	101	258	67
Retirement benefit liabilities	115	54	114	52
Provisions for liabilities and charges	895	3,979	651	2,230
Liabilities of disposal groups	1	432,832	–	228,027
Total	1,906	437,740	1,677	230,876

The NWM Group's balance sheet profile as at 31 December 2018 can be summarized as follows.

Assets	£bn	Liabilities	£bn
Cash and balances at central banks	11.2		
Trading assets	75.0	Trading liabilities	72.3
Securities	30.0	Short positions	23.8
Reverse repos(1)	24.8	Repos(2)	25.6
Derivative collateral(3)	18.9	Derivative collateral(4)	20.1
Other trading assets	1.3	Other trading liabilities	2.8
Loans - amortised cost	9.0	Deposits - amortised cost	5.3
Settlement balances	2.7	Settlement balances	2.9
Amounts due from holding company and fellow subsidiaries	3.4	Amounts due to holding company and fellow subsidiaries	10.2
Other financial assets	11.3	Other financial liabilities	16.3
Other assets	1.0	Other liabilities	1.9
Funded assets	113.6	Liabilities excluding derivatives	108.9
Derivative assets	134.3	Derivative liabilities	129.9
Total assets	247.9	Total liabilities	238.8
		of which: wholesale funding(5)	19.8
		of which: short-term wholesale funding(5)	9.0
Net derivative assets	3.9	Net derivative liabilities	3.3

(1) Comprises bank reverse repos of £8.0 billion (2017 - £11.8 billion) and customer reverse repos of £16.8 billion (2017 - £24.4 billion).

(2) Comprises bank repos of £5.0 billion (2017 - £4.0 billion) and customer repos of £20.6 billion (2017 - £24.4 billion).

(3) Comprises derivative collateral relating to banks of £7.3 billion (2017 - £6.8 billion) and customers of £11.6 billion (2017 - £14.7 billion).

(4) Comprises derivative collateral relating to banks of £11.0 billion (2017 - £12.4 billion) and customers of £9.1 billion (2017 - £10.3 billion).

(5) Excludes derivative collateral and intra-RBS Group balances, including resolution-eligible instruments and subordinated liabilities issued to RBSG.

The table below presents a summary of the NWM Group's balance sheet exposures as at the year ended 31 December 2018. 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.

	2018	
	Total:	**Of which legacy**
	£bn	
RWAs	40.8	6.4
Total net credit exposures (banking book and counterparty credit)	39.3	5.9
of which: net non-investment grade credit exposures	1.8	1.1
of which: IFRS 9 Stage 3 exposures	0.7	0.7
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 2018, the NWM Group's total assets amounted to £247,881 million, a decrease of £478,356 million, or 65.9 per cent, as compared to £726,237 million as at 31 December 2017. The decrease largely reflected the ring-fencing transfers undertaken during the year, which included the transfer of business to subsidiaries of NWH Ltd during the first half of the year ended 31 December 2018 and the subsequent capital reduction whereby ownership of the NatWest Holdings Group transferred to RBSG with effect from 2 July 2018.

As at 31 December 2018, the NWM Group's cash and balances at central banks amounted to £11,188 million, an increase of £11,035 million, or 7,212.4 per cent, as compared to £153 million as at 31 December 2017. The increase was principally due to the establishment of the liquidity portfolio in NWM Plc in the year ended 31 December 2018.

As at 31 December 2018, the NWM Group's trading assets amounted to £74,972 million, a decrease of £10,960 million, or 12.8 per cent, as compared to £85,932 million as at 31 December 2017. The decrease was principally due to the business continuing to manage leverage exposure in line with becoming a non ring-fenced bank.

As at 31 December 2018, the NWM Group's derivatives amounted to £134,250 million, a decrease of £25,028 million, or 15.7 per cent, as compared to £159,278 million as at 31 December 2017. The decrease in mark-to-market value was principally due to upward shifts in interest rate yields (including sterling and US dollar), offset partially by the strengthening US dollar relative to other major currencies such as the Euro and sterling.

As at 31 December 2018, the NWM Group's loans to customers (amortised cost) amounted to £8,366 million, a decrease of £1,272 million, or 13.2 per cent, as compared to £9,638 million as at 31 December 2017. The decrease was principally due to disposals and legacy position run down during the year.

As at 31 December 2018, the NWM Group's other financial assets amounted to £11,268 million, an increase of £8,148 million, or 261.2 per cent, as compared to £3,120 million as at 31 December 2017. The increase was principally due to increases in non-trading debt securities held as part of the establishment of the liquidity portfolio.

As at 31 December 2018, the NWM Group's other assets amounted to £1,108 million, a decrease of £463,924 million, or 99.8 per cent, as compared to £465,032 million as at 31 December 2017. The decrease was principally due to a reduction in assets of disposal groups, reflecting the ring-fencing transfers undertaken during the year.

Liabilities

As at 31 December 2018, the NWM Group's total liabilities amounted to £238,792 million, a decrease of £552,185 million, or 69.8 per cent, as compared to £790,977 million as at 31 December 2017. The decrease largely reflected the ring-fencing transfers undertaken during the year, which included the transfer of business to subsidiaries of NWH Ltd during the first half of the year ended 31 December 2018, and the subsequent capital reduction whereby ownership of the NatWest Holdings Group transferred to RBSG with effect from 2 July 2018.

As at 31 December 2018, the NWM Group's customer deposits amounted to £2,580 million, a decrease of £677 million, or 20.8 per cent, as compared to £3,257 million as at 31 December 2017. The decrease was due to normal business fluctuations and certain deposits having matured.

As at 31 December 2018, the NWM Group's trading liabilities amounted to £72,289 million, a decrease of £9,671 million, or 11.8 per cent, as compared to £81,960 million as at 31 December 2017. The decrease was due to the business continuing to manage exposures in line with becoming a non ring-fenced bank.

As at 31 December 2018, the NWM Group's derivatives amounted to £129,914 million, a decrease of £23,416 million, or 15.3 per cent, as compared to £153,330 million as at 31 December 2017. The decrease in mark-to-market value was principally due to upward shifts in interest rate yields (including sterling and US dollar), offset partially by the strengthening US dollar relative to other major currencies such as the Euro and sterling.

As at 31 December 2018, the NWM Group's other liabilities amounted to £1,906 million, a decrease of £435,834 million, or 99.6 per cent, as compared to £437,740 million as at 31 December 2017. The decrease was principally due to a reduction in liabilities of disposal groups, reflecting the ring-fencing transfers undertaken during the year.

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	
	2018	2017
	£m	
Cash flows from operating activities		
Operating (loss)/profit before tax from continuing operations	(1,277)	(1,396)
Profit/(loss) before tax from discontinued operations	2,893	2,013
Interest on subordinated liabilities	199	318
Impairment losses/(releases) on loans to banks and customers	83	(601)
(Profit)/loss on sale of subsidiaries and associates	(30)	(167)
(Profit)/loss on sale of securities	(961)	(145)
Defined benefit pension schemes	80	(254)
Provisions: expenditure in excess of charges	(3,294)	(3,762)
Depreciation, amortisation and impairment of property, plant, equipment, goodwill and intangibles	362	755
(Profit)/loss on redemption of own debt	(153)	789
Loss on reclassification to disposal groups	—	539
Write down of investment in subsidiaries	—	—
Elimination of foreign exchange differences	(231)	116
Other non-cash items	(530)	(1,975)
Net cash (outflow)/inflow from trading activities	(2,859)	(3,770)
(Increase)/(decrease) in net loans to banks and customers	(13,249)	9,796
(Increase)/(decrease) in securities	(673)	(1,612)
(Increase)/(decrease) in other assets	(14,227)	(121,108)
(Increase)/(decrease) in trading assets and liabilities	(975)	—
Decrease in derivative assets and liabilities	875	3,897
Increase/(decrease) in banks and customers deposits	11,248	43,293
Increase/(decrease) in debt securities in issue	4,518	(8,000)
Increase/(decrease) in other liabilities	23,194	11,229
(Decrease)/(increase) in settlement balances and short positions	(99)	8,740
Changes in operating assets and liabilities	10,612	(53,765)
Income taxes (paid)/received	(116)	(546)
Net cash flows from operating activities(1)	7,637	(58,081)
Cash flows from investing activities		
Sale and maturity of securities	2,975	11,175
Purchase of securities	(6,432)	(16,015)
Sale of property, plant and equipment	60	404
Purchase of property, plant and equipment	(37)	(1,123)
Net divestment of/(investment in) business interests and intangible assets	1,547	1,912
Net cash flows from investing activities	(1,887)	(3,647)
Cash flows from financing activities		
Issue of other equity instruments: Additional Tier 1 capital notes	749	—
Shares issued under employee share schemes	(2)	—
Non-controlling interests equity withdrawn and disposals	(21)	—
Redemption of subordinated liabilities	(3,769)	(9,624)
Dividends paid	(2,550)	(5)
Interest on subordinated liabilities	(238)	(417)
Net cash flows from financing activities	(5,831)	(10,046)
Effects of exchange rate changes on cash and cash equivalents	525	(570)
Net (decrease)/increase in cash and cash equivalents	444	(72,344)
Cash and cash equivalents at 1 January	25,683	98,027
Cash and cash equivalents at 31 December	26,127	25,683

(1) Includes interest received for NWM Group of £297 million (2017 – £10,694 million) and interest paid of £586 million (2017 – £2,631 million).

Total cash outflow from trading activities was £2,859 million for the year ended 31 December 2018, a decrease of £911 million, or 24.2 per cent, as compared to £3,770 million for the year ended 31 December 2017. The decrease was principally attributable to lower provision cash outflows and other non-cash item outflows in the year ended 31 December 2018 compared to the year ended 31 December 2017.

Total cash inflow from operating activities was £7,637 million for the year ended 31 December 2018, an increase of £65,718 million compared to the £58,081 million outflow for the year ended 31 December 2017. The increase was principally attributable to a reduction in cash outflows in relation to other assets in the year ended 31 December compared to the year ended 31 December 2017.

Total cash outflow from investing activities was £1,887 million for the year ended 31 December 2018, a reduction of £1,760 million as compared to the cash outflow of £3,647 million for the year ended 31 December 2017. The change was principally attributable to lower purchases of securities, offset by a reduction in sales and maturities of securities.

Total cash outflow from financing activities was £5,831 million for the year ended 31 December 2018, an decrease of £4,215 million, or 42.0 per cent, as compared to £10,046 million for the year ended 31 December 2017. The decrease was principally due to fewer redemptions of subordinated liabilities in the year ended 31 December 2018 compared with the year ended 31 December 2017, offset by the dividends paid in 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		
	2019	2018	2017	2019	2018	2017
		£m			£m	
Contingent liabilities and commitments						
Guarantees and assets pledged as collateral security	972	278	523	134	278	523
Other contingent liabilities	155	186	534	152	186	533
Standby facilities, credit lines and other commitments	15,805	10,659	11,765	10,218	10,654	11,757
	16,932	11,123	12,822	10,504	11,118	12,813

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 the RBS Group 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 the RBS Group CSD, has limited significance to NWM Plc as it is the only member bank and the other entities have modest capitalisations.

Funded Guarantee

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, NWM Plc is expected to provide to NWM NV a Funded Guarantee of up to £3.0 billion in aggregate. At 31 December 2019, NWM NV was in receipt of £0.7 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. 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–Contingent Liabilities'* 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*.'

Risk Sharing Agreements

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

(i) The provision of a funded guarantee (as described in more detail under '—*Funded Guarantee*' above) of up to £3.0 billion by NWM Plc to NWM NV that limits NWM NV's exposure to large individual customer credits to 10 per cent of NWM NV's capital. Funding is provided by NWM Plc deposits placed with NWM NV of not less than the guaranteed amount. At 31 December 2019, the deposits amounted to £0.7 billion and the guarantee fees in the period were £1.3 million.

(ii) The provision of credit protection and an unfunded guarantee by NWM Plc in respect of NWM NV's Legacy portfolio. At 31 December 2019 the EAD covered by the guarantees was approximately £0.3 billion (of which £0.2 billion was cash collateralised) and £0.1 billion respectively. A fair value increase of £5 million in relation to the credit protection and fees of £1.0 million in relation to the unfunded guarantee were recognised in the period.

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 the RBS 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 £13.5 billion as at 31 December 2019 and which is structurally subordinated to the Issuer's senior creditors;
- Term senior unsecured issuances, which totalled £14.6 billion as at 31 December 2019, of which £5.0 billion was issued in the year ended 31 December 2019. The Issuer expects to issue a further £3-5 billion in 2020, subject to business requirements and market conditions as per the current funding plan;
- Money market instruments, principally certificates of deposit and commercial paper, which totalled £2.7 billion as at 31 December 2019; and
- Deposits consisting of customer deposits and wholesale deposits, which totalled £5.8 billion as at 31 December 2019.

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.

The funding requirement and mix is expected to remain broadly unchanged over 2020. To maintain the planned funding profile, the Issuer will need to issue new unsecured debt to refinance maturities and manage the balance sheet size. Other sources of funding such as the Short Term Markets portfolio and secured funding volumes will be used appropriately to support the funding plan and cope with changes in market conditions.

The NWM Group's funding need arises mainly from refinancing existing maturities. The NWM Group's issuance plan estimates a funding need of £3 billion to £5 billion for 2020.

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
2019									
Less than 1 year	659	659	2,699	4,386	107	7,192	—	—	7,851
1-3 years (1)	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
2018									
Less than 1 year	56	56	2,826	3,543	—	6,369	—	9	6,434
1-3 years	374	374	—	6,395	99	6,494	—	—	6,868
3-5 years	92	92	—	1,932	425	2,357	5,125	328	7,902
More than 5 years	381	381	—	925	134	1,059	—	1,625	3,065
Total	903	903	2,826	12,795	658	16,279	5,125	1,962	24,269

(1) With respect to MTNs only, £4,373 million will mature in 2020, £4,180 million will mature in 2021, £2,714 million will mature in 2022, £735 million will mature in 2023 and £1,729 million will mature in 2024. Certain of these MTNs were issued by the former Royal Bank of Scotland Plc to service the RBS 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
2019					
Commercial paper and CDs	1,613	—	1,053	39	2,705
MTNs	233	2,748	11,181	2,204	16,366
External subordinated liabilities	98	316	722	—	1,136
CRR-compliant internal MREL due to RBSG plc	—	3,289	1,831	—	5,120

	GBP	USD	EUR	Other	Total
	£m	£m	£m	£m	£m
Subordinated liabilities due to RBSG plc	—	1,183	837	—	2,020
Total	1,944	7,536	15,624	2,243	27,347
2018 Total	2,174	5,761	14,959	1,375	24,269

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:

	2019			2018		
	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	1,302	787	2,089	2,749	—	2,749
of which: repos (amortised cost)	*380*	—	*380*	*424*	—	*424*
Customer deposits	3,176	527	3,703	2,549	31	2,580
Trading liabilities (1)						
Repos (2)	27,885	—	27,885	25,645	—	25,645
Derivative cash collateral received	21,506	—	21,506	20,129	—	20,129
Other bank and customer deposits	600	896	1,496	1,340	446	1,786
Debt securities in issue	659	1,103	1,762	56	847	903
	50,650	1,999	52,649	47,170	1,293	48,463
Other financial liabilities						
Debt securities in issue						
commercial paper and certificates of deposits	2,699	6	2,705	2,826	—	2,826
medium term notes (MTNs)(3)	4,386	10,218	14,604	3,543	9,252	12,795
Subordinated liabilities	107	1,029	1,136	—	658	658
	7,192	11,253	18,445	6,369	9,910	16,279
Amounts due to holding company and fellow subsidiaries (4)						
CRR-compliant internal MREL	—	5,120	5,120	—	5,125	5,125
Other bank deposits	877	38	915	2,442	100	2,542
Other customer deposits	74	—	74	273	—	273
Subordinated liabilities	—	2,020	2,020	9	1,953	1,962
	951	7,178	8,129	2,724	7,178	9,902
Total funding	63,271	21,744	85,015	61,561	18,412	79,973
Of which: available in resolution (5)	*107*	*8,169*	*8,276*	*6*	*7,736*	*7,742*

(1) Funding sources excludes short positions of £21,187 million (2018 – £23,827 million) reflected as trading liabilities on the balance sheet.

(2) Comprised Central and other bank repos of £6,636 million (2018 – £4,997 million), other financial institution repos of £18,998 million (2018 – £20,083 million) and other corporate repos of £2,251 million (2018 – £565 million).

(3) With respect to MTNs only, £4,373 million will mature in 2020, £4,180 million will mature in 2021, £2,714 million will mature in 2022, £735 million will mature in 2023 and £1,729 million will mature in 2024. Certain of these MTNs were issued by the former Royal Bank of Scotland Plc to service the RBS 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 £171 million (2018 – £259 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 2019, the Issuer's LCR was 457 per cent (as at 31 December 2018, 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 2021. 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)	
	2019	**2018**
	£m	**£m**
NWM Plc		
Cash and balances at central banks	9,929	11,058
AAA to AA- rated governments	4,399	3,597
A+ and lower rated governments (2)	1,277	1,587
government guaranteed issuers, Public sector entities and government sponsored entities	—	—
International Organisations and Multilateral development banks	244	4
LCR level 1 bonds	5,920	5,188
LCR level 1 Assets	15,849	16,246
LCR level 2 Assets	—	—
Non-LCR Eligible Assets	5	—
Primary liquidity	15,854	16,246
Secondary liquidity (3)	244	344
Total liquidity value	16,098	16,590

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					
2019	6,142	3,628	5,051	1,277	16,098
2018	3,929	3,219	7,855	1,587	16,590

(1) Liquidity value was aligned to the internal SOC, which is stated after discounts (or haircuts) are applied to the instruments, at 31 December 2019. The liquidity values for 2018 have been re-presented.

(2) The split between ratings bands has been restated for 2018.

(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 the RBS 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 the Individual 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 three types of severe but plausible stress scenarios: Idiosyncratic, Market-Wide and Combined, as detailed in the table below. The Issuer has assumptions defined for each scenario and uses the worst scenario result to quantify impacts in the SOC metric.

Idiosyncratic scenario	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 scenario	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 this scenario but no more severely than any other participants with equivalent exposure.
Combined scenario	This scenario models the combined impact of an idiosyncratic and market stress occurring at once, severely affecting funding markets and the liquidity of some assets.

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. The options provide the Issuer with the confidence that sufficient actions are available to overcome a stress scenario.

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 capital management policies and practices are based on the ICAAP.

On 29 November 2019, the Issuer purchased RBSH, NWM NV's immediate parent, from RFS Holdings B.V. which was a fully owned subsidiary of RBSG. NWM Plc acquired all the shares in RBSH for a purchase consideration of €2.165 billion (approximately £1.845 billion as at 29 November 2019). The purchase was funded by an equity contribution of €2.165 billion from RBSG to NWM Plc. The transaction resulted in an estimated 30 bps increase in the estimated CET1 ratio for NWM Plc as at 29 November 2019.

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 by 170 basis points to 17.3 per cent at 31 December 2019, from 15.6 per cent at 31 December 2018. The CET1 ratio at year end 2019 reflects RWA reductions and capital increases as result of capital optimisation initiatives as well as dividends from subsidiaries. Additionally, in 2019 the Bank paid a total of £500 million in dividends to RBSG. 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 2019, NWM Plc legal entity RWAs were £35.2 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 and 'gone concern' loss absorbing (MREL-eligible) securities of greater than one year residual maturity. Given RBS Group has a Single Point of Entry resolution strategy, NWM Plc only issues internal MREL-eligible securities to RBSG. Total MREL for NWM Plc at 31 December 2019 was £13.5 billion, or 38.4 per cent of RWAs.

At present NWM Plc sources the majority of its capital funding from RBSG. Currently, seven out of the eleven NWM Plc Tier 2 instruments with a notional value of £560 million are issued externally as at 31 December 2019;

the notional value of all Tier 2 instruments is £2,307 million. All Tier 1 and senior MREL eligible instruments are held by RBSG. Going forward, RBSG is expected to be the sole subscriber of NWM Plc's AT1 and Tier 2 instruments and its senior MREL eligible instruments. This supports RBSG's single point of entry resolution strategy and ensures an RBSG-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 RBSG 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 2019.

In the year ended 31 December 2019, NWM Plc issued £155 million internal AT1 and £1 billion internal Tier 2 debt to RBSG. This was partially offset by redemptions of £861 million internal Tier 2 instruments issued to RBSG and redemption of £35 million 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 RBSG 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 $450m at December 2019.

	31 December 2019		**31 December 2018**		**31 December 2017**	
	£m	**%**	**£m**	**%**	**£m**	**%**
CET1	6,097	17.3	6,369	15.6	20,169	14.7
AT1	906	2.6	983	2.4	1,877	1.4
Tier 1	7,003	19.9	7,352	18.0	21,966	16.1
Tier 2	1,498	4.3	1,405	3.5	3,634	2.6
Total	8,501	24.2	8,757	21.5	25,600	18.7
MREL-eligible securities (including Tier 2 amortisation)	5,009	14.2	5,125	12.5	nm	nm
MREL	13,510	38.4	13,882	34.0	nm	nm

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 2019	**31 December 2018**	**31 December 2017**
		£m	
RWAs			
Credit risk	9,825	9,234	94,259
Counterparty credit risk	11,060	13,285	13,691
Market risk	11,229	14,106	15,809
Operational risk	3,039	4,152	13,052
Total RWAs	35,153	40,777	136,811

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 2019**	**31 December 2018**	**31 December 2017**
CET1	17.3	15.6	14.7
Tier 1	19.9	18.0	16.1
Total	24.2	21.5	18.7

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:

- Continued delays around the Basel 'IV' reforms addressing, amongst other things, the variability of banks' internal models, creating ongoing international uncertainty. RBSG expects that the overall impact of Basel III amendments on the RBS Group will be in the range of 5-10 per cent and phased across 2021 to 2023, with the details still subject to significant regulatory uncertainty.

- New rules set by the PRA and the EBA, future changes that impact the NWM Group include the European Commission's implementation of the Basel IV and other reforms being implemented through the Capital Requirements Regulation 2 (CRR2) package of reforms coming into force on 28 June 2020. NWM Plc's results of operations are particularly impacted by the Leverage Ratio, which is one of the components of the CRR2 package.

- The UK countercyclical capital buffer (CCyB) rate has been raised to 2.00 per cent by the FPC, effective 16 December 2020. At the same time, it has been announced that the PRA will consult in 2020 to reduce minimum capital requirements in a way that would leave banks' overall loss-absorbing capacity unchanged. NWM Plc's minimum capital/MREL requirements and/or combined buffer will be impacted by these developments. The change in the CCyB rate alone is expected to increase NWM Plc's firm specific CCyB from 0.5 per cent to c.1.0 per cent of RWA, to be met with CET1.

- Further developments related to the impact of Brexit in relation to regulatory changes originally stemming from EU legislation (i.e. CRR2 implementation), transitional period arrangements and timings as well as questions regarding regulatory equivalence between the EU and UK regulators.

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 2019 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)	0.5%	0.5%	0.5%
Total (excluding Pillar IIA add-on)	7.5%	9.0%	11.0%

(1) The Issuer's countercyclical buffer is primarily influenced by the UK countercyclical buffer. The current countercyclical buffer applied to UK designated assets (1.0 per cent), which is set by the BoE's FPC. The PFC have raised the countercyclical buffer to 2.0 per cent applicable from 16 December 2020.

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 the RBS 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 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, the RBS Group will monitor its portfolio of external capital securities and assess the optimal blend and most cost-effective means of financing.

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.

<u>Internal Stress Tests</u>

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.

<u>Regulatory Stress Tests</u>

The Issuer's parent, RBSG, takes part in a number of external stress tests which the Issuer supports. These tests include the BoE's concurrent stress test of the UK banking system as well as the industry-wide external stress tests conducted in 2018 by the EBA on the EU banking system. 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). On the basis of the European Commission's proposal for a revised CRR (part of the European Commission's proposal for an EU Banking Reform package), a leverage ratio of three per cent will become a minimum requirement with the implementation of the revised CRR on 28 June 2020. Until then, there is no binding minimum ratio of capital to leverage exposure that applies to individual non ring-fenced bank entities as regulated by the PRA in the UK.

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

Leverage	31 December 2018	31 December 2018	31 December 2017
Tier 1 capital (£m)	7,003	7,352	21,966
CRR leverage exposure (£m)	136,505	148,502	390,055
CRR leverage ratio (%)(1)	5.1	5.0	5.6

(1)Due to the decrease in Tier 1 capital the Issuer's leverage ratio increased by 18bps 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.

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								
	2019			2018			2017		
	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
	£bn	£m	£m	£bn	£m	£m			
Exchange rate contracts	3,799	44,983	47,138	3,444	36,635	38,346	3,405	39,067	41,511
Interest rate contracts	11,020	103,433	96,581	10,287	97,226	91,327	11,754	119,530	111,134
Credit derivatives	16	280	375	16	346	226	39	530	559
Equity and commodity contracts	3	—	48	1	43	15	3	151	126
		148,696	144,142		134,250	129,914		159,278	153,330

As at 31 December 2019, the NWM Group's derivative assets amounted to £148,696 million, an increase of £14,446 million, or 10.7 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 derivative liabilities 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.

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					
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
2017										
AQ1-AQ4	187	469	5,683	1,501	5,053	4,227	2,084	532	5	19,741
AQ5-AQ8	—	—	1,318	4	450	958	86	459	1	3,276
AQ9	—	—	28	—	2	—	—	1	—	31
AQ10	—	—	543	18	—	8	—	9	(8)	570
Current exposure	187	469	7,572	1,523	5,505	5,193	2,170	1,001	(2)	23,618
Potential exposure	200	469	17,018	1,523	18,385	10,048	3,488	3,846	(2)	54,975

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 2019. When considered against external credit ratings, 94 per cent (£40.9 billion) of current exposure was equivalent to an investment grade rating (BBB- or better).

As at 31 December 2019, the NWM Group's current net credit exposure totalled £43,422 million, as compared to £39,319 million as at 31 December 2018. The movement in current net credit exposures in the period was primarily driven by increases in cash and balances at central banks following issuance activity and the acquisition of NWM NV during the year ended 31 December 2019, as well as derivative fair value increases which are reflected in the collateralised and uncollateralised rate risk management columns in the table above. Net non-investment grade credit exposures, representing those allocated to AQ5-AQ10 on the internal credit rating scale, increased to £3,267 million in 2019 from £2,675 million in the year ended 31 December 2018 and reflected increases in existing derivatives exposures as well as credit downgrades on certain collateralised positions during the year.

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 the RBS 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 the RBS Group is referred to as 'revenue share.' This operating model reflects the RBSG 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 the RBS 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 financial statements. UK company law and IFRS require the directors, in preparing NWM Group's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent. In the absence of an applicable standard or interpretation, IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', requires management to develop and apply an accounting policy that results in relevant and reliable information in the light of the requirements and guidance in IFRS dealing with similar and related issues and the IASB's 'Conceptual Framework for Financial Reporting'. The judgements and assumptions involved in NWM 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.

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 £501 million at 31 December 2019 (2018 –net liability of £487 million) includes a deferred tax asset on losses of £75 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 – The NWM Group has considered the carrying value of deferred tax assets and management considers there are 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 2019.

UK tax losses – Under UK tax rules, tax losses can be carried forward indefinitely. As the recognised tax losses in the NWM Group arose prior to 1 April 2015, credit in future periods is given against 25 per cent of profits at the main rate of UK corporation tax, excluding the Banking Surcharge 8 per cent rate introduced by The Finance (No. 2) Act 2015. Deferred tax assets and liabilities at 31 December 2019 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 2019 of £75 million (2018 – £151 million) in respect of tax losses amounting to approximately £400 million will be recovered by the end of 2025. The movement in the current financial year reflects a £76 million decrease in the carrying value of the deferred tax asset, driven primarily by a decrease in forecast future taxable profits as a result of the strategic review of the RBS Group's NWM franchise. During the year, agreement was reached to transfer tax losses of £5,438 million to NWB and RBS plc, as a consequence of the ring-fencing regulations. Of the losses remaining, £5,109 million have not been recognised in the deferred tax balance at 31 December 2019; such losses will be available to offset 25 per cent of future taxable profits in excess of those forecast in the closing deferred tax asset.

Overseas tax losses

NWM NV – NWM NV and its subsidiaries (together, '**NWM NV Group**') management have considered that there are significant changes to NWM NV Group's activities compared to prior years as NWM NV has re-purposed its banking licence and new business was transferred to NWM NV during 2019. NWM NV Group management did not recognise deferred tax asset in respect of losses carried forward at 31 December 2019 due to the implications from the wider strategic review of the RBS Group's NWM franchise and the uncertainty in respect of Brexit.

Unrecognised deferred tax

Deferred tax assets of £3,052 million (2018 – £3,398 million) have not been recognised in respect of tax losses and other temporary differences carried forward of £12,319 million (2018 – £15,315 million) in jurisdictions where doubt exists over the availability of future taxable profits. Of these losses and other temporary differences, £837 million expire within five years and £4,798 million thereafter. The balance of tax losses and other temporary differences carried forward has no expiry date.

Deferred tax liabilities of £2 million (2018 – £3 million) have not been recognised in respect of retained earnings of overseas subsidiaries and held-over gains on the incorporation of 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. 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, the NWM Group maximises the use of relevant observable inputs and minimises the use of unobservable inputs.

Where the 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.

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.

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.

Loan impairment provisions

The loan impairment provisions have been established in accordance with IFRS 9. At 31 December 2019, customer loan impairment provisions amounted to £146 million (2018 – £100 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.

IFRS 9 ECL model design principles

To meet IFRS 9 requirements, probability of default (PD), EAD and loss given default (LGD) 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

Judgment is involved in determining whether an obligation exists, and in estimating the probability, timing and amount of any outflows. Where the 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.

Recent Accounting Developments

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

- The amendments to IAS 1 ‘Presentation of Financial Statements’ and IAS 8 ‘Accounting Policy, Changes in Accounting Estimates and Errors’ on the definition of material were issued in October 2018 and are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The amendments are aimed at improving the understanding of the existing requirements rather than to significantly impact current materiality judgements. They provide a new definition of material which shall be used to assess whether information, either individually or in combination with other information, is material in the context of the financial statements.

- The amendments to IFRS 3 ‘Business Combinations’ which clarify the definition of a Business were issued in October 2018, are effective for annual reporting periods beginning on or after 1 January 2020 and apply prospectively with earlier application permitted. They clarify the minimum requirements for a business; remove the assessment of whether market participants are capable of replacing any missing elements; add guidance to help entities assess whether an acquired process is substantive; narrow the definitions of a business and of outputs; and introduce an optional fair value concentration test.

- Effective in 2022 – IFRS 17 ‘Insurance contracts’ was issued in May 2017 to replace IFRS 4 and to establish a comprehensive standard for inceptors of insurance policies. The effective date is 1 January 2021, subject to IASB’s approval of a deferral until 1 January 2022.

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

Information used for significant estimates

Since 31 March 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 March 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

NWM Plc is a wholly owned subsidiary of RBSG, a banking and financial services group.

The NWM Group provides risk management, trading solutions and debt financing principally to Financial Institutions and UK and European corporate customers to help these customers manage their financial risks and achieve their short- and long-term financial goals while navigating changing markets and regulation.

The NWM Group provides Rates, Currency and Financing products to corporate, commercial, business and retail clients of other RBS Group entities, namely Ulster Bank Ireland DAC in the ring-fenced sub-group and RBSI, as well as RBS Group franchises. Income derived from customers whose primary banking relationship is with other RBSG entities is referred to as 'revenue share.' The NWM Group and other entities within the broader RBS Group follow an integrated customer-planning approach to maximise connectivity, which includes customer account planning, allocation decision-making, and opportunity identification. Approximately 30 per cent of the NWM Group's total income for the year ended 31 December 2019 was sourced from customers referred to the NWM Group by other RBS Group entities, compared to 20 per cent for the year ended 31 December 2018.

The three pillars of Rates, Currencies and Financing are summarised below:

- **Rates.** A range of interest rate products that support customers' financing and hedging needs.
- **Currencies.** Access to cash / spot FX, forwards and FX options in more than 60 currency pairs.
- **Financing.** Access to global debt capital markets, offering mainstream bond financing activities, asset backed financing and primary lending products as well as Credit trading capabilities.

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, Rates and Financing 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 2019, 58 per cent (2018: 72 per cent) of the NWM Group's total income was generated in the UK and Europe, 27 per cent (2018: 18 per cent) was generated in the US and 15 per cent (2018: 10 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 the RBS 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 the RBS 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 RBSG.

In February 2020, RBSG 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 RBSG 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, RBSG 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 RBSG but with a substantial reduction in NWM Plc's RWAs of around £14-18bn in the medium term.

Capital deployment is planned to be re-orientated towards activities supporting the RBSG's corporate and institutional customers and 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 the RBS Group's NWM franchise reducing RWAs by c.50 per cent to around £20bn, becoming c.10 per cent of the RBS Group's total RWAs in the medium term. A reduction of the NWM franchise RWAs to around £32bn is planned in 2020, which is expected to have a material impact on the size and shape of the NWM franchise and NWM Plc's RWAs.

NWM franchise CET 1 capital is also intended to reduce by c.50 per cent to around £3bn. Whilst the RWA reduction expected to be achieved by this refocusing is expected to be CET 1 capital ratio accretive in year one and over the course of the transition period, 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 the RBS Group's principal operating subsidiary, holding, directly or indirectly, the majority of the assets and operations of the RBS Group as intermediate holding company.

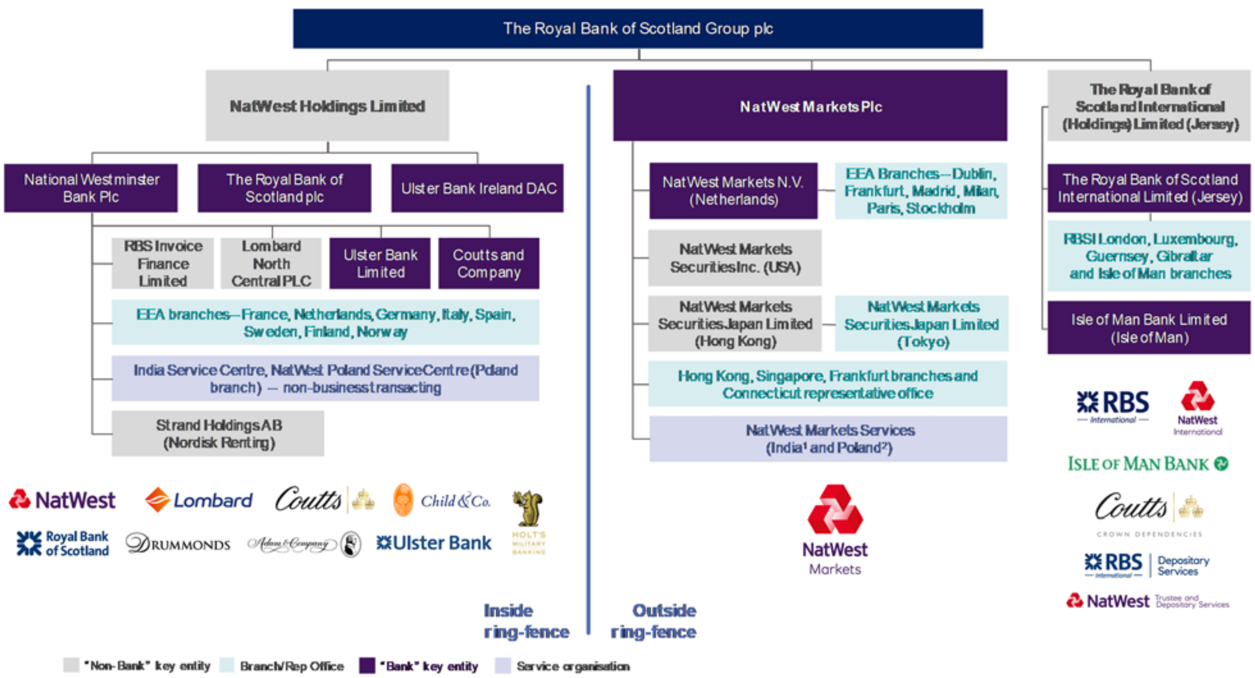
Over time, the size and shape of the NWM Group's business and products and services offering has changed significantly. The NWM Group historically had a large, global investment banking presence, including as a result acquisition of NWB in 2000 and the acquisition of ABN AMRO in 2007 in a consortium with Fortis and Banco Santander but, in 2009, initiated a significant restructuring of its wholesale investment and corporate banking business following the RBS 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 Currencies, Rates and Financing product and service strengths. This exercise also involved running down a consolidated portfolio of RBS Group legacy assets with high long-term capital intensity and high credit risk exposure, pooled in the RBS 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, the RBS Group undertook a reorganisation of its group legal entity structure and business model. Following the reorganisation, the RBS 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 the RBS Group's principal operating subsidiary, is the principal holding and operating company for the RBS 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 the RBS 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 RBSG. On 16 June 2019, the merger of Alawwal Bank and SAAB was completed. RBSG'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 the RBS 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 the RBS 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) RBSG 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. 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–The RBS Group has largely completed its plans for continuity of business impacted by the UK's expected departure from the EU, including certain regulatory permissions on which it will rely going forward. There remains uncertainty as to the final scope and extent of the implementation of these plans and their impact on the NWM Group due to the prevailing political uncertainty*').

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:

- **Rates.** Rates products include government bonds, repo financings, swaps (including inflation swaps), options and inflation. The majority of the income obtained from Rates products comes from Financial Institution customers. The NWM Group offers primary dealer services to 13 national debt management offices and is a market maker in sterling, euro and dollar debt as well as being a leading interest rate derivatives house. In 2019, the NWM Group was a primary dealer of government securities of 13 countries globally, ranked top three for pound sterling denominated Rates products (including market leader in Gilts), ranked top five across Europe for Rates products offered to Financial Institutions (including top five in the UK for other institutional clients) and ranked top 10 for euro-denominated Rates products (in particular government bonds and derivatives). For the year ended 31 December 2019, income from Rates products represented 32 per cent of the NWM Group's core income prior to revenue share (2018: 42 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, being voted 'Best Corporate FX Provider in the UK' in 2019. For the year ended 31 December 2019, income from Currencies products represented 36 per cent of the NWM Group's core income prior to revenue share (2018:31 per cent).

- **Financing.** The NWM Group's Financing product offerings bring together its primary market, bi-lateral financing and secondary market distribution to connect issuers with investors. Financing products include all mainstream bond financing activities (including investment grade, private placements, medium-term notes, hybrids and liability management), asset backed financing and primary lending products solutions. Financing products are supported by sales and trading across securitised products, government bonds, investment grade and high yield bonds and loans. The integrated Financing business model delivers an efficient and aligned customer proposition by linking access to the NWM Group's capital markets business (which spans originating, structuring and trading of financing asset-backed securities and asset-backed loans), credit trading (including trading in corporate bonds, investment grade, high-yield, covered bonds, loans and distressed credit), lending to Financial Institutions, fund banking (including asset-backed lending, repo financing and investor-backed lending facilities for financial sponsors) and bespoke risk management solutions for corporates and Financial Institutions. In 2019, the NWM Group's Financing business ranked top 3 in the 'UK Corporate and Sterling house' rankings, and top 15 in DCM for European (including UK) investment grade corporates. For the year ended 31 December 2019, income from Financing products represented 33 per cent of the NWM Group's income prior to revenue share (2018: 27 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 RBSG Group, where NWM Plc provides access to markets products and services for RBS Group entities across RBSG's commercial, private banking and personal banking customer segments. As such, the NWM Group as the non ring-fenced bank entity and the RBS Group entities inside the ring-fence continue to work together to deliver an integrated products and services proposition for relevant RBS Group customers.

In addition to serving its own customers, the NWM Group provides Rates, Currency and Financing products to corporate, commercial, business and retail clients of other RBS Group entities, namely Ulster Bank Ireland DAC in the ring-fenced sub-group and RBSI, as well as RBS Group franchises. Income derived from customers whose primary banking relationship is with other RBSG entities is referred to as 'revenue share.' The NWM Group and these other RBS 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, '*Primary Factors Affecting the NWM Group's Results of Operations—Relationship with the RBS 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 markets products.

As mentioned previously, in February 2020 RBSG announced that the NWM Group will become a more customer-focussed business, with a stronger alignment with RBS Group's core customers. The NWM Group plans to support customers as one bank, increasing penetration with RBS 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, RBSG 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 RBSG 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, RBSG 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 RBSG.

The NWM Group has an important role in delivering this future strategy by connecting the RBS 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 the RBS 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 the RBS 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 the RBS Group strategy, which was approved by the RBS 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 the RBS Group's core customers, applying capital markets expertise and thought leadership in areas across a Financing, Currencies and Rates offering. The NWM Group plans to support the customers as one bank and increase penetration with the RBS Group's customers that play a critical role in the development of the UK economy.

The NWM Group is focused on developing new innovative solutions to its customers and offering an improved automated customer experience. Accordingly, the NWM Group continues to digitise product distribution and execution, with increased automation across its Rates and Currencies product set.

The NWM Group's commitment to excel in customer service is evidenced by numerous awards received in the years ended 31 December 2019, including:

- Number one for 'Overall Service Quality' in the 2019 Greenwich Associates FX survey;
- Risk Solutions House of the Year' in the Risk Award (2020);
- 'Coming of Force FIG Bond' in the Global Capital Bond Awards (2019); and
- '#1 Traditional Private Placement Agent for European Issuer' by Dealogic (2019)

Simple to deal with

The NWM Group is focused on re-engineering led simplification to drive better customer experience and colleague engagement. Accordingly, the NWM Group aims to adopt a technology strategy tailored to digitise, consolidate and simplify. In addition, the NWM Group seeks to leverage synergies across the RBS Group where services can be shared to deliver a leaner operating model. The NWM Group aims to continue reducing its application estate and explore platform consolidation and simplification opportunities to reduce complexity and improve efficiencies.

The NWM Group continues to invest in and modernise its infrastructure through its Infrastructure Modernisation Programme ('**IMP**') to upgrade its infrastructure using the latest cloud-based computing and software solutions. Through the IMP, the NWM Group aims to deliver innovative, user-friendly, digital-led and cost-efficient technology solutions for the NWM Group's business and customers to improve the NWM Group's productivity and increase its ability to collaborate with its customers.

Powered by innovation & partnerships

The NWM Group aims to maintain strong pace of business model innovation and partnership, enhancing and growing its current capability whilst planning new initiatives. The NWM Group has delivered innovative solutions to its customers, such as the successful partnering of FXmicropay with service providers over 2019. The NWM Group has also continued to partner with fintech firms to support improved customer and colleague experience.

The NWM Group has also in 2019 appointed a Chief Digital Officer ('**CDO**') to shape and lead digital priorities. These priorities include the digital transformation of customer businesses, growing digital led businesses and transforming businesses through the use of data, analytics, automation and technology.

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 customers and large / mid corporate customers from the Commercial Bank.

Capital deployment is intended to be deployed towards activities supporting the RBS 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. This is expected to result in the RBS Group's NWM franchise reducing RWAs by c.50 per cent to around £20bn, becoming c.10 per cent of the RBS Group's total RWAs in the medium term. A reduction of the NWM franchise RWAs to around £32bn is planned in 2020, which is expected to have a material impact on the size and shape of the NWM franchise and NWM Plc's RWAs.

Competitive Position and Main Markets

The NWM Group operates primarily in UK & European markets and 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. The wholesale banking segment is a competitive market, where maintaining competiveness is in part driven by the franchise strength, intellectual capital, resource deployment and the ability to invest and innovate.

It is anticipated as part of the refocussing, there will be a simplified product suite across Currencies, Rates and Financing with a substantial reduction in capital allocated to institutional rates over the medium term. The reduction in capital towards institutional rates may lead to lower market positions and share across Rates products with these customers.

Geographic Footprint

The NWM Group 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 in the UK, the EU, the US and services centres in Poland and India.

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;
- 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: 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; and
- Global Service Centres are maintained in Warsaw and Gurugram.

For the year ended 31 December 2019, 58 per cent (2018: 72 per cent) of the NWM Group's total income was generated in the UK and Europe, 27 per cent (2018: 18 per cent) was generated in the US and 15 per cent (2018: 10 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.

	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

	2019				
	UK £m	USA £m	Europe £m	ROW £m	Total £m
Contingent liabilities and commitments	9,837	—	7,092	2	16,931
	2018				
Total revenue	1,512	195	(46)	103	1,764
Interest receivable	374	—	5	27	406
Interest payable	(662)	—	—	(11)	(673)
Fees and commissions receivable	144	53	—	63	260
Fees and commissions payable	(190)	(41)	—	(2)	(233)
Income from trading activities	931	106	—	8	1,045
Other operating income	19	36	(7)	5	53
Total income	616	154	(2)	90	858
Operating profit/(loss) before tax	(1,168)	(129)	(15)	35	(1,277)
Total assets	212,755	32,637	1,061	1,428	247,881
Total liabilities	206,305	31,436	88	963	238,792
Net assets attributable to equity shareholders and non-controlling interests	6,450	1,201	973	465	9,089
Contingent liabilities and commitments	10,884	—	31	208	11,123
Total revenue	1,512	195	(46)	103	1,764
Net interest income	(288)	—	5	16	(267)

(1) Total revenue includes interest income and fee and commission income on a gross basis.

Legal and Arbitration Proceedings

The NWM Group is party to legal proceedings and the subject of investigation and other regulatory and governmental action (‘Matters’) in the UK, the US, the EU and other jurisdictions.

The 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 proceedings and investigations, it is not possible to determine whether any loss is probable, or to estimate reliably the amount of any loss, either as a direct consequence of the relevant proceedings and investigations or as a result of adverse impacts or restrictions on the 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. The 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 the 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 investigations, even for those Matters for which the 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 the 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—The NWM Group is subject to a number of legal, regulatory and governmental actions and investigations as well as associated remedial undertakings, the outcomes of which are inherently difficult to predict, and which could have an adverse effect on the NWM Group.*'

Litigation

Residential mortgage-backed securities (RMBS) litigation in the US

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 the NWM Group companies consist of cases filed by the Federal Home Loan Bank of Seattle and the FDIC that together involve the issuance of less than US$1 billion 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 on 11 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 the NWM Group, including RBSG plc, are defendants in a number of class actions and individual claims pending in the US 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 the NWM Group defendants with respect to certain claims. As a result of that decision, all the 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 the NWM Group defendants. The dismissal of the NWM Group defendants for lack of personal jurisdiction is the subject of a pending appeal to the US Court of Appeals for the Second Circuit. In March 2020, the NWM Group defendants executed 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 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 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, RBSG 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 against the NWM Group defendants relating to JPY LIBOR and Euroyen TIBOR, both pending before the same judge in the SDNY. In the first class action, which relates to Euroyen TIBOR futures contracts, the court dismissed the plaintiffs' antitrust claims in March 2014, but declined to dismiss their claims under the Commodity Exchange Act for price manipulation. The Commodity Exchange Act claims are now the subject of a further motion to dismiss on the ground that they are impermissibly extraterritorial. The second class action relates to other derivatives allegedly tied to JPY LIBOR and Euroyen TIBOR. The court dismissed that case in March 2017 on the ground that the plaintiffs lack standing. However, the US Court of Appeals reinstated the claims on 1 April 2020, and the case will now return to the SDNY for further litigation.

In addition to the above, five other class action complaints were filed against the NWM Group defendants in the SDNY, each relating to a different reference rate. The SDNY dismissed all claims against NWM Plc in the case relating to Euribor for lack of personal jurisdiction in February 2017. The SDNY dismissed, for various reasons, the case relating to the Singapore Interbank Offered Rate and Singapore Swap Offer Rate on 26 July 2019, the case relating to Pound Sterling LIBOR on 16 August 2019, and the case relating to Swiss Franc LIBOR on 16 September 2019. Plaintiffs are appealing each of these four dismissals to the US Court of Appeals for the Second Circuit. In the fifth class action, which relates to the Australian Bank Bill Swap Reference Rate, the SDNY dismissed all claims against RBS Group companies for lack of personal jurisdiction in November 2018, but plaintiffs filed an amended complaint. On 13 February 2020, the SDNY declined to dismiss the amended complaint as against NWM Plc and certain other defendants, but dismissed it as to other members of the RBS Group (including RBSG plc).

NWM Plc has also been 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 has filed a motion for cancellation of service. If the motion is successful then the current action will be brought to an end, although the claimants may seek to re-raise the claim in the future. If the motion is unsuccessful, or the claimants seek to re-raise the claims at a later date, NWM Plc may seek to file other potentially dispositive motions.

Details of UK litigation claims in relation to the alleged mis-sale of interest rate hedging products (IRHPs) involving LIBOR-related allegations are set out under '*Description of the NWM Group—Legal and Arbitration Proceedings—Interest rate hedging products and similar litigation*'.

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 RBSG plc, NWM Plc, NWMSI and NWB. The defendants made a motion to dismiss this case, which was granted by the SDNY on 26 March 2020. The dismissal is subject to appeal by the plaintiffs.

FX antitrust litigation

NWM Plc, NWMSI and / or RBSG 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. On 7 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. On 31 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 on 25 April 2019.

Two other FX-related class actions remain pending in the SDNY. First, there is a class action on behalf of 'consumers and end-user businesses,' which is proceeding against NWM Plc in the discovery phase following the SDNY's denial of the defendants' motions to dismiss in March 2018. Second, there is a 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). In January 2020, the parties in this case reached a settlement, which was reduced to an executed settlement agreement in May 2020, but which remains subject to court approval. A provision has been established to cover the amount of the settlement.

On 27 May 2019, a class action was filed in the Federal Court of Australia against NWM Plc and 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. RBSG plc has been named in the action as a 'cartel party', but is not a defendant. The claim was served on 28 June 2019.

On 29 July and 11 December 2019, two separate applications seeking opt-out collective proceedings orders were filed in the UK Competition Appeal Tribunal ('the CAT') against RBSG 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 has been scheduled for March 2021 to determine class certification and which of the two opt-out applications should be permitted to represent the class.

Two motions to certify FX-related class actions have been filed in the Tel Aviv District Court in Israel. RBSG plc and NWMSI have been named as defendants in the first motion. RBS plc has been named in the second. These motions have been consolidated but not yet served on the named RBS Group companies.

Certain other foreign exchange transaction related claims have been or may be threatened. The 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 EGBs. The complaints allege 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 have filed a motion to dismiss this matter, which remains pending.

Swaps antitrust litigation

NWM Plc, NWMSI and RBSG 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. Fact discovery in these cases is complete, and the class plaintiffs have filed a motion for class certification, which as of January 2020 is fully briefed.

In addition, in June 2017, TeraExchange filed a complaint against NWM Plc, NWMSI and RBSG 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. On 1 October 2018, the court dismissed all claims against NWM Plc, NWMSI and RBSG plc.

Odd lot corporate bond trading antitrust litigation

On 21 April 2020, a class action antitrust complaint was filed in the SDNY against NWMSI and several other securities dealers. The complaint alleges that, from August 2006 to the present, the defendants conspired to artificially widen spreads for odd lots of corporate bonds bought or sold in the US secondary market and to boycott electronic trading platforms that would have allegedly promoted pricing competition in the market for such bonds.

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. On 31 March 2020, the bankruptcy court denied the trustee's request for leave to file an amended complaint, holding that the trustee's proposed amended complaint fails as a matter of law to state a valid claim against NWM N.V. This decision is subject to appeal. In the second action, filed in October 2011, the trustee seeks to recover an additional US$21.8 million. In November 2016, the bankruptcy court dismissed this case on international comity grounds, and that decision was appealed. On 25 February 2019, the US Court of Appeals for the Second Circuit reversed the bankruptcy court's decision. If the U.S. Supreme Court declines to review the matter, the case will return to the bankruptcy court for further proceedings.

Interest rate hedging products and similar litigation

NWM Plc is dealing with a number of active litigation claims in the UK in relation to the alleged mis-selling of interest rate hedging products (IRHPs). In general, claimants allege that the relevant IRHPs were mis-sold to them, with some also alleging that misrepresentations were made in relation to LIBOR. Claims have been brought by customers who were considered under the FCA redress programme for IRHPs, as well as customers who were outside of the scope of that programme, which was closed to new entrants in March 2015. NWM Plc remains exposed to potential claims from customers who were either ineligible to be considered for redress or who are dissatisfied with their redress offers.

Separately, NWM Plc is defending claims filed in France by three French local authorities relating to structured interest rate swaps. NWM NV was named as a co-defendant in two of the three claims, and has now been dismissed from one of them. 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. Of the three claims, one is being appealed to the Supreme Court, one has been remitted from the Supreme Court to the Court of Appeal for reconsideration of one aspect, and the third remains to be heard before the lower court.

Emissions trading litigation

HMRC issued a tax assessment in 2012 against RBSG plc for approximately £86 million regarding a VAT matter in relation to the trading of European Union Allowances ('EUAs') by a joint venture subsidiary in 2009. RBSG plc has lodged an appeal, which is still to be heard, 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 are 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 on 10 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, with damages, interest and costs still to be determined by the court. NWM Plc intends to appeal the judgment.

US Anti-Terrorism Act litigation

NWM NV and certain other financial institutions, are defendants in several actions pending in the US 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 US District Court for the Eastern District of New York in November 2014. On 16 September 2019, the district court dismissed the case, finding that the claims were deficient for several reasons, including lack of sufficient allegations as to the alleged conspiracy and causation. The plaintiffs are appealing the decision to the US Court of Appeals for the Second Circuit. Another action, filed in the SDNY in 2017, was dismissed on 28 March 2019 on similar grounds. The dismissal is subject to appeal by the plaintiffs. 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.

Investigations and reviews

The 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. The 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, business conduct, competition / anti-trust, anti-bribery, AML and sanctions regimes.

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

Any matters discussed or identified during such discussions and inquiries may result in, among other things, further inquiry or investigation, other action being taken by governmental and regulatory authorities, increased costs being incurred by the NWM Group, remediation of systems and controls, public or private censure, restriction of the 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 the NWM Group, its business, authorisations and licences, reputation, results of operations or the price of securities issued by it.

The NWM Group is co-operating fully with the investigations and reviews described below.

US investigations relating to fixed-income securities

In the US, the 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 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. Certain other state attorneys general have sought information regarding similar issues, and the NWM Group is aware that at least one such investigation is ongoing.

In October 2017, NWMSI entered into a non-prosecution agreement (NPA) with the US 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 if NWMSI complies with the NPA's reporting and conduct requirements during its term, including by not engaging in conduct during the NPA that the US Department of Justice determines was a felony under federal or state law or a violation of the anti-fraud provisions of the US securities law.

The NatWest Markets business is currently responding to a separate criminal investigation by the USAO concerning unrelated securities trading in 2018 by certain former traders of NWM Plc, involving alleged spoofing, which was reported to the USAO in connection with the NPA. In April 2020, the NPA was extended for a fifth time (for three additional months) to accommodate advanced discussions with the USAO and the US Department of Justice concerning potential resolution of such separate criminal investigation into this alleged spoofing, as well as the impact of that alleged conduct and any such resolution on the status of the NPA and the potential consequences thereof. 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 investigation, as further described in "*Risk Factors—The NWM Group is subject to a number of legal, regulatory and governmental actions and investigations as well as associated remedial undertakings, the outcomes of which are inherently difficult to predict, and which could have an adverse effect on the NWM Group.*"

Foreign exchange related investigations

In May and June 2019, RBSG plc and NWM Plc reached settlements totalling approximately EUR 275 million in connection with the EC and certain other related competition law investigations into FX trading. The aggregate amount was fully covered by existing provisions in NWM Plc. 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.

In 2014 and 2015, NWM Plc paid significant penalties to resolve investigations into its FX business by the FCA, the CFTC, the DoJ, and the Federal Reserve. As part of its plea agreement with the DoJ, NWM Plc pled guilty to a one-count information charging an antitrust conspiracy occurring between as early as December 2007 to at least April 2010. NWM Plc admitted that it knowingly, through one of its Euro/US dollar currency traders, joined and participated in a conspiracy to eliminate competition in the purchase and sale of the Euro/US dollar currency pair exchanged in the FX spot market. On 5 January 2017, the US District Court for the District of Connecticut imposed a sentence on NWM Plc consisting of a US$395 million fine and a three-year probation, which ended in January 2020.

As part of the settlement with the Federal Reserve, NWM Plc and NWMSI entered into a cease and desist order (the FX Order). In the FX Order, which is publicly available, NWM Plc and NWMSI agreed to take certain remedial actions with respect to FX activities and certain other designated market activities, including the creation of an enhanced written internal controls and compliance programme, an improved compliance risk management programme, and an enhanced internal audit programme. NWM Plc and NWMSI were obligated to implement and comply with these programmes as approved by the Federal Reserve, and were also required to conduct, on an annual basis, a review of applicable compliance policies and procedures and a risk-focused sampling of key controls . The FX Order was terminated by the Federal Reserve with effect from 12 February 2020.

Systematic AML Programme assessment

In December 2018, the FCA commenced a Systematic AML Programme assessment of RBS Group. The FCA provided its written findings to RBS Group on 28 June 2019, and RBS Group responded on 8 August 2019. On 28 August 2019, the FCA instructed RBS Group to appoint a Skilled Person to provide assurance on financial crime governance arrangements in relation to two financial crime change programmes. RBS Group is cooperating with the Skilled Person's review, which is expected to conclude during Q2 2020. It is not yet possible to assess the likely impact of these matters.

US/Swiss tax programme

In December 2015, Coutts & Co Ltd, a member of the NWM Group, incorporated in Switzerland, entered into a four-year non-prosecution agreement (the NPA) with the DoJ that required it to pay a penalty of US$78.5 million. This was entered into as part of the DoJ's programme for Swiss banks, related to its investigations of the role that Swiss banks played in concealing the assets of US tax payers in offshore accounts (US related accounts). On 20 December 2019, Coutts & Co. Ltd agreed to pay an additional US$27.9 million penalty relating to additional US related accounts that it had not identified and disclosed to DoJ at the time the NPA was executed in 2015. The additional penalty amount has been paid. The four-year term of the NPA has now expired, though certain document preservation and cooperation obligations continue.

Enforcement proceedings and investigations in relation to Coutts & Co Ltd

In February 2017, the Swiss Financial Market Supervisory Authority (FINMA) took enforcement action against Coutts & Co Ltd with regard to failures of money laundering checks and controls on certain client accounts that were connected with the Malaysian sovereign wealth fund, 1MDB, and were held with Coutts & Co Ltd. FINMA accordingly required Coutts & Co Ltd to disgorge profits of CHF 6.5 million. With the exception of one administrative criminal proceeding against a former employee of Coutts & Co Ltd, there are no administrative or regulatory proceedings pending against current or former employees. In addition, the Monetary Authority of Singapore (MAS)'s supervisory examination of Coutts & Co Ltd's Singapore branch revealed breaches of AML requirements. MAS imposed on Coutts & Co Ltd financial penalties amounting to SGD 2.4 million in December 2016.

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

The NWM Group's IT infrastructure is managed by a global team spanning locations in the UK, US, India, and APAC. Over the last few years, the team has been focusing on remediation and simplification and examples of projects and initiatives include:

- retired over 900 applications since 2014 (from 1600);
- decommissioned 2,500 physical servers since 2016, reducing the physical estate by 40 per cent;
- outsourced the operation of the US IT infrastructure to Tata Consulting Services; and
- automated the trading of Bonds, Swaps, FX and Credit.

The team is now able to contribute to the NWM Group's future growth and success in a number of ways, including the modernisation of the NWM Group's traditional infrastructure and services, much of which is currently consumed from RBSG. There are a number of key drivers behind the modernisation of the NWM Group's infrastructure, such as cost efficiencies, acceleration of innovation, and the speed at which the NWM Group can deliver its products and services to customers – all made possible through cloud-technology. The NWM Group is also refreshing the suite of tools employees use to help them to be more productive wherever they are.

The transformation of the NWM Group's IT infrastructure is already underway, with commercial contracts complete, regulators engaged and foundational work delivered.

Innovation, especially the deployment of emerging technologies, is increasingly at the heart of the NWM Group's Technology agenda. Nine emerging technologies have been identified by the NWM Group as being of interest to its customers, and three are of particular interest to the NWM Group - namely Artificial Intelligence (AI), cloud, and tokenisation (blockchain). In 2019, the NWM Group's innovation efforts focused on culture, experimentation and increased engagement with external partnerships. There were a series of successful pilots of applications in flow trading, origination, operations and human resources.

The NWM Group increasingly utilises machine learning for pricing, client analytics and client onboarding and has begun to migrate applications into the cloud to further realize benefits. Houses of Innovation have been set up to explore new use cases for emerging technologies and increase their adoption rate across the NWM Group.

The NWM Group partners with some of the world's biggest technology businesses and smartest start-ups to support its growth plans.

Employees

As at 31 December 2019, the NWM Group employed 5,050 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 2019, excluding temporary staff, was as follows (rounded to the nearest hundred):

	2019	2018	2017
UK	2,100	2,100	2,100
USA	400	500	500
Europe	600	300	500
Rest of the World(1)	1,800	1,600	2,200
Total	4,900	4,500	5,300

(1) In 2019, 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 2019 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 March 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 2019, 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**
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)
2017						
AAA	—	—	1,474	1,576	21	3,071
AA to AA+	3,514	3,667	2,386	984	168	10,719
A to AA-	—	—	7,224	427	78	7,729
BBB- to A-	—	—	3,267	796	493	4,556
Non-investment grade	—	—	385	552	171	1,108
Unrated	—	—	—	255	43	298
Total	3,514	3,667	14,736	4,590	974	27,481
Short positions	(3,490)	(2,501)	(20,390)	(1,945)	(201)	(28,527)

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

	NWM Group			NWM Plc		
	2019	2018	2017	2019	2018	2017
	£m	£m	£m	£m	£m	£m
Trading Assets						
Loans						
– Reverse repos	24,095	24,758	36,271	12,716	15,915	27,313
– Cash collateral given	20,467	18,898	21,513	19,074	18,898	21,513
– Other loans	1,854	1,302	642	1,486	934	596
Total loans	46,416	44,958	58,426	33,276	35,747	49,422
Securities						
– Central and local government						
– UK	4,897	6,834	3,514	4,897	6,834	3,514
– US	5,458	4,689	3,667	293	1,498	277
– Other	14,902	13,498	14,736	14,748	13,498	14,736
– Other securities	4,867	4,993	5,589	4,554	4,413	5,062
Total securities	30,124	30,014	27,506	24,492	26,243	23,589
Total	76,540	74,972	85,932	57,768	61,990	73,011
Trading Liabilities						
Deposits						
– Repos	27,885	25,645	28,362	10,007	9,784	12,910
– Cash collateral received	21,506	20,129	22,673	20,945	20,129	22,667
– Other deposits	1,496	1,786	1,291	1,491	1,786	1,291
Total deposits	50,887	47,560	52,326	32,443	31,699	36,868
Debt securities in issue	1,762	902	1,107	1,762	902	1,107
Short positions	21,187	23,827	28,527	19,371	21,939	26,207
Total	73,836	72,289	81,960	53,576	54,540	64,182

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								
	2019			2018			2017		
	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
	£bn	£m	£m	£bn	£m	£m	£bn	£m	£m
Exchange rate contracts	3,799	44,983	47,138	3,444	36,635	38,346	3,405	39,067	41,511
Interest rate contracts	11,020	103,433	96,581	10,287	97,226	91,327	11,754	119,530	111,134
Credit derivatives	16	280	375	16	346	226	39	530	559
Equity and commodity contracts	3	—	48	1	43	14	3	151	126
		148,696	144,142		134,250	129,914		159,278	153,330

	NWM Plc								
	2019			2018			2017		
	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
	£bn	£m	£m	£bn	£m	£m	£bn	£m	£m
Exchange rate contracts	3,831	45,175	47,347	3,444	36,636	38,349	3,411	39,148	41,638
Interest rate contracts	9,577	102,001	94,627	10,267	97,226	91,384	11,914	122,175	112,723
Credit derivatives	18	282	368	16	346	226	39	531	558
Equity and commodity contracts	3	—	48	1	43	15	3	151	179
		147,458	142,390		134,291	129,974		162,005	155,098

Refer to Note 11 to the 2019 Financial Statements for further information on the amounts due to/from fellow RBS 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 15 to the 2019 Financial Statements.

	NWM Group Debt securities				
	Central and local government				
	UK	US	Other	Other debt	Total
	£m				
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					
Mandatory fair value through profit or loss	—	—	—	668	668
Fair value through other comprehensive income	—	2,930	4,078	139	7,147
Amortised cost	—	—	—	2,698	2,698
Total	—	2,930	4,078	3,505	10,513
2017					
Designated as at fair value through profit or loss		—	—	—	—
Available-for-sale	—	160	309	6	475
Loans and receivables	—	—	—	2,583	2,583
Total	—	160	309	2,589	3,058

	NWM Plc Debt securities				
	Central and local government				
	UK	US	Other	Other debt	Total
	£m				
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					
Mandatory fair value through profit or loss	—	—	—	667	667
Fair value through other comprehensive income	—	2,930	4,054	—	6,984
Amortised cost		—	—	2,698	2,698
Total	—	2,930	4,054	3,365	10,349
2017					
Designated as at fair value through profit or loss	—	—	—	—	—
Available-for-sale	—	160	308	2	470
Loans and receivables	—	—	—	2,583	2,583
Total	—	160	308	2,585	3,053

Deposits and Short-Term Borrowings

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

	2019			2018		
	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	1,302	787	2,089	2,749	—	2,749
of which: repos (amortised cost)	*380*	—	*380*	*424*	—	*424*
Customer deposits	3,176	527	3,703	2,549	31	2,580
Trading liabilities (1)						
Repos (2)	27,885	—	27,885	25,645	—	25,645
Derivative cash collateral received	21,506	—	21,506	20,129	—	20,129
Other bank and customer deposits	600	896	1,496	1,340	446	1,786
Debt securities in issue	659	1,103	1,762	56	847	903
	50,650	1,999	52,649	47,170	1,293	48,463
Other financial liabilities						
Debt securities in issue						
commercial paper and certificates of deposits	2,699	6	2,705	2,826	—	2,826
medium term notes (MTNs)	4,386	10,218	14,604	3,543	9,252	12,795
Subordinated liabilities	107	1,029	1,136	—	658	658
	7,192	11,253	18,445	6,369	9,910	16,279
Amounts due to holding company and fellow subsidiaries (3)						
CRR-compliant internal MREL	—	5,120	5,120	—	5,125	5,125
Other bank deposits	877	38	915	2,442	100	2,542
Other customer deposits	74	—	74	273	—	273
Subordinated liabilities	—	2,020	2,020	9	1,953	1,962
	951	7,178	8,129	2,724	7,178	9,902
Total funding	63,271	21,744	85,015	61,561	18,412	79,973
Of which: available in resolution (4)	*107*	*8,169*	*8,276*	*6*	*7,736*	*7,742*

(1) Funding sources excludes short positions of £21,187 million (2018 – £23,827 million) reflected as trading liabilities on the balance sheet.

(2) Comprised Central and other bank repos of £6,636 million (2018 – £4,997 million), other financial institution repos of £18,998 million (2018 – £20,083 million) and other corporate repos of £2,251 million (2018 – £565 million).

(3) Amount due to holding company and fellow subsidiaries relating to non-financial instruments of £171 million (2018 – £259 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, £4,373 million will mature in 2020, £4,180 million will mature in 2021, £2,714 million will mature in 2022, £735 million will mature in 2023 and £1,729 million will mature in 2024. Certain of these MTNs were issued by the former Royal Bank of Scotland Plc to service the RBS 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
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
2018									
Less than 1 year	56	56	2,826	3,543	—	6,369	—	9	6,434
1-3 years	374	374	—	6,395	99	6,494	—	—	6,868
3-5 years	92	92	—	1,932	425	2,357	5,125	328	7,902
More than 5 years	381	381	—	925	134	1,059	—	1,625	3,065
Total	903	903	2,826	12,795	658	16,279	5,125	1,962	24,269

(1) With respect to MTNs only, £4,373 million will mature in 2020, £4,180 million will mature in 2021, £2,714 million will mature in 2022, £735 million will mature in 2023 and £1,729 million will mature in 2024. Certain of these MTNs were issued by the former Royal Bank of Scotland Plc to service the RBS 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
2019					
Commercial paper and CDs	1,613	—	1,053	39	2,705
MTNs	233	2,748	11,181	2,204	16,366
External subordinated liabilities	98	316	722	—	1,136
CRR-compliant internal MREL due to RBSG plc	—	3,289	1,831	—	5,120
Subordinated liabilities due to RBSG plc	—	1,183	837	—	2,020
Total	1,944	7,536	15,624	2,243	27,347
2018 Total	2,174	5,761	14,959	1,375	24,269

Maturity

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

	NWM Group								
	2019			2018			2017		
	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	12,729	—	12,729	11,188	—	11,188	153	—	153
Trading assets	51,620	24,920	76,540	48,982	25,990	74,972	66,291	19,641	85,932
Derivatives	40,667	108,029	148,696	28,606	105,644	134,250	32,247	127,031	159,278
Settlement balances	4,339	—	4,339	2,705	—	2,705	2,497	—	2,497
Loans to banks—amortised cost	1,083	5	1,088	588	38	626	345	26	371
Loans to customers—amortised cost	3,716	4,645	8,361	4,540	3,826	8,366	6,174	3,464	9,638
Amounts due from holding company and fellow subsidiaries(1)	950	241	1,191	2,980	188	3,168	207	9	216
Other financial assets	3,589	8,716	12,305	4,316	6,952	11,268	768	2,352	3,120
Liabilities									
Bank deposits	1,302	787	2,089	2,749	—	2,749	526	2	528
Customer deposits	3,176	527	3,703	2,549	31	2,580	3,169	88	3,257
Amounts due to holding company and fellow subsidiaries(2)	982	7,180	8,162	2,727	7,177	9,904	83	3	86
Settlement balances	4,022	—	4,022	2,914	—	2,914	2,817	—	2,817
Trading liabilities	52,934	20,902	73,836	50,608	21,681	72,289	53,764	28,196	81,960
Derivatives	41,214	102,928	144,142	29,250	100,664	129,914	32,163	121,167	153,330
Other financial liabilities	7,192	11,253	18,445	6,368	9,911	16,279	4,397	6,858	11,255

(1) Amounts due from holding company and fellow subsidiaries relating to non-financial instruments of £40 million (2018—£230 million) for NWM Group and £61 million (2018—£230 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 £138 million (2018—£257 million) for NWM Group and £155 million (2018—£28 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 £218 billion (2018—£203 billion) for the NWM Group and £203 billion (2018—£192 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
2019	£m	£m	£m	£m	£m	£m
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	—	—	—	—	—

2017						
Liabilities by contractual maturity						
Bank deposits	517	11	—	—	—	—
Customer deposits	2,954	201	95	7	2	2
Amounts due to holding companies and fellow subsidiaries	51	3	3	—	—	—
Settlement balances	2,817	—	—	—	—	—
Derivatives	—	1	2	1	3	3
Other financial liabilities	1,871	2,526	904	307	5,647	—
	8,210	2,742	1,004	315	5,652	5
Guarantees and commitments notional amount						
Guarantees(2,3)	523	—	—	—	—	—
Commitments(4)	9,732	—	—	—	—	—
	10,255	—	—	—	—	—

	NWM Plc					
	0-3 months	3-12 months	1-3 years	3-5 years	5-10 years	10-20 years
2019	£m	£m	£m	£m	£m	£m
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	—	—	—	—	—

2017						
Liabilities by contractual maturity						
Bank deposits	516	11	—	—	—	—
Customer deposits	2,764	202	94	6	1	-
Amounts due to holding companies and fellow subsidiaries	458	118	1,429	1,014	924	233
Settlement balances	1,372	—	—	—	—	—
Derivatives	—	1	2	1	3	3
Other financial liabilities	1,871	2,526	904	307	5,647	—
	6,981	2,858	2,429	1,328	6,575	236
Guarantees and commitments notional amount						
Guarantees(2)	523	—	—	—	—	—
Commitments(3)	9,725	—	—	—	—	—
	10,248	—	—	—	—	—

(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 RBS Group such that common policies, procedures, frameworks and models apply across RBS Group. Therefore, for the most part, discussion on these qualitative aspects reflects those in RBS Group as relevant for the businesses and operations in NWM Group.

Risk Management Framework

Introduction

NWM Group operates under RBS Group's integrated risk management framework, which is centred around the embedding of a strong risk culture. The framework ensures the tools and capability are in place to facilitate risk management and decision-making across the organisation.

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

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

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

During 2019, a number of enhancements to the RBS Group risk management framework were developed. The increasing significance of climate risk was considered as part of these developments and will be fully integrated as part of the implementation of the enhanced framework in 2020.

Risk Culture

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

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

Take personal responsibility for understanding and proactively managing the risks associated with individual roles.

- Respect risk management and the part it plays in daily work.
- Understand the risks associated with individual roles.
- Align decision-making to the RBS 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.

The Conduct & Culture Committee is the decision-making forum for matters related to risk culture within NWM Group.

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

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

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

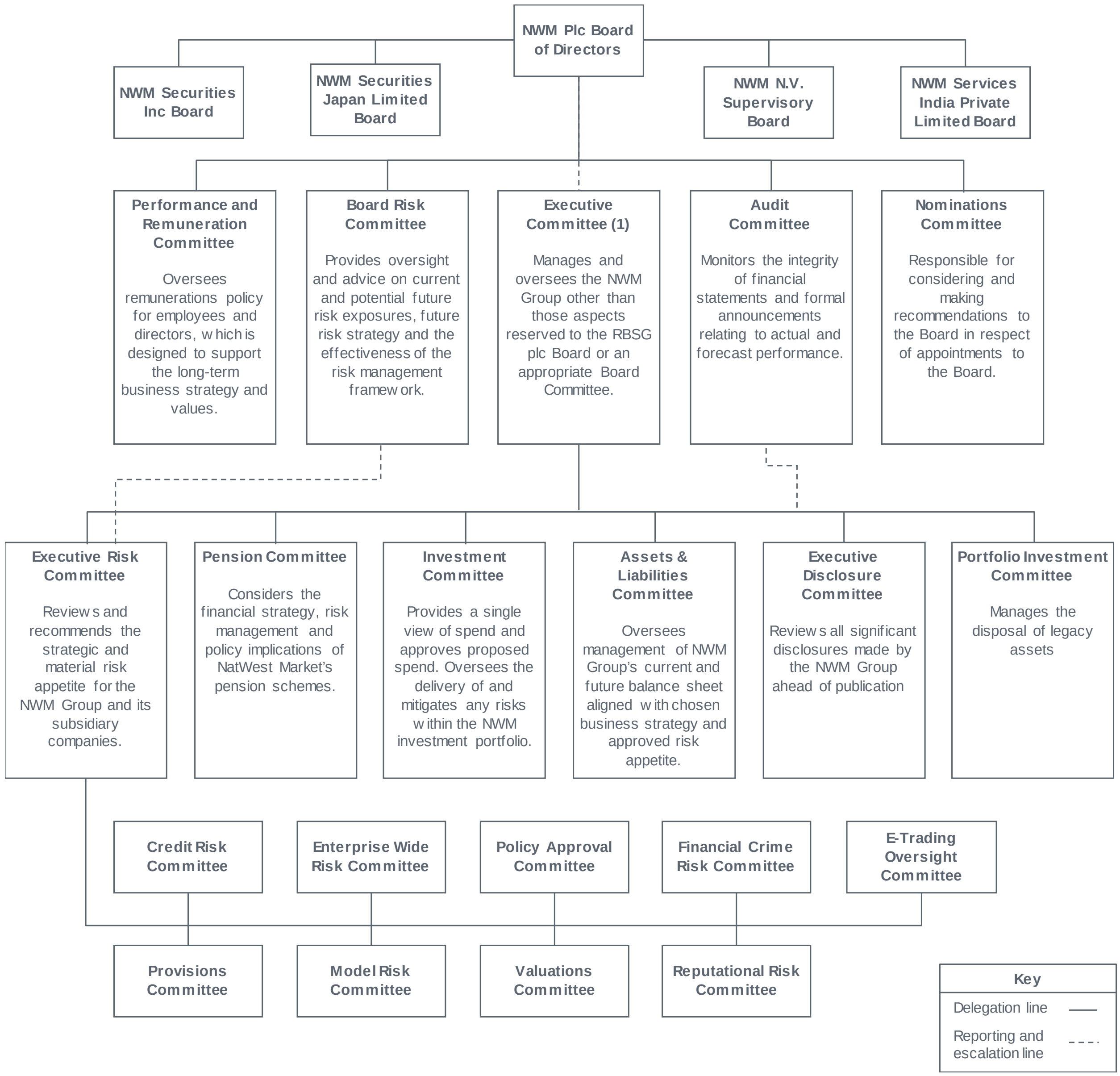
If conduct falls short of the RBS Group's required standards, the accountability review process is used to assess how this should be reflected in pay outcomes for those individuals concerned. The RBS Group-wide remuneration policy ensures that the remuneration arrangements for all employees reflect the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

Risk Governance

Committee Structure

NWM Group consists of NWM Plc and its subsidiaries which operate as a global business across a number of regions including Europe, US, Asia Pacific and India.

The diagram illustrates NWM Plc's risk committee structure in 2019 and the main purposes of each committee.



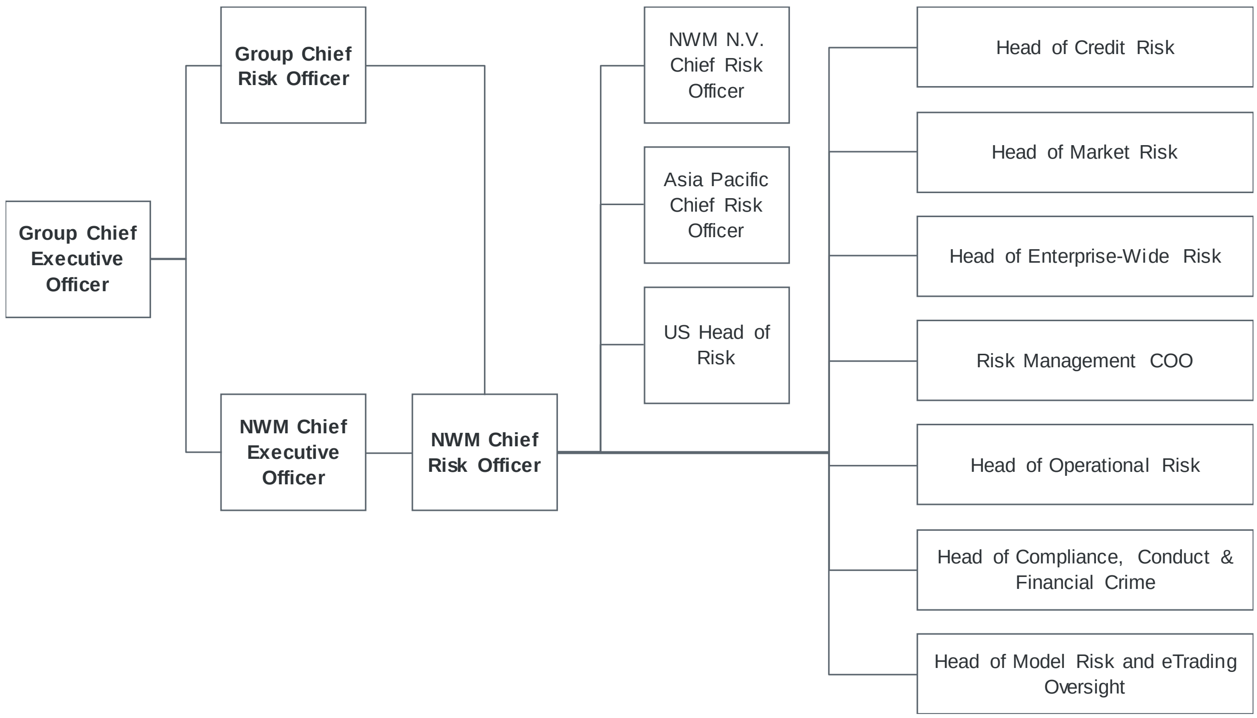
Notes:

(1) The Executive Committee ceased to be a Board committee in September 2019, when it became accountable to the NWM Chief Executive Officer, supporting him in discharging his responsibilities.

(2) The Conduct & Culture Committee is not shown above as it is not part of NWM Group's corporate governance - it derives its authority from its members. The committee defines and agrees a plan to agree desired Risk Culture for NWM Group, oversees and sponsors the risk culture delivery plan and reviews the Risk Culture assessment output. It also agrees the NWM Group Conduct Risk and Risk Culture strategic direction as well as considering and debating business plans, initiatives and strategic decisions and how they impact on Conduct and Culture.

Risk Management Structure

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



Notes:

(1) The NWM Chief Risk Officer reports directly to the NWM Chief Executive Officer and the NWM Group Chief Risk Officer (RBS Group). 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 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 Risk function provides risk management services across the RBS Group, including – where agreed – to the NWM Chief Risk Officer. These services are managed, as applicable, through service level agreements.

Three Lines of Defence

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

First Line of Defence – Management and Supervision

The first line of defence incorporates most roles, including those in the customer-facing franchise, 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 – Oversight and Control

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

- The second line of defence is empowered to design and maintain the risk management framework and its components. It undertakes proactive risk oversight and continuous monitoring activities to confirm that the NWM 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 – Internal Audit

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 RBS Group 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 RBS Group and its subsidiary companies achieving their objectives.

- The third line of defence executes its duties freely and objectively in accordance with the Institute of Internal Auditor's Code of Ethics & Standards.

Risk Appetite

Risk appetite defines the level and types of risk NWM 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 and 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, leverage and liquidity requirements, the operational environment, and from a conduct perspective. Articulating 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 would be out of appetite are identified, assessed, escalated and addressed in a timely manner.

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

- Assessing the adequacy of the framework when compared to internal and external expectations.

- Ensuring the framework remains effective as a strong control environment for risk appetite.

- Assessing the level of embedding of risk appetite across the organisation.

RBS Group Board approves the risk appetite framework annually.

Establishing Risk Appetite

In line with RBS Group's risk appetite framework, risk appetite is communicated across NWM 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 RBS 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.

NWM Group 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 under 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 RBS 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 NWM Group Board and senior management.

Risk Controls and Limits

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

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

Risk Identification and Measurement

Risk identification and measurement within the risk management process comprise:

- Regular assessment of the overall risk profile, incorporating market developments and trends, as well as external and internal factors.
- 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 RBS Group faces each day are detailed in the Risk Directory. This provides a common risk language to ensure consistent terminology is used by NWM Group and the rest of RBS Group. The Risk Directory is subject to annual review. This ensures that it continues to provide a comprehensive and meaningful list of the inherent risks within the businesses.

Risk Treatment and Mitigation

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

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

Stress Testing

Stress Testing – Capital Management

Stress testing is a key risk management tool and a fundamental component of RBS'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.

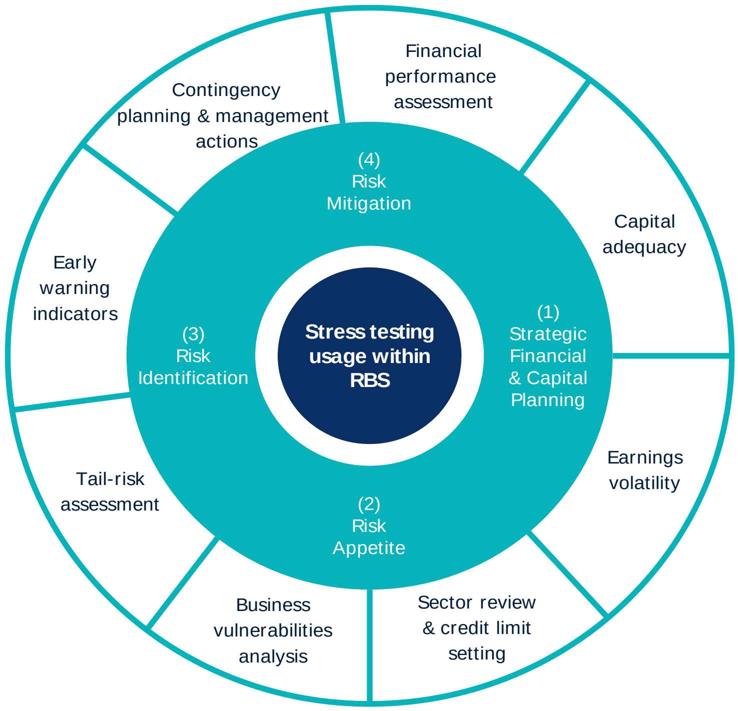
Stress testing includes:

- 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 widely used across the RBS 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 identification** – by better understanding the risks that could potentially affect NWM'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. They are linked to economic variables and impairments and seek to demonstrate that NWM Group and its operating subsidiaries maintain sufficient CET1 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. In 2019, the RBS Group took part in the BoE stress test exercise. Details are set out in the RBS Group 2019 Annual Report and Accounts.

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 CET1 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 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 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.

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 table below.

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

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

Stress Testing – Recovery and Resolution Planning

The NWM Group recovery plan explains how NWM and its subsidiaries – as a consolidated group – would identify and respond to a financial stress event and restore its financial position so that it remains viable on an ongoing basis.

The recovery plan ensures risks that could delay the implementation of a recovery strategy are highlighted and preparations are made to manage 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 NWM Group to maintain critical services and products it provides to its customers, maintain its core business and operate within risk appetite while restoring the bank's financial condition. It is assessed for appropriateness on an ongoing basis and is updated annually. The plan is reviewed and approved by the Board prior to submission to the PRA each year.

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

Under the resolution assessment part of the PRA rulebook, the NWM 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 NWM 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 BoE (as the UK resolution authority). A multi-year programme is in place to further develop resolution capability in line with regulatory requirements.

Stress Testing – Market Risk

Non-Traded Market Risk

Non-traded exposures are reported to the PRA on a quarterly basis as part of the Stress Testing Data Framework. This provides the regulator with an overview of NWM 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 BoE and EBA stress exercises. NWM Group also produces an internal scenario analysis as part of its financial planning cycles.

Non-traded exposures are capitalised through the ICAAP. It covers gap risk, basis risk, credit spread risk, pipeline risk, structural foreign exchange risk, prepayment 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 99 per cent confidence level. Methodologies are independently reviewed and the results are approved by the RBS Group Capital Management & Stress Testing Committee.

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, VaR. 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 VaR, 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.

Capital, Liquidity and Funding Risk

Definitions

Regulatory capital consists of reserves and instruments issued that are available, have a degree of permanency and are capable of absorbing losses. A number of strict conditions 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.

Δ

Sources of Risk

Capital

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

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 RBSG 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 is monitored and reported on an individual regulated bank legal entity basis ('bank entity'), which is the CRR transitional basis as relevant in the jurisdiction for significant subsidiaries of RBS Group.

Liquidity metrics including the LCR and SOC are presented for the solo legal entity (the Bank) in line with how it is regulated by the PRA. Funding sources and notes issued disclosures are presented for NWM Group rather than for NWM Plc.

Key Developments in 2019

- During 2019, NWM Plc paid ordinary dividends totalling £500 million to its parent company, RBSG plc.

- NWM Plc's CET1 ratio increased by 170 basis points to 17.3 per cent at 31 December 2019, from 15.6 per cent at 31 December 2018. The increase in the CET1 ratio at year end 2019 was primarily due to lower RWAs, as reductions in counterparty credit risk, market risk and operational risk were partially offset by credit risk increases. Offsetting these RWA drivers were dividends paid and other reserves movements in the year, including the impact of the decline in market value of the SABB holding, which is recognised directly in equity.

- NWM Plc's RWAs decreased by £5.6 billion to £35.2 billion at 31 December 2019, primarily related to a reduction in market, counterparty credit and operational risk RWAs, offset by increased credit risk RWAs following the acquisition of the SABB shareholding. The lower market risk RWAs were largely due to a reduction in the capital multiplier, changes in interest rate and foreign exchange risk lowering the VaR/SVaR based requirements, and reductions due to model updates. The capital multiplier also contributed to a decrease in CVA within counterparty credit risk, with additional reductions due to decreased exposures and the impact of foreign exchange. Operational risk RWAs were lower following the annual recalculation.

- CRR leverage exposure for NWM Plc decreased to £136.5 billion compared with £148.5 billion at 31 December 2018.

- The leverage ratio on a CRR basis, using PRA transitional capital, increased to 5.1 per cent following the decrease in leverage exposure offset by lower Tier 1 capital.

- NWM Plc's MREL at 31 December 2019 was £13.5 billion, or 38.4 per cent of RWAs (2018 - £13.9 billion and 34.0 per cent respectively).

- The NWM Plc liquidity portfolio was £16.1 billion at 31 December 2019, a decrease of £0.5 billion from £16.6 billion at the prior year end.

- The LCR for NWM Plc was 254 per cent at 31 December 2019, compared with 457 per cent at year end 2018.

- During 2019, NWM Plc issued £5.0 billion of term senior unsecured debt securities, across benchmark and private placement formats, in line with its funding target.

- During 2019, NWM Group established a 144a MTN programme for US investors, and accessed new currency markets (including Swedish kronor, Swiss franc and Japanese yen).

- NWM Group also maintains a portfolio of bi-lateral borrowing in different formats, including unsecured loans and notes or loans secured primarily by banking book collateral.

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 RBS Group-wide framework.

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

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. NWM Group, consistent with that of RBS Group, retains a prudent approach to setting the composition of the liquidity portfolio, which is subject to internal policies and limits over quality of counterparty, maturity mix and currency mix. 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 Markets Treasury, for which the NatWest Markets Treasurer is responsible.

NWMSI and NWM NV, both of which are significant operating subsidiaries of NWM Plc, hold locally managed liquidity portfolios to comply with local regulations that may 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)	0.5%	0.5%	0.5%
Total(2)	7.5%	9.0%	11.0%

Notes:

(1) The institution specific countercyclical capital buffer requirement is based on the weighted average of geographical exposures. The FPC sets the UK countercyclical capital buffer, which is currently 1.0 per cent and will rise to 2.0 per cent from 16 December 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 (46 per cent), the US (16 per cent) and Saudi Arabia (6 per cent). 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, but not a legally binding minimum leverage requirement. In June 2019, the European Commission's proposals for a legally binding 3 per cent of Tier 1 capital minimum leverage ratio, previously announced as part of the CRR 2 package of legislation, were published into the EU's Official Journal. The leverage ratio requirement will come into force on 28 June 2021 and will be applicable to individual entities, including NWM Plc. It is expected that UK's rules will remain closely aligned with the EU's following the UK's departure from the EU, and that a minimum leverage ratio will be subject to the same or similar implementation timeframes.

Measurement

Capital, RWAs and Leverage

The table below sets out the key capital and leverage ratios.

	2019	2018
	£m	£m
Capital(1)		
CET1	6,097	6,369
Tier 1	7,003	7,352
Total	8,501	8,757
RWAs		
Credit risk	9,825	9,234
Counterparty credit risk	11,060	13,285
Market risk	11,229	14,106
Operational risk	3,039	4,152
Total RWAs	35,153	40,777
Capital adequacy ratios	%	%
CET1	17.3	15.6
Tier 1	19.9	18.0
Total	24.2	21.5
Leverage		
Tier 1 capital (£m)	7,003	7,352
CRR leverage exposure (£m)	136,505	148,502
CRR leverage ratio (%)	5.1	5.0

Note:

(1) CRR as implemented by the PRA in the UK, with effect from 1 January 2014.

From 1 January 2015, UK banks have been required to meet their Pillar 2A capital requirement with at least 56 per cent in CET1 capital and no more than 44 per cent in AT1 capital and no more than 25 per cent in Tier 2 capital. The Pillar 2A capital requirement is the capital that NWM Plc must hold, in addition to meeting its Pillar 1 requirements in order to comply with the PRA's overall financial adequacy rule.

Capital Resources

Under Capital Requirements Regulation (CRR), regulators within the EU monitor capital on a legal entity basis, with local transitional arrangements on the phasing in of end-point CRR. The capital resources based on the PRA transitional basis for NWM Plc are set out below.

	2019	2018
	£m	£m
Shareholders' equity (excluding non-controlling interests)		
Shareholders' equity	9,631	8,922
Other equity instruments	(904)	(749)
	8,727	8,173
Regulatory adjustments and deductions		
Own credit	(39)	(223)
Defined benefit pension fund adjustment	(171)	(197)

	2019	2018
	£m	£m
Cash flow hedging reserve	(137)	(114)
Prudential valuation adjustments	(373)	(450)
Expected losses less impairments	(10)	(351)
Instruments of financial sector entities where the institution has a significant and non-significant investment	(1,900)	(445)
Other regulatory adjustments	—	(24)
	(2,630)	(1,804)
CET1 capital	6,097	6,369
Additional Tier 1 (AT1) capital		
Qualifying instruments and related share premium	904	749
Qualifying instruments and related share premium subject to phase out	226	234
	1,130	983
Tier 1 deductions		
Instruments of financial sector entities where the institution has a significant investment	(224)	—
Tier 1 capital	7,003	7,352
Qualifying Tier 2 capital		
Qualifying instruments and related share premium	1,967	2,098
Tier 2 deductions		
Instruments of financial sector entities where the institution has a significant and non-significant investment	(469)	(693)
Tier 2 capital	1,498	1,405
Total regulatory capital	8,501	8,757

Leverage Exposure

The leverage exposure is based on the CRR Delegated Act.

Leverage	2019	2018
	£m	£m
Cash and balances at central banks	9,953	11,095
Trading assets	57,768	61,990
Derivatives	147,458	134,291
Net loans to customers	25,929	16,588
Other assets	6,945	18,077
Total assets	248,053	242,041
Derivatives		
- netting	(155,147)	(140,796)
- potential future exposures	39,997	41,663
Securities financing transactions gross up	1,559	1,800
Undrawn commitments	5,986	7,306
Regulatory deductions and other adjustments	(2,815)	(1,557)
Exclusion of core UK-group exposures	(1,128)	(1,955)
Leverage exposure	136,505	148,502

Liquidity Portfolio

The table below shows the 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)	
	2019	2018
	£m	£m
NWM Plc		
Cash and balances at central banks	9,929	11,058
AAA to AA- rated governments	4,399	3,597
A+ and lower rated governments(2)	1,277	1,587
government guaranteed issuers, public sector entities and government sponsored entities	—	—
International Organisations and Multilateral development banks	244	4
LCR level 1 bonds	5,920	5,188
LCR level 1 Assets	15,849	16,246
LCR level 2 Assets	—	—
Non-LCR Eligible Assets	5	—
Primary liquidity	15,854	16,246
Secondary liquidity(3)	244	344
Total liquidity value	16,098	16,590

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
2019	6,142	3,628	5,051	1,277	16,098
2018	3,929	3,219	7,855	1,587	16,590

Notes:

(1) Liquidity value was aligned to the internal SOC, which is stated after discounts (or haircuts) are applied to the instruments, at 31 December 2019. The liquidity values for 2018 have been re-presented.

(2) The split between ratings bands has been restated for 2018.

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

Funding Sources

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

	2019			2018		
	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	1,302	787	2,089	2,749	—	2,749
of which: repos (amortised cost)	380	—	380	424	—	424
Customer deposits	3,176	527	3,703	2,549	31	2,580
Trading liabilities(1)						
Repos(2)	27,885	—	27,885	25,645	—	25,645
Derivative cash collateral received	21,506	—	21,506	20,129	—	20,129
Other bank and customer deposits	600	896	1,496	1,340	446	1,786
Debt securities in issue	659	1,103	1,762	56	847	903
	50,650	1,999	52,649	47,170	1,293	48,463
Other financial liabilities						
Debt securities in issue						
commercial paper and certificates of deposits	2,699	6	2,705	2,826	—	2,826
medium term notes (MTNs)	4,386	10,218	14,604	3,543	9,252	12,795

	2019			2018		
	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
Subordinated liabilities	107	1,029	1,136	—	658	658
	7,192	11,253	18,445	6,369	9,910	16,279
Amounts due to holding company and fellow subsidiaries(3)						
CRR-compliant internal MREL	—	5,120	5,120	—	5,125	5,125
Other bank and customer deposits	951	38	989	2,715	100	2,815
Subordinated liabilities	—	2,020	2,020	9	1,953	1,962
	951	7,178	8,129	2,724	7,178	9,902
Total funding	63,271	21,744	85,015	61,561	18,412	79,973
Of which: available in resolution(4)	107	8,169	8,276	6	7,736	7,742

Notes:

(1) Funding sources excludes short positions of £21,187 million (2018 - £23,827 million) reflected as trading liabilities on the balance sheet.

(2) Comprised Central and other bank repos of £6,636 million (2018 - £4,997 million), other financial institution repos of £18,998 million (2018 - £20,083 million) and other corporate repos of £2,251 million (2018 - £565 million).

(3) Amount due to holding company and fellow subsidiaries relating to non-financial instruments of £171 million (2018 - £259 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.

Senior notes and subordinated liabilities - residual maturity profile by instrument type (audited)

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
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
2018									
Less than 1 year	56	56	2,826	3,543	—	6,369	—	9	6,434
1-3 years	374	374	—	6,395	99	6,494	—	—	6,868
3-5 years	92	92	—	1,932	425	2,357	5,125	328	7,902
More than 5 years	381	381	—	925	134	1,059	—	1,625	3,065
Total	903	903	2,826	12,795	658	16,279	5,125	1,962	24,269

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

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

2019					
Commercial paper and CDs	1,613	—	1,053	39	2,705
MTNs	233	2,748	11,181	2,204	16,366
External subordinated liabilities	98	316	722	—	1,136
CRR-compliant internal MREL due to RBSG plc	—	3,289	1,831	—	5,120
Subordinated liabilities due to RBSG plc	—	1,183	837	—	2,020
Total	1,944	7,536	15,624	2,243	27,347
2018 Total	2,174	5,761	14,959	1,375	24,269

Market Risk

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

Pension-related activities also give rise to market risk, as discussed in more detail below.

Traded Market Risk

Definition

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

Sources of Risk

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

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

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

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

Key Developments in 2019

- Geopolitical risk resulted in periods of market volatility during the year as a result of increased political and economic risks and uncertainty in the UK and global markets. Despite this volatility, traded VaR remained well within appetite throughout 2019.

- NWM Plc experienced three back-testing exceptions: two in early September and one in October. These were mainly driven by an increase in long-end sterling real rates.

- Following NWM NV becoming a subsidiary of NWM Plc in November 2019, all material traded market risk exposure of RBS Group is within NWM Group. At the point of acquisition, there was no significant impact on the consolidated VaR.

Risk 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, to ensure 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 VaR and stressed value-at- risk (SVaR). More details on these are provided below.

For each trading business, a document known as a dealing authority compiles details of all applicable limits and trading restrictions. The desk-level mandates comprise qualitative limits related to the product types within the scope of each desk, as well as quantitative metrics specific to the desk’s market risk exposures. These additional limits and metrics aim to control various risk dimensions such as exposure size, aged inventory, currency and tenor.

The limits are reviewed to reflect changes in risk appetite, business plans, portfolio composition and the market and economic environments. The limit review has been enhanced to improve the alignment between traded market risk exposure and capital usage. This is done by analysing the relationship between VaR and SVaR and NWM Plc’s solo CET1 ratio.

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

For more detail on risk appetite, refer to ‘—*Risk Management Framework*’ above.

Risk Controls

For information on risk controls, refer to ‘—*Risk Management Framework*’ above.

Risk Monitoring and Mitigation

Traded market risk is identified and assessed by gathering, analysing, monitoring and reporting market risk information at desk, business and NWM 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 by market risk reporting and control functions. A daily report summarising the position of exposures against limits at desk, business and NWM Group is provided to senior business and market risk managers.

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

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

Business profit and loss performance is monitored automatically through loss triggers which, if breached, require a remedial action plan to be agreed between the Market Risk function and the business. The loss triggers are set using both a fall-from-peak approach and an absolute loss level. In addition, regular updates on traded market risk positions are provided to NWM Group’s Executive Risk Committee and Board Risk Committee.

Risk 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.

These methods have been designed to capture correlation effects and allow NWM Group to form an aggregated view of its traded market risk across risk types, markets and businesses while also taking into account the characteristics of each risk type.

VaR

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

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.

Testing of the performance and adequacy of the VaR model is done on a regular basis through the following processes:

- Back-testing – Internal and regulatory back-testing is conducted on a daily basis. Further information on back-testing is set out below.

- Ongoing model validation – VaR model performance is assessed both regularly and on an ad-hoc basis if market conditions or portfolio profile change significantly.

- Model Risk Management review – As part of the model lifecycle, all risk models (including the VaR model) are independently reviewed to ensure the model is still fit for purpose given current market conditions and portfolio profile. For further detail on the independent model validation carried out by Model Risk Management, refer to '—*Operational Risk*' below.

One-day 99 per cent Traded Internal VaR (audited)

The table below shows one-day 99 per cent internal VaR for the trading portfolios of NWM Plc and NWMSI, split by exposure type. For NWM NV, refer to the appropriate key point below the table.

Following the consolidation of NWM NV in November 2019, the traded market risk exposure of NWM Group is materially equivalent to that of RBS Group. For RBS Group traded VaR disclosures, refer to the Traded market risk section of the RBS Group Annual Report and Accounts.

	2019				2018			
	Average	**Maximum**	**Minimum**	**Period end**	**Average**	**Maximum**	**Minimum**	**Period end**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
NWM Plc								
Interest rate	9.2	16.3	5.9	10.3	13.9	26.6	8.8	11.4
Credit spread	10.1	13.9	6.7	10.4	10.7	23.5	6.9	7.2
Currency	4.0	10.5	1.6	3.2	3.1	7.7	1.3	5.3
Equity	0.7	2.2	0.3	0.9	0.8	1.6	0.3	0.8
Commodity	0.1	0.6	—	0.1	0.3	0.9	—	0.1
Diversification(1)	(9.9)			(11.2)	(10.5)			(6.3)
Total	14.2	20.1	9.8	13.7	18.2	32.5	11.4	18.4
NWMSI								
Interest rate	2.8	4.9	1.7	2.4	1.9	3.2	1.0	2.3
Credit spread	1.4	2.3	0.2	1.1	0.9	2.5	0.3	1.8
Commodity	0.1	0.5	—	0.1	0.1	0.3	—	—

	2019				2018			
	Average	Maximum	Minimum	Period end	Average	Maximum	Minimum	Period end
	£m	£m	£m	£m	£m	£m	£m	£m
Diversification(1)	(1.2)			(1.1)	(0.5)			(1.3)
Total	3.1	5.9	2.0	2.5	2.3	3.6	1.2	2.8

Note:

(1) Entities within NWM Group benefit 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

NWM Plc

- Despite market volatility driven by geopolitical risk throughout the year, traded VaR remained well within appetite.

- The decrease in the average VaR compared to 2018 is attributed to peaks in H1 2018 reflecting long euro rates positioning and bond syndication activity.

NWMSI

- The increase in traded VaR on an average basis was mainly driven by the US Rates business.

NWM NV

- Period-end VaR was £0.5 million.

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 per cent confidence level. Two types of profit and loss (P&L) are used in back-testing comparisons: Actual P&L and Hypothetical (Hypo) P&L.

The table below shows regulatory back-testing exceptions in NWM Plc for the 250-business-day period to 31 December 2019 for one-day 99 per cent traded regulatory VaR compared with Actual and Hypo P&L.

	Back-testing exceptions	
	Actual	Hypo
NWM Plc	3	3

Key points

- Statistically NWM Group would expect to see back-testing exceptions 1 per cent of the time over a period of 250 business days. A VaR model recording four or fewer exceptions in a continuous 250- day period is regarded as satisfactory. A model recording five or more exceptions is regarded as having potential issues regarding its quality or accuracy.

- NWM Plc reached a maximum of six Actual and seven Hypo back- testing exceptions the 250-day rolling window in early October 2019. By 31 December 2019, this had decreased to three Actual and three Hypo exceptions, after earlier exceptions dropped out of the window during November and December. Of the three exceptions NWM Plc experienced during 2019, two occurred in early September and one in October. These were mainly driven by an increase in long-end sterling real rates.

The table below shows internal back-testing exceptions in the major NWM businesses for the 250-business-day period to 31 December 2019. Internal back-testing compares one-day 99 per cent traded internal VaR with Actual and Hypo P&L.

	Back-testing exceptions	
	Actual	**Hypo**
Rates	2	4
Currencies	2	6
Credit	—	—

Key points

- Statistically NWM Group would expect to see back-testing exceptions 1 per cent of the time over the 250-day period.
- The exceptions in the Rates business were mainly driven by market moves in sterling and euro rates.
- The exceptions in the Currencies business were mainly driven by volatility in the foreign exchange market, including movements in the euro/sterling and sterling/US dollar exchange rates.

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 per cent 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 per cent. NWM Group's internal traded SVaR model captures all trading book positions.

The table below analyses 10-day 99 per cent internal SVaR for the trading portfolios of NWM Plc and NWMSI.

	Period end 2019	Period end 2018
	£m	**£m**
NWM Plc	89	144
NWMSI	19	32

Key points

- In NWM Plc, period-end traded SVaR decreased compared to 2018, driven by a reduction of SVaR tail risk due to hedging undertaken to address market volatility.
- In NWMSI, the risk profile remained stable throughout the year, with the period-end decrease having no material impact on NWM Group as a whole.
- In NWM NV, traded SVaR at period-end was £5.8 million.

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.

Stress Testing

For information on stress testing, refer to '—*Risk Management Framework*' above.

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.

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 is managed separately. For definitions and qualitative and quantitative information on each of them, see the separate subsections below.

Key Developments in 2019

- Non-traded market risk is managed separately on both sides of the ring-fence. It continues to be aggregated and monitored against risk appetite at RBS Group level.
- Following ring-fencing implementation, NWM Plc defined its independent risk appetite, governance and control framework in the second line of defence.
- On 16 June 2019, NWM Plc acquired RBS Group's 4.1 per cent economic interest in the newly merged SABB from NWM NV The non-traded foreign exchange and equity risks arising from this shareholding – with a total VaR of £34 million as at 31 December 2019 – are monitored separately from non-traded market risk appetite reporting. The funding risk arising from the SABB shareholding is captured as structural interest rate exposure.
- By 31 December 2019, NWM Plc had disposed of 98 per cent of the complex lender-option / borrower-option (LOBO) loans it had inherited as a result of ring-fencing.
- NWM Plc maintains a foreign exchange hedging programme to mitigate the downside risk to its solo CET1 capital ratio from movements in foreign exchange rates. In addition, during 2019, it increased the capitalisation of its US branch, which has reduced the branch's debt funding and NWM Plc's regulatory exposure to fluctuations in the US dollar exchange rate against sterling.
- NWM Plc maintains a structural hedge of non and low interest- bearing liabilities, principally equity. At 31 December 2019, the notional amount of the structural hedge in place was £5.6 billion.

Risk 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 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).

Market risk policy statements set out the governance and risk management framework.

Risk Appetite

NWM Group's qualitative appetite is set out in the non-traded market risk appetite statement. Quantitative appetite is expressed in terms of exposure limits. The limits at NWM Group level comprise VaR, SVaR, sensitivities, earnings-at-risk, economic-value-of-equity and a stress limit based on the foreign exchange sensitivity of NWM Plc's CET1 ratio.

To ensure 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 business, the Market Risk function and Finance and implemented. Limits are reviewed regularly to reflect changes in risk appetite, business plans, portfolio composition and the external environment. For further information on risk appetite, refer to '*—Risk Management Framework*' above.

Risk Controls

For information on risk controls, refer to *—Risk Management Framework*' above.

Non-traded Internal VaR (one-day 99 per cent)

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 per cent confidence level, split by exposure type. For NWM NV, refer to the appropriate key point below the table. The table excludes the risks arising from the SABB shareholding, which are monitored separately.

	2019(1)				2018(2)
	Average	**Maximum**	**Minimum**	**Period end**	**Period end**
NWM Plc	**£m**	**£m**	**£m**	**£m**	**£m**
Interest rate	3.5	7.3	1.4	3.7	3.1
Credit spread	5.1	8.3	3.1	3.6	7.7
Foreign exchange rate	17.2	26.9	8.2	8.7	22.7
Equity risk	1.2	3.1	0.9	1.0	4.0
Diversification(3)	(6.6)			(3.5)	(13.6)
Total	20.4	32.2	10.2	13.5	23.9

Notes:

(1) Following approval by the NWM Board Risk Committee in September 2019, the basis of preparation for non-traded VaR was changed from a NWM Group consolidated basis to a solo legal entity basis. This approach aligns the calculation of reported VaR more closely with that of RBS Group. Non-traded VaR figures for the whole of 2019 are presented on the solo basis of preparation.

(2) 2018 year-end figures are presented on NWM Plc solo basis of preparation.

(3) Entities within NWM Group benefit 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, the decrease in period-end non-traded VaR mainly reflected a reduction in the sensitivity of the CET1 ratio to movements in foreign exchange rates. Increased structural foreign exchange exposure reduced NWM Plc's regulatory exposure to fluctuations in exchange rates against sterling. The VaR decrease was also driven by the disposals of the complex LOBO loans.

- In NWM NV, period-end non-traded VaR was £0.4 million.

Interest Rate Risk

Non-traded interest rate risk (NTIRR) arises from non-match-funded positions, capital hedges and portfolios held for liquidity purposes. When aggregated, these products form portfolios of assets and liabilities with varying degrees of sensitivity to changes in market interest rates.

Mismatches can give rise to volatility in net interest income as interest rates vary. NTIRR comprises three primary risk types: gap risk, basis risk and option risk.

NTIRR factors are grouped into the following categories:

- 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 fair-value accounted.

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. Additionally, other high-quality bond portfolios are held for collateral purposes and to support payment systems. 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

Apart from the risk arising from the SABB shareholding (which is covered under Key developments during 2019), 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 RBS Group policy.

Foreign Exchange Exposures

The table below shows structural foreign currency exposures. It excludes the risk arising from the SABB shareholding, which is monitored and reported separately.

	Net investments in foreign operations	Net investment hedges	Structural foreign currency exposures	Economic hedges	Residual structural foreign currency exposures(1)
2019	**£m**	**£m**	**£m**	**£m**	**£m**
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
2018					
US dollar	403	—	403	(403)	—
Euro	21	—	21	—	21
Swiss franc	472	(438)	34	—	34
Other non-sterling	597	(273)	324	—	324
	1,493	(711)	782	(403)	379

Notes:

(1) The foreign exchange exposures table has been prepared from a NWM Group consolidated basis perspective.

(2) The residual structural FX exposure represented the sum of the NAV of NWM Plc branches, together with any offsetting hedges against the local currency NAV valuations.

(3) Other non-sterling mainly relates to branches that are expected to be exited over time.

Key points

- NWM Plc increased the capitalisation of its US branch. This has reduced the branch's debt funding and NWM Plc's regulatory exposure to fluctuations in the US dollar exchange rate against sterling.
- In November 2019, NWM Plc acquired NWM NV from RFS Holdings B.V., which increased NWM Group's residual structural foreign currency exposure to euros.

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 2019

- Credit risk RWAs for NWM Plc increased to £9.8 billion (2018 - £9.2 billion), primarily due to the transfer of the SABB shareholding from NWM NV.
- IFRS 9 Stage 2 and Stage 3 assets decreased £0.7 billion during 2019, primarily due to the exit of a legacy defaulted exposure.

Risk Governance

NWM Group operates an independent Credit Risk function, which 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 policy to ensure controls are in place to effectively mitigate risk.
- 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.

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

Risk Appetite

NWM Group's approach to lending is governed by a comprehensive credit risk appetite framework which is operated across RBS Group. The framework is monitored and actions are taken to adapt lending criteria as appropriate. Credit risk appetite aligns to the strategic risk appetite set by the NWM Group Board. The framework has been designed to reflect factors that influence the ability to operate within risk appetite. Tools such as stress testing and economic capital are used to measure credit risk volatility and develop links between the framework and risk appetite limits. The framework is supported by a suite of transaction acceptance standards that set out the risk parameters within which businesses should operate.

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

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

Risk Controls

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

Risk Identification and Measurement

Credit Stewardship

Risks are identified through relationship management and/or credit stewardship of portfolios or customers. Credit risk stewardship takes place throughout the customer relationship, beginning with the initial approval. It includes the application of credit assessment standards, credit risk mitigation and collateral, ensuring that credit documentation is complete and appropriate, carrying out regular portfolio or customer reviews and problem debt identification and management.

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

Risk Models

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

Credit risk models are designed to provide:

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

Asset Quality

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

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.

Risk Mitigation

Risk mitigation techniques, as set out in the appropriate credit policies, 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.

Risk Assessment and Monitoring

Customers – including corporates, banks and other financial institutions – are grouped by industry sectors and geography as well as by product/asset class and are managed on an individual basis. Customers are aggregated as a single risk when sufficiently interconnected.

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

For lower-risk transactions below specific thresholds, credit decisions can be approved through self-sanctioning by the business, within the approved matrix limits. 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.

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

Credit grades (PD and LGD) are reviewed 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 segment and sector has defined early warning indicators to identify customers experiencing financial difficulty, and to increase monitoring if needed. Early warning indicators may be internal, such as a customer’s bank account trade/transaction activity, or external, such as a publicly-listed customer’s share price. If early warning indicators show a customer is experiencing potential or actual difficulty, or if relationship managers or credit officers identify other signs of financial difficulty, they may decide to classify the customer within the Risk of Credit Loss framework.

Risk of Credit Loss Framework

The Risk of Credit loss framework is used where the credit profile of a customer has deteriorated. 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

Problem debt portfolio customer 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.

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.

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

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

- Model build:
  - The determination of economic indicators that have most influence on credit loss for each portfolio and the severity of impact (this leverages existing stress testing mechanisms).
  - The build of term structures to extend the determination of the risk of loss beyond 12 months that will influence the impact of lifetime loss for assets in Stage 2.
- Model application:
  - The assessment of the significant increase in credit risk and the formation of a framework capable of consistent application.
  - The determination of asset lifetimes that reflect behavioural characteristics while also representing management actions and processes (using historical data and experience).
  - The determination of a base case (or central) economic scenario which has the most material impact (of all forward- looking scenarios) on the measurement of loss (NWM Group uses consensus forecasts to remove management bias).

Refer to Accounting policy 11 in the 2019 Financial Statements for further details.

Economic Loss Drivers

Introduction

The most material economic loss drivers for the UK portfolios include UK GDP, world GDP, the UK unemployment rate, the UK house price index, and the UK base rate. Similar metrics are used for other key country exposures in NWM Group.

Central Base Case Economic Scenario

The internal base case scenario is the primary forward-looking economic information driving the calculation of ECL. The same base case scenario is used for financial planning by NWM Group with the exception of the yield curve, as a result of the different timing of the exercises. The key elements of the current economic base case, which includes forecasts over a five-year forecast horizon, are summarised as follows.

The central base case economic scenario projects modest growth in the UK economy, in line with the consensus outlook. Brexit-related uncertainty results in subdued confidence in the near term, placing it in the lower quartile of advanced economies. Business investment is weak at the start of the forecast, improving only gradually. Consumer spending rises steadily as households benefit from falling inflation and rising wage growth, though it is a modest upturn. The central scenario assumes slower job growth than seen in recent years, meaning unemployment edges up from its current historic lows. House price growth slows, extending the current slowdown, before picking up to low single-digit growth in later years. Monetary policy follows the market implied path for BoE base rate at the time the scenarios were set, therefore it is assumed there are two base rate cuts over the next five years, whereas the yield curve used for financial planning assumes one base rate cut.

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

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

Approach for Multiple Economic Scenarios (MES)

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

Key Economic Loss Drivers

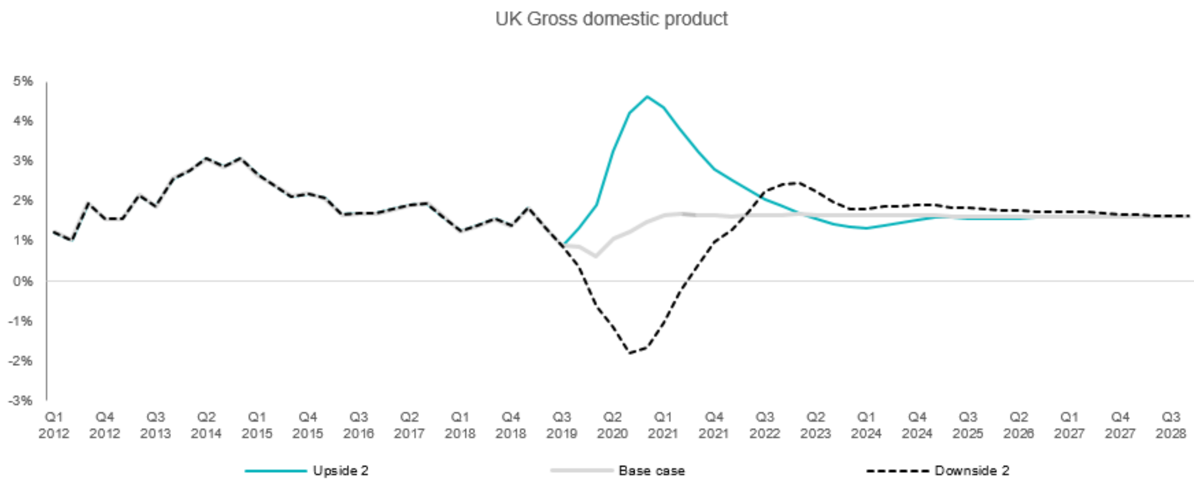
The tables and commentary below provide an update on the base case economics used at 31 December 2019. The average over the five year horizon (2020 to 2024) for the central base case used for ECL modelling is set out below. It is compared with the five year average (2019 to 2023) of the 2018 scenarios. The graph shows the quarterly GDP year-on-year growth rates. Subsequently, the annual figures for key variables across the UK are shown. The tables, commentary and graph below also summarise the upside 2 and downside 2 scenarios, used for ECL sensitivity analysis. Finally, the extreme points table show the best and worst readings for three key variables in the upside 2 and downside 2 scenarios, highlighting the most challenging points in the downside scenario and the strongest points in the upside scenario.

The 2019 base case GDP growth and interest rate assumptions are pessimistic compared to 2018 as consensus outlook and market implied interest rate projections worsened over the year. Unemployment rate projections are less extreme in the 2019 downside scenarios as RBS Group aimed to align the Downside 2 scenario with Office for Budget Responsibility's analysis of a hard Brexit scenario.

	2019			2018		
	Upside 2	**Base case**	**Downside 2**	**Upside 2**	**Base case**	**Downside 2**
	%	**%**	**%**	**%**	**%**	**%**
UK						
GDP – change	2.4	1.6	0.9	2.6	1.7	1.1
Unemployment	3.6	4.4	5.2	3.3	5.0	6.9
House Price Inflation – change	4.1	1.6	(1.0)	4.3	1.7	(0.5)
BoE base rate	1.0	0.3	—	1.7	1.1	—
World GDP – change	3.8	2.8	2.1	3.6	2.7	2.3
Probability weight	12.7	30.0	12.7	12.8	30.0	14.6

Economic Loss Drivers (audited)

Key economic loss drivers



UK GDP – annual growth

	Upside 2	Base case	Downside 2
	%	%	%
2019	1.3	1.2	1.1
2020	3.5	1.1	(1.3)
2021	3.6	1.7	—
2022	2.2	1.7	1.9
2023	1.5	1.7	2.1
2024	1.4	1.6	1.9

UK unemployment rate

	Upside 2	Base case	Downside 2
	%	%	%
Q4 2019	4.0	4.1	4.1
Q4 2020	3.7	4.4	5.1
Q4 2021	3.5	4.4	5.5
Q4 2022	3.5	4.4	5.4
Q4 2023	3.6	4.4	5.3
Q4 2024	3.8	4.4	5.1

UK House Price Inflation – annual growth

	Upside 2	Base case	Downside 2
	%	%	%
2019	1.7	1.5	1.4
2020	5.7	1.0	(3.6)
2021	8.2	0.9	(7.7)
2022	4.2	1.5	(1.9)
2023	1.7	2.0	3.0
2024	0.9	2.6	5.2

Extreme Points

	Best Points		Worst Points	
	H2 2019 Upside 2	H2 2018 Upside 2	H2 2019 Downside 2	H2 2018 Downsider 2
	%	%	%	%
UK				
GDP (year-on-year)	4.6	5.0	(1.8)	(1.9)
Unemployment	3.5	2.8	5.5	7.4
House Price Inflation (year-on-year)	8.9	9.1	(8.4)	(7.3)

Economic Loss Drivers

UK Economic Uncertainty

NWM Group’s approach is designed to capture the historic variability and distribution of economic risks. NWM Group’s approach to capturing these incremental or skewed forward-looking risks is to apply an overlay to ECL of £4 million (2018 – £3 million). To calculate the value of this overlay, information was used from prevailing downside sensitivity scenario analyses. The underlying economics were broadly aligned to published International Monetary Fund and Office for Budget Responsibility hard Brexit scenarios and management judgement was applied on the likelihood of this alternative path for the economy emerging. The value of the overlay was increased once during the year, in the third quarter, when management judged uncertainty to be more pronounced. The value of the overlay was subsequently reviewed in the fourth quarter, when management concluded that it was appropriate to leave it unchanged reflecting the ongoing elevated economic uncertainty.

Credit Risk Modelling

ECLs are calculated using a combination of:

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

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

IFRS 9 ECL Model Design Principles

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

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

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

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

PD Estimates

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

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

LGD Estimates

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

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

EAD Estimates

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

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

Governance and Post Model Adjustments

The IFRS 9 PD, EAD and LGD models are subject to RBS Group’s model risk policy that stipulates periodic model monitoring, periodic re-validation and defines approval procedures and authorities according to model materiality. Post model adjustments (PMAs) are applied where necessary to incorporate the most recent data available and are made on a temporary basis ahead of the underlying model parameter changes being implemented. The PMAs held on a temporary basis ahead of the underlying model parameter changes being implemented were £0.3 million.

These adjustments were over and above those detailed in the UK economic uncertainty section and are also subject to oversight and governance by the Provisions Committee.

Significant Increase in Credit Risk

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

Significant Increase in Credit Risk

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 significant increase in credit risk. However, for Wholesale, the PD uplift must be at least 0.1 per cent.

- Qualitative high-risk backstops – the PD assessment is complemented with the use of qualitative high-risk backstops to further inform whether significant deterioration in lifetime risk of default has occurred. The qualitative high-risk backstop assessment includes the use of the mandatory 30+ days past due backstop, as prescribed by IFRS 9 guidance, and other features such as forbearance support and exposures managed within the Risk of Credit Loss framework.

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

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

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 significant increase in credit risk.

For asset duration, the approach applied is:

- *Term lending* – the contractual maturity date, reduced for behavioural trends where appropriate (such as, expected pre-payment and amortisation).
- *Revolving facilities* – asset duration is based on annual counterparty review schedules and will be set to the next review date.

Measurement Uncertainty and ECL Sensitivity Analysis

The recognition and measurement of ECL is complex and involves the use of significant judgement and estimation. This includes the formulation and incorporation of multiple forward-looking economic conditions into ECL to meet the measurement objective of IFRS 9.

The ECL provision is sensitive to the model inputs and economic assumptions underlying the estimate. Set out below is the impact of some of the material sensitivities considered for 2019 year-end reporting. These ECL simulations are separate to the impact arising from MES and UK economic uncertainty as described earlier in this disclosure, which impacts are embedded in the reported ECL.

The primary 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 the year end balance sheet date. As default is an observed event as at the balance sheet date, Stage 3 provisions are not subject to the same level of measurement uncertainty, and therefore have not been considered in this analysis.

- *Economic uncertainty* – simulating the impact arising from the Downside 2 and Upside 2 scenarios, which are two of the five discrete scenarios used in the discrete MES methodology for RBS Group. In the simulation, RBS have assumed that the economic macro variables associated with these scenarios replace the existing base case economic assumptions, giving them a 100 per cent probability weighting and thus serving as a single economic scenario.

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, e.g. potential customer behaviour changes, policy changes by lenders that might impact on the wider availability of credit.

These broader economic scenarios were complemented with a further specific portfolio simulation:

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

NWM Group’s core criterion to identify a significant increase in credit risk is founded on PD deterioration, as discussed above. Under the simulations, PDs increase and result in exposures moving from Stage 1 to Stage 2, contributing to the ECL impact.

	Actual position at 31 December 2019			Common scenarios (2, 3)								
	Stage 1 and Stage 2 (1)			Downside 2			Upside 2			Discrete scenarios (2, 3)		
	Exposure	Of which in Stage 2	ECL provision (2)	Potential ECL impact	Stage 2	Exposure Potential ECL impact	Stage 2	ECL impact	Exposure in Stage 2	TTC PD potential ECL impact		Exposure in Stage 2
	£bn	%	£m	£m	%	%	£m	%	%	£m	%	%
Wholesale	33.6	0.6%	14.3	3.1	21.7%	0.7%	(2.4)	(17.1%)	0.4%	4.6	32.0%	1.2%

Notes:

(1) Reflects drawn exposure and ECL for all modelled exposure in scope for IFRS 9; in addition to loans this includes bonds, and cash.

(2) The ECL provision includes the ECL overlay taken to recognise elevated Brexit related economic uncertainty.

(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 at the year end balance sheet date.

(4) Refer to ‘—Credit Risk—Economic Loss Drivers’ above for details of base case economic scenarios.

(5) 2018 comparative details are not included as the sensitivity scenario analysis relates to the 2019 balance sheet position. Refer to the 2018 Annual Report and Accounts for the sensitivity analysis carried out at that time.

Key points

- In the Downside 2 scenario, the ECL requirement overall was simulated to increase by £3 million on Stage 1 and 2 exposures from the current level of £14 million. The simulation estimates the balance sheet ECL requirement as at 31 December 2019 and assumes that the economic variables associated with the Downside 2 scenario had been RBS Group’s base case economic assumption at that time.

- The Upside 2 scenario indicates a slightly lower release to ECL compared to the Downside 2 uplift. This is intuitive given the shape of the Upside 2 economics and non-linearity of losses to the downside.

- The TTC scenario has the most significant impact on ECL, highlighting that reverting to long run average PDs and LGDs is more severe than a switch to the Downside 2 scenario. The TTC scenario shows a higher ECL impact compared to the Downside 2 scenario given the relative severity of the TTC view. Furthermore, the TTC scenario assumes the higher PDs remain heightened at TTC levels over the simulation period, thus driving higher losses across the latter years of the scenario period compared to Downside 2.

Credit Risk – Trading Activities

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

Security Financing Transactions and Collateral

The table below shows security funding transactions in NWM Group.

	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
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
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
2018						
Gross	56,143	53,157	2,986	57,445	56,288	1,157
IFRS offset	(31,376)	(31,376)	—	(31,376)	(31,376)	—
Carrying value	24,767	21,781	2,986	26,069	24,912	1,157
Master netting arrangements	(762)	(762)	—	(762)	(762)	—
Securities collateral	(21,009)	(21,009)	—	(24,150)	(24,150)	—
Potential for offset not recognised under IFRS	(21,771)	(21,771)	—	(24,912)	(24,912)	—
Net	2,996	10	2,986	1,157	—	1,157

Key points

- Reverse repos decreased slightly compared to 2018 on a gross basis, although carrying value was broadly unchanged. Gross repo exposure was 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 2019.

- 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 S&P's, Moody's and Fitch.

	Central and local government			Financial		
	UK	US	Other	institutions	Corporate	Total
	£m	£m	£m	£m	£m	£m
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

	Central and local government			Financial		
	UK	US	Other	institutions	Corporate	Total
	£m	£m	£m	£m	£m	£m
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)

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.

	2019							2018		
	Notional									
	GBP	USD	Euro	Other	Total	Assets	Liabilities	Notional	Assets	Liabilities
	£bn	£bn	£bn	£bn	£bn	£m	£m	£bn	£m	£m
Gross exposure						151,557	147,104		135,133	131,173
IFRS offset						(3,876)	(4,011)		(2,072)	(2,438)
Carrying value	3,061	5,006	4,674	1,993	14,734	147,681	143,093	13,686	133,061	128,735
Of which:										
Interest rate (1)										
Interest rate swaps						87,324	82,445		81,622	73,933
Options purchased						15,299	—		14,478	—
Options written						—	13,198		—	16,370
Futures and forwards						11	10		73	68
Total	2,662	3,269	4,085	956	10,972	102,634	95,653	10,247	96,173	90,371
Exchange rate										
Spot, forwards and futures						30,336	30,714		17,897	18,605
Currency swaps						8,782	10,202		11,283	11,978
Options purchased						5,649	—		7,319	—
Options written						—	6,117		—	7,558
Total	398	1,728	579	1,037	3,742	44,767	47,033	3,422	36,499	38,141
Credit	1	6	10	—	17	280	359	16	346	208
Equity and commodity	—	3	—	—	3	—	48	1	43	15
Carrying value					14,734	147,681	143,093	13,686	133,061	128,735
Counterparty mark-to-market netting						(120,420)	(120,420)		(106,762)	(106,762)
Cash collateral						(18,682)	(17,187)		(17,930)	(15,224)
Securities collateral						(4,292)	(1,276)		(4,469)	(3,466)
Net exposure						4,287	4,210		3,900	3,283
Of which outside netting arrangements						2,048	4,145		1,933	1,599
Net exposure – intercompany						659	693		1,189	1,179
Banks (2)						607	821		359	431
Other financial institutions (3)						1,033	2,773		857	1,068
Corporate (4)						2,394	592		2,436	1,749
Government (5)						253	24		248	35
Net exposure						4,287	4,210		3,900	3,283
UK						2,004	1,783		1,867	1,246
Europe						1,374	1,868		1,117	1,366
US						428	331		588	298
RoW						481	228		328	373
Net exposure						4,287	4,210		3,900	3,283
Asset quality of uncollateralised derivative assets										
AQ1-AQ4						3,311			3,133	
AQ5-AQ8						955			743	
AQ9-AQ10						21			24	
Net exposure						4,287			3,900	

Notes:

(1) The notional amount of interest rate derivatives includes £6,788 billion (2018 – £5,679 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
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
2018								
Interest rate	1,642	5,679	2,926	10,247	—	96,173	—	90,371
Exchange rate	4	—	3,418	3,422	—	36,499	—	38,141
Credit	—	—	16	16	—	346	—	208
Equity and commodity	—	—	1	1	—	43	—	15
Total	1,646	5,679	6,361	13,686	—	133,061	—	128,735

Credit Risk – Net Credit Exposures for Banking and Trading Activities

Asset Quality

The table below shows the current and potential exposure by high-level asset class and asset quality. It represents total credit risk for assets held in the banking book in addition to counterparty credit risk for traded products. Refer to '*—Credit Risk—Banking Activities—Portfolio Summary—Sector Analysis*' above for a mapping of AQ band to probability of default range and indicative external credit rating.

	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
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

Key points

- Measured against NWM Group's asset quality scale, 92 per cent (2018 – 93 per cent) of total current exposure was rated in the AQ1-AQ4 bands. When considered against external credit ratings, 94 per cent, or £40.9 billion, of current exposure was equivalent to an investment grade rating of BBB- or better (2018 – 95 per cent, £37.5 billion).

- The increase in total exposures primarily reflects the acquisition of NWM NV as well as increases in derivative fair values, which were largely as a result of a fall in yields during 2019.

- Net non-investment grade exposure increases were concentrated within loans & other lending, collateralised and uncollateralised rates risk management.

- This was largely driven by increases in existing derivatives exposures as well as credit downgrades on certain collateralised positions during the year.

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 2019 Financial Statements for policies and critical judgements relating to impairment loss determination.

Presentation of Interest in Suspense Recoveries

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

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

Refer to Accounting policy 1, Other amendments to IFRS, in the 2019 Financial Statements for further details.

Financial Instruments Within the Scope of the IFRS 9 ECL Framework

Refer to Note 11 on the accounts for balance sheet analysis of financial assets that are classified as amortised cost (AC) or fair value through other comprehensive income (FVOCI), the starting point for IFRS 9 ECL framework assessment.

Financial Assets

	2019	2018*
	£bn	£bn
Balance sheet total gross AC/FVOCI	38.6	33.1
In scope of IFRS 9 ECL framework	33.5	30.1
% in scope	87%	91%
Loans – in scope	9.6	9.1
Stage 1	9.2	8.0
Stage 2	0.2	0.4
Stage 3	0.2	0.7
Other financial assets – in scope	23.9	21.0

	2019	2018*
	£bn	£bn
Stage 1	23.9	21.0
Out of scope of IFRS 9 ECL framework	5.1	3.0

* 2018 data has been restated for a change to presentation of unrecognised interest. Refer to Accounting policy 1, Other amendments to IFRS, in the 2019 Financial Statements for further details.

Those 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 £4.3 billion (2018 – £2.7 billion). These were assessed as having no ECL unless there was evidence that they were credit-impaired.

- Equity shares of £0.7 billion as not within the IFRS 9 ECL framework by definition (2018 – £0.3 billion).

- Fair value adjustments on loans hedged by interest rate swaps, where the underlying loan was within the IFRS 9 ECL scope – £0.1 billion (2018 – £nil).

In scope assets also include an additional £0.7 billion of inter-Group assets (2018 – £2.6 billion) not shown in table above.

Contingent Liabilities and Commitments

In addition to contingent liabilities and commitments disclosed in Note 28 on the accounts – reputationally-committed limits are also included in the scope of the IFRS 9 ECL framework. These are offset by £0.6 billion (2018 – £0.5 billion) out-of-scope balances, primarily related to facilities that, if drawn, would not be classified as AC or FVOCI, or undrawn limits relating to financial assets exclusions. Total contingent liabilities (including financial guarantees) and commitments within IFRS 9 ECL scope of £17.2 billion (2018 – £18.4 billion) comprised Stage 1; £17.1 billion (2018 – £18.1 billion); Stage 2 £0.1 billion (2018 – £0.2 billion) and Stage 3 £nil (2018 – £0.1 billion).

Portfolio Summary

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

	Total
	£m
2019	
Loans – amortised cost	
Stage 1	9,260
Stage 2	180
Stage 3	169
Of which: individual	158
Of which: collective	11
Inter-Group (1)	738
Total	10,347
ECL provisions (2)	
Stage 1	10
Stage 2	4
Stage 3	132
Of which: individual	123
Of which: collective	9
Total	146
ECL provisions coverage (3,4)	
Stage 1 (%)	0.11
Stage 2 (%)	2.22
Stage 3 (%)	78.11

	Total
	£m
Total	1.52
Impairment losses	
ECL charge (5)	
Stage 1	—
Stage 2	(7)
Stage 3	(41)
Of which: individual	(35)
Of which: collective	(6)
Third party	(48)
Total	(48)
ECL loss rate – annualised (basis points) (4)	(49.95)
Amounts written off	15
Of which: individual	15

For the notes to this table refer to the table under '—*Key Point*' below.

Key point

- Compared to 2018, there was a material reduction in Stage 2 and Stage 3 gross loans due to the resolution of several large legacy cases, which also contributed to the overall ECL net release of £48 million for 2019.

Portfolio Summary

	NatWest Markets	Central items & other	Total
	£m	£m	£m
2018*			
Loans – amortised cost			
Stage 1	7,864	224	8,088
Stage 2	343	22	365
Stage 3	695	—	695
Of which: individual	680	—	680
Of which: collective	15	—	15
Inter-Group (1)	2,634	—	2,634
Total	11,536	246	11,782
ECL provisions (2)			
Stage 1	6	—	6
Stage 2	11	—	11
Stage 3	90	1	91
Of which: individual	84	—	84
Of which: collective	6	1	7
Total	107	1	108
ECL provisions coverage (3, 4)			
Stage 1 (%)	0.08	—	0.07
Stage 2 (%)	3.21	—	3.01
Stage 3 (%)	12.95	—	13.09
Total	1.20	0.41	1.18
Impairment losses			
ECL charge (5)			
Stage 1	(24)	(19)	(43)
Stage 2	—	(14)	(14)
Stage 3	(69)	19	(50)
Of which: individual	(45)	—	(45)
Of which: collective	(24)	19	(5)
Third party	(93)	(14)	(107)
Inter-Group	5	—	5

	NatWest Markets	Central items & other	Total
Total	(88)	(14)	(102)
ECL loss rate – annualised (basis points) (4)	(104.47)	(569.11)	(116.97)
Amounts written off	69	—	69
Of which: individual	63	—	63
Of which: collective	6	—	6

*2018 data has been restated for a change to presentation of unrecognised interest. Refer to Accounting policy 1, Other amendments to IFRS, in the 2019 Financial Statements for further details.

Notes:

(1) NWM Group's intercompany assets were classified in Stage 1. The ECL attached to these loans was £0.3 million at 31 December 2019.

(2) Includes £1 million (2018 – £2 million) related to assets classified as FVOCI.

(3) ECL provisions coverage is calculated as ECL provisions divided by loans – amortised cost.

(4) ECL provisions coverage and ECL loss rates are calculated on third party loans and related ECL provisions and charge respectively.

(5) Includes a nil charge (2018 – £3 million charge) related to other financial assets, of which a £2 million release (2018 – £1 million charge) related to assets classified as FVOCI, offset by other charges; and a nil charge (2018 – £3 million release) related to contingent liabilities.

(6) The table above shows gross loans only and excludes amounts that are outside the scope of the ECL framework. Refer to '—*Credit Risk—Banking Activities—Financial instruments within the scope of the IFRS 9 ECL framework*' 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 £12.7 billion and debt securities of £11.1 billion (2018 – £11.2 billion and £9.8 billion respectively).

(7) Following the implementation of ring-fencing requirements there is no longer any exposure in NWM Plc which sits outside of the NatWest Markets franchise.

Portfolio Summary – Sector Analysis

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

	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

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

For the notes to this table refer to the table below.

Portfolio Summary – Sector Analysis

	Property	Corporate	FI	Sovereign	Total
	£m	£m	£m	£m	£m
2018*					
Loans by geography	666	1,852	6,570	60	9,148
- UK	41	1,424	3,238	50	4,753
- Other Europe	609	96	1,408	8	2,121
- RoW	16	332	1,924	2	2,274
Loans by stage	666	1,852	6,570	60	9,148
- Stage 1	84	1,628	6,318	58	8,088
- Stage 2	—	120	245	—	365
- Stage 3	582	104	7	2	695
of which: individual	574	100	6	—	680
of which: collective	8	4	1	2	15
Weighted average life **					
- ECL measurement (years)	4	4	9	5	5
Weighted average 12 months PDs **					
- IFRS 9 (%)	0.17	0.71	0.13	0.03	0.20
- Basel (%)	0.23	0.66	0.15	0.02	0.18
ECL provisions by geography	15	74	19	—	108

	Property	Corporate	FI	Sovereign	Total
- UK	8	2	10	—	20
- Other Europe	2	42	7	—	51
- RoW	5	30	2	—	37
ECL provisions by stage	15	74	19	—	108
- Stage 1	—	—	6	—	6
- Stage 2	—	3	8	—	11
- Stage 3	15	71	5	—	91
of which: individual	11	70	3	—	84
of which: collective	4	1	2	—	7
ECL provisions coverage (%)	2.25	4.00	0.29	—	1.18
- Stage 1 (%)	—	—	0.09	—	0.07
- Stage 2 (%)	—	2.50	3.27	—	3.01
- Stage 3 (%)	2.58	68.27	71.43	—	13.09
ECL charge – Third party	(74)	(40)	6	1	(107)
ECL loss rate (%)	(11.11)	(2.16)	0.09	1.67	(1.17)
Amounts written-off	10	53	6	—	69
Other financial assets by asset quality (1)	105	64	2,721	18,099	20,989
- AQ1-AQ4	105	—	2,547	18,099	20,751
- AQ5-AQ8	—	64	167	—	231
- AQ9	—	—	4	—	4
- AQ10	—	—	3	—	3
Off-balance sheet (2)	385	2,209	12,618	3,226	18,438
- Loan commitments	338	2,032	12,376	3,226	17,972
- Financial guarantees	47	177	242	—	466
Off-balance sheet by asset quality (1,2)	385	2,209	12,618	3,226	18,438
- AQ1-AQ4	315	1,749	12,346	3,226	17,636
- AQ5-AQ8	36	440	272	—	748
- AQ9	1	—	—	—	1
- AQ10	33	20	—	—	53

* 2018 data has been restated for a change to presentation of unrecognised interest. Refer to Accounting policy 1, Other amendments to IFRS, in the 2019 Financial Statements for further details.

** Not within audit scope

Notes:

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

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

(2) Off balance sheet exposures are managed in line with regulatory requirements. Therefore, any change in regulatory treatment is considered a business change. The decrease of £1.2 billion during the year primarily relates to revision of the treatments of nostros in line with the CRR requirements.

Key point

- *Asset quality* – Measured against NWM Group's asset quality scale, 97 per cent (2018 – 96 per cent) of total banking book exposure was rated in the AQ1-AQ4 bands. This equated to an indicative investment grade rating of BBB- or better.

Portfolio Summary – Sector Analysis

Forbearance

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

	Financial institution	Property	Sovereign	Other corporate	Total
	£m	£m	£m	£m	£m
2019					
Forbearance (flow)	—	10	—	46	56
Forbearance (stock)	—	11	—	46	57
Heightened Monitoring and Risk of Credit Loss	—	10	—	28	38
2018					
Forbearance (flow)	—	2	—	1	3
Forbearance (stock)	—	3	—	21	24
Heightened Monitoring and Risk of Credit Loss	90	1	16	197	304

CREM

The table below shows exposures of modelled portfolios within the scope of the ECL framework and related 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
2019	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
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	—
2018*											
Financial assets											
Cash and balances at central banks	11.2	—	11.2	—	—	—	—	—	—	11.2	—
Loans – amortised cost (3)	9.1	0.1	9.0	0.6	—	0.6	0.4	1.0	0.6	8.0	—
Debt securities	9.8	—	9.8	—	—	—	—	—	—	9.8	—
Total financial assets	30.1	0.1	30.0	0.6	—	0.6	0.4	1.0	0.6	29.0	—
Contingent liabilities and commitments	18.4	—	18.4	—	0.1	—	0.3	0.4	—	18.0	—
Total off-balance sheet	18.4	—	18.4	—	0.1	—	0.3	0.4	—	18.0	—
Total exposure	48.5	0.1	48.4	0.6	0.1	0.6	0.7	1.4	0.6	47.0	—

* 2018 data has been restated for a change to presentation of unrecognised interest. Refer to Accounting policy 1, Other amendments to IFRS, in the 2019 Financial Statements for further details.

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. RBS 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 because they relate to balances at central banks. Other points to note:

- Financial assets include treasury liquidity portfolios, comprising balances at central banks and debt securities, as well as loans. Both modelled and non-modelled portfolios are included.

- Stage transfers (for example, exposures moving from Stage 1 to Stage 2) are a key feature of the ECL movements, with the net re-measurement cost of transitioning to a worse stage being a primary driver of income statement charges. Similarly there is an ECL benefit for accounts improving stage.

- Changes in risk parameters shows the reassessment of the ECL within a given stage, including any ECL overlays and residual income statement gains or losses at the point of write-off or accounting write-down.

- 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 2019	32,499	6	670	11	671	91	33,840	108
Currency translation and other adjustments	(1,204)	1	(9)	—	(17)	(4)	(1,230)	(3)
Inter-Group transfers	(1,139)	(1)	8	—	20	—	(1,111)	(1)
Transfers from Stage 1 to Stage 2	(235)	—	235	—	—	—	—	—
Transfers from Stage 2 to Stage 1	458	2	(458)	(2)	—	—	—	—
Acquisition of RBSH.	4,781	2	105	2	68	62	4,954	66
Net re-measurement of ECL on stage transfer		(1)		1		—		—
Changes in risk parameters (model inputs)		(3)		1		(2)		(4)
Other changes in net exposure	(2,283)	4	(363)	(9)	(543)	—	(3,189)	(5)
Other (P&L only items)	—	—	—	—	—	(39)	—	(39)
Income statement releases		—		(7)		(41)		(48)
Amounts written-off	—	—	—	—	(15)	(15)	(15)	(15)
At 31 December 2019	32,877	10	188	4	184	132	33,249	146
Net carrying amount	32,867		184		52		33,103	
At 1 January 2018	8,786	2	798	38	352	123	9,936	163
2018 movements	23,713	4	(128)	(27)	319	(32)	23,904	(55)
At 31 December 2018*	32,499	6	670	11	671	91	33,840	108
Net carrying amount	32,493		659		580		33,732	

* 2018 data has been restated for a change to presentation of unrecognised interest. Refer to Accounting policy 1, Other amendments to IFRS, in the 2019 Financial Statements for further details.

2018 movements included transfers from Stage 1 to Stage 2 of £385 million (ECL – £0.3 million), transfers from Stage 2 to Stage 1 of £314 million (ECL – £28 million), transfers into Stage 3 of £2 million (ECL – nil) and transfers from Stage 3 of £35 million (ECL – nil). NWM Group recognised an ECL release of £22 million as a result of these cumulative transfers. It also included amounts written-off of £69 million.

Key points

- Stage 3 financial assets included £4 million (2018 – £166 million) purchased or originated credit impaired (POCI) assets. No ECL impairment was held on these positions and a £35 million impairment recovery was recognised on these POCI assets during the year, included in other (P&L only items).

- The reduction in Stage 3 exposure was mainly driven by the resolution and closure of one significant asset.

- Changes to risk parameters and the reduction in Stage 2 exposure during the year reflected an improvement in underlying credit risk metrics.

- Continued exit from legacy assets resulted in a net release of ECL provision.

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 NWM 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 Royal Bank of Scotland Group Pension Fund with a combined £1.4 billion of assets and £1.0 billion of liabilities as at 31 December 2019 (2018 – £1.3 billion of assets and £0.9 billion of liabilities). Further detail on NWM Group's pension obligations, including sensitivities to the main risk factors, can be found in Note 5 on the accounts.

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 2019

- The triannual valuation of the AA Section and valuation of the new NWM Section as at 31 December 2018 was completed and agreed.

- The US defined benefit scheme closed and settled on 30 April 2019.

Risk Governance

The Pension Committee, chaired by the Chief Financial Officer, formulates the NWM Group view of pension risk. The Pension Committee is a key component of NWM Group's approach to managing pension risk and it reviews and monitors risk management, asset and liability strategy and financing issues on behalf of NWM Group. Together with RBS Group, it also considers investment strategy proposals from the Trustee.

For further information on Risk governance, refer to '*—Risk Management Framework*' above.

Risk Appetite

NWM Group maintains an independent view of the risk inherent in its pension funds, with an associated risk appetite and defined metrics against which risk is measured.

Risk Controls

A pension risk policy which sits within the NWM Group policy framework is also in place and is subject to associated framework controls.

Risk Monitoring and Measurement

NWM Group undertakes stress tests on its material defined benefit pension schemes each year. These tests are also used to satisfy the requests of regulatory bodies such as the BoE. The stress testing framework includes pension risk capital calculations for the purposes of the ICAAP 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 the overall RBS Group stress test results.

Risk Mitigation

Following risk mitigation measures taken by the Trustee in recent years, the AA and the NatWest Markets sections of the RBS 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 RBS 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. Accordingly, 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.

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, its subsidiaries or 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.

Key Developments in 2019

- Policies were rationalised and simplified to support wider understanding and compliance.
- Targeted training was rolled out across the lines of defence to support framework embedding.

- Planning for LIBOR transition continued including an extended SONIA pilot and further industry engagement.

- Preparations continued for a number of Brexit outcomes.

Risk 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 for compliance and conduct risks is set at board level. Risk appetite statements articulate the levels of risk that legal entities, businesses and functions work within when pursuing their strategic objectives and business plans.

Risk Controls

A range of controls is operated to ensure business delivers good customer outcomes and is conducted in accordance with legal and regulatory requirements. A suite of policies addressing compliance and conduct risks set appropriate standards across RBS Group. Examples of these include the Complaints Management Policy, Client Assets & Money Policy, and Product Lifecycle Policy as well as policies relating to customers in vulnerable situations, cross-border activities and market abuse. Continuous monitoring and targeted assurance is carried out as appropriate.

Risk Monitoring and Measurement

Compliance and conduct risks are measured and managed through continuous assessment and reporting to senior risk committees and at board level. The compliance and conduct risk framework facilitates the consistent monitoring and measurement of compliance with laws and regulations and the delivery of consistently good customer outcomes.

Risk Mitigation

Activity to mitigate the most-material compliance and conduct risks is carried out across RBS Group with specific areas of focus in the customer-facing businesses and subsidiaries such as NWM Group. Examples of mitigation include consideration of customer needs in business and product planning, targeted training, complaints management, as well as independent assurance activity. Internal policies help support a strong customer focus across RBS Group. Independent assessments of compliance with applicable regulations are also carried out at NWM Group level.

Financial Crime Risk

Definition

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

Sources of Risk

Financial crime risk may be presented if NWM 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 2019

- Enhanced risk assessment processes were implemented to enable improved identification and mitigation of financial crime risks.
- Progress was made on investment and planning for a new transaction monitoring system, aligned to NWM Group.
- A comprehensive review of financial crime controls across NWM Group's first and second lines of defence was completed.
- Financial crime policies were refreshed and updated to reflect changes to the regulatory environment and industry best practice.
- NWM Group financial crime risk appetite statements were revised.
- An enhanced governance structure was implemented for NWM Group's Financial Crime function.

Risk Governance

The Financial Crime Risk Committee (FCRC), which is chaired by the Head of Compliance & Financial Crime, is the NWM Group's principal financial crime risk management forum. The committee reviews and, where appropriate, escalates material financial crime risks and issues across the NWM Group to the NWM Executive Risk Committee and NWM Board Risk Committee. Additionally FCRC reports to the RBS Group Financial Crime Risk Executive Committee, which escalates material financial crime risks and issues to the RBS Group Executive Risk Committee and the RBS 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 comprehensive and proportionate to the nature, scale and complexity of its businesses. There is no tolerance to systematically or repeatedly breach relevant financial crime regulations and laws.

Risk Controls

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.

Risk 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.

Risk Mitigation

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

Climate-Related Financial Risk

Definition

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

Sources

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

Transition risks can arise from the process of adjustment towards a low-carbon economy. Changes in policy, technology and sentiment could prompt reassessment of customers' financial risk and may lead to falls in the value of a large range of assets. NWM Group could be exposed to transition risks directly through the costs of adaptation within economic sectors and markets, while potential indirect effects include the erosion of competitiveness, profitability, or potential reputation damage.

Key Developments in 2019

- Climate-related financial risk was classified as a top risk.
- A strategy has been developed to embed the financial risks arising from climate change in the risk management framework.
- A multi-phase, multi-year plan has been developed at RBS Group level to build out capabilities across risk management, governance, scenario analysis and stress testing.

Risk Governance

The RBS Group Board is responsible for addressing and overseeing the financial risks from climate change within NWM Group's overall business strategy and risk appetite. The potential impact, likelihood and preparedness of climate-related financial risk on NWM Group is reported quarterly to NWM Group's senior risk committees.

The RBS Group Chief Risk Officer is accountable for ensuring the financial risks from climate change are captured in the risk management framework and for ensuring NWM Group can measure, monitor, manage and report those risks.

NWM Group is represented on the executive steering group of RBS Group's Climate Change Programme.

Risk Appetite

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

Risk Monitoring and Measurement

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

A process is underway to identify where climate risk requires the use of new key data elements, new risk metrics and enhancement of risk methodologies. The outputs of the BoE's 2021 biennial exploratory scenario will be used to further enhance RBS's capabilities for the measurement of climate-related risks.

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 an inability to deliver change adequately or on time, the non-availability of technology services, the loss of customer data, unauthorised trading as well as the external impact of cyber attacks and natural or man-made disasters.

Key Developments in 2019

- There were continued improvements in the operational risk profile for NWM with particular remediation progress in the year evident across Trade & Transaction Reporting, Financial Reporting and Data Management risk types.
- To minimise disruption to customers, a focus remained on maintaining operational resilience and ensuring preparedness for external threats and challenges such as Brexit, with the NWM NV subsidiary becoming fully operational.
- NatWest Markets benefits from the RBS Group's multi-layered approach to cyber security. The RBS Group invested in control enhancements to keep pace with the evolving threat landscape. This included new anti-malware controls and improved security testing to quickly detect and remediate vulnerabilities.
- NatWest Markets also focused on the development and implementation of the RBS Group Internal Service Management framework and policy, designed to support effective intra-group management of services between legal entities and enable Operational Continuity in Resolution (OCiR) with NWM Group's attestation of compliance with OCIR requirements due to be provided in Q1 2020.

Risk Governance

NWM Group's operational risk profile is overseen by the NWM Group Board Risk Committee and Executive Risk Committee.

The Operational Risk function, which is the second line of defence, is accountable for oversight of a robust operational risk management framework for NWM Group which supports the identification, assessment, management and monitoring of operational risk. It is also responsible for reporting and escalating key concerns to the Board Risk Committee and Executive Risk Committee. A strong operational risk management function is vital to support NWM Group's ambitions to serve its customers better.

Risk Appetite

Management of operational risk against defined appetite directly supports the strategic risk objective of improving stakeholder confidence and is vital for stability and reputational integrity. NWM Group's operational risk appetite expresses the level and types of operational risk NWM Group is willing to accept to achieve its strategic objectives and business plans.

The NWM Group operational risk appetite statement encompasses the most material risk appetite measures which are those that align to strategy and should the limit be breached, would impact on the ability to achieve business plans and threaten stakeholder confidence.

Risk Controls and Mitigation

The Control Environment Certification (CEC) process for the year ending 31 December 2020 is an annual self-assessment by NWM Group to provide 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 operational, financial crime and compliance controls, as well as supporting risk management frameworks. The CEC outcomes, including forward-looking assessments for the next two half-yearly cycles and progress on control environment improvements, are reported to the RBS Group Audit Committee and Board Risk Committee. They are also shared with external auditors.

The CEC process helps to ensure compliance with the RBS Group Policy Framework, Sarbanes-Oxley 404 requirements concerning internal control over financial reporting, 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.

Risk Monitoring and Measurement

Risk and control assessments are used across all business areas and support functions to identify and assess material operational and conduct risks and key controls. All risks and controls are mapped to the RBS Group's Risk Directory. Risk assessments are refreshed as appropriate to ensure they remain relevant and capture any emerging risks and to also ensure risks are reassessed. Change Risk is also identified and managed through the delivery of change risk reviews across NWM Group's highest risk change and strategic investment programmes.

These processes are 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 ICAAP 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 P2A capital requirement.

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

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

Operational Resilience

NWM Group currently manages and monitors business and technology resilience through its operational risk management framework, including consideration of these risks in risk and control assessments, as well as the 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.

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 and industry reporting and is included in capital modelling when calculating economic capital for operational risk. The most serious events are escalated in a simple, standardised process to all senior management, by way of a Group Notifiable Event Process.

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

Model Risk

Definition

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

Sources of Risk

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

Key Developments in 2019

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

- Instigated the Model Risk Committee, a senior forum that has oversight of, and challenges, the entire model population that impacts NWM, including both first and second line of defence models.

Governance

A governance framework is in place to ensure policies and processes relating to models are appropriate and effective. Escalations are made to senior management through the 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.

Risk Appetite

Model risk appetite is defined in the model risk appetite statement and approved by the Board. Model owners and model users are responsible for monitoring performance against appetite, reporting on the model population and carrying out any necessary remediation for positions outside appetite.

Risk Controls

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

Risk Monitoring and Measurement

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

Risk Mitigation

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

Reputational Risk

Definition

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

Sources of Risk

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

Key Developments in 2019

- Updated existing environmental, social and ethical risk acceptance criteria to reflect changes in the wider external environment.

- Enhanced existing escalation processes for businesses and improved reputational risk management in functions.

- Consideration of climate change issues within the reputational risk framework.

Risk Governance

A reputational risk policy supports reputational risk management across NWM Group. The NWM Reputational Risk Committee reviews relevant issues at an individual business or entity level, while the RBS Group Reputational Risk Committee – which has delegated authority from the Executive Risk Committee – opines on cases, issues, sectors and themes that represent a material reputational risk to RBS Group. The Board Risk Committee oversees the identification and reporting of reputational risk. The RBS Group Sustainable Banking Committee has a specific focus on environmental, social and ethical issues.

Risk Appetite

NWM 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.

Risk Controls

For information on risk controls refer to '—*Risk Management Framework*' above.

Risk Monitoring and Measurement

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

Risk Mitigation

Reputational risk is mitigated through the policy and governance framework, with ongoing staff training to ensure early identification, assessment and escalation of material issues. External, unexpected, events that could cause reputational damage are generally mitigated through NWM Group's Top and Emerging Risks process.

The most material threats to NWM Group's reputation continued to originate from historical and more recent conduct issues. As a result, RBS Group has been the subject of investigations and reviews by a number of regulators and governmental authorities, some of which have resulted in fines, settlements and public censure. Refer to '*Description of the NWM Group—Legal and Arbitration Proceedings*'.

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 are currently subject to both domestic and EU-derived regulation. 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 PRA or FCA may object on the basis of reputation or prudential considerations. The PRA is the competent authority of NWM Plc and of RBSG, and receives information on the capital adequacy of the RBSG as a whole.

The Capital Requirements Directive and Capital Requirements Regulation

Banks in the UK are subject to the CRD and CRR, collectively referred to as the CRD IV framework. Each of the CRR and the CRD, which implemented, among other things, Basel III in the 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.

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 detailed regulatory capital rules are primarily set out in the CRR, which is directly applicable in each EU Member State. The PRA implemented many of the governance requirements impacting banks contained in the CRD by incorporating these provisions into its 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 provides 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)) 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 must require that institutions that fail to meet the combined buffer requirement will 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 current 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 forthcoming amendments to CRD IV ('**CRD V**') as part of the EU banking reform package, which entered into force in June 2019, the Pillar II capital requirements should be taken into account when the combined buffer requirement is breached and the MDA is determined. Furthermore under the amendments, 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 Directive includes 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 current rules defined in the CRR, the Issuer had a leverage ratio of 5.1 per cent as at 31 December 2019. A minimum leverage ratio requirement will be implemented at the EU level with the implementation of the EU Banking Reform package. 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, CRD V 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 2019, the Issuer complies with all liquidity requirements.

The NWM Group is subject to similar regulation in jurisdictions other than the UK, including other Member 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.

In November 2016, the European Commission published its proposal for EU banking reform as part of the finalisation of the Basel III framework and its implementation in the EU. The European Commission's proposal for EU banking reform included proposals to amend the CRR and the CRD. The final legislative acts were published in the Official Journal on 7 June 2019 and entered into force on 27 June 2019. The amendments under CRD V 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;
- introduction of a formal minimum leverage ratio requirement;
- introduction of a NSFR requirement, whereby the amount of stable funding available must not exceed the required amount of stable funding;
- 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 that the forthcoming changes will 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 CRD IV, 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 RBSG 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 on 27 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 are expected 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.

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). 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

In November 2016, the European Commission published proposals to amend the CRD IV and BRRD. Inter-institutional negotiations commenced on the amendments in July 2018, following agreement by the Council of the EU on its general approach and the European Parliament on its negotiating position. Political agreement on a number of key aspects of the proposed amendments was reached in November 2018 and the European Council announced its endorsement of the agreement in December 2018. The final consolidated texts of the European Commission's proposals were endorsed by the EU ambassadors and published on 15 February 2019 and adopted by the European Council on 14 May 2019. The final legislative acts were published in the Official Journal on 7 June 2019 and entered into force on 27 June 2019. The majority of the CRD V rules apply from 18 months after that date. However, the principal rules brought into force by the amended CRD apply from two years after that date. EU Member States must apply the transposed BRRD II measures no later than December 28, 2020 (with certain exceptions).

It is anticipated that the amendments to the CRD IV and BRRD will be implemented into UK law once the UK leaves the EU. The amendments were included in the Financial Services (Implementation of Legislation) Bill which provided the power, in the event the UK exited the EU without a withdrawal agreement, for HM Treasury to implement and make changes to specified pieces of EU financial services legislation that have been agreed to or that are subject to negotiation at the point of exit, with implementation dates falling within two years after exit. However the Financial Services (Implementation of Legislation) Bill failed to complete its passage through Parliament before it was prorogued in September 2019. It is however expected that equivalent legislation will be introduced by the government at a later date.

The PRA and the BoE are consulting on a Resolvability Assessment Framework for UK banks, with the aim of enhancing the resolvability of major UK banks. The BoE has produced a consultation paper setting out how it intends to assess resolvability, as well as performing assurances against that assessment and publicly disclosing results. The PRA has produced a consultation paper which proposes requirements for banks to carry out realistic assessments of their resolution preparations, identify implementation risks and consider how to address any such risks. Large UK banks with at least £50 billion in retail deposits on an individual or group consolidated basis, will be required to submit their assessments of their preparation for resolution to the PRA by September 2020 (and every two years thereafter) and to make that assessment publicly available from May 2021. In June 2018, the BoE issued its final policy statement on valuation capabilities to support resolvability, which banks will be obliged to comply with by January 2021.

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 to transpose it by 10 January 2020. A key change in MLD5 is a requirement on EU 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 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 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 the RBS 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
Executive Directors	
Robert Begbie, *Interim Chief Executive Officer*(1)	2019

(1) Chris Marks stepped down as Chief Executive Officer of NWM Plc on 18 December 2019.

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 RBSG, 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 and a member of the Financial Reporting Review Panel.

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

Mr. Robert Begbie

Mr Begbie has worked for RBS 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 RBS Group Markets business, Robert joined RBS Treasury in 2009 where he was instrumental in transforming the RBS balance sheet. In 2017 Robert was appointed as RBS 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 Banker Scotland (London Branch).

Executive Management

The Executive Director of NWM Plc acts as the Executive Management and has 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

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

	2019		2018		2017
	NWM Plc	**RBS Group**	**NWM Plc**	**RBS Group**	**RBS Group**
			£000		
Directors' remuneration					
Non-Executive Directors	230	96	460	519	1,747
Chairman and executive directors – emoluments	1,026	2,330	2,396	1,690	5,299
	1,256	2,426	2,856	2,209	7,046
Total	1,256	2,426	2,856	2,209	7,046

The total emoluments and amounts receivable under long-term incentive plans and share option plans of the highest paid director were £2,034k (2018 – £1,404k).

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 31 to the 2019 Financial Statements incorporated by reference into this Registration Document.

Remuneration of the Executive Management

The compensation of key management also changed significantly in 2018. Until the changes in April 2018 key management represented the RBS Group directors and Executive Committee members and is presented as disclosed in the RBSG Annual Report and Accounts. From April 2018 key management is NWM Plc's directors and Executive Committee and the emoluments presented below represent the period from which they were appointed in 2018.

	2019		2018		2017
	NWM Plc	**RBS Group**	**NWM Plc**	**RBS Group**	**RBS Group**
			£000		
Short term benefits	20,463	2,426	22,143	2,209	19,019
Post-employment benefits	283	—	(4)	—	434

	2019		2018		2017
	NWM Plc	**RBS Group**	**NWM Plc**	**RBS Group**	**RBS Group**
			£000		
Share based payments	484	—	—	—	3,558
	21,230	2,426	22,139	2,209	23,011

For additional information regarding remuneration of the members of the Executive Management, see Notes 31 and 32 to the 2019 Financial Statements incorporated by reference into this Registration Document.

Severance Terms for the Executive Management

Mr. Begbie may terminate his service contract by giving 6 months' notice. The Issuer may terminate the service contract of Mr Begbie 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 may participate in the RBS Group's long-term incentive plans and share save schemes and details of the interests in the RBSG's shares arising from his participation are given in the Directors' remuneration report in the Report and Accounts of RBSG.

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 the RBS 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

RBSG 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 RBS Group entities are described, amongst others, in '*Operating and Financial Review – Primary Factors Affecting the NWM Group's Results of Operations – Relationship with the RBS 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 RBSG. 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 RBSG plc's ordinary shares and a further 925 million in Junes 2018. At 31 December 2019, HM Treasury's holding in RBSG plc's ordinary shares was 62.1 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 oE 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 0.324 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 Rate.

Service Provision from NatWest Bank Plc

On 30 April 2018, in preparation for ring-fencing, NatWest Bank Plc became the main provider of shared service activities for the RBS Group. This includes NatWest Bank Plc providing services to NWM Group companies.

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) The NWM Group recharges The Royal Bank of Scotland Group Pension Fund with the cost of administration services incurred by it. The amounts involved are not material to the NWM Group.

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

(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

Registered Office

NatWest Markets Plc
36 St Andrew Square
Edinburgh EH2 2YB
United Kingdom
Tel: +44 (0)131 556 8555

Principal Office

NatWest Markets Plc
250 Bishopsgate
London, EC2M 4AA
United Kingdom
Tel: +44 (0)207 085 5000

INDEPENDENT AUDITORS

Ernst & Young LLP
25 Churchill Place
Canary Wharf
London E14 5EY