National Westminster Bank Plc
Annual Report and Accounts 2019

natwest.com

Strategic report

Presentation of information

National Westminster Bank Plc ('NWB Plc') is a wholly-owned subsidiary of NatWest Holdings Limited ('NWH Ltd' or 'the intermediate holding company'). NatWest Bank Group ('NWB Group') comprises NWB Plc and its subsidiary and associated undertakings. The term 'NWH Group' comprises NWH Ltd and its subsidiary and associated undertakings. The Royal Bank of Scotland Group plc ('RBSG plc') is 'the ultimate holding company'. The term 'RBS Group' comprises RBSG plc and its subsidiary and associated undertakings.

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

Description of business

RBS Group ring-fencing

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 Ireland banking business in ring-fenced banking entities under an intermediate holding company, NatWest Holdings Limited (NWH Ltd). Some Western European corporate business has been transferred from the ring-fenced bank entities to NatWest Markets N.V., a subsidiary of NatWest Markets Plc (NWM Plc) and RBS Group continues to review the scope of further transfers. NWM Plc and RBS International Limited (RBSI Ltd) are separate banks outside the ring-fence, both subsidiaries of RBSG plc.

The principal entities under NWH Ltd are National Westminster Bank Plc (which wholly owns Ulster Bank Limited), The Royal Bank of Scotland plc and Ulster Bank Ireland DAC.

RBS Group re-segmentation

Effective from 1 January 2019, Business Banking has been transferred from UK Personal and Business Banking (UK PBB) to Commercial Banking as the nature of the business, including distribution channels, products and customers are more closely aligned to the Commercial Banking business. Concurrent with the transfer, UK PBB has been renamed UK Personal Banking. Reportable segmental comparatives have been restated.

Franchises

Commercial & Private Banking (CPB), combining the reportable segments of Commercial Banking and Private Banking ceased to operate as one business area and the franchise Personal & Ulster, combining the reportable segments of UK Personal Banking and Ulster Bank RoI was also disbanded. The reportable operating segments remain unchanged and no comparatives have been restated.

Principal activities and operating segments

NWB Group serves customers across the UK and Ireland with a range of retail and commercial banking products and services. A wide range of personal products are offered including current accounts, credit cards, personal loans, mortgages and wealth management services. NWB Plc is the main provider of shared service activities for RBS Group. This includes the provision of Treasury services on behalf of the ring-fenced bank and RBS Group.

The reportable operating segments are as follows:

UK Personal Banking serves individuals and mass affluent customers in the UK and includes Ulster Bank customers in Northern Ireland.

Commercial Banking serves start-up, SME, commercial and corporate customers in the UK together with small businesses.

Private Banking serves UK connected, high net worth, individuals and their business interests.

Central items & other includes corporate functions, such as treasury, finance, risk management, compliance, legal, communications and human resources. NWB Plc became the main provider of shared services and Treasury activities for RBS Group in 2018. The services are mainly provided to NWH Group, however, in certain instances where permitted, services are also provided to the wider RBS Group including the non ring-fence business.

Performance overview

The income statement movements are materially impacted by transfers from NWM Plc to set up the ring-fenced bank during H1 2018. Central items included in NWB Group include certain property portfolios and Treasury balances including the covered bond programme. Following the transfer of services and functions, certain segment related direct costs are recovered through legal entity recharging and recorded in other operating income. For the period prior to the transfers, NWB Plc was a receiver of shared services from NWM Plc and consequently had comparatively lower direct costs and received higher legal entity recharges which were booked in other administrative expenses.

Supporting our customers through continued lending growth:

We continue to support our customers through ongoing UK economic uncertainty. Overall net lending to customers remained strong with an increase in 2019 of £26.5 billion, or 13% (excluding customer migrations from other RBS Group entities). The number of digital users and total digital sales continue to grow strongly as continued investment develops the customer proposition through these channels.

Strategic report

Performance overview continued

Income resilient in a competitive market:

Across UK Personal Banking, Commercial Banking and Private Banking, income increased by £253 million, or 3%, compared with 2018, but excluding one-off losses incurred in 2018. NWB Group's total income decreased by £369 million, or 4% to £9,163 million compared with £9,532 million in 2018, which included an increase in service charge income recovered from other RBS Group entities of £635 million, offset by the non-repeat of £352 million FX recycling gain in 2018, following the disposal of NatWest Group Holdings Corporation (NWGH).

Continuing to simplify and de-risk the business:

Operating expenses

NWB Group's operating expenses increased by £1,671 million, or 30% to £7,265 million compared with 2018, impacted by a non-repeat movement in strategic costs of £387 million and an increase in PPI charge of £497 million. As NWB Plc became the main provider of shared services activities for RBS Group in H1 2018, a non-repeat increase in costs of £1,000 million was incurred. The NWB Group now incurs higher direct costs which are partially recovered through legal entity recharging which is recorded within other operating income. In 2019, NWB Group recharged an additional £635 million of these costs to other RBS Group entities, recorded in other operating income.

Impairments

Impairment losses increased by £144 million, or 34%, to £572 million compared with £428 million in 2018, reflecting additional stage 3 single name charges for commercial customers, IFRS 9 model adjustments and lower recoveries as a result of fewer debt sales completing in 2019. The increases were partially offset by provision releases.

Balance sheet, capital and RWAs

Total assets increased by £8.6 billion to £318.5 billion compared with £309.9 billion at 31 December 2018. This included net increases in loans to customers – amortised cost of £28.7 billion, offset by reductions in cash and balances at central banks of £17.6 billion reflecting by Term Funding Scheme repayments and liquidity optimisation activities.

Common Equity Tier 1 (CET1) ratio was 15.9%. RWAs increased by £5.5 billion in 2019 primarily reflecting an increase in lending and the adoption of IFRS 16.

Stakeholder engagement and s.172(1) statement

Stakeholder engagement and s.172(1) statement

The Board objectives, approved in February 2019, identified the Board's key stakeholders (as set out in this statement). During 2019 the Board undertook a variety of activities to engage with stakeholders and bring their voice into the boardroom. Details are set out below, together with additional information on related engagement activities undertaken within RBS Group which impacted NWB Plc.

This section of the Strategic Report describes how the directors have had regard to the matters set out in section 172(1) (a) to (f), and forms the directors' statement required under section 414CZA, of The Companies Act 2006.

Board training and support on s.172 duties

Directors are supported in the discharge of their duties by the Company Secretary. All directors receive guidance on their statutory duties including section 172 and were briefed on the reporting requirements introduced by the Companies (Miscellaneous Reporting) Regulations 2018 in advance of the effective date. A new approach to Board and committee papers has been introduced with greater focus on ensuring relevant stakeholder interests are clearly articulated; and guidance on documenting decisions has been refreshed to ensure these are recorded in a consistent manner across RBS Group.

Customers

Customers are at the heart of everything NWB Plc does. During the year the Board received updates on key customer issues through customer service performance updates and regular business reviews. There was also a dedicated Board session on the Retail Banking environment. The directors met a range of business and personal customers during a programme of visits in September 2019, which provided an opportunity to gain insights into customer issues and challenges. The Chairman and Chief Executive Officer have regular meetings with customers to enhance relationships and understand their views.

Colleagues

References to "colleagues" in this Report mean all members of the workforce (for example contractors, agency workers).

Colleague voice

The Board promotes colleague voice in the boardroom through a variety of channels.

During 2019 the Board engaged with colleagues during a number of Board and committee visits to businesses and functions and there was also a Meet the Board event for colleagues.

The Colleague Advisory Panel (CAP), established in 2018, met twice during 2019, providing a valuable mechanism for directors to engage directly with colleagues on topics of strategic interest affecting RBS Group and the workforce; and offering colleagues a greater understanding of the Board's role. A number of directors attended CAP meetings during the year and discussion topics included Purpose, future strategy, executive pay, inclusion and sustainability. Outputs were reported to the Board and have influenced the Board's consideration of these topics.

Engaging colleagues

Every year colleagues are asked to share their thoughts on what it's like to work for RBS Group via a colleague opinion survey. The results from the 2019 survey, which were considered by the Board in October 2019, showed a further improvement in colleague sentiment and demonstrate that the culture of RBS Group is changing for the better. Key measures of engagement, leadership and culture have increased further, and RBS Group is above the global financial services norm in all comparable survey categories.

The colleague opinion survey results were one culture oversight tool available to the Board and the Board also listened to colleague views during the process of establishing RBS Group's Purpose. The continued strengthening of RBS Group's culture was also echoed in this year's improved Banking Standards Board annual assessment of culture in the UK banking sector, which was also considered by the Board and provides further proof of progress across a range of measures.

Employee consultation

Having ongoing discussion and engagement with a number of employee representatives such as trade unions and work councils is vital, and RBS Group regularly discusses developments and updates on the progress of strategic plans.

Speak Up

Where colleagues wish to report any concerns relating to wrong doing or misconduct, one of the ways they can do this is by raising their concerns via Speak Up, RBS Group's whistleblowing service. The 2019 colleague opinion survey showed the highest ever score when asking colleagues if they feel safe to speak up, as well as understanding the process of how they do that. In 2019, 458 cases were raised compared to 480 in 2018.

Developing colleagues

Culturally, becoming a learning organisation is a strategic priority. Focus has been on preparing colleagues for the future with broader development focused on key Critical People Capabilities. In 2019 RBS Group created an Agile Capability Hub, providing learning content to support colleagues to confidently engage in new ways of working. This year, RBS Group was also the first UK retail bank to launch a Data Academy, to nurture and grow data expertise, innovation, and collaboration. More information can be found in the 2019 Annual Report and Accounts of RBSG plc and on rbs.com.

Investing in colleagues

RBS Group has also transformed colleagues' experience by deploying new digital tools. Workday was implemented as a new digital HR platform in November 2019, and includes a mobile app, giving colleagues an experience on par with the digital experience customers enjoy. ServiceNow was extended to improve how RBS Group responds to colleagues' queries, and an expanded HR chat bot has helped over 50,000 colleagues to answer their basic queries. These enhancements are enabling RBS Group to respond to the evolving world of work and needs of its colleagues.

Health and wellbeing of colleagues

As a strong component of making RBS Group a great place to work, wellbeing initiatives have been successfully delivered against four pillars; Physical, Mental, Social and Financial Wellbeing. Further details can be found in the 2019 Annual Report and Accounts of RBSG plc and on rbs.com.

Inclusion

RBS Group is proud to be building an inclusive bank which is a great place for all colleagues to work. RBS Group's inclusion guidelines apply to all colleagues globally and focus on five key priorities - LGBT Innovative, Gender Balanced, Disability Smart, Ethnically Diverse, all leading to Inclusive Culture. Detailed information can be found in the 2019 Annual Report and Accounts of RBSG plc and on rbs.com.

RBS Group has been recognised for work on Equality, Diversity and Inclusion in 2019 by retaining position in the Times Top 50 Employers for Women; being recognised again as a Top 10 Employer for Working Families; being Exemplary Level in the Scottish Carer Positive Campaign; being a Top Global Stonewall employer; being a Top Ten Employer in the Investing in Ethnicity Maturity Matrix; and rated as Gold in the Business Disability Forum benchmark.

Employment of people with disabilities

RBS Group policy is that people with disabilities are given full and fair consideration for employment and subsequent training, career development and promotion based on merit. If members of staff become disabled, it is the policy of RBS Group, wherever possible, to retain them in their existing jobs or re-deploy them in suitable alternative duties.

Stakeholder engagement and s.172(1) statement

Regulators
The Board recognises the importance of open and continuous dialogue with regulators. Representatives from the Financial Conduct Authority (FCA) attended the February 2019 Board meeting to present and discuss their annual Firm Evaluation letter. The Prudential Regulation Authority (PRA) conducted a Board effectiveness review in 2019, which included attendance at the October 2019 Board meeting and meetings with directors. The Chairman and executive directors have regular meetings with both the FCA and PRA. In addition, individual directors engage regularly with regulators through Continuous Assessment and Proactive Engagement meetings.

Suppliers
The Board recognises the key role suppliers play in ensuring NWB Plc delivers a reliable service to customers. In October 2019 the Board held a suppliers' spotlight session, which included an overview of RBS Group's key suppliers and provided insights on the approach towards managing supplier relationships, including payment practices. The directors discussed the future approach to suppliers and the changing regulatory landscape in relation to outsourcing. Meetings with key suppliers in September 2019 provided a first hand opportunity for directors to hear directly from strategic partners and to discuss current challenges.

Community and environment
NWB Plc is committed to managing the wider social, environmental and economic impacts of its operations which includes the way it deals with its customers and manages sustainability issues in its supply chain. Refer to rbs.com for RBS Group's Modern Slavery Statement and details of the Supplier Code of Conduct, both of which apply to NWB Plc. It is recognised by the Board that climate change must have greater prominence at both senior management and board levels across RBS Group, including NWB Plc. Further details on RBS Group's response to climate change can be found within the 2019 Annual Report and Accounts of RBSG plc.

How stakeholder interests have influenced decision-making
NWB Plc recognises the importance of engaging with stakeholders to help inform strategy and Board decision-making. Relevant stakeholder interests, including those of employees, suppliers, customers and others are taken into account by the Board when it takes decisions.

NWB Plc defines principal decisions as those that are material, or of strategic importance, to NWB Plc, and also those that are significant to any of its key stakeholder groups.

In making its decisions, the Board considers the outcomes of relevant stakeholder engagement as well as the need to maintain a reputation for high standards of business conduct, and to consider the long-term consequences of its decisions.

The appointment of a new Chief Executive Officer in 2019 provides one example of how stakeholder interests were considered in a principal decision made by the Board.

Appointment of Chief Executive Officer
In 2019 the Board approved the appointment of Alison Rose as Chief Executive Officer with effect from 1 November 2019. From the outset, the Board placed stakeholder interests at the core of its objectives in the search for Ross McEwan's successor.

The Nominations Committee, on behalf of the Board, agreed a role specification which required candidates to demonstrate broad and authoritative banking and strategic experience that would serve to deliver long-term sustainable growth to the business for the benefit of its shareholders and wider stakeholders. A rigorous search process was undertaken, involving the consideration of both internal and external candidates. Alison Rose was identified as the strongest candidate on the basis of the role specification criteria.

In reaching its decision, the interests of RBS Group customers were a key focus for the Board, particularly each candidate's ability to lead a business that would be recognised as truly customer centric. The Board also ensured that colleague interests were taken into account when agreeing the critical capabilities used to assess potential candidates. These required candidates to demonstrate the strong ethical and moral principles needed to lead the culture and values of RBS Group. The Board ensured that relevant regulators, another of its key stakeholder groups, were kept regularly apprised of progress during the search.

The Board will continue to ensure that its nominations process is based on the principles of fairness, respect and inclusion and that all nominations and appointments are made on the basis of individual competence, skills and expertise measured against identified objective criteria and taking into account a broad range of stakeholder interests.

Further details on how RBS Group engages with its stakeholders can be found in the 2019 Annual Report and Accounts of RBSG plc and on rbs.com.

Board of directors and secretary

Approval of Strategic report
The Strategic report for the year ended 31 December 2019 set out on pages 1 to 64 was approved by the Board of directors on 13 February 2020.

By order of the Board.
Jan Cargill
Company Secretary
13 February 2020

Chairman
Howard Davies

Executive directors
Alison Rose
Katie Murray

Non-executive directors

Francesca Barnes	Robert Gillespie
Graham Beale	Yasmin Jetha
Ian Cormack	Baroness Noakes
Alison Davis	Mike Rogers
Patrick Flynn	Mark Seligman
Morten Friis	Lena Wilson

Chairman
Howard Davies
Nominations (Chairman)

Executive directors
Alison Rose (appointed 1 November 2019)
ExCo (Chairman)

Katie Murray (appointed 1 January 2019)
ExCo

Independent non-executive directors
Francesca Barnes

Graham Beale
Senior Independent Director
Audit, Nominations, Risk

Ian Cormack
Audit, Remuneration, Risk (Deputy Chairman)

Alison Davis
Remuneration

Patrick Flynn
Audit (Chairman), Nominations, Risk

Morten Friis
Audit, Risk

Robert Gillespie
Remuneration (Chairman), Nominations, Risk

Yasmin Jetha
Remuneration

Baroness Noakes
Risk (Chairman), Audit, Nominations

Mike Rogers
Remuneration

Mark Seligman
Audit, Nominations, Remuneration

Lena Wilson

Chief Governance Officer and Company Secretary
Jan Cargill (appointed 5 August 2019)

Other Board changes in 2019
Aileen Taylor (company secretary) resigned on 5 August 2019
Ross McEwan (executive director) resigned on 31 October 2019

Auditors
Ernst & Young LLP
Chartered Accountants and Statutory Auditor
25 Churchill Place
London E14 5EY

Registered office and Head office
250 Bishopsgate
London, EC2M 4AA
Telephone: +44 (0)20 7085 5000

Other principal offices
Ulster Bank Limited
11-16 Donegall Square East
Belfast BT1 5UB Northern Ireland

Coutts & Company
440 Strand
London WC2R 0QS

Lombard North Central PLC
250 Bishopsgate
London EC2M 4AA

National Westminster Bank Plc
Registered in England No. 929027

Key:

Audit	member of the Audit Committee
ExCo	member of the Executive Committee
Nominations	member of the Nominations Committee
Remuneration	member of the Performance and Remuneration Committee
Risk	member of the Board Risk Committee

For additional detail on the activities of the Committees above, refer to the Report of the directors

Top and emerging risks

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

External	
Economic & Political Risks	As a UK-focused bank, the NWB Group is exposed to the economic and political risks facing the UK including risks from a sustained period of low economic growth and low interest rates RBS continues to use a range of complementary approaches to inform strategic planning and risk mitigation. This includes active management of portfolios and adjustment of risk appetite, scenario planning and stress testing. In addition, the NWB Group has implemented plans to prepare for the loss of access to the European Single Market and continues to monitor geopolitical risks and developments in relation to a second Scottish independence referendum. In the longer term, demographic change, high levels of debt and financial inequality in the UK could all have financial impacts for the NWB Group and, as a result, are closely monitored with strategic plans adapted as appropriate.
Climate Related Risks	Accelerating climate change may lead to heightened financial risks and faster-than-anticipated impacts on the Group and the wider economy. These include financial loss as a result of deterioration in credit quality, market risk exposure and operational risk. The Group continues to adapt its operation and business strategy to mitigate the risks of both climate change and the transition to a low carbon economy. In addition, the NWB Group is embedding climate risk into its risk management framework.
Cyber Threats	Cyber-attacks continue to increase in frequency, sophistication and severity. There is a risk that a catastrophic cyber-attack damages the NWB Group's ability to do business and/or compromises data security. The NWB Group operates a multi-layered approach to its defences and continues to invest in a multi-year programme to build resilience and cybersecurity capabilities.
Competitive Environment	The NWB Group's target markets are highly competitive, with changes in technology, regulation, customer behaviour and business models continuing to accelerate competitive pressure. The NWB Group monitors the competitive environment and adapts strategy as appropriate. RBS remains focused on innovating to evolve the business model to deliver compelling propositions for customers. This included the launch of new digital retail and business banks, Bo and Mettle.
Regulatory, Legal & Conduct Risk	The NWB Group continues to face stringent regulatory and supervisory requirements, particularly regarding conduct, financial crime, the use of models, and capital and liquidity management. The NWB Group continues to embed a strong and comprehensive risk and compliance culture. The NWB Group engages with regulators to implement new regulatory requirements and incorporates the implications of proposed or potential regulatory activities in its strategic and financial plans.
LIBOR transition	UK and international regulators are driving a transition from the use of interbank offer rates (IBORs), including LIBOR, to alternative risk-free rates. Uncertainties around the timing and manner of transition represent a number of risks for the NWB Group including elevated legal and conduct risks. While a programme to manage the transition is underway, there is a risk that the NWB Group may not effectively manage the transition.
Internal	
Third Party Suppliers	Inadequate control over selection, governance and oversight of third-party suppliers could affect operational resilience. The NWB Group is diligent in its screening of suppliers with strict contractual obligations governing supplier relationships and activity.
IT System Resilience	The NWB Group continues to invest in IT infrastructure to prevent customer service disruption, which could result in reputational and regulatory damage. To mitigate these risks, a major investment programme has significantly improved the resilience of the systems and further progress is expected.
Culture & People Risk	There is a risk that the NWB Group lacks sufficient capability or capacity at a senior level to deliver – or adapt to – change. The NWB Group monitors people risk closely and has plans in place to support retention of key roles, with wider programmes supporting engagement and training for all employees. Ensuring a healthy culture remains a core priority and a multi-year programme focused on enhancing culture – including risk culture – is ongoing.
Data Management	Ineffective management of data, including a breach in data privacy, could have material negative impacts. RBS operates a control and policy framework governing data usage and continued to evolve a long-term data strategy.
Change Risk	Losses may arise from a failure to successfully execute major changes to the Group's business model. The Group continues to implement change in line with its strategic plans while assessing the implementation risks and taking appropriate mitigating action as required. In addition, the Group continues to strengthen its control environment.

Financial review

Summary consolidated income statement for the year ended 31 December 2019

	UK Personal Banking £m	Commercial Banking £m	Private Banking £m	Central items & other £m	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m	Variance £m	Variance %
Net interest income	3,343	2,166	511	(184)	5,836	5,814	*22*	*nm*
Non-interest income	756	1,174	239	1,158	3,327	3,718	*(391)*	*(11)*
Total income	4,099	3,340	750	974	9,163	9,532	*(369)*	*(4)*
Operating expenses	(2,969)	(2,309)	(471)	(1,516)	(7,265)	(5,594)	*(1,671)*	*30*
Profit before impairment (losses)/releases	1,130	1,031	279	(542)	1,898	3,938	*(2,040)*	*(52)*
Impairment (losses)/releases	(329)	(247)	7	(3)	(572)	(428)	*(144)*	*34*
Operating profit	801	784	286	(545)	1,326	3,510	*(2,184)*	*(62)*
Tax charge					(442)	(741)	*299*	*(40)*
Profit from continuing operations					884	2,769	*(1,885)*	*(68)*
Loss from discontinued operations net of tax for the year					—	(3)	*nm*	*nm*
Profit for the year					884	2,766	*(1,882)*	*(68)*

Notable items within operating expenses	2019	2018
Strategic costs	907	520
PPI	603	106

Key metrics and ratios	2019	2018
Cost:income ratio (%)	79.3	58.7
Loan impairment expected credit loss rate (bps)	24.1	21.6
CET 1 ratio (%)	15.9	17.4
Leverage ratio (%)	5.0	5.2
Risk weighted assets (RWAs) (£bn)	81.1	75.6

The NWB Group reported a profit before tax of £1,326 million compared with £3,510 million in 2018, due to increases in operating expenses of £1,671 million and impairment losses of £144 million, combined with £369 million lower total income.

The income statement movements are materially impacted by transfers from NWM Plc to set up the ring-fenced bank during H1 2018. NWB Plc, as part of NWH Group, became the main provider of shared activities for RBS Group in 2018. 2019 reflects a full twelve month period of costs, compared to eight months of costs in 2018. Central items included in NWB Group include certain property portfolios and Treasury balances including the covered bond programme. Following the transfer of services and functions, certain segment related direct costs are recovered through legal entity recharging and recorded in other operating income. For the period prior to the transfers, NWB Plc was a receiver of shared services from NWM Plc and consequently had comparatively lower direct costs and received higher legal entity recharges which were booked in other administrative expenses.

Total income decreased by £369 million, or 4%, to £9,163 million compared with £9,532 million in 2018.

Net interest income increased by £22 million to £5,836 million compared with £5,814 million in 2018. Although customer asset volumes have grown, the underlying income trend is lower due to competitive pressures and the low yield curve environment.

Non-interest income decreased by £391 million, or 11%, to £3,327 million compared with £3,718 million in 2018. Net fees and commissions increased by £72 million to £1,723 million. This reflects an increase in commissions received on FX transactions and fees generated the current account book. Other operating income decreased by £463 million to £1,604 million, primarily reflecting the 2018 FX reserves recycling of £822 million due to the disposal of NWGH and RBS Netherlands Holdings B.V. which does not repeat in 2019.

This was offset by £635 million increase in income received in 2019 through recharges to other RBS Group entities following the transfer of shared services to NWB Plc. Other drivers of the change include;

- increased cost of hedging of £129 million,
- a decrease in gains from fair value adjustments of £68 million,
- a reduction of £100 million in income from asset sales in 2019 and a one off repurchase of own debt in 2018; and an
- increase in gains on sale of branches and property of £36 million.

Operating expenses excluding notable items increased by £787 million, or 15.8%, to £5,755 million, compared with £4,968 million in 2018, by an increase in costs of £1,000 million which reflects that NWB Plc became the main provider of shared activities for the RBS Group in May 2018. The movements are materially impacted by staff, shared property and intangible asset transfers. NWB Plc now incurs higher direct costs which are partially recovered through legal entity recharging of £635 million which is recorded within other operating income.

Strategic costs of £907 million in 2019 include charges related to the reduction in the property portfolio, technology costs and restructuring costs to achieve cost efficiencies across front and back book operations.

Impairment losses increased by £144 million, or 34%, to £572 million compared with £428 million in 2018, reflecting additional single name charges for commercial customers, IFRS 9 model adjustments and lower recoveries as a result of fewer debt sales completing in 2019.

Financial review

Segmental performance

UK Personal Banking

Operating profit was £801 million, compared with £958 million in 2018.

Net interest income decreased by £27 million to £3,343 million compared with £3,370 million in 2018. Although customer asset volumes have grown, the underlying income trend is lower due to competitive pressures and the low yield curve environment.

Non-interest income increased by £49 million to £756 million, compared with £707 million in 2018, reflecting higher income of £84 million from legal entity recharging of UK Personal Banking shared service costs, £13 million increase in net fees and commissions, partially offset by lower income from fair value adjustments and sales of assets.

Operating expenses increased by £121 million to £2,969 million compared with £2,848 million in 2018 driven by a higher PPI provision of £496 million, increased fraud costs and higher direct costs following the transfer of shared services into NWB Plc, partially offset by headcount reductions and lower indirect costs.

Impairment losses increased by £58 million to £329 million, compared with £271 million in 2018 reflecting IFRS 9 model adjustments, following calculation model reviews.

Loans to customers - amortised cost increased by £13.0 billion to £136.3 billion, driven by gross new mortgage lending and lower redemptions.

Customer deposits increased by £4.2 billion to £121.1 billion, driven by an increase of £6.7 billion in savings products which reflects improved customer rates and increased marketing campaigns. This was partially offset by a decrease in demand and non interest bearing deposits volume.

Commercial Banking

Operating profit was £784 million, compared with £1,686 million in 2018.

Net interest income increased by £158 million to £2,166 million, compared with £2,008 million in 2018, impacted by customer level transfers from RBS plc to NWB Plc and the allocation of Treasury income to segments in 2019.

Non-interest income increased by £7 million to £1,174 million, reflecting £87 million from legal entity recharging of Commercial Banking shared service costs, a £66 million increase in net fees and commissions and a £16 million gain on sale of branches. The increase was partially offset by £124 million higher cost of hedging and lower fair value adjustments gains in 2019.

Operating expenses increased by £1,004 million to £2,309 million, impacted by £801 million of higher indirect costs, higher staff costs due to the transfer of shared services in May 2018, higher depreciation costs following the adoption of IFRS 16 and fraud costs. The increases were partially offset by VAT recoveries.

Impairment losses increased by £63 million to £247 million, compared with £184 million in 2018, mainly due to higher single name stage 3 charges in 2019 and adjustments following calculation model reviews.

Loans to customers - amortised cost increased by £3.6 billion, impacted by £2.2 billion of transfers from RBS plc to NWB Plc and growth across core business balances, partially offset by a decrease in legacy portfolio balances.

Customer deposits increased by £1.7 billion, reflecting growth in demand and savings deposits, partially offset by a decrease in non interest bearing deposits.

Private Banking

Operating profit was £286 million compared with £239 million in 2018.

Net interest income increased by £67 million to £511 million, compared with £444 million in 2018, reflecting the allocation of treasury income to segments in 2019.

Non-interest income remained stable at £239 million (2018 - £240 million).

Operating expenses increased by £18 million to £471 million in 2019, impacted by higher indirect costs.

Loans to customers - amortised cost increased by £1.2 billion to £14.8 billion, primarily due to growth in mortgage lending of £0.9 billion and £0.4 billion increase in corporate loan volumes.

Deposits balance remained broadly stable compared with 2018 at £26.4 billion.

Central items & other

Operating loss was £545 million in 2019 compared with a profit of £627 million in 2018.

Net interest income decreased by £176 million, primarily due to Treasury related income allocated to segments in 2019.

Non-interest income decreased by £446 million, primarily reflecting the 2018 FX reserves recycling of £822 million due to the disposal of NWGH and RBS Netherlands Holdings B.V. which does not repeat in 2019. This was partially offset by £464 million increase in income from legal entity cost recharging of central items and increased net property income of £25 million. Other drivers include lower income in 2019 from bond disposals of £54 million, lower fair value adjustment gains of £29 million and £46 million of own debt repurchase

Operating expenses increased by £528 million to £1,516 million. Direct costs increased following the transfer of shared services activities from NWM Plc to NWB Plc, partially offset by increased allocation to segments. In 2019, £464 million of the total expenses were recovered through service charges which are presented within non interest income.

Financial review

Summary consolidated balance sheet as at 31 December 2019

	2019 £m	2018 £m	Variance £m	%
Assets				
Cash and balances at central banks	27,457	45,032	(17,575)	(39)
Derivatives	3,302	1,253	2,049	164
Loans to banks - amortised cost	3,325	6,406	(3,081)	(48)
Loans to customers - amortised cost	232,313	203,647	28,666	14
Amounts due from holding companies and fellow subsidiaries	3,828	5,206	(1,378)	(26)
Other financial assets	40,948	41,226	(278)	(1)
Other assets	7,320	7,168	152	2
Total assets	318,493	309,938	8,555	3
Liabilities				
Bank deposits	15,505	17,563	(2,058)	(12)
Customer deposits	242,117	237,770	4,347	2
Amounts due to holding companies and fellow subsidiaries	21,447	22,542	(1,095)	(5)
Derivatives	4,898	779	4,119	529
Other financial liabilities	8,307	6,497	1,810	28
Subordinated liabilities	1,242	1,275	(33)	(3)
Other liabilities	5,305	3,638	1,667	46
Total liabilities	298,821	290,064	8,757	3
Total equity	19,672	19,874	(202)	(1)
Total liabilities and equity	318,493	309,938	8,555	3

Total assets increased by £8.6 billion to £318.5 billion at 31 December 2019, compared with £309.9 billion at 31 December 2018.

Cash and balances at central banks decreased by £17.6 billion to £27.5 billion, compared with £45.0 billion at 31 December 2018, £8.0 billion of this movement is attributable to liquidity portfolio optimisation activity completed by Treasury. Other drivers include;

- repayments of Term Funding Scheme borrowings of £4.0 billion under the terms of the scheme,
- ordinary dividend payments of £0.7 billion,
- redemptions of Senior and Tier 2 capital of £2.8 billion; and
- reduction in net cash placements from RBS Group entities of £7.0 billion

This was partially offset by a net increase of £5.2 billion in relation to MREL eligible securities, covered and other bonds issuances and £1.5 billion received as part of the transfer of a portfolio of derivatives which hedge the pension fund into NWB Plc .

Derivative assets increased by £2.0 billion to £3.3 billion, compared with £1.3 billion at 31 December 2018, primarily due to the transfer of a portfolio of derivatives which hedge the pension fund into NWB Plc Treasury.

Loans to banks – amortised cost decreased by £3.1 billion to £3.3 billion, compared with £6.4 billion at 31 December 2018, impacted by a decrease in reverse repo transactions as part of Treasury funding activities and a decrease in single name loan deposits.

Loans to customers – amortised cost increased by £28.7 billion to £232.3 billion, compared with £203.7 billion at 31 December 2018, primarily reflecting £10.7 billion higher volume of reverse repos, £13.0 billion asset growth supported by gross new lending and reduced redemptions, and £3.8 billion growth in corporate loans, of which £2.2 billion related to refinanced lending which transferred from RBS plc to NWB Plc.

Amounts due from holding companies and fellow subsidiaries decreased by £1.4 billion to £3.8 billion, compared with £5.2 billion at 31 December 2018, driven by a reduction of Treasury related funding requirements of RBS Group entities.

Other financial assets decreased by £0.3 billion to £40.9 billion reflecting a net decrease of debt securities following the liquidity optimisation exercise completed by Treasury.

Other assets increased by £0.2 billion to £7.3 billion, impacted by increased tangible assets of £0.6 billion due to the adoption of IFRS 16 on 1 January 2019, offset by a decrease in deferred tax asset of £0.4 billion.

Bank deposits decreased by £2.1 billion to £15.5 billion, compared with £17.6 billion at 31 December 2018 driven by repayment of Term Funding Scheme borrowings of £4.0 billion, partially offset by increases in repos and third party deposits.

Customer deposits increased by £4.3 billion to £242.1 billion, reflecting increases in savings deposits of £7.9 billion. This was partially offset by a decrease in repo balances of £2.0 billion and non interest bearing deposits of £2.1billion.

Amounts due to holding companies and fellow subsidiaries decreased by £1.1 billion to £21.4 billion, compared with £22.5 billion at 31 December 2018, impacted by decrease in placements with Treasury.

Derivative liabilities increased by £4.1 billion to £4.9 billion, compared with £0.8 billion at 31 December 2018, primarily due to the transfer of a portfolio of derivatives which hedge the pension fund into NWB Plc Treasury.

Other financial liabilities increased by £1.8 billion to £8.3 billion, compared with £6.5 billion at the 31 December 2018. This was primarily due to covered bond issuance of £0.6 billion and commercial paper issuance of £1.3 billion.

Other liabilities increased by £1.7 billion to £5.3 billion, compared with £3.6 billion at the 31 December 2018, due to recognition of £1.5 billion lease liability on adoption of IFRS 16 on 1 January 2019.

Total equity decreased by £0.2 billion to £19.7 billion, compared with £19.9 billion at 31 December 2018. The decrease reflects the dividend paid in the period of £0.9 billion and a decrease in merger reserves of £0.2 billion, partially offset by attributable profit of £0.9 billion.

Capital and risk management

Presentation of information

Where indicated in the section headers, information in the Capital and risk management section (pages 10 to 64) is within the scope of the Independent auditor's report. Where a main section header, presented in bold, is marked as audited, all subsequent sub sections are also audited, the end of the audited section is marked by ∆. Unless otherwise indicated, disclosures in this section include disposal groups in relevant exposures and measures. Disposal groups comprise NatWest Holdings Group Corp in 2018. 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 NWB Group.

Risk management framework

Introduction

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

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

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

Risk culture

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

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

- Take personal responsibility for understanding and proactively managing the risks associated with individual roles.
- Respect risk management and the part it plays in daily work.
- Understand the risks associated with individual roles.
- Align decision-making to 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.

Training

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

Code of Conduct

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

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

If conduct falls short of 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 management framework continued

Risk governance

Committee structure

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

NWB Plc Board
Reviews and approves risk appetite for strategic and material risks in accordance with the RBS Group risk appetite framework. Monitors performance against risk appetite, considers any material risks and approves, as appropriate, recommended actions escalated by the Board Risk Committee.

Audit Committee
Assists the Board in carrying out its accounting, internal control and financial reporting responsibilities. Reviews and monitors the effectiveness of internal controls systems relating to financial management and compliance with financial reporting, asset safeguarding and accounting laws.

Executive Committee (1)
Manages strategic, financial, capital risk and operational issues. Monitors the implementation of culture change and considers executive succession planning.

Board Risk Committee
Oversees the management of risks that could affect NWB Group's businesses and operations. Monitors risk profile, risk appetite and the promotion of a risk-aware culture across NWB Group. Reviews current and potential risk exposures, future risk strategy and the effectiveness of the risk management framework.

Executive Risk Committee
Acts on all material and/or enterprise-wide risk and control matters across NWB Group. Reviews and recommends the cascade of strategic and group-wide material risk appetite to subsidiary businesses.

Asset & Liability Management Committee
Oversees the effective management of the current and future balance sheet in line with Board-approved strategy and risk appetite.

Reputational Risk Committee
Acts on referrals from business and function risk committees, reviewing decisions which have significant reputational implications. Oversees the application of reputational risk frameworks.

Provisions Committee
Considers all provision requests arising in NWB Group. Reviews impairment budgets and forecasts for all customer-facing franchises.

Business and function risk committees
Risk committees review and monitor all risks, providing guidance, recommendations and decisions on risks affecting the businesses and functions.

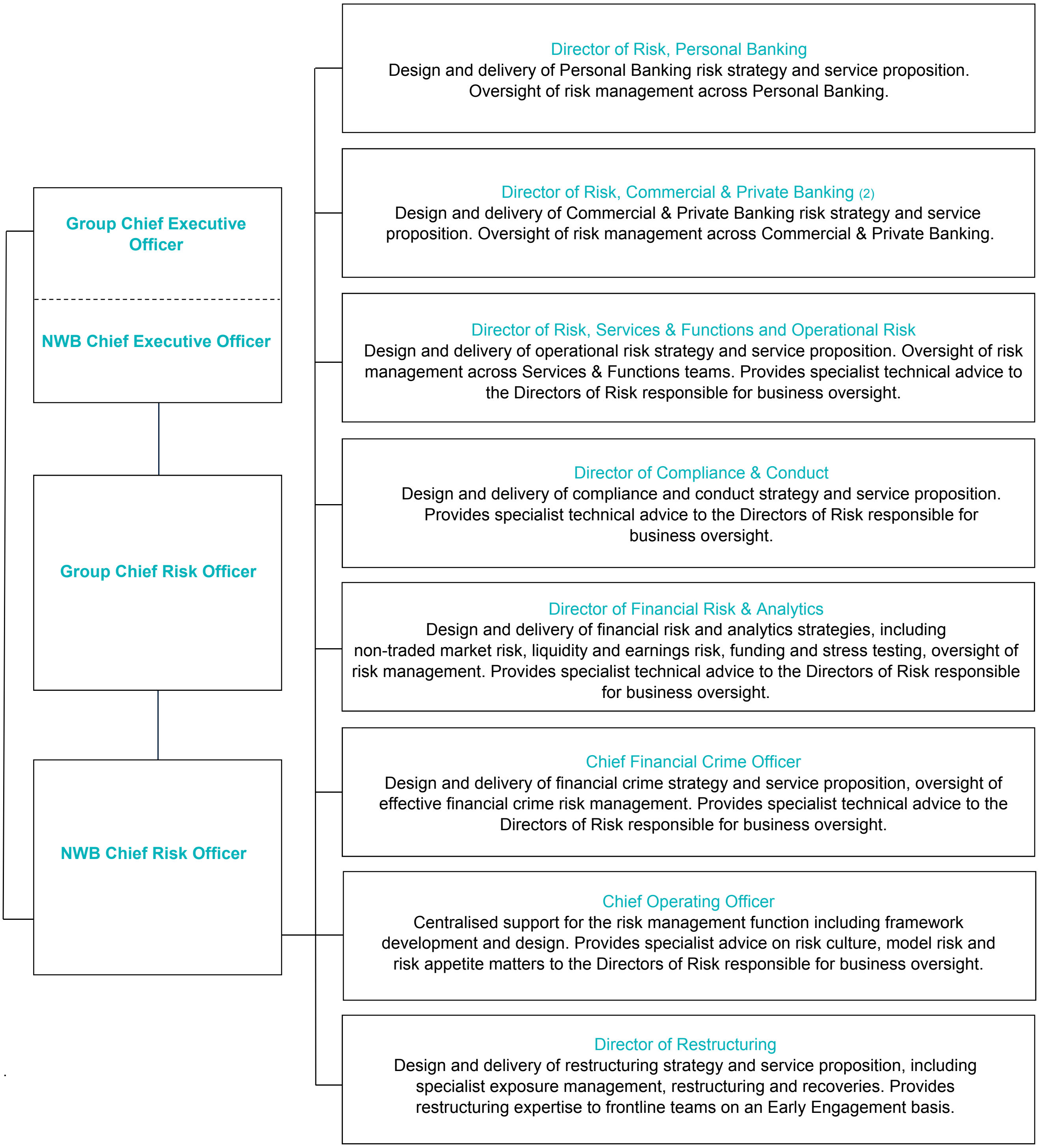
Note:
(1) Operated as a Board committee during 2019.

Capital and risk management

Risk management framework continued

Risk management structure

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



Notes:

(1) The NWB Chief Risk Officer reports directly to the NWB Plc Chief Executive Officer (who is also the Group Chief Executive Officer, RBS Group) and to the Group Chief Risk Officer. There is a further secondary reporting line to the chair of the NWB Group Board Risk Committee and a right of access to the committee, including the deputy chair. The members of the committee mirror those of the NWH Group Board Risk Committee.

(2) As of January 2020, the Director of Risk, Commercial & Private Banking role was split into two roles (Director of Risk, Commercial Banking and Director of Risk, Private Banking).

(3) The Risk function is independent of the franchises and support functions. Its structure is divided into three parts (Directors of Risk, Specialist Risk Directors and Chief Operating Officer) to facilitate effective management of the risks facing NWB Group. Risk committees in the customer businesses and key functional risk committees oversee risk exposures arising from management and business activities and focus on ensuring that these are adequately monitored and controlled.

Capital and risk management

Risk management framework continued

Three lines of defence

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

First line of defence

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

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

Second line of defence

The second line of defence 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 Group engages in permissible and sustainable risk-taking activities
- The second line of defence advises on, monitors, challenges, approves, escalates and reports on the risk-taking activities of the first line, ensuring that these are within the constraints of the risk management framework and policies as well as the risk appetite statements and measures set by the Board.

Third line of defence

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

- The third line of defence is responsible for providing independent and objective assurance to the 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 RBS 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 RBS Group and its ability to achieve strategic objectives. For certain strategic risks, risk capacity defines the maximum level of risk RBS Group can assume before breaching constraints determined by regulatory capital and liquidity needs, 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 RBS 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.

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

NWB Group's risk profile is frequently reviewed and monitored and management focus is concentrated on all strategic risks, material risks and emerging risk issues. Risk profile relative to risk appetite is reported regularly to the Board and senior management.

Risk controls and 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.

RBS 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 across 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 management framework continued

Risk treatment and mitigation

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

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

Risk testing and monitoring

Targeted credit risk, compliance & conduct risk and financial crime risk activities are subject to testing and monitoring to confirm to both internal and external stakeholders – including the Board, senior management, the customer-facing businesses, Internal Audit and NWB Group's regulators – that risk owned policies and procedures are being correctly implemented and operating adequately and effectively. Selected key controls are also reviewed. Thematic reviews and deep dives are also carried out where appropriate.

The adequacy and effectiveness of selected key controls owned and operated by the second line of defence are also tested (with a particular focus on credit risk controls). Selected controls within the scope of Section 404 of the US Sarbanes-Oxley Act 2002 as well as selected controls supporting risk data aggregation and reporting are also reviewed.

Anti-money laundering, sanctions, and anti-bribery and corruption processes and controls are also tested and monitored. This helps provide an independent understanding of the financial crime control environment, whether or not controls are adequate and effective and whether financial crime risk is appropriately identified, managed and mitigated.

The RBS Group Risk Testing & Monitoring Forum and methodology ensures a consistent approach to all aspects of the second-line review activities. The forum also monitors and validates the annual plan and ongoing programme of reviews.

Stress testing

Stress testing – capital management

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

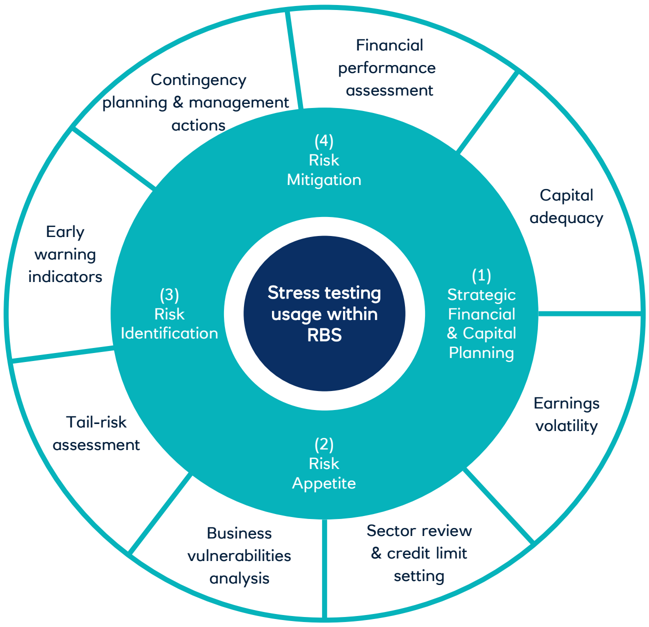
Stress testing includes:

- 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 RBS Group-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 RBS Group.
Calculate results and assess implications	• Aggregate impacts into overall results. • Results form part of risk management process. • Scenario results are used to inform RBS Group's business and capital plans.
Develop and agree management actions	• Scenario results are analysed by subject matter experts and appropriate management actions are then developed. • Scenario results and management actions are reviewed and agreed by senior management through senior committees including the Executive Risk Committee, the Board Risk Committee and the Board.

Stress testing is used widely across RBS Group. 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 RBS Group's financial strength and capital position.
- Risk mitigation – by identifying actions to mitigate risks, or those that could be taken, in the event of adverse changes to the business or economic environment. Key risk mitigating actions are documented in RBS Group's recovery plan.

Capital and risk management

Risk management framework continued

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

Capital sufficiency – going concern forward-looking view

Going concern capital requirements are examined on a forward-looking basis – including as part of the annual budgeting process – by assessing the resilience of capital adequacy and leverage ratios under hypothetical future states. These assessments include assumptions about regulatory and accounting factors (such as IFRS 9). They are linked to economic variables and impairments and seek to demonstrate that RBS 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 RBS 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 RBS Group but also by the regulators to set specific capital buffers. RBS Group takes part in stress tests run by regulatory authorities to test industry-wide vulnerabilities under crystallising global and domestic systemic risks. In 2019, RBS Group took part in the Bank of England stress test exercise.

Stress and peak-to-trough movements are used to help assess the amount of CET1 capital RBS Group needs to hold in stress conditions in accordance with the capital risk appetite framework.

Internal assessment of capital adequacy

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

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

Capital allocation

RBS Group has mechanisms to allocate capital across its legal entities and 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 Asset & Liability Management 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 Asset & Liability Management 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, RBS 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 RBS 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. RBS 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.

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

Stress testing – recovery and resolution planning

The RBS Group recovery plan explains how RBS Group 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 minimise the impact of these risks. Preparations include:

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

The plan is intended to enable RBS Group to maintain critical services and products it provides to its customers, maintain its core business lines and operate within risk appetite while restoring RBS Group'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. Individual recovery plans are also prepared for NatWest Holdings Limited, NatWest Markets Plc, RBS International (Holdings) Limited, Ulster Bank Ireland DAC and NatWest Markets N.V. These plans detail the recovery options, recovery indicators and escalation routes for each entity.

Capital and risk management

Risk management framework continued

Fire drill simulations of possible recovery events are used to test the effectiveness of RBS Group and individual legal entity 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 RBS's approach to recovery planning.

Under the resolution assessment part of the PRA rulebook, RBS 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. The initial report submission to the PRA is in Q4 2020. RBS Group has a programme of work in place to carry out these requirements.

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

Stress testing – 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 RBS Group's banking book interest rate exposure. The report includes detailed product information analysed by interest rate driver and other characteristics – including accounting classification, currency and, counterparty type.

Scenario analysis based on hypothetical adverse scenarios is performed on non-traded exposures as part of the Bank of England and European Banking Authority stress exercises. RBS 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% confidence level. Methodologies are reviewed by RBS Group Model Risk and the results are approved by the Capital Management & Stress Testing Committee.

Capital, liquidity and funding risk

Definitions (audited)

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 set by regulators must be satisfied to be eligible as capital.

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

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

Funding consists of on-balance sheet liabilities that are used to 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;
- Wholesale market conditions; and
- Depositor and investor behaviour.

Δ

Sources of risk (audited)

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 absorbing losses. 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 either written down or converted into CET1 capital when the CET1 ratio falls below a pre-specified level.
- Tier 2 capital - Tier 2 capital is the bank entities' supplementary capital and provides loss absorption on a gone concern basis. Tier 2 capital absorbs losses after Tier 1 capital. It typically consists of subordinated debt securities with a minimum maturity of five years.

Minimum requirement for own funds and eligible liabilities (MREL)

In addition to capital, other specific loss absorbing instruments, including senior notes issued by NWB Plc, may be used to cover certain gone concern capital requirements which, in the EU, is referred to as MREL. Gone concern refers to the situation in which resources must be available to enable an orderly resolution, in the event that the Bank of England (BoE) deems that NWB Group has failed, or is likely to fail.

Liquidity

Liquidity risk within NWB Plc is managed as part of the UK Domestic Liquidity Sub-Group (UK DoLSub), which is regulated by the PRA and comprises NWH Group's four licensed deposit taking UK banks: National Westminster Bank Plc, The Royal Bank of Scotland plc, Coutts & Company, and Ulster Bank Limited.

NWH Group maintains a prudent approach to the definition of liquidity resources. NWH Group manages its liquidity to ensure it is always available when and where required, taking into account regulatory, legal and other constraints.

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 include own-issued securitisations or whole 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

NWB Plc maintains a diversified set of funding sources, including customer deposits, wholesale deposits and term debt issuance. NWB Plc also retains access to central bank funding facilities.

For further details on capital constituents and the regulatory framework covering capital, liquidity and funding requirements, please refer to the RBS Pillar 3 Report 2019 on page 6. For MREL refer to page 8.

Δ

Capital and risk management

Capital, liquidity and funding risk continued

Managing capital requirements: regulated entities

In line with paragraph 135 of IAS 1 'Presentation of Financial Statements', NWB Group manages capital having regard to regulatory requirements. Regulatory capital is monitored and reported on an individual regulated bank legal entity basis ('bank entities'), as relevant in the jurisdiction for significant subsidiaries of RBS Group. RBS Group itself is monitored and reported on a consolidated basis.

Key developments in 2019

NWB Plc

15.9% CET1 ratio

- The CET1 ratio decreased to 15.9% from 17.4% primarily due to a £5.5 billion increase in RWAs. CET1 reflects the attributable profit offset by dividend paid to the entity's parent, a foreseeable charge of £0.4 billion, the impact of IFRS 16 for leases and the final annual uplift in transition for significant capital investments in financial institutions.
- NWB Plc redeemed £700 million internal Subordinated Tier 2 Notes in March 2019 and issued U$750 million Subordinated Tier 2 Notes in November 2019.
- RWAs increased by £5.5 billion primarily due to the credit risk increase of £4.2 billion. This was driven by the £1.3 billion uplift due to adoption of the IFRS 16 Leases accounting standard from1 January 2019, increased asset size due to lending growth and the transfer in of lending portfolios from RBS plc. Counterparty credit risk RWAs increased by £0.3 billion primarily due to increased exposures. There was a £1.0 billion increase in operational risk RWAs due to the annual recalculation.
- The leverage ratio has decreased to 5.0% as a result of the decrease in Tier 1 capital and increased balance sheet exposures.

NWB Group

Liquidity position:

- NWB Plc's liquidity portfolio is managed as part of the UK DoLSub. The UK DoLSub's liquidity portfolio was £161 billion at 31 December 2019 (2018 - £163 billion), comprising primary liquidity of £87 billion (2018 - £93 billion) and secondary liquidity of £73 billion (2018 - £70 billion). The reduction in primary liquidity is mainly due to reduced customer surplus within NatWest Holdings and Term Funding Scheme (TFS) repayment, partially offset with increased net term issuance.

Capital management

Capital management is the process by which the bank entities ensure that they have sufficient capital and other loss-absorbing instruments to operate effectively including meeting minimum regulatory requirements, operating within Board-approved risk appetite, maintaining credit ratings and supporting strategic goals.
Capital management is critical in supporting the bank entities' businesses and is also considered at Group level. It is enacted through an RBS Group-wide an end to end framework.

Capital planning is integrated into NWB Group's wider annual budgeting process and is assessed and updated at least monthly. This is summarised below. Other elements of capital management, including risk appetite and stress testing, are set out on pages 13 and 14.

Produce capital plans ↓	• Capital plans are produced for NWB Group, its key operating entities and its businesses over a five year planning horizon under expected and stress conditions. Stressed capital plans are produced to support internal stress testing in the ICAAP for regulatory purposes. • Shorter term forecasts are developed 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 maintain capital of sufficient quantity and quality to support NWB Group's business, it's subsidiaries and strategic plans over the planning horizon within approved risk appetite, as determined via stress testing, and minimum regulatory requirements. • Capital resources and capital requirements are assessed across a defined planning horizon. • Impact assessment captures input from across NWB Group including from businesses.
Inform capital actions	• Capital planning informs potential capital actions including buy backs, redemptions, dividends and new issuance to external investors or via internal transactions. • Decisions on capital actions will be influenced by strategic and regulatory requirements, risk appetite, costs and prevailing market conditions. • As part of capital planning, RBS Group will monitor its portfolio of issued capital securities and assess the optimal blend and most cost effective means of financing.

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

Liquidity risk management

NWH Group manages its liquidity risk taking into account regulatory, legal and other constraints to ensure sufficient liquidity is available where required to cover liquidity stresses.

The size of the liquidity portfolio held in the UK DoLSub is determined by referencing the NWH's liquidity risk appetite. The NWH 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.

NWB Plc manages the majority of the UK DoLSub's liquidity portfolio under the responsibility of RBS Group Treasurer.

Funding risk management

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

The asset and liability types broadly match. Customer deposits provide more funding than customer loans utilise.

Capital and risk management

Capital, liquidity and funding risk continued

Minimum requirements

Capital adequacy ratios

The bank entities are subject to minimum capital requirements relative to RWAs. The table below summarises the minimum ratios of capital to RWAs that the UK bank entities are expected to have to meet.

Type	CET1	Total Tier 1	Total capital
Minimum capital requirements	4.5%	6.0%	8.0%
Capital conservation buffer	2.5%	2.5%	2.5%
Countercyclical capital buffer (1)	0.9%	0.9%	0.9%
Total (2)	7.9%	9.4%	11.4%

Notes:

(1) The countercyclical capital buffer (CCyB) applied to UK designated assets is set by the Financial Policy Committee (FPC). The UK CCyB is currently 1.0% increasing to 2%, effective December 2020. Firm specific CCyB is based on a weighted average at CCyB rates applicable to countries in which the Bank has exposures.

(2) The minimum requirements do not include any capital that the bank entities may be required to hold as a result of the Pillar 2 assessment.

Leverage ratio

The CRR2 amendments to the CRR will introduce a binding 3% Tier 1 minimum capital leverage ratio for individual regulated legal entities, including NWB plc, from 28 June 2021.

Liquidity and funding ratios

The table below summarises the minimum requirements for key liquidity and funding metrics, under the relevant legislative framework. NWB Plc is a member of the UK DoLSub which is presented below.

Type	
Liquidity coverage ratio (LCR)	100%
Net stable funding ratio (NSFR) (1)	N/A

Note:

(1) The CRR2 amendments to the CRR will introduce a binding NSFR requirement from 28 June 2021.

Measurement

Capital, RWAs and leverage

The table below sets out the key Capital and Leverage ratios. Refer to Note 27 on the consolidated accounts for a more detailed breakdown of regulatory capital.

Capital (1)	2019 £m	2018 £m
CET1	12,851	13,138
Tier 1	15,047	15,389
Total	17,801	18,490
RWAs		
Credit risk	67,778	63,548
Counterparty credit risk	605	325
Market risk	17	50
Operational risk	12,669	11,660
Total RWAs	81,069	75,583
Capital adequacy ratios	%	%
CET1	15.9	17.4
Tier 1	18.6	20.4
Total	22.0	24.5
Leverage		
Tier 1 capital (£m)	15,047	15,389
Leverage exposure (£m)	300,438	295,483
Leverage ratio (%)	5.0	5.2

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 at least 56% of its Pillar 2A capital requirement with CET1 capital and the balance with Additional Tier 1 and/or Tier 2 capital. The Pillar 2A capital requirement is the additional capital that NWB Plc must hold, in addition to meeting its Pillar 1 requirements in order to comply with the PRA's overall financial adequacy rule.

Capital and risk management

Capital, liquidity and funding risk continued

Liquidity key metrics

Liquidity within NWB Plc is managed and regulated as part of the UK DoLSub. The table below sets out the key liquidity and related metrics for the UK DoLSub.

2019	UK DoLSub
Liquidity coverage ratio (1)	136%
Stressed outflow coverage (2)	134%
Net stable funding ratio (3)	137%
2018	
Liquidity coverage ratio (1)	153%
Stressed outflow coverage (2)	147%
Net stable funding ratio (3)	142%

Notes:
(1) On 1 October 2015 the LCR became the PRA's primary regulatory liquidity standard. It is a Pillar 1 metric to which the PRA apply Pillar 2 add-ons. The published LCR excludes Pillar 2 add-ons. RBS Group calculates the LCR using its own interpretations of the EU LCR Delegated Act, which may change over time and may not be fully comparable with those of other financial institutions.
(2) RBS Group's stressed outflow coverage (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 of a market-wide stress, an idiosyncratic stress and a combination of both as per ILAAP. This assessment is performed in accordance with PRA guidance. Note that a methodology change was applied to the Stressed Outflow Coverage calculation during 2019 to incorporate all intra-group cashflows for the UK DoLSub. This resulted in a 5% reduction in the Stressed Outflow Coverage ratio for UK DoLSub at 31 December 2019.
(3) In November 2016, the European Commission published its proposal for NSFR rules within the EU as part of its CRR2 package of regulatory reforms. CRR2 NSFR is expected to become the regulatory requirement in future within the EU and the UK. RBS Group has changed its policy on the NSFR to align with its interpretation of the CRR2 proposals with effect from 1 January 2018.

Leverage exposure

The leverage exposure is based on the CRR delegated act.

Leverage	2019 £m	2018 £m
Cash and balances at central banks	26,377	43,966
Derivatives	3,404	1,277
Other financial assets	273,508	248,922
Other assets	7,665	7,459
Total assets	310,954	301,624
Derivatives		
- netting and variation margin	(3,665)	(1,872)
- potential future exposures	1,494	1,203
Securities financing transactions gross up	516	203
Undrawn commitments	17,862	21,047
Regulatory deductions and other adjustments	(2,699)	(2,997)
Exclusion of core UK-group exposure	(24,024)	(23,725)
Leverage exposure	300,438	295,483

Liquidity portfolio

The table below shows the liquidity portfolio by product, liquidity value and carrying value. Liquidity for NWB is managed and regulated as part of the UK DoLSub. NatWest Bank manages the majority of the UK DoLSub's portfolio under the control of the RBS Treasurer. Liquidity value is lower than carrying value as it is stated after discounts (or haircuts) applied to instruments by the Bank of England and other central banks.

	31 December 2019		31 December 2018	
	NWH DoLSub (1) £m	NWB Plc £m	UK DoLSub (1) £m	NWB Plc £m
Cash and balances at central banks	51,080	26,451	63,951	44,336
AAA to AA- rated governments	34,585	34,585	27,603	27,603
A+ and lower rated governments	—	—	—	—
Government guaranteed issuers, PSEs and GSEs	90	90	100	100
International Organisations and MDBs	1,717	1,717	1,437	1,437
Level 1 Bonds	36,392	36,392	29,140	29,140
LCR Level 1 Eligible Assets	87,472	62,843	93,091	73,476
LCR Level 2 Eligible Assets	—	—	—	—
Non-LCR Eligible Assets	—	—	—	—
Primary liquidity	87,472	62,843	93,091	73,476
Secondary liquidity (2)	73,332	62,089	69,642	54,616
Total liquidity value	160,804	124,932	162,733	128,092

Notes:
(1) As at end 2018, The UK DoLSub comprises the NatWest Holding Group's four licensed deposit-taking UK banks: National Westminster Bank Plc, The Royal Bank of Scotland plc, Coutts and Co and Ulster Bank Limited. NatWest Markets Plc left the UK DoLSub during H2 2018.
(2) Comprises assets eligible to discounting at the Bank of England and other central banks.

Capital and risk management

Capital, liquidity and funding risk continued

Funding sources (audited)

	2019 Short-term less than 1 year £m	2019 Long-term more than 1 year £m	2019 Total £m	2018 Short-term less than 1 year £m	2018 Long-term more than 1 year £m	2018 Total £m
Bank deposits						
Repos	2,218	—	2,218	518	—	518
Other bank deposits	3,287	10,000	13,287	3,022	14,023	17,045
	5,505	10,000	15,505	3,540	14,023	17,563
Customer deposits						
Repos	1,765	—	1,765	3,774	—	3,774
Personal	137,636	984	138,620	133,570	1,162	134,732
Corporate	84,970	38	85,008	83,988	18	84,006
Non-bank financial institutions	16,703	21	16,724	15,258	—	15,258
	241,074	1,043	242,117	236,590	1,180	237,770
Other financial liabilities (1)						
Bank and customer deposits	112		112	20	—	20
Debt securities in issue						
Commercial papers and certificates of deposit	1,573	—	1,573	330		330
Covered bonds	3,051	2,897	5,948	—	5,369	5,369
Securitisations	—	672	672	—	597	597
	4,736	3,569	8,305	350	5,966	6,316
Subordinated liabilities	14	1,228	1,242	23	1,252	1,275
Amounts due to holding company and fellow subsidiaries (2)						
Bank and customer deposits	15,158	352	15,510	17,691	365	18,056
Other financial liabilities - MTNs	24	3,092	3,116	3	1,577	1,580
Subordinated liabilities	12	2,775	2,787	4	2,900	2,904
	15,194	6,219	21,413	17,698	4,842	22,540
Total funding	266,523	22,059	288,582	258,201	27,263	285,464
Of which: available in resolution (3)	*50*	*7,118*	*7,168*	*22*	*5,696*	*5,718*

Notes:

(1) Excludes £2 million (2018 – £50 million)relating to derivative cash collateral and nil (2018 – £131 million) relating to settlement balances.

(2) Amounts due to holding companies and fellow subsidiaries relating to non-financial instruments of £34 million (2018 - £2 million) have been excluded from the table.

(3) Eligible liabilities (as defined in the Banking Act 2009 as amended from time to time) that meet the eligibility criteria set out in the regulations, rules, policies, guidelines, or statements of the Bank of England including the Statement of Policy published by the Bank of England in June 2018.

Δ

Capital, liquidity and funding risk continued

Contractual maturity (audited)

The table shows the residual maturity of third party financial instruments, based on contractual date of maturity of NWB Group's banking activities, including third party and intercompany hedging derivatives. Trading activities comprising Mandatory fair value through profit or loss (MFVTPL) assets and held-for-trading (HFT) liabilities have been excluded from the maturity analysis due to their short-term nature and are shown in total in the table below.

	Banking activities										
	Less than 1 month	1-3 months	3-6 months	6 months - 1 year	Subtotal	1-3 years	3-5 years	More than 5 years	Total	Trading activities	Total
2019	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Central bank balances	27,457	—	—	—	27,457	—	—	—	27,457	—	27,457
Derivatives	1	—	—	1	2	3	5	3	13	3,289	3,302
Loans to banks	2,514	22	781	—	3,317	—	8	—	3,325	—	3,325
Loans to customers (1)	26,210	9,701	8,064	11,246	55,221	37,322	29,542	112,184	234,269		234,269
Personal	4,775	1,963	2,705	5,062	14,505	19,428	14,708	100,036	148,677	—	148,677
Corporate	18,092	2,652	2,762	4,967	28,473	16,966	14,216	11,934	71,589	—	71,589
NBFI	3,343	5,086	2,597	1,217	12,243	928	618	214	14,003	—	14,003
Other financial assets	528	759	361	1,869	3,517	8,987	5,685	22,373	40,562	386	40,948
Total financial assets	56,710	10,482	9,206	13,116	89,514	46,312	35,240	134,560	305,626	3,675	309,301
2018											
Total financial assets	76,337	5,520	6,556	11,889	100,302	41,263	34,948	121,202	297,715	1,486	299,201
2019											
Bank deposits	2,904	—	383	—	3,287	10,000	—	—	13,287		13,287
Bank repos	2,213	—	5	—	2,218	—	—	—	2,218		2,218
Customer repos	1,765	—	—	—	1,765	—	—	—	1,765		1,765
Customer deposits	231,480	3,799	2,521	1,509	239,309	1,021	4	18	240,352		240,352
Personal	132,857	2,792	836	1,151	137,636	984	—	—	138,620		138,620
Corporate	82,908	744	991	327	84,970	16	4	18	85,008		85,008
NBFI	15,715	263	694	31	16,703	21	—	—	16,724		16,724
Derivatives	—	3	6	—	9	16	11	26	62	4,836	4,898
Other financial liabilities	318	821	1,517	1,968	4,624	—	2,897	672	8,193	114	8,307
Commercial paper and certificates of deposits	268	819	264	222	1,573	—	—	—	1,573		1,573
Covered bonds	50	2	1,253	1,746	3,051	—	2,897	—	5,948		5,948
Securitisations	—	—	—	—	—	—	—	672	672		672
Bank deposits	—	—	—	—	—	—	—	—	—	3	3
Customer deposits	—	—	—	—	—	—	—	—	—	111	111
Subordinated liabilities	2	2	3	7	14	392	—	836	1,242		1,242
Lease liabilities	11	24	36	71	142	238	198	901	1,479		1,479
Other liabilities (2)	842	—	—	—	842	—	—	—	842		842
Total financial liabilities	239,535	4,649	4,471	3,555	252,210	11,667	3,110	2,453	269,440	4,950	274,390
2018											
Total financial liabilities	233,456	4,140	1,800	2,071	241,467	16,661	2,010	3,819	263,957	748	264,705

Notes:
(1) Loans to customers excludes £1,956 million (2018 - £1,637 million) of impairment provision.
(2) Includes notes in circulation.

Δ

Capital, liquidity and funding risk continued

Encumbrance (audited)

NWB Group evaluates the extent to which assets can be financed in a secured form (encumbrance), but certain asset types lend themselves more readily to encumbrance. The typical characteristics that support encumbrance are an ability to pledge those assets to another counterparty or entity through operation of law without necessarily requiring prior notification, homogeneity, predictable and measurable cash flows, and a consistent and uniform underwriting and collection process. Retail assets including residential mortgages and credit card receivables display many of these features.

NWB Group categorises its assets into three broad groups; those that are:

- Already encumbered and used to support funding currently in place through own-asset securitisations, covered bonds and securities repurchase agreements.
- Pre-positioned with central banks as part of funding schemes and those encumbered under such schemes.
- Ring-fenced to meet regulatory requirement, where NWB Group has in place an operational continuity in resolution (OCIR) investment mandate wherein PRA requires critical service providers to hold segregated liquidity buffers covering at least 50% of their annual fixed overheads.
- Not currently encumbered. In this category, NWB Group has in place an enablement programme which seeks to identify assets capable of being encumbered and to identify the actions to facilitate such encumbrance whilst not affecting customer relationships or servicing.

Balance sheet encumbrance - third party

	Encumbered as a result of transactions with counterparties other than central banks			Pre-positioned & encumbered assets held at central bank	Collateral ring-fenced to meet reg requirement	Unencumbered assets not pre-positioned with central banks				
2019	Covered bonds and securitisations (1) £bn	SFT, Derivatives & similar(2) £bn	Total (3) £bn	(4) £bn	(5) £bn	Readily available (6) £bn	Other available (7) £bn	Cannot be used (8) £bn	Total £bn	Total third party £bn
Cash and balances at central banks	—	2.7	2.7	—	—	24.8	—	—	24.8	27.5
Derivatives	—	—	—	—	—	—	—	3.3	3.3	3.3
Loans to banks - amortised cost	0.3	—	0.3	—	—	2.8	—	0.2	3.0	3.3
Loans to customers - amortised cost										
- residential mortgages	8.5	—	8.5	96.6	—	22.1	9.2	—	31.3	136.4
- credit cards	—	—	—	—	—	2.9	0.4	—	3.3	3.3
- personal loans	—	—	—	—	—	4.1	2.1	1.8	8.0	8.0
- other	—	—	—	1.5	—	2.2	53.0	27.9	83.1	84.6
Other financial assets	—	6.2	6.2	—	2.2	32.1	—	0.4	32.5	40.9
Other assets	—	—	—	—	—	—	1.7	5.6	7.3	7.3
Total assets	8.8	8.9	17.7	98.1	2.2	91.0	66.4	39.2	196.6	314.6
Balances with holding company and fellow subsidiaries										3.8
										318.4
2018										
Total assets	7.3	16.5	23.8	94.6	1.3	94.6	60.5	29.9	185.0	304.7
Balances with holding company and fellow subsidiaries										5.2
										309.9

Notes:

(1) Covered bonds and securitisations include securitisations, conduits and covered bonds.

(2) Repos and other secured deposits, cash, coin and nostro balance held with the Bank of England as collateral against deposits and notes in circulation are included here rather than within those positioned at the central bank as they are part of normal banking operations. Securities financing transactions (SFT) include collateral given to secure derivative liabilities.

(3) Total assets encumbered as a result of transactions with counterparties other than central banks are those that have been pledged to provide security and are therefore not available to secure funding or to meet other collateral needs.

(4) Assets pre-positioned at the central banks include loans provided as security as part of funding schemes and those encumbered under such schemes.

(5) Ring-fenced to meet regulatory requirement includes assets ring fenced to meet operational continuity in resolution (OCIR) investment mandate.

(6) Readily available for encumbrance: including assets that have been enabled for use with central banks but not pre-positioned; cash and high quality debt securities that form part of NatWest's liquidity portfolio and unencumbered debt securities.

(7) Other assets that are capable of being encumbered are those assets on the balance sheet that are available for funding and collateral purposes but are not readily realisable in their current form. These assets include loans that could be prepositioned with central banks but have not been subject to internal and external documentation review and diligence work.

(8) Cannot be used includes:

a. Derivatives, reverse repurchase agreements and trading related settlement balances.

b. Non-financial assets such as intangibles, prepayments and deferred tax.

c. Loans that cannot be pre-positioned with central banks based on criteria set by the central banks, including those relating to date of origination and level of documentation.

d. Non-recourse invoice financing balances and certain shipping loans whose terms and structure prohibit their use as collateral

(9) In accordance with market practice, NWB Group employs securities recognised on the balance sheet, and securities received under reverse repo transactions as collateral for repos.

Δ

Capital and risk management

Credit risk

Definition (audited)

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

The disclosures in this section are audited where indicated.

Sources of risk (audited)

The principal sources of credit risk are lending and related undrawn commitments. Derivatives and securities financing and debt securities are also a source of credit risk, primarily related to Treasury activities for NWB Group. NWB Group is also exposed to settlement risk through foreign exchange and payments activities.

Risk governance (audited)

NWH Group operates a Credit Risk function, which provides oversight of frontline credit risk management activities.

Governance activities include:

- Defining credit risk appetite for the management of concentration risk and credit policy to establish the key causes of risk in the process of providing credit and the controls that must be in place to mitigate them.
- Approving and monitoring credit limits.
- Oversight of the first line of defence to ensure that credit risk remains within the appetite set by RBS Group Board and that controls are being operated adequately and effectively.

Risk appetite

NWH Group's approach to Wholesale credit is governed by a comprehensive credit risk appetite framework. 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 RBS Group Board. The framework has been designed to reflect factors that influence the ability to operate within risk appetite. Tools such as stress testing and economic capital are used to measure credit risk volatility and develop links between the framework and risk appetite limits. The framework is supported by a suite of transaction acceptance standards that set out the risk parameters within which businesses should operate.

The Personal credit risk appetite framework sets limits that measure and control the quality and concentration of both existing and new business for each relevant business segment. The actual performance of each portfolio is tracked relative to these limits and management action is taken where necessary. The limits apply to a range of credit risk-related measures including expected loss at both portfolio and product level, projected credit default rates across products and the loan-to-value (LTV) ratio of the Personal mortgage portfolios.

For the Wholesale credit risk appetite framework, the four formal frameworks used – and their basis for classification – are detailed in the following table.

<table>
<tr><th rowspan="2">Framework</th><th colspan="2">Basis for classification</th></tr>
<tr><th>Measure</th><th>Other</th></tr>
<tr><td>Single name concentration</td><td rowspan="4">Exposure</td><td>Risk – based on loss given default for a given probability of default</td></tr>
<tr><td>Sector</td><td>Risk – based on economic capital and other qualitative factors</td></tr>
<tr><td>Country</td><td>Risk – based on sovereign default risk, political stability and macroeconomic factors</td></tr>
<tr><td>Product and asset class</td><td>Risk – based on heightened risk characteristics</td></tr>
</table>

Risk controls

Credit policy standards are in place for both the Wholesale and Personal portfolios. They are expressed as a set of mandatory controls.

Risk identification and measurement (audited)

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

Counterparty credit risk

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

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

Capital and risk management

Credit risk continued

Risk mitigation

Risk mitigation techniques, as set out in the appropriate credit policies, are used in the management of credit portfolios across NWB 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. Property is used to mitigate credit risk across a number of portfolios, in particular residential mortgage lending and commercial real estate (CRE).

The valuation methodologies for residential mortgage collateral and CRE are detailed below.

Residential mortgages – NWB Group takes collateral in the form of residential property to mitigate the credit risk arising from mortgages. NWB Group values residential property during the loan underwriting process by either appraising properties individually or valuing them collectively using statistically valid models. NWB Group updates residential property values quarterly using the relevant residential property index namely:

Region	Index used
UK	Halifax quarterly regional house price index
Northern Ireland	UK House Price Index (published by the Land Registry)

The current indexed value of the property is a component of the ECL provisioning calculation.

Commercial real estate valuations – NWB Group has a panel of chartered surveying firms that cover the spectrum of geography and property sectors in which NWB Group takes collateral. Suitable valuers for particular assets are contracted through a single service agreement to ensure consistency of quality and advice. Valuations are generally commissioned when an asset is taken as security; a material increase in a facility is requested; or a default event is anticipated or has occurred. In the UK, an independent third-party market indexation is applied to update external valuations once they are more than a year old and every three years a formal independent valuation is commissioned.

Risk assessment and monitoring

Practices for credit stewardship – including credit assessment, approval and monitoring as well as the identification and management of problem debts – differ between the Personal and Wholesale portfolios.

Personal

Personal customers are served through a lending approach that entails making a large number of small-value loans. To ensure that these lending decisions are made consistently, NWB Group analyses internal credit information as well as external data supplied from credit reference agencies (including historical debt servicing behaviour of customers with respect to both NWB Group and other lenders). NWB Group then sets its lending rules accordingly, developing different rules for different products.

The process is then largely automated, with each customer receiving an individual credit score that reflects both internal and external behaviours and this score is compared with the lending rules set. For relatively high-value, complex personal loans, including some residential mortgage lending, specialist credit managers make the final lending decisions. These decisions are made within specified delegated authority limits that are issued dependent on the experience of the individual.

Underwriting standards and portfolio performance are monitored on an ongoing basis to ensure they remain adequate in the current market environment and are not weakened materially to sustain growth.

Wholesale

Wholesale 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 within the business. This process is facilitated through an auto-decision making system, which utilises scorecards, strategies and policy rules. Such credit decisions must be within the approval authority of the relevant business sanctioner.

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

Personal

Early problem identification

Pre-emptive triggers are in place to help identify customers that may be at risk of being in financial difficulty. These triggers are both internal, using NWB Group's data, and external using information from credit reference agencies. Pro-active contact is then made with the customer to establish if they require help with managing their finances. By adopting this approach, the aim is to prevent a customer's financial position deteriorating which may then require intervention from the Collections and Recoveries teams.

Personal customers experiencing financial difficulty are managed by the Collections team. If the Collections team is unable to provide appropriate support after discussing suitable options with the customer, management of that customer moves to the Recoveries team. If at any point in the Collections and Recoveries process, the customer is identified as being potentially vulnerable, the customer will be separated from the regular process and supported by a specialist team to ensure the customer receives appropriate support for their circumstances.

Credit risk continued

Collections

When a customer exceeds an agreed limit or misses a regular monthly payment the customer is contacted by NWB Group and requested to remedy the position. If the situation is not regularised then, where appropriate, the Collections team will become more fully involved and the customer will be supported by skilled debt management staff who endeavour to provide customers with bespoke solutions. Solutions include short-term account restructuring, refinance loans and forbearance which can include interest suspension and ‘breathing space’. In the event that an affordable/sustainable agreement with a customer cannot be reached, the debt will transition to the Recoveries team. For provisioning purposes, under IFRS 9, exposure to customers managed by the Collections team is categorised as Stage 2 and subject to a lifetime loss assessment, unless it is 90 days past due, in which case it is categorised as Stage 3.

Recoveries

The Recoveries team will issue a notice of intention to default to the customer and, if appropriate, a formal demand, while also registering the account with credit reference agencies where appropriate. Following this, the customer’s debt may then be placed with a third-party debt collection agency, or alternatively a solicitor, in order to agree an affordable repayment plan with the customer. An option that may also be considered, is the sale of unsecured debt. Exposures subject to formal debt recovery are defaulted and categorised as Stage 3 impaired.

Wholesale

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 activity, or external, such as a publicly-listed customer’s share price. If early warning indicators show a customer is experiencing potential or actual difficulty, or if relationship managers or credit officers identify other signs of financial difficulty, they may decide to classify the customer within the Risk of Credit Loss framework.

Risk of Credit Loss framework

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

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

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

Once classified as either Heightened Monitoring or Risk of Credit Loss, a number of mandatory actions are taken in accordance with policies. Actions include a review of the customer’s credit grade, facility and security documentation and the valuation of security.

Depending on the severity of the financial difficulty and the size of the exposure, the customer relationship strategy is reassessed by credit officers, by specialist credit risk or relationship management units in the relevant business or by Restructuring.

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

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

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

The Risk of Credit Loss framework does not apply to problem debt management for Business Banking customers. These customers are, where necessary, managed by specialist problem debt management teams, depending on the size of exposure or by the Business Banking recoveries team where a loan has been impaired.

Restructuring

For the Wholesale problem debt portfolio, customer relationships are mainly managed by the Restructuring team. The purpose of Restructuring is to protect the NWB Group’s capital. Restructuring does this by working with corporate and commercial customers in financial difficulty on their restructuring and repayment strategies. Restructuring will always aim to recover capital fairly and efficiently.

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

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

Forbearance (audited)

Forbearance takes place when a concession is made on the contractual terms of a loan/debt in response to a customer’s financial difficulties.

The aim of forbearance is to support and restore the customer to financial health while minimising risk. To ensure that forbearance is appropriate for the needs of the customer, minimum standards are applied when assessing, recording, monitoring and reporting forbearance.

A loan/debt may be forborne more than once, generally where a temporary concession has been granted and circumstances warrant another temporary or permanent revision of the loan’s terms.

Credit risk continued

Forbearance (audited)

In the Personal portfolio, loans are considered forborne until they meet the exit criteria set out by the European Banking Authority. These include being classified as performing for two years since the last forbearance event, making regular repayments and the loan/debt being less than 30 days past due. Exit criteria are not currently applied for Wholesale portfolios.

Types of forbearance

Personal

In the Personal portfolio, forbearance may involve payment concessions and loan rescheduling (including extensions in contractual maturity) and capitalisation of arrears. Forbearance is granted principally to customers with mortgages and less frequently to customers with unsecured loans. This includes instances where forbearance may be provided to customers with highly flexible mortgages.

Wholesale

In the Wholesale portfolio, forbearance may involve covenant waivers, amendments to margins, payment concessions and loan rescheduling (including extensions in contractual maturity), capitalisation of arrears, and debt forgiveness or debt-for-equity swaps.

Monitoring of forbearance

Personal

For Personal portfolios, forborne loans are separated and regularly monitored and reported while the forbearance strategy is implemented until they exit forbearance.

Wholesale

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

Provisioning for forbearance

Personal

The methodology used for provisioning in respect of Personal forborne loans will differ depending on whether the loans are performing or non-performing and which business is managing them due to local market conditions.

Granting forbearance will only change the arrears status of the loan in specific circumstances, which can include capitalisation of principal and interest in arrears, where the loan may be returned to the performing book if the customer has demonstrated an ability to meet regular payments and is likely to continue to do so.

The loan would remain in forbearance for the defined probation period and be subject to performance criteria. These include making regular repayments and being less than 30 days past due.

Additionally, for some forbearance types a loan may be transferred to the performing book if a customer makes payments that reduce loan arrears below 90 days (UK Personal Banking collections function).

For ECL provisioning, all forborne but performing exposures are categorised as Stage 2 and are subject to a lifetime loss provisioning assessment.

For non-performing forborne loans, the Stage 3 loss assessment process is the same as for non-forborne loans.

Wholesale

Provisions for forborne loans are assessed in accordance with normal provisioning policies. The customer's financial position and prospects – as well as the likely effect of the forbearance, including any concessions granted, and revised PD or LGD gradings – are considered in order to establish whether an impairment provision is required. Wholesale loans granted forbearance are individually assessed in most cases. Performing loans subject to forbearance treatment are categorised as Stage 2 and subject to a lifetime loss assessment. Forbearance may result in the value of the outstanding debt exceeding the present value of the estimated future cash flows. This difference will lead to a customer being classified as non-performing.

In the case of non-performing forborne loans, an individual loan impairment provision assessment generally takes place prior to forbearance being granted. The amount of the loan impairment provision may change once the terms of the forbearance are known, resulting in an additional provision charge or a release of the provision in the period the forbearance is granted.

The transfer of Wholesale loans from impaired to performing status follows assessment by relationship managers and credit. When no further losses are anticipated and the customer is expected to meet the loan's revised terms, any provision is written-off or released and the balance of the loan returned to performing status. This is not dependent on a specified time period and follows the credit risk manager's assessment.

Δ

Impairment, provisioning and write-offs (audited)

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

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

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

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

Refer to Accounting policy 13 for further details.

Δ

Economic loss drivers (audited)

Introduction

The most material economic loss drivers for Personal portfolios include UK GDP, unemployment rate, house price index and base rate.

In addition to some of these loss drivers, world GDP is a primary loss driver for Wholesale portfolios.

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 NWB 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 below.

Credit risk continued

Economic loss drivers (audited)

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 Bank of England 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.

Use of the central base case in Personal

In Personal the internal base case is directly used as the central scenario for the ECL calculations by feeding the forecasted economic loss drivers into the respective PD and LGD models

Use of the central base case in Wholesale

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

- Personal – In addition to the central base case a further four bespoke scenarios are taken into account – a base case upside and downside – and an additional upside and downside. The overall MES ECL is calculated as a probability weighted average across all five scenarios (refer to the Probability weightings of scenarios section for further details).

The ECL impact on the Personal portfolio arising from the systematic application of MES over the single, central base case was relatively low and estimated at less than 1%, in line with 2018. Losses are expected to increase on a non-linear basis in the event of an economic downturn, and for UK Personal Banking, this effect was included within the overlay for UK economic uncertainty detailed on page 29. At the end of 2018, an overlay of £19 million covering non-linearity of losses had been held separately.

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

The simulation of alternative scenarios does not occur on the level of the individual economic loss drivers but operates on the aggregate Credit Cycle Indices (CCI) that underpin the Wholesale credit models. CCIs measure portfolio level default rate conditions expressed as an index value. An index value of zero represents long run average default rates. Negative and positive index values represent default rates above and below long run averages respectively. The Monte Carlo MES approach increases Wholesale modelled ECL for Stage 1 and Stage 2 by approximately 7% above the single, central scenario outcomes. No additional non-linearity overlay was applied for Wholesale, similar to 2018, with the final reported ECL inclusive of the systematic MES uplift from the Monte Carlo modelling and also the overlay for economic uncertainty detailed below.

For both Personal and Wholesale, the impact from MES is factored into account level PDs through scalars. These MES-adjusted PDs are used to assess whether a significant increase in credit risk has occurred.

Key economic loss drivers

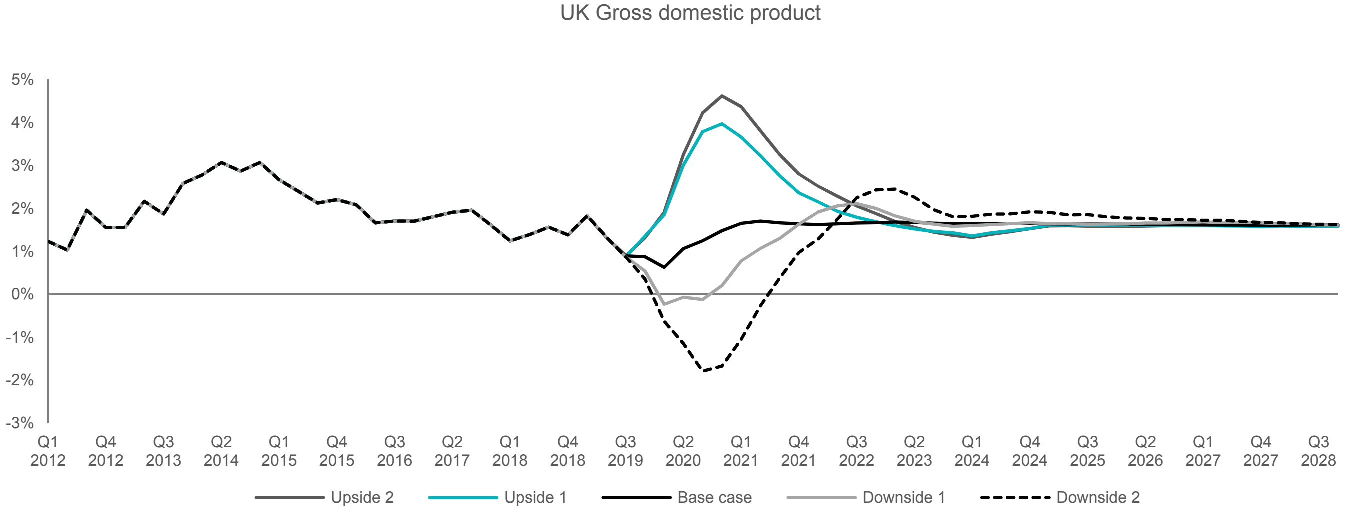
The tables and commentary below provide an update on the base case economics used at 31 December 2019, and also the MES used for Personal portfolios. The average over the five year horizon (2020 to 2024) for the central base case and two upside and downside scenarios used for ECL modelling, are set out 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 across the MES. Subsequently, the annual figures for key variables across the UK are shown. Finally, the extreme points table show the best and worst readings for three key variables in the two upside and two downside scenarios, highlighting the most challenging points in the downside scenarios and the strongest points in the upside scenarios.

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				
UK	Upside 2 %	Upside 1 %	Base case %	Downside 1 %	Downside 2 %	Upside 2 %	Upside 1 %	Base case %	Downside 1 %	Downside 2 %
GDP - change	2.4	2.2	1.6	1.3	0.9	2.6	2.3	1.7	1.5	1.1
Unemployment	3.6	3.9	4.4	4.7	5.2	3.3	3.8	5.0	5.6	6.9
House Price Inflation - change	4.1	3.3	1.6	0.8	(1.0)	4.3	3.3	1.7	1.1	(0.5)
Bank of England base rate	1.0	0.7	0.3	—	—	1.7	1.3	1.1	0.5	—
World GDP - change	3.8	3.3	2.8	2.5	2.1	3.6	3.2	2.7	2.5	2.3
Probability weight	12.7	14.8	30.0	29.7	12.7	12.8	17.0	30.0	25.6	14.6

Credit risk continued

Economic loss drivers (audited)



UK GDP - annual growth

	Upside 2 %	Upside 1 %	Base case %	Downside 1 %	Downside 2 %
2019	1.3	1.4	1.2	1.1	1.1
2020	3.5	3.2	1.1	(0.1)	(1.3)
2021	3.6	3.0	1.7	1.2	—
2022	2.2	1.9	1.7	2.0	1.9
2023	1.5	1.5	1.7	1.7	2.1
2024	1.4	1.5	1.6	1.6	1.9

UK unemployment rate

	Upside 2 %	Upside 1 %	Base case %	Downside 1 %	Downside 2 %
Q4 2019	4.0	4.0	4.1	4.1	4.1
Q4 2020	3.7	3.8	4.4	4.8	5.1
Q4 2021	3.5	3.8	4.4	4.8	5.5
Q4 2022	3.5	3.8	4.4	4.7	5.4
Q4 2023	3.6	3.9	4.4	4.6	5.3
Q4 2024	3.8	4.0	4.4	4.6	5.1

UK House Price Inflation - annual growth

	Upside 2 %	Upside 1 %	Base case %	Downside 1 %	Downside 2 %
2019	1.7	1.7	1.5	1.5	1.4
2020	5.7	4.5	1.0	(1.1)	(3.6)
2021	8.2	6.0	0.9	(2.7)	(7.7)
2022	4.2	3.1	1.5	0.8	(1.9)
2023	1.7	1.4	2.0	3.1	3.0
2024	0.9	1.4	2.6	3.9	5.2

Extreme points

	Best points				Worst points			
	H2 2019		H2 2018		H2 2019		H2 2018	
	Upside 2	Upside 1	Upside 2	Upside 1	Downside 1	Downside 2	Downside 1	Downside 2
UK	%	%	%	%	%	%	%	%
GDP (year-on-year)	4.6	4.0	5.0	4.1	(0.2)	(1.8)	(0.1)	(1.9)
Unemployment	3.5	3.8	2.8	3.4	4.9	5.5	5.9	7.4
House Price Inflation (year-on-year)	8.9	6.7	9.1	7.0	(3.5)	(8.4)	(2.8)	(7.3)

Δ

Capital and risk management

Credit risk continued

Economic loss drivers (audited)

Probability weightings of scenarios

NWB Group's approach to IFRS 9 MES in Personal involves selecting a suitable set of discrete scenarios to characterise the distribution of risks in the economic outlook and assigning appropriate probability weights to those scenarios. This involves the following steps:

- Scenario selection – Two upside and two downside scenarios from Moody's inventory of scenarios were chosen. The aim is to obtain downside scenarios that are not as severe as stress tests, so typically they have a severity of around one in ten and one in five of approximate likelihood, along with corresponding upsides.
- Severity assessment – Having selected the most appropriate scenarios their severity is then assessed based on the behaviour of UK GDP by calculating a variety of measures such as average growth, deviation from baseline and peak to trough falls. These measures are compared against a set of 1,000 model runs, following which, a percentile in the distribution is established which most closely corresponds to the scenario.
- Probability assignment – Having established the relevant percentile points, probability weights are assigned to ensure that the scenarios produce an unbiased result.

UK economic uncertainty

NWB Group's approach is designed to capture the historic variability and distribution of economic risks. NWB Group's approach to capturing these incremental or skewed forward-looking risks is to apply an overlay to ECL of £111 million (2018 – £82 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 (audited)

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

Personal models

Personal PD models use the Exogenous, Maturity and Vintage (EMV) approach to model default rates. The EMV approach separates portfolio default risk trends into three components: vintage effects (quality of new business over time), maturity effects (changes in risk relating to time on book) and exogenous effects (changes in risk relating to changes in macro-economic conditions). The EMV methodology has been widely adopted across the industry because it enables forward-looking economic information to be systematically incorporated into PD estimates.

Wholesale models

Wholesale 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.

Δ

Personal

Forward-looking information has only been incorporated for the secured portfolios, where changes in property prices can be readily accommodated. Analysis has shown minimal impact of economic conditions on LGDs for the other Personal portfolios.

Wholesale

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.

Credit risk continued

Credit risk modelling (audited)

EAD estimates

Personal

The IFRS 9 Personal modelling approach for EAD is dependent on product type.

- Revolving products use the existing Basel models as a basis, with appropriate adjustments incorporating a term structure based on time to default.
- Amortising products use an amortising schedule, where a formula is used to calculate the expected balance based on remaining terms and interest rates.
- There is no EAD model for Personal loans. Instead, debt flow (i.e. combined PD x EAD) is directly modelled.

Analysis has indicated that there is minimal impact on EAD arising from changes in the economy for all Retail portfolios except mortgages. Therefore, forward-looking information is only incorporated in the mortgage EAD model (through forecast changes in interest rates).

Wholesale

For Wholesale, EAD values are projected using product specific credit conversion factors (CCF), 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.

For UK Personal Banking, these PMAs netted to a total overlay of approximately £29 million at the year end. This included £8 million in respect of the repayment risk not captured in the models, that a proportion of customers on interest only mortgages will not be able to repay the capital element of their loan at end of term. The overlay for interest only mortgages was based on an analysis of recent experience on customer repayments pre and post end of term, and modelling that forward for maturities over the next ten years. In addition, judgemental ECL overlays totalling approximately £30 million were held. In credit cards, a £24 million ECL overlay was in place in respect of a withheld systematic model release in recognition of expected future modelling developments. For mortgages, a judgmental overlay of £6 million was held in respect of the perceived forward-looking incremental risk on buy-to-let lending.

For Wholesale portfolios, the PMAs increased ECL by £46 million. Those held on a temporary basis ahead of the underlying model parameter changes being implemented were £42 million. Those held as judgemental ECL overlays totalled £4 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.

Δ

Significant increase in credit risk (audited)

Exposures that are considered significantly credit deteriorated since initial recognition are classified in Stage 2 and assessed for lifetime ECL measurement (exposures not considered deteriorated carry a 12 month ECL). RBS 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 RBS Group and align to credit risk management practices.

The framework comprises the following elements:

- IFRS 9 lifetime PD assessment (the primary driver) – on modelled portfolios the assessment is based on the relative deterioration in forward-looking lifetime PD and is assessed monthly. To assess whether credit deterioration has occurred, the residual lifetime PD at balance sheet date (which PD is established at date of initial recognition (DOIR)) 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. For Wholesale, a doubling of PD would indicate a significant increase in credit risk subject to a minimum PD uplift of 0.1%. For Personal portfolios, the criteria varies by risk band, with lower risk exposures needing to deteriorate more than higher risk exposures, as outlined in the following table:

Personal risk bands	Risk bandings (based on residual lifetime PD calculated at DOIR)	PD deterioration threshold criteria
Risk band A	<0.762%	PD@DOIR + 1%
Risk band B	<4.306%	PD@DOIR + 3%
Risk band C	>=4.306%	1.7 x PD@DOIR

- 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, Wholesale exposures managed within the Risk of Credit Loss framework, and for Personal, adverse credit bureau results.
- Persistence (Personal and Business Banking customers only) – the persistence rule ensures that accounts which have met the criteria for PD driven deterioration are still considered to be significantly deteriorated for three months thereafter. This additional rule enhances the timeliness of capture in Stage 2. It is a Personal methodology feature and is applied to PD driven deterioration only.

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

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

Δ

Asset lifetimes (audited)

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

- The date of initial recognition reflects the date that a transaction (or account) was first recognised on the balance sheet; the PD recorded at that time provides the baseline used for subsequent determination of significant increase in credit risk.
- For asset duration, the approach applied (in line with IFRS 9 requirements) is:
  - Term lending – the contractual maturity date, reduced for behavioural trends where appropriate (such as, expected pre-payment and amortisation).
  - Revolving facilities – for Personal portfolios (except credit cards), asset duration is based on behavioural life and this is normally greater than contractual life (which would typically be overnight). For Wholesale portfolios, asset duration is based on annual counterparty review schedules and will be set to the next review date.

Credit risk continued

Asset lifetimes (audited)

In the case of credit cards, the most significant judgement is to reflect the operational practice of card reissuance and the associated credit assessment as enabling a formal re-origination trigger. As a consequence, a capped lifetime approach of up to 36 months is used on credit card balances. If the approach was uncapped the ECL impact is estimated at approximately £65 million (2018 – £70 million).

The approach reflects NWB Group's practice of a credit-based review of customers prior to credit card issuance and complies with IFRS 9.

Benchmarking information indicates that peer UK banks use behavioural approaches in the main for credit card portfolios with average durations between three and ten years. Across Europe durations are shorter and are, in some cases, as low as one year.

Δ

Measurement uncertainty and ECL sensitivity analysis (audited)

The recognition and measurement of ECL is complex and involves the use of significant judgement and estimation. This includes the formulation and incorporation of multiple forward-looking economic conditions into ECL to meet the measurement objective of IFRS 9. The ECL provision is sensitive to the model inputs and economic assumptions underlying the estimate. 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, with the exception of a univariate HPI sensitivity. The following common scenarios have been applied across the key Personal and Wholesale portfolios:

- 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 methodology for Personal MES. In the simulation, RBS Group have assumed that the economic macro variables associated with these scenarios replace the existing base case economic assumptions, giving them a 100% probability weighting and thus serving as a single economic scenario.

These scenarios have been applied to all modelled portfolios in the analysis below, with the simulation impacting both PDs and LGDs. Modelled overlays present in the underlying ECL estimates are also sensitised. As expected, the scenarios create differing impacts on ECL by portfolio and the impacts are deemed reasonable. In this simulation it is assumed that existing modelled relationships between key economic variables and loss drivers hold but in practice other factors would also have an impact, 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 two specific portfolio simulations:

- Wholesale portfolios – simulating the impact of PDs and LGDs moving upwards to the through-the-cycle (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.
- Mortgages – House Price Inflation (HPI) is a key economic driver and RBS Group have simulated a univariate scenario of a 20% decrease in HPI across the main mortgage portfolios. A univariate analysis using only HPI does not allow for the interdependence across the other key primary loss drivers to be reflected in any ECL estimate. PDs are not impacted in this scenario analysis. The simulated impact is based on 100% probability weighting to demonstrate the isolated sensitivity of HPI against base ECL estimates.

RBS 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.

Credit risk continued

Measurement uncertainty and ECL sensitivity analysis (audited)

	Actual position at 31 December 2019 Stage 1 and Stage 2 (1)			Common scenarios (2,3) Downside 2			Upside 2			Discrete Scenarios (2,3) HPI (4) / TTC PD (5)		
	Exposure	of which in Stage 2	ECL provision (2)	Potential ECL impact		Exposure in Stage 2	Potential ECL impact		Exposure in Stage 2	potential ECL impact		Exposure in Stage 2
	£bn	%	£m	£m	%	%	£m	%	%	£m	%	%
Personal and business banking												
UK	140.6	7.8%	507.3	72.8	14.3%	8.7%	(59.9)	(11.8%)	7.7%			
Of which: mortgages												
Stage 1 and Stage 2	*125.9*	*6.1%*	*66.4*	—	—	—	—	—	—	*22.5*	*33.9%*	*6.1%*
Wholesale	133.9	5.7%	204.2	54.6	26.7%	7.4%	(53.5)	(26.2%)	4.6%	87.9	43.1%	10.3%
Total	274.5	6.8%	711.5	127.4	17.9%	8.1%	(113.4)	(15.9%)	6.2%			
Personal banking												
UK: mortgages												
Stage 3	0.8	—	126.6							8.1	6.4%	

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. For Personal, the analysis excludes non-modelled portfolios such as Private Banking.
(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) HPI is applied to the most material mortgage portfolios only, namely UK Personal Banking. The impacts for Stage 3 are included separately.
(5) TTC or long-run average PDs and LGDs are applied to Wholesale portfolios only (excluding business banking exposures which reside in the Personal and Business Banking section).
(6) Refer to page 27 for details of base case economic scenarios.
(7) 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 £127 million on Stage 1 and 2 exposures from the current level of £712 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 sensitivity of Personal portfolios to Downside 2 has reduced over time. This is mainly because compared to 2018, the path assumed for the unemployment rate in the Downside 2 scenario is lower. However, significant ECL impacts were still evident with the UK Personal Banking mortgage portfolio ECL simulated to increase by just over 27%, and which impact is included within the overall Personal and Business Banking, UK, simulated result.
- The Upside 2 scenario indicates a slightly lower release to ECL for Personal and Business Banking, UK, and Wholesale 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.
- On the univariate HPI scenario, the impact of a 20% fall in house prices was illustrated for Stage 1 and 2 ECL, where the impacts were relatively modest. Additionally, the HPI reduction impacts on the Stage 3 ECL have been shown specifically for this scenario, given the relevance to measurement sensitivity in Stage 3. The relationship between the required ECL and house price movements is expected to be nonlinear should the level of house prices reduce by more material amounts.
- For Wholesale, 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.

Δ

Capital and risk management

Credit risk – Banking activities

Introduction

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

Refer to Accounting policy 13 and Note 13 on the accounts for revisions to policies and critical judgements relating to impairment loss determination.

Presentation of interest in suspense recoveries

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

RBS Group changed its accounting policy in line with the IFRIC decision. Hence, the carrying amount of the financial assets within the scope of the provisions of the decision as well as the associated ECL allowance on the statement of financial position have been adjusted and the comparative period restated. The coverage 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, for further details.

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

Refer to Note 10 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 £bn	2018* £bn
Balance sheet total gross AC/FVOCI	305.6	297.8
In scope of IFRS 9 ECL framework	304.2	296.0
% in scope	100%	99%
Loans - in scope	237.3	211.3
Stage 1	215.1	191.5
Stage 2	19.4	16.7
Stage 3	2.8	3.1
Other financial assets - in scope	66.9	84.7
Stage 1	66.9	84.7
Out of scope of IFRS 9 ECL framework	1.4	1.8

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

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

- Settlement balances, items in the course of collection, cash balances and other non-credit risk assets of £0.7 billion (2018 - £1.2 billion). These were assessed as having no ECL unless there was evidence that they were credit impaired.
- NWB Group-originated securitisations, where ECL was captured on the underlying loans of £0.4 billion (2018 - £0.4 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).
- Commercial cards which operate in a similar manner to charge cards, with balances repaid monthly via mandated direct debit with the underlying risk of loss captured within the customer's linked current account of £0.2 billion (2018 - £0.2 billion).

In scope assets also include an additional £3.4 billion (2018 - £5.0 billion) of inter-Group assets 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 £1.1 billion (2018 - £1.8 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 £73.9 billion (2018 - £96.6 billion) comprised Stage 1 £69.4 billion (2018 - £92.0 billion); Stage 2 £4.1 billion (2018 - £4.2 billion) and Stage 3 £0.4 billion (2018 - £0.4 billion).

Δ

Credit risk – Banking activities continued

Portfolio summary – segment analysis (audited)

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

2019	UK Personal Banking £m	Commercial Banking £m	Private Banking £m	Central items & other £m	Total £m
Loans - amortised cost					
Stage 1	125,591	61,438	14,292	13,790	215,111
Stage 2	10,236	8,602	551	3	19,392
Stage 3	1,295	1,360	180	—	2,835
Inter-Group (1)				3,389	3,389
	137,122	71,400	15,023	17,182	240,727
ECL provisions (2)					
Stage 1	95	116	7	5	223
Stage 2	363	149	6	—	518
Stage 3	597	658	26	—	1,281
	1,055	923	39	5	2,022
ECL provisions coverage (3, 4)					
Stage 1 (%)	0.08	0.19	0.05	0.04	0.10
Stage 2 (%)	3.55	1.73	1.09	—	2.67
Stage 3 (%)	46.10	48.38	14.44	—	45.19
	0.77	1.29	0.26	0.04	0.85
Impairment losses					
ECL charge (5)					
Stage 1	(66)	(42)	(14)	—	(122)
Stage 2	210	90	4	1	305
Stage 3	185	199	3	2	389
Third party	329	247	(7)	3	572
	329	247	(7)	3	572
ECL loss rate - annualised (basis points) (4)	23.99	34.59	(4.66)	2.18	24.10
Amounts written-off	172	231	1	—	404

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

Credit risk – Banking activities continued

Portfolio summary – segment analysis (audited)

2018*	UK Personal Banking £m	Commercial Banking £m	Private Banking £m	Central items & other £m	Total £m
Loans - amortised cost					
Stage 1	113,227	59,665	13,089	5,497	191,478
Stage 2	9,586	6,607	506	33	16,732
Stage 3	1,280	1,638	193	16	3,127
Inter-Group (1)				5,046	5,046
	124,093	67,910	13,788	10,592	216,383
ECL provisions (2)					
Stage 1	78	90	13	3	184
Stage 2	333	108	10	1	452
Stage 3	473	649	25	16	1,163
Inter-Group (1)				1	1
	884	847	48	21	1,800
ECL provisions coverage (3, 4)					
Stage 1 (%)	0.07	0.15	0.10	0.05	0.10
Stage 2 (%)	3.47	1.63	1.98	3.03	2.70
Stage 3 (%)	36.95	39.62	12.95	100.00	37.19
Inter-Group (%) (1)				0.02	0.02
	0.71	1.25	0.35	0.36	0.85
Impairment losses					
ECL charge (5)					
Stage 1	(54)	(5)	(5)	3	(61)
Stage 2	199	55	—	(1)	253
Stage 3	126	134	(3)	(4)	253
Third party	271	184	(8)	(2)	445
Inter-Group	—	—	—	(17)	(17)
	271	184	(8)	(19)	428
ECL loss rate - annualised (basis points) (4)	21.84	27.09	(5.80)	(3.61)	21.06
Amounts written-off	341	265	—	6	612

*2018 data has been restated for a change to reportable segments and a change to presentation of unrecognised interest. Refer to Note 4 on the accounts and Accounting policy 1, Other amendments to IFRS, for further details.

Notes:
(1) The NWB Group's intercompany assets were classified in Stage 1. The ECL attached to these loans was £0.4 million at 31 December 2019.
(2) Includes £2 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 £28 million charge (2018 – £2 million charge) related to other financial assets, of which a £1 million charge (2018 – £2 million charge) related to assets classified as FVOCI; and a £27 million charge (2018 – £17 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 page 33 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 £26.8 billion and debt securities of £40.2 billion (2018 – £44.3 billion and £40.4 billion respectively).

Key points

- Total ECL provisions increased across all stages.
- UK Personal Banking ECL provisions – The increase in Stage 1 and Stage 2 was a result of a combination of portfolio growth and also slight increases in PD reflective of small uplifts in actual default rates, as well as additional ECL raised due to on-going economic uncertainty. The rise in Stage 3 reflected the steady flow of new defaults which increased slightly year-on-year, however, in unsecured lending the trend flattened in the second half of the year as a result of risk appetite tightening.
- Commercial Banking ECL provisions – ECL balances increased across all stages due to increased ECL charges, primarily driven by a small number of material individual provisions, model enhancements and increased economic uncertainty, partly offset by write-offs and repayments. Stage 2 loans and advances increased primarily due to model enhancements and increases in exposures managed in the Risk of Credit Loss framework, leading to net transfers from Stage 1.
- Total provision coverage overall remained unchanged with increases in Stage 3 coverage for both individual and collectively assessed exposures, offset by a slight decrease in Stage 2.
- The impairment charge for the year was £572 million up from £428 million in 2018; primarily this reflected the transitioning from a very benign period towards a more normalised external credit environment as well as the impact of a small number of large individual commercial charges. The cost of risk at 24 basis points remained below NWB Group's view of a normalised blended long-term loss rate of 30 to 40 basis points.

Δ

Credit risk – Banking activities continued

Segmental loans and impairment metrics (audited)

The table below shows gross loans and ECL provisions, by days past due by segment and stage, within the scope of the ECL framework.

	Gross loans							ECL provisions (2)						
		Stage 2 (1)							Stage 2 (1)					
	Stage 1	Not past due	1-29 DPD	>30 DPD	Total	Stage 3	Total	Stage 1	Not past due	1-29 DPD	>30 DPD	Total	Stage 3	Total
2019	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
UK Personal Banking	125,591	9,039	758	439	10,236	1,295	137,122	95	292	34	37	363	597	1,055
Commercial Banking	61,438	8,165	202	235	8,602	1,360	71,400	116	132	10	7	149	658	923
Private Banking	14,292	452	54	45	551	180	15,023	7	5	—	1	6	26	39
Personal	*11,007*	*174*	*52*	*40*	*266*	*165*	*11,438*	*3*	*1*	—	*1*	*2*	*20*	*25*
Wholesale	*3,285*	*278*	*2*	*5*	*285*	*15*	*3,585*	*4*	*4*	—	—	*4*	*6*	*14*
Central items & other	13,790	3	—	—	3	—	13,793	5	—	—	—	—	—	5
Total loans	215,111	17,659	1,014	719	19,392	2,835	237,338	223	429	44	45	518	1,281	2,022
Of which:														
Personal	*136,598*	*9,213*	*810*	*479*	*10,502*	*1,460*	*148,560*	*98*	*293*	*34*	*38*	*365*	*617*	*1,080*
Wholesale	*78,513*	*8,446*	*204*	*240*	*8,890*	*1,375*	*88,778*	*125*	*136*	*10*	*7*	*153*	*664*	*942*
2018*														
UK Personal Banking	113,227	8,295	754	537	9,586	1,280	124,093	78	263	33	37	333	473	884
Commercial Banking	59,665	6,189	257	161	6,607	1,638	67,910	90	96	7	5	108	649	847
Private Banking	13,089	292	66	148	506	193	13,788	13	4	1	5	10	25	48
Personal	*10,179*	*114*	*52*	*23*	*189*	*176*	*10,544*	*5*	*2*	—	—	*2*	*23*	*30*
Wholesale	*2,910*	*178*	*14*	*125*	*317*	*17*	*3,244*	*8*	*2*	*1*	*5*	*8*	*2*	*18*
Central items & other	5,497	33	—	—	33	16	5,546	3	1	—	—	1	16	20
Total loans	191,478	14,809	1,077	846	16,732	3,127	211,337	184	364	41	47	452	1,163	1,799
Of which:														
Personal	*123,405*	*8,409*	*806*	*560*	*9,775*	*1,458*	*134,638*	*83*	*265*	*33*	*37*	*335*	*496*	*914*
Wholesale	*68,073*	*6,400*	*271*	*286*	*6,957*	*1,669*	*76,699*	*101*	*99*	*8*	*10*	*117*	*667*	*885*

*2018 data has been restated for a change to reportable segments and a change to presentation of unrecognised interest. Refer to Note 4 on the accounts and Accounting policy 1, Other amendments to IFRS, for further details.

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

Credit risk – Banking activities continued

Segmental loans and impairment metrics (audited)

	ECL provisions coverage							ECL		
		Stage 2 (1,2)								
2019	Stage 1 %	Not past due %	1-29 DPD %	>30 DPD %	Total %	Stage 3 %	Total %	Total charge £m	Loss rate basis points	Amounts written-off £m
UK Personal Banking	0.08	3.23	4.49	8.43	3.55	46.10	0.77	329	23.99	172
Commercial Banking	0.19	1.62	4.95	2.98	1.73	48.38	1.29	247	34.59	231
Private Banking	0.05	1.11	—	2.22	1.09	14.44	0.26	(7)	(4.66)	1
Personal	*0.03*	*0.57*	—	*2.50*	*0.75*	*12.12*	*0.22*	*(2)*	*(1.75)*	—
Wholesale	*0.12*	*1.44*	—	—	*1.40*	*40.00*	*0.39*	*(5)*	*(13.95)*	*1*
Central items & other	0.04	—	—	—	—	—	0.04	3	2.18	—
Total loans	0.10	2.43	4.34	6.26	2.67	45.19	0.85	572	24.10	404
Of which:										
Personal	*0.07*	*3.18*	*4.20*	*7.93*	*3.48*	*42.26*	*0.73*	*327*	*22.01*	*172*
Wholesale	*0.16*	*1.61*	*4.90*	*2.92*	*1.72*	*48.29*	*1.06*	*245*	*27.60*	*232*
2018*										
UK Personal Banking	0.07	3.17	4.38	6.89	3.47	36.95	0.71	271	21.84	341
Commercial Banking	0.15	1.55	2.72	3.11	1.63	39.62	1.25	184	27.09	265
Private Banking	0.10	1.37	1.52	3.38	1.98	12.95	0.35	(8)	(5.80)	—
Personal	*0.05*	*1.75*	—	—	*1.06*	*13.07*	*0.28*	*(8)*	*(7.59)*	—
Wholesale	*0.27*	*1.12*	*7.14*	*4.00*	*2.52*	*11.76*	*0.55*	—	—	—
Central items & other	0.05	3.03	—	—	3.03	100.00	0.36	(2)	(3.61)	6
Total loans	0.10	2.46	3.81	5.56	2.70	37.19	0.85	445	21.06	612
Of which:										
Personal	*0.07*	*3.15*	*4.09*	*6.61*	*3.43*	*34.02*	*0.68*	*263*	*19.53*	*341*
Wholesale	*0.15*	*1.55*	*2.95*	*3.50*	*1.68*	*39.96*	*1.15*	*182*	*23.73*	*271*

*2018 data has been restated for a change to reportable segments and a change to presentation of unrecognised interest. Refer to Note 4 on the accounts and Accounting policy 1, Other amendments to IFRS, for further details.

Notes:
(1) 30 DPD – 30 days past due, the mandatory 30 days past due backstop as prescribed by the IFRS 9 guidance for significant increase in credit risk.
(2) ECL provisions on contingent liabilities and commitments are included within the Financial assets section so as not to distort ECL coverage ratios.

Key points

- UK Personal Banking accounted for the vast majority of Personal provisions. The year-on-year increase reflected a combination of portfolio growth and also slight increases in PD. This was primarily due to small uplifts in actual default rates, however, in unsecured lending the trend flattened in the second half of the year as a result of risk appetite tightening. Additional ECL was also raised as a result of the ongoing uncertain economic outlook. Provision coverage increased slightly.
- The UK Personal Banking charge for the year of £329 million, 24 basis points, increased year-on-year (2018 – 22 basis points) reflecting a slight rise in default rates and also lower recoveries and impairment benefits from debt sales.
- Commercial Banking accounted for the majority of Wholesale exposures. The Commercial Banking charge for the year of £247 million, 35 basis points, increased year-on-year (2018 – 27 basis points) primarily due to a small number of material individual provisions, model enhancements and increased economic uncertainty. Stage 3 provisions were the largest contributor to the overall ECL provisions and increased slightly during the year as increased charges for Stage 3 impairments were partially offset by higher write-offs and repayments. Provision coverage also increased slightly with the greatest increase occurring in Stage 3 coverage for both individual and collective assessments.
- In performing exposures (Stage 1 and Stage 2), materially higher ECL provision was held in credit-deteriorated Stage 2 exposures than in Stage 1. This was in line with expectations and was also reflected in provision coverage levels.
- The majority of Stage 2 exposures were less than 30 days past due. This was in line with expectations, since PD deterioration is the primary driver of credit deterioration.
- The differing cover rates between the Personal and Wholesale portfolios largely reflected differences in asset mix, including security cover, and the differing effects of external environment events.

Δ

Credit risk – Banking activities continued

Portfolio summary – sector analysis (audited)

The table below shows financial assets and off-balance sheet exposures gross of ECL and related ECL provisions, impairment and past due by sector, asset quality and geographical region based on the country of operation of the customer.

	Personal				Wholesale					
2019	Mortgages (1) £m	Credit cards £m	Other personal £m	Total £m	Property £m	Corporate £m	FI £m	Sovereign £m	Total £m	Total £m
Loans by geography	137,192	3,294	8,074	148,560	20,136	48,985	16,723	2,934	88,778	237,338
- UK	*137,192*	*3,294*	*8,074*	*148,560*	*19,332*	*43,444*	*13,239*	*2,497*	*78,512*	*227,072*
- RoI	—	—	—	—	*72*	*643*	*324*	—	*1,039*	*1,039*
- Other Europe	—	—	—	—	*324*	*2,688*	*870*	*101*	*3,983*	*3,983*
- RoW	—	—	—	—	*408*	*2,210*	*2,290*	*336*	*5,244*	*5,244*
Loans by stage and asset quality (2)	137,192	3,294	8,074	148,560	20,136	48,985	16,723	2,934	88,778	237,338
Stage 1	128,514	2,302	5,782	136,598	18,134	40,892	16,554	2,933	78,513	215,111
- AQ1	*3,631*	—	*637*	*4,268*	*2,391*	*1,881*	*9,902*	*1,252*	*15,426*	*19,694*
- AQ2	*2,360*	—	—	*2,360*	*1,229*	*106*	—	*1,489*	*2,824*	*5,184*
- AQ3	*269*	—	—	*269*	*829*	*2,558*	*982*	*158*	*4,527*	*4,796*
- AQ4	*73,138*	*289*	*467*	*73,894*	*2,738*	*8,966*	*3,829*	—	*15,533*	*89,427*
- AQ5	*43,656*	*537*	*1,009*	*45,202*	*6,297*	*11,906*	*848*	*7*	*19,058*	*64,260*
- AQ6	*3,442*	*702*	*2,128*	*6,272*	*3,036*	*9,437*	*566*	*2*	*13,041*	*19,313*
- AQ7	*1,823*	*681*	*1,136*	*3,640*	*1,543*	*5,757*	*424*	*23*	*7,747*	*11,387*
- AQ8	*107*	*90*	*337*	*534*	*65*	*257*	*3*	*2*	*327*	*861*
- AQ9	*88*	*3*	*68*	*159*	*6*	*24*	—	—	*30*	*189*
Stage 2	7,783	911	1,808	10,502	1,604	7,122	163	1	8,890	19,392
- AQ1	*21*	—	*12*	*33*	—	*48*	—	—	*48*	*81*
- AQ2	*5*	—	—	*5*	—	—	—	—	—	*5*
- AQ3	*8*	—	—	*8*	—	—	—	*1*	*1*	*9*
- AQ4	*1,908*	*9*	*36*	*1,953*	*124*	*476*	—	—	*600*	*2,553*
- AQ5	*2,985*	*42*	*210*	*3,237*	*293*	*1,425*	*86*	—	*1,804*	*5,041*
- AQ6	*955*	*197*	*597*	*1,749*	*640*	*1,220*	*19*	—	*1,879*	*3,628*
- AQ7	*483*	*414*	*481*	*1,378*	*380*	*2,932*	*43*	—	*3,355*	*4,733*
- AQ8	*774*	*206*	*304*	*1,284*	*132*	*808*	*14*	—	*954*	*2,238*
- AQ9	*644*	*43*	*168*	*855*	*35*	*213*	*1*	—	*249*	*1,104*
Stage 3	895	81	484	1,460	398	971	6	—	1,375	2,835
Loans past due analysis (3, 4)	137,192	3,294	8,074	148,560	20,136	48,985	16,723	2,934	88,778	237,338
- Not past due	*135,156*	*3,176*	*7,375*	*145,707*	*19,640*	*47,374*	*16,696*	*2,881*	*86,591*	*232,298*
- Past due 1-29 days	*985*	*30*	*125*	*1,140*	*142*	*984*	*20*	*53*	*1,199*	*2,339*
- Past due 30-89 days	*499*	*26*	*100*	*625*	*47*	*225*	*1*	—	*273*	*898*
- Past due 90-180 days	*217*	*22*	*59*	*298*	*16*	*61*	—	—	*77*	*375*
- Past due >180 days	*335*	*40*	*415*	*790*	*291*	*341*	*6*	—	*638*	*1,428*
Loans - Stage 2	7,783	911	1,808	10,502	1,604	7,122	163	1	8,890	19,392
- Not past due	*6,722*	*873*	*1,617*	*9,212*	*1,536*	*6,748*	*161*	*1*	*8,446*	*17,658*
- Past due 1-29 days	*692*	*20*	*99*	*811*	*25*	*178*	*1*	—	*204*	*1,015*
- Past due 30-89 days	*369*	*18*	*92*	*479*	*43*	*196*	*1*	—	*240*	*719*

For the notes to this table refer to page 41.

Credit risk – Banking activities continued
Portfolio summary – sector analysis (audited)

	Personal				Wholesale					Total
2019	Mortgages (1) £m	Credit cards £m	Other personal £m	Total £m	Property £m	Corporate £m	FI £m	Sovereign £m	Total £m	£m
Weighted average life **										
- ECL measurement (years)	8	2	6	5	5	6	3	—	6	5
Weighted average 12 months PDs **										
- IFRS 9 (%)	0.24	3.97	3.11	0.48	0.72	1.03	0.12	0.04	0.70	0.55
- Basel (%)	0.72	3.55	3.83	0.94	1.08	1.54	0.24	0.06	1.13	1.01
ECL provisions by geography	209	196	675	1,080	239	688	12	3	942	2,022
- UK	*209*	*196*	*675*	*1,080*	*215*	*544*	*8*	*3*	*770*	*1,850*
- RoI	—	—	—	—	—	*2*	*1*	—	*3*	*3*
- Other Europe	—	—	—	—	*22*	*99*	*2*	—	*123*	*123*
- RoW	—	—	—	—	*2*	*43*	*1*	—	*46*	*46*
ECL provisions by stage	209	196	675	1,080	239	688	12	3	942	2,022
- Stage 1	*11*	*32*	*55*	*98*	*26*	*88*	*8*	*3*	*125*	*223*
- Stage 2	*58*	*100*	*207*	*365*	*27*	*124*	*2*	—	*153*	*518*
- Stage 3	*140*	*64*	*413*	*617*	*186*	*476*	*2*	—	*664*	*1,281*
ECL provisions coverage (%)	0.15	5.95	8.36	0.73	1.19	1.40	0.07	0.10	1.06	0.85
- Stage 1 (%)	*0.01*	*1.39*	*0.95*	*0.07*	*0.14*	*0.22*	*0.05*	*0.10*	*0.16*	*0.10*
- Stage 2 (%)	*0.75*	*10.98*	*11.45*	*3.48*	*1.68*	*1.74*	*1.23*	—	*1.72*	*2.67*
- Stage 3 (%)	*15.64*	*79.01*	*85.33*	*42.26*	*46.73*	*49.02*	*33.33*	—	*48.29*	*45.19*
ECL charge - Third party	31	87	209	327	(2)	242	4	1	245	572
ECL loss rate (%)	0.02	2.64	2.59	0.22	(0.01)	0.49	0.02	0.03	0.28	0.24
Amounts written-off	10	53	109	172	52	170	10	—	232	404
Other financial assets by asset quality (2)	—	—	—	—	—	10	6,379	60,552	66,941	66,941
- AQ1-AQ4	—	—	—	—	—	*10*	*6,329*	*60,318*	*66,657*	*66,657*
- AQ5-AQ8	—	—	—	—	—	—	*50*	*234*	*284*	*284*
Off-balance sheet (5)	10,379	12,369	10,421	33,169	8,119	29,925	1,988	683	40,715	73,884
Loan commitments	*10,376*	*12,369*	*10,381*	*33,126*	*7,801*	*27,873*	*1,872*	*683*	*38,229*	*71,355*
Financial guarantees	*3*	—	*40*	*43*	*318*	*2,052*	*116*	—	*2,486*	*2,529*
Off-balance sheet by asset quality (2,5)	10,379	12,369	10,421	33,169	8,119	29,925	1,988	683	40,715	73,884
- AQ1-AQ4	*10,269*	*2,945*	*8,775*	*21,989*	*5,636*	*17,818*	*1,185*	*659*	*25,298*	*47,287*
- AQ5-AQ8	*106*	*9,216*	*1,636*	*10,958*	*2,444*	*11,903*	*799*	*24*	*15,170*	*26,128*
- AQ9	—	*3*	*10*	*13*	*8*	*20*	*4*	—	*32*	*45*
- AQ10	*4*	*205*	—	*209*	*31*	*184*	—	—	*215*	*424*

** not within audit scope

For the notes to this table refer to page 41.

Credit risk – Banking activities continued

Portfolio summary – sector analysis (audited)

	Personal				Wholesale					Total
2018*	Mortgages (1) £m	Credit cards £m	Other personal £m	Total £m	Property £m	Corporate £m	FI £m	Sovereign £m	Total £m	£m
Loans by geography	124,135	3,012	7,491	134,638	18,857	47,405	7,226	3,211	76,699	211,337
- UK	123,635	3,012	7,258	133,905	18,367	42,154	2,379	2,200	65,100	199,005
- RoI	11	—	6	17	44	312	50	—	406	423
- Other Europe	100	—	67	167	297	2,834	3,227	848	7,206	7,373
- RoW	389	—	160	549	149	2,105	1,570	163	3,987	4,536
Loans by stage and asset quality (2)	124,135	3,012	7,491	134,638	18,857	47,405	7,226	3,211	76,699	211,337
Stage 1	115,903	2,021	5,481	123,405	17,127	40,675	7,073	3,198	68,073	191,478
- AQ1	2,229	—	462	2,691	2,757	876	2	1,891	5,526	8,217
- AQ2	—	—	—	—	726	940	1	1,085	2,752	2,752
- AQ3	1,394	—	—	1,394	844	3,027	188	189	4,248	5,642
- AQ4	77,968	29	456	78,453	2,481	7,858	5,618	2	15,959	94,412
- AQ5	28,217	712	1,502	30,431	4,836	12,295	569	2	17,702	48,133
- AQ6	1,387	619	1,370	3,376	2,814	8,822	467	2	12,105	15,481
- AQ7	4,503	600	1,411	6,514	2,599	6,521	224	26	9,370	15,884
- AQ8	178	57	235	470	64	319	4	1	388	858
- AQ9	27	4	45	76	6	17	—	—	23	99
Stage 2	7,270	908	1,597	9,775	1,130	5,674	140	13	6,957	16,732
- AQ1	14	—	3	17	118	55	—	13	186	203
- AQ2	—	—	—	—	—	1	—	—	1	1
- AQ3	13	—	—	13	—	7	—	—	7	20
- AQ4	2,627	1	35	2,663	144	309	1	—	454	3,117
- AQ5	2,313	47	316	2,676	134	901	70	—	1,105	3,781
- AQ6	480	222	382	1,084	179	839	4	—	1,022	2,106
- AQ7	423	434	461	1,318	395	2,655	59	—	3,109	4,427
- AQ8	831	162	255	1,248	122	674	5	—	801	2,049
- AQ9	569	42	145	756	38	233	1	—	272	1,028
Stage 3	962	83	413	1,458	600	1,056	13	—	1,669	3,127
Loans past due analysis (3,4)	124,135	3,012	7,491	134,638	18,857	47,405	7,226	3,211	76,699	211,337
- Not past due	121,938	2,882	6,873	131,693	18,056	45,675	7,166	3,178	74,075	205,768
- Past due 1-29 days	1,012	47	140	1,199	193	1,155	46	33	1,427	2,626
- Past due 30-89 days	586	26	81	693	190	130	11	—	331	1,024
- Past due 90-180 days	216	21	49	286	36	66	—	—	102	388
- Past due >180 days	383	36	348	767	382	379	3	—	764	1,531
Loans - Stage 2	7,270	908	1,597	9,775	1,130	5,674	140	13	6,957	16,732
- Not past due	6,130	861	1,418	8,409	887	5,362	138	13	6,400	14,809
- Past due 1-29 days	672	29	105	806	62	208	1	—	271	1,077
- Past due 30-89 days	468	18	74	560	181	104	1	—	286	846

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

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

Credit risk – Banking activities continued

Portfolio summary – sector analysis (audited)

2018*	Personal: Mortgages (1) £m	Personal: Credit cards £m	Personal: Other personal £m	Personal: Total £m	Wholesale: Property £m	Wholesale: Corporate £m	Wholesale: FI £m	Wholesale: Sovereign £m	Wholesale: Total £m	Total £m
Weighted average life **										
- ECL measurement (years)	4.0	2.0	3.0	3.0	3.0	3.0	2.0	4.0	3.0	3.0
Weighted average 12 months PDs **										
- IFRS 9 (%)	0.23	4.11	2.78	0.46	0.82	0.94	0.39	0.04	0.85	0.57
- Basel (%)	0.68	3.44	3.52	0.90	1.12	1.52	0.44	0.05	1.26	1.02
ECL provisions by geography	183	165	566	914	303	562	18	2	885	1,799
- UK	*183*	*165*	*566*	*914*	*277*	*474*	*16*	*2*	*769*	*1,683*
- RoI	—	—	—	—	*1*	*4*	—	—	*5*	*5*
- Other Europe	—	—	—	—	*23*	*27*	*1*	—	*51*	*51*
- RoW	—	—	—	—	*2*	*57*	*1*	—	*60*	*60*
ECL provisions by stage	183	165	566	914	303	562	18	2	885	1,799
- Stage 1	*8*	*27*	*48*	*83*	*24*	*69*	*6*	*2*	*101*	*184*
- Stage 2	*50*	*88*	*197*	*335*	*21*	*95*	*1*	—	*117*	*452*
- Stage 3	*125*	*50*	*321*	*496*	*258*	*398*	*11*	—	*667*	*1,163*
ECL provisions coverage (%)	0.15	5.48	7.56	0.68	1.61	1.19	0.25	0.06	1.15	0.85
- Stage 1 (%)	*0.01*	*1.34*	*0.88*	*0.07*	*0.14*	*0.17*	*0.08*	*0.06*	*0.15*	*0.10*
- Stage 2 (%)	*0.69*	*9.69*	*12.34*	*3.43*	*1.86*	*1.67*	*0.71*	—	*1.68*	*2.70*
- Stage 3 (%)	*12.99*	*60.24*	*77.72*	*34.02*	*43.00*	*37.69*	*84.62*	—	*39.96*	*37.19*
ECL charge - Third party	25	70	168	263	84	95	1	2	182	445
ECL loss rate (%)	0.02	2.32	2.24	0.20	0.45	0.20	0.01	0.06	0.24	0.21
Amounts written-off	23	61	257	341	86	181	4	—	271	612
Other financial assets by asset quality (2)	—	—	—	—	—	11	5,082	79,610	84,703	84,703
- AQ1-AQ4	—	—	—	—	—	*10*	*4,533*	*79,610*	*84,153*	*84,153*
- AQ5-AQ8	—	—	—	—	—	*1*	*549*	—	*550*	*550*
Off-balance sheet (5)	8,726	12,208	10,547	31,481	7,992	32,209	5,057	19,839	65,097	96,578
- Loan commitments	*8,726*	*12,208*	*10,547*	*31,481*	*7,687*	*30,279*	*4,923*	*19,839*	*62,728*	*94,209*
- Financial guarantees	—	—	—	—	*305*	*1,930*	*134*	—	*2,369*	*2,369*
Off-balance sheet by asset quality (2,5)	8,726	12,208	10,547	31,481	7,992	32,209	5,057	19,839	65,097	96,578
- AQ1-AQ4	*8,518*	*371*	*7,935*	*16,824*	*5,783*	*20,908*	*4,278*	*19,838*	*50,807*	*67,631*
- AQ5-AQ8	*203*	*11,618*	*2,604*	*14,425*	*2,146*	*11,164*	*779*	*1*	*14,090*	*28,515*
- AQ9	—	*3*	*8*	*11*	*4*	*27*	—	—	*31*	*42*
- AQ10	*5*	*216*	—	*221*	*59*	*110*	—	—	*169*	*390*

*2018 data has been restated for a change to presentation of unrecognised interest. Refer to Accounting policy 1, Other amendments to IFRS, for further details.
** not within audit scope

Notes:
(1) Includes a portion of secured lending in Private Banking, in line with ECL calculation methodology.
(2) AQ bandings are based on Basel PDs and mapping is as follows:

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

£0.2 billion (2018 – £0.2 billion) of AQ10 Personal balances primarily relate to loan commitments, the draw down of which is effectively prohibited.
(3) 30 DPD – 30 days past due, the mandatory 30 days past due backstop as prescribed by the IFRS 9 guidance for significant increase in credit risk.
(4) Days past due – Personal products: at a high level, for amortising products, the number of days past due is derived from the arrears amount outstanding and the monthly repayment instalment. For credit cards, it is based on payments missed, and for current accounts the number of continual days in excess of borrowing limit. Wholesale products: the number of days past due for all products is the number of continual days in excess of borrowing limit.
(5) 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 £22.7 billion during the year primarily relates to revision of the treatments of nostros in line with the CRR requirements.

Credit risk – Banking activities continued

Portfolio summary – sector analysis (audited)

Key points

- Geography – The vast majority of exposures in both the Personal and Wholesale portfolios were in the UK. Other exposures in Europe and the rest of the world were Wholesale in nature. Mortgages accounted for significantly more than half of the total exposure.
- Asset quality – Measured against RBS Group's asset quality scale, 51% of lending exposure was rated in the AQ1-AQ4 bands at 31 December 2019 (2018 – 54%). This equated to an indicative investment rating of BBB- or above. Specifically, 56% of Personal (2018 – 63%) and 44% of Wholesale lending exposure (2018 – 38%) were in the AQ1-AQ4 category respectively. The movement in Personal was primarily driven by mortgages, with a movement in assets from AQ4-AQ5, which was reflective of a slight increase in the portfolio default rate from a low level that included the effect of the natural seasoning of strong business growth in prior years
- Loans by stage – The percentage of exposures in Stage 2, significantly credit deteriorated, increased slightly to 8.2% (2018 – 7.9%). Stage 3 assets, which align to AQ10, represented 1.2% of total exposures, down from 1.5% from the prior year. Similar to 2018, the Personal portfolio had a higher proportion of unsecured lending assets in Stage 2 than the mortgage portfolio. In the Wholesale portfolio, the proportion of assets in Stage 2 and Stage 3 was slightly higher than in Personal overall.
- Loans – Past due analysis – Stage 2 – The vast majority of assets overall were not past due, with the Stage 2 classification driven primarily by changes in lifetime PD. (For further detail, refer to the Significant increase in credit risk section). In other Personal, the relatively high rate of exposures past due by more than 90 days reflected the fact that impaired assets can be held on balance sheet with commensurate ECL provision for up to six years after default. Similarly, in the Wholesale portfolio, impaired assets can be held on the balance sheet for a significant period of time while restructuring and recovery processes are concluded.
- Weighted average 12 months PDs – In Wholesale, Basel PDs, which are based on a through-the-cycle approach, tend to be higher than point-in-time best estimate IFRS 9 PDs, reflecting the current state in the economic cycle, and also an element of conservatism in the regulatory capital framework. In Personal, the Basel PDs, which are point-in-time estimates, tend to be higher, also reflecting conservatism, higher in mortgages than other products, and an element of default rate under-prediction in the IFRS 9 PD models. This has been mitigated by ECL overlays (refer to the Governance and post model adjustments section). The IFRS 9 PD for credit cards was higher than the Basel equivalent and reflected the relative sensitivity of the IFRS 9 model to forward-looking economic drivers. PDs overall remained broadly stable. The rise in other personal was reflective of slight increases in default rates addressed by risk appetite tightening. Overall Wholesale PDs were broadly in line with the prior year with reductions in the property sector offset by increases in the corporate sector.
- ECL provision by stage and coverage – The majority of ECL by value was in Stage 3 impaired, with similar seen in both Personal and Wholesale. Provision coverage was progressively higher by stage reflecting the lifetime nature of losses in both Stage 2 and Stage 3. In the Personal portfolio, provision coverage was materially lower in mortgages relative to credit cards and other Personal, reflecting the secured nature of the facilities. In the Personal portfolios, provision coverage increased slightly, driven by Stage 3. For Wholesale exposures, security and enterprise value mitigated against losses in Stage 3. At a total Wholesale level, the Stage 3 provision coverage slightly increased for both individual and collectively assessed exposures.
- The ECL impairment charge for the year was £572 million up from the previous year; primarily this reflected the transitioning from a very benign period towards a more normalised external credit environment as well as the impact of a small number of large individual commercial charges. The cost of risk at 24 basis points remained below NWB Group's view of a normalised blended long-term loss rate of 30 to 40 basis points.
- Other financial assets by asset quality – Consisting almost entirely of cash and balances at central banks and debt securities, these assets were mainly within the AQ1-AQ4 category.
- Off-balance sheet exposures by asset quality – For Personal exposures, undrawn exposures were reflective of available credit lines in credit cards and current accounts. Additionally, the mortgage portfolio had undrawn exposure, where a formal offer had been made to a customer but had not yet been drawn down. The asset quality distribution in mortgages remained heavily weighted to the highest quality bands AQ1-AQ4, with credit card concentrated in the risk bands AQ5-AQ8. In Wholesale, 62% of undrawn exposure, relating mainly to loan commitments, was in the AQ1-AQ4 category.
- Forbearance – Completed forbearance flow in 2019 was £1.8 billion (2018 – £1.4 billion). Forbearance granted in the transport sector increased to £326 million (2018 – £68 million), driven by individually significant exposures. Retail and leisure forbearance flow increased to £432 million (2018 – £337 million). Of the forbearance that completed during the year, £1.0 billion (2018 – £0.7 billion) related to payment concessions and £0.8 billion (2018 – £0.6 billion) related to non-payment concessions. Forbearance stock increased by £0.4 billion, from £1.8 billion to £2.2 billion, primarily due to an increase in forborne exposure in the transport, retail and leisure and natural resources sectors.
- Heightened Monitoring and Risk of Credit Loss – Exposure increased to £3.6 billion (2018 – £2.4 billion). Exposure in the property sector increased to £0.6 billion (2018 – £0.2 billion) driven by individually significant exposures as was the case in the transport sector which increased by a similar amount. Individual case numbers across the Heightened Monitoring and Risk of Credit Loss portfolio in its entirety were marginally higher at 31 December 2019.

Wholesale forbearance

The table below shows Wholesale forbearance, Heightened Monitoring and Risk of Credit Loss by sector. Personal forbearance is disclosed on page 44.

2019	FI £m	Property £m	Other corporate £m	Total £m
Forbearance (flow)	5	184	1,577	1,766
Forbearance (stock)	5	257	1,961	2,223
Heightened Monitoring and Risk of Credit Loss	60	606	2,898	3,564
2018				
Forbearance (flow)	13	144	1,216	1,373
Forbearance (stock)	13	236	1,600	1,849
Heightened Monitoring and Risk of Credit Loss	7	222	2,208	2,437

Δ

Credit risk – Banking activities continued

Credit risk enhancement and mitigation (audited)

The table below shows exposures of modelled portfolios within the scope of the ECL framework and related credit risk enhancement and mitigation (CREM).

	Gross		Maximum credit risk		CREM by type			CREM coverage		Exposure post CREM	
	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	26.8	—	26.8	—	—	—	—	—	—	26.8	—
Loans - amortised cost (3)	237.4	2.0	235.4	1.5	11.0	158.8	21.2	191.0	1.2	44.4	0.3
Personal (4)	148.6	1.1	147.5	0.8	0.1	136.7	—	136.8	0.7	10.7	0.1
Wholesale (5)	88.8	0.9	87.9	0.7	10.9	22.1	21.2	54.2	0.5	33.7	0.2
Debt securities	40.2	—	40.2	—	—	—	—	—	—	40.2	—
Total financial assets	304.4	2.0	302.4	1.5	11.0	158.8	21.2	191.0	1.2	111.4	0.3
Contingent liabilities and commitments											
Personal (6,7)	33.2	—	33.2	0.2	—	1.1	—	1.1	—	32.1	0.2
Wholesale	40.7	—	40.7	0.2	0.1	3.3	3.4	6.8	—	33.9	0.2
Total off-balance sheet	73.9	—	73.9	0.4	0.1	4.4	3.4	7.9	—	66.0	0.4
Total exposure	378.3	2.0	376.3	1.9	11.1	163.2	24.6	198.9	1.2	177.4	0.7
2018*											
Financial assets											
Cash and balances at central banks	44.3	—	44.3	—	—	—	—	—	—	44.3	—
Loans - amortised cost (3)	211.3	1.8	209.5	2.0	3.6	143.7	20.3	167.6	1.6	41.9	0.4
Personal (4)	134.6	0.9	133.7	1.0	—	123.9	—	123.9	0.8	9.8	0.2
Wholesale (5)	76.7	0.9	75.8	1.0	3.6	19.8	20.3	43.7	0.8	32.1	0.2
Debt securities	40.4	—	40.4	—	—	—	—	—	—	40.4	—
Total financial assets	296.0	1.8	294.2	2.0	3.6	143.7	20.3	167.6	1.6	126.6	0.4
Contingent liabilities and commitments											
Personal (6,7)	31.5	—	31.5	0.2	—	1.2	—	1.2	—	30.3	0.2
Wholesale	65.1	—	65.1	0.2	0.1	3.0	3.2	6.3	—	58.8	0.2
Total off-balance sheet	96.6	—	96.6	0.4	0.1	4.2	3.2	7.5	—	89.1	0.4
Total exposure	392.6	1.8	390.8	2.4	3.7	147.9	23.5	175.1	1.6	215.7	0.8

*2018 data has been restated for a change to presentation of unrecognised interest, refer to Accounting policy 1, Other amendments to IFRS, for further details. Also restated for the inclusion of non-modelled portfolios, primarily the Private Banking mortgage portfolio and associated CREM amounts.

Notes:
(1) Includes cash and securities collateral.
(2) Includes guarantees, charges over trade debtors, other asset finance related physical collateral as well as the amount by which credit risk exposure is reduced through netting arrangements, mainly cash management pooling, which give NWB Group a legal right to set off the financial asset against a financial liability due to the same counterparty.
(3) NWB Group holds collateral in respect of individual loans – amortised cost to banks and customers. This collateral includes mortgages over property (both personal and commercial); charges over business assets such as plant and equipment, inventories and trade debtors; and guarantees of lending from parties other than the borrower. NWB Group obtains collateral in the form of securities in reverse repurchase agreements. Collateral values are capped at the value of the loan.
(4) Stage 3 mortgages exposures have relatively limited uncovered exposure reflecting the security held. On unsecured credit cards and other personal borrowing, the residual uncovered amount reflects historical experience of continued cash recovery post default through ongoing engagement with customers.
(5) Stage 3 exposures post credit risk enhancement and mitigation in Wholesale mainly represent enterprise value and the impact of written down collateral values; an individual assessment to determine ECL will consider multiple scenarios and in some instances allocate a probability weighting to a collateral value in excess of the written down value.
(6) £0.2 billion (2018 – £0.2 billion) of Personal Stage 3 balances primarily relate to loan commitments, the draw down of which is effectively prohibited.
(7) The Personal gross exposure value includes £9.2 billion (2018 – £7.3 billion) in respect of pipeline mortgages where a committed offer has been made to a customer but where the funds have not yet been drawn down. When draw down, the exposure would be covered by a security over the borrower’s property.

Δ

Credit risk – Banking activities continued

Personal portfolio (audited)

Disclosures in the Personal portfolio section include drawn exposure (gross of provisions).

	2019			2018*		
	UK PB	Private Banking	Total	UK PB	Private Banking	Total
Personal lending	£m	£m	£m	£m	£m	£m
Mortgages	127,400	9,377	136,777	115,126	8,512	123,638
Of which:						
Owner occupied	114,607	8,196	122,803	101,801	7,444	109,245
Buy-to-let	12,792	1,181	13,973	13,325	1,068	14,393
Interest only - variable	3,511	3,464	6,975	4,894	3,649	8,543
Interest only - fixed	10,960	4,356	15,316	10,341	3,437	13,778
Mixed (1)	4,758	—	4,758	4,255	—	4,255
Impairment provisions (2)	193	13	206	168	11	179
Other personal lending (3)	*9,968*	*1,668*	*11,636*	*8,903*	*1,581*	*10,484*
Impairment provisions (2)	*855*	*14*	*869*	*710*	*19*	*729*
Total personal lending	137,368	11,045	148,413	124,029	10,093	134,122
Mortgage LTV ratios						
- Total portfolio	58%	57%	58%	57%	56%	57%
- Stage 1	*58%*	*57%*	*58%*	*57%*	*55%*	*57%*
- Stage 2	*59%*	*61%*	*59%*	*59%*	*58%*	*59%*
- Stage 3	*56%*	*70%*	*58%*	*56%*	*58%*	*56%*
- Buy-to-let	53%	54%	53%	53%	53%	53%
- Stage 1	*52%*	*54%*	*52%*	*53%*	*53%*	*53%*
- Stage 2	*57%*	*57%*	*57%*	*57%*	*53%*	*57%*
- Stage 3	*59%*	*57%*	*59%*	*59%*	*67%*	*60%*
Gross new mortgage lending (4)	30,847	2,027	32,874	27,884	1,741	29,625
Of which:						
Owner occupied exposure	29,813	1,810	31,623	27,004	1,590	28,594
Weighted average LTV	69%	65%	69%	69%	62%	69%
Buy-to-let	1,034	217	1,251	880	151	1,031
Weighted average LTV	61%	59%	61%	61%	55%	60%
Interest only variable rate	42	665	707	26	656	682
Interest only fixed rate	1,209	951	2,160	1,094	733	1,827
Mixed (1)	1,031	—	1,031	827	—	827
Mortgage forbearance						
Forbearance flow	311	4	315	285	11	296
Forbearance stock	774	2	776	817	8	825
Current	*392*	*1*	*393*	*437*	*6*	*443*
1-3 months in arrears	*233*	*—*	*233*	*227*	*—*	*227*
>3 months in arrears	*149*	*1*	*150*	*153*	*2*	*155*

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

Notes:
(1) Includes accounts which have an interest only sub-account and a capital and interest sub-account to provide a more comprehensive view of interest only exposures.
(2) For UK Personal Banking this excludes a non-material amount of provisions held on relatively small legacy portfolios.
(3) Comprises unsecured lending except for Private Banking, which includes both secured and unsecured lending. It excludes loans that are commercial in nature.
(4) UK Personal Banking excludes additional lending to existing customers.

Key points

- The overall credit risk profile of the Personal portfolio, and its performance against credit risk appetite, remained stable during 2019.
- Total mortgage lending grew by £13.1 billion with new lending partly offset by redemptions and repayments.
- New mortgage lending was higher than in 2018. The existing mortgage stock and new business were closely monitored against agreed risk appetite parameters. These included LTV ratios, buy-to-let concentrations, new-build concentrations and credit quality. Underwriting standards were maintained during the period.
- Owner occupied and buy-to-let – Mortgage growth was driven by the owner occupied portfolio. New mortgages in the buy-to-let portfolio remained subdued as tax and regulatory changes in the UK reduced borrower activity.
- LTVs – The mortgage portfolio loan to value ratio slightly increased, reflecting slower UK house price growth and strong new lending in 2019.
- Interest only – By value, the proportion of mortgages on interest only and mixed terms (capital and interest only) reduced. This was driven by low proportions of buy to-let and owner occupied interest only new business.
- Regional mortgage analysis – 45% of the stock of lending was in Greater London and the South East (2018 – 45%). The average weighted LTV for these regions was 54% (2018 – 53%) compared to 58% for all regions.
- Provisions – The increase in mortgage provisions was reflective of portfolio growth and also due to a slight increase in the portfolio default rate from a low level that included the effect of the natural seasoning of strong business growth in prior years. In addition, the increase included the effect of an accounting methodology change relative to the treatment of interest suspended post default. The value of suspended interest is now reported within the ECL balance and has naturally grown during the year. In other Personal, the increase was primarily a result of Stage 3 assets and reflected the steady flow of new defaults which increased slightly year-on-year, however, the trend flattened in the second half of the year as a result of risk appetite tightening.
- Other lending – UK Personal Banking balances continued to increase, up 12.0%, with growth observed across both credit card and loan portfolios.
- Other lending asset quality – Overall new lending quality was stable in 2019, with observed deterioration in loans addressed by management actions. Credit card new business quality improved in 2019 due to the introduction of credit enhancements to online marketing controls and new product offers.

Credit risk – Banking activities continued

Personal portfolio (audited)

Mortgage LTV distribution by stage

The table below shows gross mortgage lending and related ECL by LTV band for UK Personal Banking. Mortgage lending not within the scope of IFRS 9 ECL reflected portfolios carried at fair value.

	Mortgages						ECL				ECL provisions (2)			
2019	Stage 1 £m	Stage 2 £m	Stage 3 £m	Not within IFRS 9 ECL scope £m	Total £m	Of which: Gross new lending £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total (1) £m	Stage 1 %	Stage 2 %	Stage 3 %	Total %
≤50%	38,797	2,346	315	147	41,605	4,441	1	12	53	66	0.0	0.5	16.8	0.2
>50% and ≤70%	41,878	2,794	294	87	45,053	8,453	2	20	40	62	0.0	0.7	13.7	0.1
>70% and ≤80%	21,495	1,259	103	38	22,895	8,173	2	10	15	27	0.0	0.8	14.7	0.1
>80% and ≤90%	13,201	950	56	25	14,232	8,442	2	9	10	21	0.0	1.0	16.8	0.1
>90% and ≤100%	3,216	138	12	15	3,381	1,117	1	3	3	7	0.0	2.3	23.8	0.2
>100% and ≤110%	36	25	5	1	67	—	—	1	1	2	0.1	5.1	21.7	3.6
>110% and ≤130%	45	35	6	1	87	—	—	2	2	4	0.1	6.1	33.6	4.7
>130% and ≤150%	19	22	5	—	46	—	—	1	1	2	0.1	6.3	26.2	6.1
>150%	3	7	3	—	13	—	—	—	2	2	0.1	6.5	45.7	15.2
Total with LTVs	118,690	7,576	799	314	127,379	30,626	8	58	127	193	0.0	0.8	15.8	0.2
Other	18	2	1	—	21	221	—	—	—	—	0.0	0.5	36.8	1.2
Total	118,708	7,578	800	314	127,400	30,847	8	58	127	193	0.0	0.8	15.8	0.2
2018*														
≤50%	37,349	2,297	305	141	40,092	4,476	1	9	54	64	0.0	0.4	17.3	0.2
>50% and ≤70%	37,788	2,496	275	45	40,604	8,067	2	15	34	51	0.0	0.6	12.4	0.1
>70% and ≤80%	18,193	1,131	84	14	19,422	7,095	1	8	9	18	0.0	0.7	11.2	0.1
>80% and ≤90%	11,513	882	43	12	12,450	7,086	2	8	6	16	0.0	1.0	14.4	0.1
>90% and ≤100%	2,124	126	13	7	2,270	987	—	3	2	5	0.0	2.5	18.1	0.3
>100% and ≤110%	47	25	5	1	78	—	—	1	1	2	0.1	4.7	20.7	2.8
>110% and ≤130%	51	37	7	2	97	—	—	2	2	4	0.1	5.2	22.1	3.7
>130% and ≤150%	22	23	6	—	51	—	—	1	1	2	0.1	6.2	20.1	5.1
>150%	3	9	3	—	15	—	—	1	1	2	0.1	6.2	25.7	8.9
Total with LTVs	107,090	7,026	741	222	115,079	27,711	6	48	110	164	0.0	0.7	14.8	0.1
Other	33	8	3	3	47	173	—	1	3	4	0.0	6.9	85.6	7.5
Total	107,123	7,034	744	225	115,126	27,884	6	49	113	168	0.0	0.7	15.1	0.1

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

Notes:
(1) Excludes a non-material amount of provisions held on relatively small legacy portfolios.
(2) ECL provisions coverage is ECL provisions divided by mortgages.

Key point

- ECL coverage rates increased through the LTV bands with only limited exposures in the highest LTV bands. The relatively high coverage level in the lowest LTV band included the effect of time-discounting on expected recoveries. Additionally, this also reflected the modelling approach that recognised an element of expected loss on mortgages that are not subject to formal repossession activity.

Mortgage regional split

2019	≤50% £m	50% ≤80% £m	80% ≤100% £m	100% ≤150% £m	>150% £m	Total £m	Weighted average LTV %	Other £m	Total £m
South East	12,034	18,183	3,841	7	—	34,065	57	6	34,071
Greater London	11,373	9,962	1,484	4	—	22,823	50	3	22,826
Scotland	1,143	3,350	1,149	1	—	5,643	65	—	5,643
North West	3,157	7,057	1,402	2	—	11,618	60	2	11,620
South West	3,881	6,850	1,364	5	—	12,100	58	2	12,102
West Midlands	2,557	5,537	1,473	4	—	9,571	61	1	9,572
Rest of the UK	7,460	17,010	6,899	177	13	31,559	64	7	31,566
Total	41,605	67,949	17,612	200	13	127,379	58	21	127,400
2018									
South East	12,165	15,724	2,737	8	—	30,634	55	9	30,643
Greater London	10,938	8,916	1,255	3	—	21,112	49	8	21,120
Scotland	923	2,779	1,112	1	—	4,815	65	1	4,816
North West	2,826	6,146	1,695	5	—	10,672	61	4	10,676
South West	3,584	6,178	1,239	8	—	11,009	57	3	11,012
West Midlands	2,444	4,946	1,120	4	—	8,514	59	2	8,516
Rest of the UK	7,212	15,337	5,561	198	16	28,324	63	19	28,343
Total	40,092	60,026	14,719	227	16	115,080	57	46	115,126

Δ

Credit risk – Banking activities continued

Commercial real estate (CRE)

The CRE portfolio comprises exposures to entities involved in the development of, or investment in, commercial and residential properties (including house builders but excluding housing associations, construction and the building materials sub sector). The sector is reviewed regularly by senior executive committees. Reviews include portfolio credit quality, capital consumption and control frameworks. All disclosures in the CRE section are based on current exposure (gross of provisions and risk transfer). Current exposure is defined as: loans; the amount drawn under a credit facility plus accrued interest; contingent obligations; the issued amount of the guarantee or letter of credit; derivatives – the mark-to-market value, netted where netting agreements exist and net of legally enforceable collateral.

By sub sector	2019 £m	2018* £m
Investment		
Residential (1)	2,580	2,365
Office (2)	1,380	986
Retail (3)	1,887	1,808
Industrial (4)	1,412	1,210
Mixed/other (5)	2,516	1,906
	9,775	8,275
Development		
Residential (1)	1,575	1,514
Office (2)	40	4
Retail (3)	95	69
Industrial (4)	36	61
Mixed/other (5)	14	27
	1,760	1,675
Total (6)	11,535	9,950

*2018 data has been restated for a change to presentation of unrecognised interest, refer to Accounting policy 1, Other amendments to IFRS, for further details.

Notes:
(1) Properties including houses, flats and student accommodation.
(2) Properties including offices in central business districts, regional headquarters and business parks.
(3) Properties including high street retail, shopping centres, restaurants, bars and gyms.
(4) Properties including distribution centres, manufacturing and warehouses.
(5) Properties that do not fall within the other categories above. Mixed generally relates to a mixture of retail/office with residential.
(6) 99% (2018 – 98%) of the total exposure relates to the UK.

Key points

- Overall – The majority of the CRE portfolio was managed in the UK within Commercial Banking and Private Banking. Business appetite and strategy remain aligned across the segments.
- 2019 trends – Portfolio exposure increased during 2019, despite subdued new business and refinance activity in Commercial Banking, with NWB Group being the primary booking location for new business activity. CRE retail capital values continued to decline in 2019.
- The retail property market continued to be affected by structural change which resulted in a significant number of CVA's and material capital value falls. In contrast, the office and industrial sectors remained generally positive with solid demand and stable or rising values. An unfavourable Brexit remains the key risk, most notably to the London office market. The mainstream residential housing market was relatively resilient, however a continual slowing of sales was evident particularly for properties above the Help to Buy threshold. Price growth slowed, with some areas softening, most notably in London and the Southeast.
- Credit quality – Heightened Monitoring inflows are stable from a volume perspective but have increased in value due to some larger CRE retail exposures that have entered the framework. The sub-sector was monitored on a regular basis and despite the challenges in the sub-sector, the CRE retail portfolio had a manageable default rate, with a limited number of new defaults.
- Risk appetite – Lending criteria for commercial real estate are considered conservative, with lower leverage required for new London office originations and most parts of the retail sector.

Credit risk – Banking activities continued

Commercial real estate (CRE)

CRE LTV distribution by stage (audited)

The table below shows CRE current exposure and related ECL by LTV band.

	Current exposure (gross of provisions) (1, 2)					ECL provisions				ECL provisions coverage (4)			
2019	Stage 1 £m	Stage 2 £m	Stage 3 £m	Not within IFRS 9 scope (3) £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 %	Stage 2 %	Stage 3 %	Total %
≤50%	3,975	202	22	829	5,028	4	4	6	14	0.1	2.0	27.3	0.3
>50% and ≤70%	2,127	171	27	833	3,158	4	2	7	13	0.2	1.2	25.9	0.6
>70% and ≤80%	102	11	23	9	145	—	1	5	6	—	9.1	21.7	4.4
>80% and ≤90%	30	13	8	1	52	—	—	1	1	—	—	12.5	2.0
>90% and ≤100%	14	1	4	1	20	1	—	1	2	7.1	—	25.0	10.5
>100% and ≤110%	14	3	2	—	19	—	—	1	1	—	—	50.0	5.3
>110% and ≤130%	16	25	22	—	63	—	1	7	8	—	4.0	31.8	12.7
>130% and ≤150%	1	—	4	—	5	—	—	2	2	—	—	50.0	40.0
>150%	22	—	9	—	31	—	—	7	7	—	—	77.8	22.6
Total with LTVs	6,301	426	121	1,673	8,521	9	8	37	54	0.1	1.9	30.6	0.8
Total portfolio average LTV %	44%	55%	92%	48%	46%	—	—	—	—	—	—	—	—
Other (5)	212	81	54	907	1,254	3	3	36	42	1.4	3.7	66.7	12.1
Development (6)	1,353	173	70	164	1,760	4	3	45	52	0.3	1.7	64.3	3.3
Total	7,866	680	245	2,744	11,535	16	14	118	148	0.2	2.1	48.2	1.7
2018*													
≤50%	3,118	128	34	787	4,067	2	2	7	11	0.1	1.6	20.6	0.3
>50% and ≤70%	1,607	66	34	686	2,393	2	1	9	12	0.1	1.5	26.5	0.7
>70% and ≤80%	192	15	25	4	236	—	—	4	4	—	—	16.0	1.7
>80% and ≤90%	13	6	13	1	33	—	—	2	2	—	—	15.4	6.3
>90% and ≤100%	17	4	8	1	30	—	—	3	3	—	—	37.5	10.3
>100% and ≤110%	46	1	9	—	56	—	—	4	4	—	—	44.4	7.1
>110% and ≤130%	4	1	19	—	24	—	—	6	6	—	—	31.6	25.0
>130% and ≤150%	3	—	3	—	6	—	—	2	2	—	—	66.7	33.3
>150%	12	3	19	—	34	—	—	15	15	—	—	78.9	44.1
Total with LTVs	5,012	224	164	1,479	6,879	4	3	52	59	0.1	1.3	31.7	1.1
Total portfolio average LTV %	46%	50%	98%	47%	47%	—	—	—	—	—	—	—	—
Other (5)	1,402	109	57	(172)	1,396	3	4	38	45	0.2	3.7	66.7	2.9
Development (6)	1,292	125	104	154	1,675	6	2	55	63	0.5	1.6	52.9	4.1
Total	7,706	458	325	1,461	9,950	13	9	145	167	0.2	2.0	44.6	2.0

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

Notes:
(1) Comprises gross lending, interest rate hedging derivatives and other assets carried at fair value that are managed as part of the overall CRE portfolio.
(2) The exposure in Stage 3 mainly related to legacy assets.
(3) Includes exposures relating to non-modelled portfolios and other exposures carried at fair value, including derivatives.
(4) ECL provisions coverage is ECL provisions divided by current exposure.
(5) Relates mainly to business banking, rate risk management products and unsecured corporate lending.
(6) Relates to the development of commercial and residential properties. LTV is not a meaningful measure for this type of lending activity.

Δ

Credit risk – Banking activities continued

Flow statements (audited)

The flow statements that follow show the main ECL and related income statement movements. They also show the changes in ECL as well as the changes in related financial assets used in determining ECL. Due to differences in scope, exposures in this section may therefore differ from those reported in other tables in the credit risk section, principally in relation to exposures in Stage 1 and Stage 2. These differences do not have a material ECL impact. 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 (for example, fortuitous recoveries) 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 debt sale activity.
- There were small ECL flows from Stage 3 to Stage 1. This does not however indicate that accounts returned from Stage 3 to Stage 1 directly. On a similar basis, there were flows from Stage 1 to Stage 3 including transfers due to unexpected default events. The small number of write-offs in Stage 1 and Stage 2 reflect the effect of portfolio debt sales and also staging at the start of the analysis period.
- NWB Group continues to hold post model adjustments (PMAs) on a temporary basis ahead of the underlying model parameter changes being implemented, as well as on certain portfolio segments where management judge additional ECL is required. The impact of any change in PMAs during the year is reported under changes in risk parameters, as are any impacts arising from changes to the underlying models. Refer to the Governance and post model adjustments section for further details.
- Reporting enhancements since 31 December 2018, now mean all movements are captured monthly and aggregated. Previously, for example, the main Personal portfolios were prepared on a six month movement basis. Additionally, as noted earlier, interest suspended post default is now included within Stage 3 ECL, with 2018 data restated. The movement in the value of suspended interest during the year is reported under currency translation and other adjustments.

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
NWB Group total	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2019	266,834	184	17,393	452	3,071	1,163	287,298	1,799
Currency translation and other adjustments	(2,381)	—	(59)	3	66	12	(2,374)	15
Inter-group transfers	279	—	(48)	—	—	—	231	—
Transfers from Stage 1 to Stage 2	(19,771)	(81)	19,771	81	—	—	—	—
Transfers from Stage 2 to Stage 1	12,984	210	(12,984)	(210)	—	—	—	—
Transfers to Stage 3	(306)	—	(1,961)	(163)	2,267	163	—	—
Transfers from Stage 3	267	33	600	52	(867)	(85)	—	—
Net re-measurement of ECL on stage transfer		(189)		442		422		675
Changes in risk parameters (model inputs)		(19)		(102)		131		10
Other changes in net exposure	12,788	86	(2,756)	(35)	(952)	(76)	9,080	(25)
Other (P&L only items)		—		—		(88)		(88)
Income statement (releases)/charges		(122)		305		389		572
Amounts written-off	(1)	(1)	(2)	(2)	(401)	(401)	(404)	(404)
Unwinding of discount		—		—		(48)		(48)
At 31 December 2019	270,693	223	19,954	518	3,184	1,281	293,831	2,022
Net carrying amount	270,470		19,436		1,903		291,809	
At 1 January 2018	207,456	160	16,110	318	3,149	1,305	226,715	1,783
2018 movements	59,378	24	1,283	134	(78)	(142)	60,583	16
At 31 December 2018*	266,834	184	17,393	452	3,071	1,163	287,298	1,799
Net carrying amount	266,650		16,941		1,908		285,499	

*2018 data has been restated for a change to reportable segments and a change to presentation of unrecognised interest. Refer to Note 4 on the accounts and Accounting policy 1, Other amendments to IFRS, for further details.

2018 movements included transfers from Stage 1 to Stage 2 of £12,423 million (ECL – £37 million), transfers from Stage 2 to Stage 1 of £8,995 million (ECL – £116 million), transfers into Stage 3 of £1,600 million (ECL – £77 million) and transfers from Stage 3 of £526 million (ECL – £43 million). An additional ECL of £405 million was recognised as a result of these cumulative transfers. It also included amounts written-off of £612 million.

Capital and risk management

Credit risk – Banking activities continued

Flow statements (audited)

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
UK Personal Banking - mortgages	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2019	107,618	8	7,268	50	760	114	115,646	172
Currency translation and other adjustments	—	—	—	—	13	14	13	14
Transfers from Stage 1 to Stage 2	(6,179)	(1)	6,179	1	—	—	—	—
Transfers from Stage 2 to Stage 1	4,605	12	(4,605)	(12)	—	—	—	—
Transfers to Stage 3	(12)	—	(465)	(16)	477	16	—	—
Transfers from Stage 3	16	1	248	19	(264)	(20)	—	—
Net re-measurement of ECL on stage transfer		(11)		28		11		28
Changes in risk parameters (model inputs)		2		(5)		35		32
Other changes in net exposure	12,251	—	(928)	(7)	(160)	(10)	11,163	(17)
Other (P&L only items)		—		—		(15)		(15)
Income statement (releases)/charges		(9)		16		21		28
Amounts written-off	—	—	—	—	(10)	(10)	(10)	(10)
Unwinding of discount		—		—		(22)		(22)
At 31 December 2019	118,299	11	7,697	58	816	128	126,812	197
Net carrying amount	118,288		7,639		688		126,615	
At 1 January 2018	101,618	8	7,260	41	778	96	109,656	145
2018 movements	6,000	—	8	9	(18)	18	5,990	27
At 31 December 2018*	107,618	8	7,268	50	760	114	115,646	172
Net carrying amount	107,610		7,218		646		115,474	

*2018 data has been restated for a change to reportable segments and a change to presentation of unrecognised interest. Refer to Note 4 on the accounts and Accounting policy 1, Other amendments to IFRS, for further details.

Key points

- The increase in ECL in Stage 1 and Stage 2 was reflective of portfolio growth and also due to a slight increase in the portfolio default rate from a low level that included the effect of the natural seasoning of strong business growth in prior years. The rise in Stage 2 also included the effect of a small increase in ECL related to forward-looking economic uncertainty.
- ECL transfers from Stage 3 into Stage 1 and Stage 2 were higher than those in unsecured lending, due to the higher cure activity typically seen in mortgages.
- In Stage 3, the increase included the effect of an accounting methodology change relative to the treatment of interest suspended post default. The value of suspended interest is now reported within the ECL balance and has naturally grown during the year. Under IAS 39, low LTV exposures continued to have interest recognised to income rather than being suspended; under IFRS 9 from the start of 2018, all Stage 3 mortgages irrespective of LTV have interest suspended. The value of suspended interest within the reported ECL is therefore expected to naturally grow over the initial years of IFRS 9, until it reaches a steady state.
- In Stage 3, the ECL cost within changes in risk parameters reflected the monthly assessment of the loss requirement, capturing underlying portfolio movements.
- Write-off occurs once the repossessed property has been sold and there is a residual shortfall balance remaining outstanding. Write-off would typically be within five years from default but can be longer.

Credit risk – Banking activities continued

Flow statements (audited)

UK Personal Banking - Personal cards	Stage 1 Financial assets £m	Stage 1 ECL £m	Stage 2 Financial assets £m	Stage 2 ECL £m	Stage 3 Financial assets £m	Stage 3 ECL £m	Total Financial assets £m	Total ECL £m
At 1 January 2019	1,896	26	904	87	73	50	2,873	163
Currency translation and other adjustments	—	—	1	(1)	(2)	—	(1)	(1)
Transfers from Stage 1 to Stage 2	(932)	(20)	932	20	—	—	—	—
Transfers from Stage 2 to Stage 1	800	58	(800)	(58)	—	—	—	—
Transfers to Stage 3	(14)	—	(90)	(29)	104	29	—	—
Transfers from Stage 3	—	—	6	4	(6)	(4)	—	—
Net re-measurement of ECL on stage transfer		(41)		119		40		118
Changes in risk parameters (model inputs)		(16)		(58)		7		(67)
Other changes in net exposure	358	24	(46)	15	(26)	(1)	286	38
Other (P&L only items)		—		—		(1)		(1)
Income statement (releases)/charges		(33)		76		45		88
Amounts written-off	—	—	—	—	(53)	(53)	(53)	(53)
Unwinding of discount		—		—		(4)		(4)
At 31 December 2019	2,108	31	907	99	90	64	3,105	194
Net carrying amount	2,077		808		26		2,911	
At 1 January 2018	2,008	37	714	70	73	52	2,795	159
2018 movements	(112)	(11)	190	17	—	(2)	78	4
At 31 December 2018*	1,896	26	904	87	73	50	2,873	163
Net carrying amount	1,870		817		23		2,710	

*2018 data has been restated for a change to reportable segments and a change to presentation of unrecognised interest. Refer to Note 4 on the accounts and Accounting policy 1, Other amendments to IFRS, for further details.

Key points

- ECL increased overall during the period. In Stage 3, the natural flow of new defaults, which have reduced slightly year-on-year, were higher than customer repayments and debt write-offs. The sale of Stage 3 impaired debt in 2018 reduced the ongoing business-as-usual flow of write-offs, and the level of debt sales in 2019 was significantly lower than in 2018.
- The rise in Stage 2 ECL included the effect of an increase in ECL relating to forward-looking economic uncertainty.
- The portfolio continued to experience cash recoveries after write-off which are reported in other (P&L only items). These benefited the income statement without affecting ECL. The level was lower compared to the prior year reflecting the debt sales executed in 2018.
- Charge-off (analogous to partial write-off) typically occurs after 12 missed payments.

Capital and risk management

Credit risk – Banking activities continued

Flow statements (audited)

UK Personal Banking - other personal unsecured	Stage 1 Financial assets £m	Stage 1 ECL £m	Stage 2 Financial assets £m	Stage 2 ECL £m	Stage 3 Financial assets £m	Stage 3 ECL £m	Total Financial assets £m	Total ECL £m
At 1 January 2019	3,931	44	1,557	196	388	309	5,876	549
Currency translation and other adjustments	—	—	—	—	4	4	4	4
Transfers from Stage 1 to Stage 2	(2,008)	(34)	2,008	34	—	—	—	—
Transfers from Stage 2 to Stage 1	1,021	68	(1,021)	(68)	—	—	—	—
Transfers to Stage 3	(8)	—	(264)	(84)	272	84	—	—
Transfers from Stage 3	2	—	30	11	(32)	(11)	—	—
Net re-measurement of ECL on stage transfer		(52)		188		90		226
Changes in risk parameters (model inputs)		8		(40)		60		28
Other changes in net exposure	1,358	20	(517)	(30)	(49)	(7)	792	(17)
Other (P&L only items)		—		—		(24)		(24)
Income statement (releases)/charges		(24)		118		119		213
Amounts written-off	(1)	(1)	(1)	(1)	(107)	(107)	(109)	(109)
Unwinding of discount	—	—	—	—	—	(17)	—	(17)
At 31 December 2019	4,295	53	1,792	206	476	405	6,563	664
Net carrying amount	4,242		1,586		71		5,899	
At 1 January 2018	3,445	37	1,406	132	539	444	5,390	613
2018 movements	486	7	151	64	(151)	(135)	486	(64)
At 31 December 2018*	3,931	44	1,557	196	388	309	5,876	549
Net carrying amount	3,887		1,361		79		5,327	

*2018 data has been restated for a change to reportable segments and a change to presentation of unrecognised interest. Refer to Note 4 on the accounts and Accounting policy 1, Other amendments to IFRS, for further details.

Key points

- The overall increase in ECL was primarily in Stage 3, including the effect of a modest increase in the rate of default during the year, however, the trend flattened in the second half of the year as a result of risk appetite tightening. Additionally, there was a loss rate model adjustment that increased ECL.
- In addition, the sale of Stage 3 impaired debt in 2018 reduced the ongoing business-as-usual flow of write-offs, with the actual value of debts sales in 2019 also lower than the prior year.
- The increase in Stage 1 and Stage 2 balances and ECL was a result of a combination of portfolio growth and a small increase in default rates being reflected in slightly increased ECL requirements.
- The portfolio continued to experience cash recoveries after write-off which are reported in other (P&L only items). These benefited the income statement without affecting ECL. The level was lower compared to the prior year reflecting the debt sales executed in 2018.
- Write-off occurs once recovery activity with the customer has been concluded and there are no further recoveries expected, but no later than six years after default.

Capital and risk management

Credit risk – Banking activities continued

Flow statements (audited)

Commercial Banking - excluding business banking	Stage 1 Financial assets £m	Stage 1 ECL £m	Stage 2 Financial assets £m	Stage 2 ECL £m	Stage 3 Financial assets £m	Stage 3 ECL £m	Total Financial assets £m	Total ECL £m
At 1 January 2019	52,533	72	6,403	73	1,459	535	60,395	680
Currency translation and other adjustments	(360)	—	(50)	—	48	(6)	(362)	(6)
Inter-group transfers	306	—	(21)	1	19	16	304	17
Transfers from Stage 1 to Stage 2	(9,021)	(20)	9,021	20	—	—	—	—
Transfers from Stage 2 to Stage 1	5,139	45	(5,139)	(45)	—	—	—	—
Transfers to Stage 3	(202)	—	(932)	(16)	1,134	16	—	—
Transfers from Stage 3	220	30	283	13	(503)	(43)	—	—
Net re-measurement of ECL on stage transfer		(61)		57		231		227
Changes in risk parameters (model inputs)		—		13		(6)		7
Other changes in net exposure	5,923	26	(1,184)	(4)	(533)	(43)	4,206	(21)
Other (P&L only items)		—		—		(9)		(9)
Income statement (releases)/charges		(35)		66		173		204
Amounts written-off	—	—	—	—	(188)	(188)	(188)	(188)
Unwinding of discount		—		—		(3)		(3)
At 31 December 2019	54,538	92	8,381	112	1,436	509	64,355	713
Net carrying amount	54,446		8,269		927		63,642	
At 1 January 2018	50,450	39	5,721	38	1,294	508	57,465	585
2018 movements	2,083	33	682	35	165	27	2,930	95
At 31 December 2018*	52,533	72	6,403	73	1,459	535	60,395	680
Net carrying amount	52,461		6,330		924		59,715	

*2018 data has been restated for a change to reportable segments and a change to presentation of unrecognised interest. Refer to Note 4 on the accounts and Accounting policy 1, Other amendments to IFRS, for further details.

Key points

- ECL marginally increased overall as a result of inter-Group transfers and write-offs exceeding the level of impairment charges on new into default cases.
- Increases in Stage 1 and Stage 2 ECL were offset by net write-offs in Stage 3.
- Improvements in underlying risk metrics which are included in changes to risk parameters in Stage 1 and Stage 2, were offset by model enhancements and increases relating to economic uncertainty.
- The distribution of assets across stages remained broadly in line with 2018, with model enhancements and increases in exposures managed in the Risk of Credit framework, driving the majority of the net movement from Stage 1 to Stage 2.
- Stage 3 income statement charges increased compared to 2018. This was primarily due to a small number of individually significant impairment charges which also affected the transfers to Stage 3.
- For loans that are individually assessed for impairment, the timing of write-off is determined on a case-by-case basis. Such loans are reviewed regularly and write-offs are prompted by bankruptcy, insolvency, renegotiation and similar events.

Capital and risk management

Credit risk – Banking activities continued

Flow statements (audited)

Commercial - Business banking	Stage 1 Financial assets £m	Stage 1 ECL £m	Stage 2 Financial assets £m	Stage 2 ECL £m	Stage 3 Financial assets £m	Stage 3 ECL £m	Total Financial assets £m	Total ECL £m
At 1 January 2019	4,917	18	743	35	170	114	5,830	167
Currency translation and other adjustments	—	(1)	—	2	2	1	2	2
Transfers from Stage 1 to Stage 2	(750)	(5)	750	5	—	—	—	—
Transfers from Stage 2 to Stage 1	573	17	(573)	(17)	—	—	—	—
Transfers to Stage 3	(13)	—	(114)	(17)	127	17	—	—
Transfers from Stage 3	5	2	21	5	(26)	(7)	—	—
Net re-measurement of ECL on stage transfer		(15)		41		48		74
Changes in risk parameters (model inputs)		4		(11)		26		19
Other changes in net exposure	391	4	(204)	(6)	(43)	(8)	144	(10)
Other (P&L only items)		—		—		(41)		(41)
Income statement (releases)/charges		(7)		24		25		42
Amounts written-off	—	—	—	—	(42)	(42)	(42)	(42)
Unwinding of discount		—		—		(2)		(2)
At 31 December 2019	5,123	24	623	37	188	147	5,934	208
Net carrying amount	5,099		586		41		5,726	
At 1 January 2018	4,967	22	536	23	188	161	5,691	206
2018 movements	(50)	(4)	207	12	(18)	(47)	139	(39)
At 31 December 2018*	4,917	18	743	35	170	114	5,830	167
Net carrying amount	4,899		708		56		5,663	

*2018 data has been restated for a change to reportable segments and a change to presentation of unrecognised interest. Refer to Note 4 on the accounts and Accounting policy 1, Other amendments to IFRS, for further details.

Key points

- The ECL increase overall was mainly due to an uplift in Stage 3 reflective of loss rate model adjustments. The flow of new defaults increased in 2019 compared to 2018 reflecting an uplift in default rates (particularly for low value, unsecured lending which represented 18% of stock), which has been addressed through a tightening of risk appetite.
- Stage 1 ECL increased slightly. Stage 2 ECL remained broadly unchanged despite the reduction in Stage 2 exposure, and included the effect of an increase in ECL relating to economic uncertainty.
- The portfolio continued to benefit from cash recoveries post write-off, which are reported as other (P&L only items).
- Write-off occurs once recovery activity with the customer has been concluded and there are no further recoveries expected, but no later than five years after default.

Δ

Capital and risk management

Credit risk – Banking activities continued

Stage 2 decomposition – arrears status and contributing factors

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

	UK mortgages		Other mortgages		Credit cards		Other		Total	
	Loans	ECL	Loans	ECL	Loans	ECL	Loans	ECL	Loans	ECL
2019	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Personal										
Currently in arrears (>30 DPD)	380	9	—	—	12	5	74	15	466	29
Currently up-to-date	7,403	49	—	—	899	95	1,734	192	10,036	336
- PD deterioration	*2,907*	*40*	—	—	*525*	*70*	*1,171*	*155*	*4,603*	*265*
- Up-to-date, PD persistence	*1,428*	*4*	—	—	*303*	*14*	*416*	*24*	*2,147*	*42*
- Other driver (adverse credit, forbearance etc)	*3,068*	*5*	—	—	*71*	*11*	*147*	*13*	*3,286*	*29*
Total Stage 2	7,783	58	—	—	911	100	1,808	207	10,502	365
2018										
Personal										
Currently in arrears (>30 DPD)	467	7	2	—	12	5	71	17	552	29
Currently up-to-date	6,801	43	—	—	896	83	1,526	180	9,223	306
- PD deterioration	*2,461*	*36*	—	—	*568*	*62*	*962*	*141*	*3,991*	*239*
- Up-to-date, PD persistence	*1,037*	*3*	—	—	*247*	*12*	*339*	*21*	*1,623*	*36*
- Other driver (adverse credit, forbearance etc)	*3,303*	*4*	—	—	*81*	*9*	*225*	*18*	*3,609*	*31*
Total Stage 2	7,268	50	2	—	908	88	1,597	197	9,775	335

Key point

- Overall, Stage 2 balances increased driven primarily by mortgages and included the effect of strong book growth seasoning. The reduction in the other driver category reflected an enhancement to the treatment of certain credit bureau data items. As expected, ECL coverage was higher on accounts that are more than 30 days past due. Also, in line with expectations, up-to-date accounts exhibiting PD deterioration tended to have a higher ECL coverage than accounts in Stage 2 for other reasons.

	Property		Corporate		FI		Other		Total	
	Loans	ECL	Loans	ECL	Loans	ECL	Loans	ECL	Loans	ECL
2019	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Wholesale										
Currently in arrears (>30 DPD)	35	2	193	4	1	—	—	—	229	6
Currently up-to-date	1,569	25	6,929	120	162	2	1	—	8,661	147
- PD deterioration	*944*	*18*	*4,564*	*100*	*129*	*2*	—	—	*5,637*	*120*
- Up-to-date, PD persistence	*38*	*1*	*146*	*4*	*2*	—	—	—	*186*	*5*
- Other driver (adverse credit, forbearance etc)	*587*	*6*	*2,219*	*16*	*31*	—	*1*	—	*2,838*	*22*
Total Stage 2	1,604	27	7,122	124	163	2	1	—	8,890	153
2018										
Wholesale										
Currently in arrears (>30 DPD)	186	6	106	4	1	—	—	—	293	10
Currently up-to-date	944	15	5,568	91	139	1	13	—	6,664	107
- PD deterioration	*495*	*11*	*3,713*	*73*	*93*	*1*	—	—	*4,301*	*85*
- Up-to-date, PD persistence	*50*	*1*	*135*	*4*	*3*	—	—	—	*188*	*5*
- Other driver (adverse credit, forbearance etc)	*399*	*3*	*1,720*	*14*	*43*	—	*13*	—	*2,175*	*17*
Total Stage 2	1,130	21	5,674	95	140	1	13	—	6,957	117

Key points

- Overall, Stage 2 ECL increased as model enhancements led to a net increase in Stage 2 balances. Coverage can vary across categories or sectors reflecting the individual characteristics of the customer and exposure type.
- The increase in exposures reported as Stage 2 was due to model enhancements and increases in exposures managed in the Risk of Credit Loss framework, which led to a net transfer of balances from Stage 1.

Credit risk – Banking activities continued

Stage 2 decomposition by a significant increase in credit risk trigger

	UK mortgages		Other mortgages		Credit cards		Other		Total	
2019	£m	%	£m	%	£m	%	£m	%	£m	%
Personal trigger (1)										
PD movement	3,202	41.1	—	—	537	58.9	1,216	67.3	4,955	47.2
PD persistence	1,430	18.4	—	—	304	33.4	416	23.0	2,150	20.5
Adverse credit bureau recorded with credit reference agency	2,557	32.9	—	—	42	4.6	81	4.5	2,680	25.5
Forbearance support provided	109	1.4	—	—	—	—	8	0.4	117	1.1
Customers in collections	116	1.5	—	—	2	0.2	29	1.6	147	1.4
Other reasons (2)	291	3.7	—	—	26	2.9	36	2.0	353	3.4
Days past due >30	78	1.0	—	—	—	—	22	1.2	100	1.0
	7,783	100.0	—	—	911	100.0	1,808	100.0	10,502	100.0
2018										
Personal trigger (1)										
PD movement	2,752	37.8	—	—	579	63.8	1,000	62.6	4,331	44.3
PD persistence	1,037	14.3	—	—	248	27.3	340	21.3	1,625	16.6
Adverse credit bureau recorded with credit reference agency	2,238	30.8	—	—	42	4.6	80	5.0	2,360	24.1
Forbearance support provided	129	1.8	—	—	—	—	10	0.6	139	1.4
Customers in collections	113	1.6	—	—	3	0.3	27	1.7	143	1.5
Other reasons (2)	831	11.4	—	—	36	4.0	118	7.4	985	10.1
Days past due >30	168	2.3	2	100.0	—	—	22	1.4	192	2.0
	7,268	100.0	2	100.0	908	100.0	1,597	100.0	9,775	100.0

Key point

- The primary driver of credit deterioration was PD, which including persistence, accounted for the majority of movements into Stage 2. High risk back-stops, for example, forbearance and adverse credit bureau, provide additional valuable discrimination particularly on mortgages. The reduction in the Other driver category reflected an enhancement to the treatment of certain credit bureau data items, with this reduction offset by an increase in the level of accounts triggering PD deterioration.

	Property		Corporate		FI		Other		Total	
2019	£m	%	£m	%	£m	%	£m	%	£m	%
Wholesale trigger (1)										
PD movement	958	59.7	4,602	64.7	130	79.8	—	—	5,690	63.9
PD persistence	38	2.4	146	2.0	2	1.2	—	—	186	2.1
Risk of credit loss	439	27.4	1,605	22.5	23	14.1	—	—	2,067	23.3
Forbearance support provided	16	1.0	79	1.1	—	—	—	—	95	1.1
Customers in collections	7	0.4	31	0.4	—	—	—	—	38	0.4
Other reasons (3)	133	8.3	524	7.4	8	4.9	1	100.0	666	7.5
Days past due >30	13	0.8	135	1.9	—	—	—	—	148	1.7
	1,604	100.0	7,122	100.0	163	100.0	1	100.0	8,890	100.0
2018										
Wholesale trigger (1)										
PD movement	505	44.8	3,762	66.3	93	66.5	—	—	4,360	62.7
PD persistence	50	4.4	136	2.4	3	2.1	—	—	189	2.7
Risk of credit loss	153	13.5	1,333	23.5	7	5.0	—	—	1,493	21.5
Forbearance support provided	25	2.2	120	2.1	—	—	—	—	145	2.1
Customers in collections	5	0.4	28	0.5	—	—	—	—	33	0.5
Other reasons (3)	221	19.6	255	4.5	36	25.7	13	100.0	525	7.5
Days past due >30	171	15.1	40	0.7	1	0.7	—	—	212	3.0
	1,130	100.0	5,674	100.0	140	100.0	13	100.0	6,957	100.0

Notes:
(1) The table is prepared on a hierarchical basis from top to bottom, for example, accounts with PD deterioration may also trigger backstop(s) but are only reported under PD deterioration.
(2) Includes customers that have accessed payday lending, interest only mortgages past end of term, a small number of mortgage customers on a highly flexible mortgage significantly behind their repayment plan and customers breaching risk appetite thresholds for new business acquisition.
(3) Includes customers where a PD assessment cannot be undertaken due to missing PDs.

Key point

- The primary driver of credit deterioration was PD, which including persistence, accounted for 66% of Stage 2. The Risk of Credit Loss framework accounted for a further 23%, highlighting the importance of expert judgement being used to identify deterioration. The increase in Stage 2 exposure balances was primarily as a result of modelling changes and increases in exposures managed in the Risk of Credit Loss framework, led to a net transfer of exposure from Stage 1.

Non-traded market risk

Definition (audited)

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

Δ

Sources of risk (audited)

The key sources of NWB Group's non-traded market risk are interest rate risk, credit spread risk and foreign exchange risk.

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

Δ

Key developments in 2019

- Interest rates remained low in 2019, reflecting partly uncertainty over Brexit but also broader uncertainty. The Bank of England base rate remained unchanged at 0.75% but market expectations were for lower interest rates in the longer term. The five-year swap rate fell to 0.81% at 31 December 2019 compared to 1.22% at 31 December 2018, which contributed to slightly lower returns on the structural hedge.
- NWB Group's net interest earnings sensitivity was consistently positively sensitive to higher interest rates.

Risk governance (audited)

Responsibility for identifying, measuring, monitoring and controlling market risk arising from non-trading activities lies with the relevant business. Oversight is provided by the independent Risk function.

Risk positions are reported monthly to the NatWest Holdings Executive Risk Committee and quarterly to the NatWest Holdings Board Risk Committee, as well as to the NatWest Holdings Asset & Liability Management Committee (monthly in the case of interest rate and credit spread risks and quarterly in the case of foreign exchange risk). Market risk policy statements set out the governance and risk management framework.

Δ

Risk appetite

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

Its quantitative appetite is expressed in terms of exposure limits. These limits comprise both board risk measures (which are approved by the NWH Group Board on the recommendation of the Board Risk Committee) and key risk measures (which are approved by the ALCo).

NWB Group's limit framework comprises value-at-risk (VaR), stressed value-at-risk (SVaR), sensitivities and earnings-at-risk limits. The limits are reviewed to reflect changes in risk appetite, business plans, portfolio composition and the market and economic environments.

To ensure approved limits are not breached and that NWB Group remains within its risk appetite, triggers have been set such that if exposures exceed a specified level, action plans are developed and implemented.

For further information on risk appetite, refer to page 13.

Risk controls

For information on risk controls, refer to page 13

Risk measurement (audited)

Non-traded internal VaR (1-day 99%)

The following table presents one-day internal banking book VaR at a 99% confidence level, split by risk type. VaR metrics are explained on page 57. Each of the key risk types are discussed in greater detail in their individual sub-sections following this table.

	2019				2018
	Average	Maximum	Minimum	Period-end	Period-end
	£m	£m	£m	£m	£m
Interest rate	11.5	16.7	8.5	12.3	4.0
Euro	1.3	3.0	0.5	1.3	0.2
Sterling	10.4	14.6	7.5	10.7	4.0
US dollar	1.8	3.1	0.8	2.7	0.1
Other	0.4	0.7	0.1	0.3	0.1
Credit spread	55.3	58.4	52.9	58.4	78.2
Pipeline risk	0.4	1.0	0.2	0.2	0.3
Diversification (1)	(11.2)	—	—	(13.7)	(3.7)
Total	56.0	62.3	50.9	57.2	78.8

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

Key point

- The main driver of total VaR is the liquidity asset buffer.

Δ

Non-traded market risk continued

Interest rate risk

Non-traded interest rate risk (NTIRR) arises from the provision to customers of a range of banking products with differing interest rate characteristics. When aggregated, these products form portfolios of assets and liabilities with varying degrees of sensitivity to changes in market interest rates. Mismatches can give rise to volatility in net interest income as interest rates vary.

NTIRR comprises the following three primary risk types:

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

To manage exposures within its risk appetite, NWB Group aggregates its interest rate positions and hedges its residual exposure, primarily with interest rate swaps.

Structural hedging aims to reduce gap risk and the sensitivity of earnings to interest rate shocks. It also provides some protection against prolonged periods of falling rates. Structural hedging is explained in greater detail below, followed by information on how NWB Group measures NTIRR from both an economic value-based and an earnings-based perspective.

Structural hedging

NWB Group has a significant pool of stable, non and low interest-bearing liabilities, principally comprising equity and money transmission accounts. RBS Group has a policy of hedging these balances, either by investing directly in longer-term fixed-rate assets (primarily fixed-rate mortgages) or by using interest rate swaps, in order to provide a consistent and predictable revenue stream from these balances.

At 31 December 2019, NWB Group's structural hedge had a notional of £110 billion (compared to £112 billion at 31 December 2018) with an average life of approximately three years. This includes a notional of £11 billion relating to Coutts UK and Ulster Bank Limited (£11 billion at 31 December 2018).

Interest rate risk measurement

NTIRR can be measured from either an economic value-based or earnings-based perspective, or a combination of the two. Value-based approaches measure the change in value of the balance sheet assets and liabilities including all cash flows. Earnings-based approaches measure the potential impact on the income statement of changes in interest rates over a defined horizon, generally one to three years.

NWB Group uses VaR as its value-based approach and sensitivity of net interest earnings as its earnings-based approach.

These two approaches provide complementary views of the impact of interest rate risk on the balance sheet at a point in time. The scenarios employed in the net interest earnings sensitivity approach may incorporate assumptions about how NWB Group and its customers will respond to a change in the level of interest rates. In contrast, the VaR approach measures the sensitivity of the balance sheet at a point in time. Capturing all cash flows, VaR also highlights the impact of duration and repricing risks beyond the one-to-three-year period shown in earnings sensitivity calculations.

Value-at-risk

VaR is a statistical estimate of the potential change in the market value of a portfolio (and, thus, the impact on the income statement) over a specified time horizon at a given confidence level. NWB Group's standard VaR metrics – which assume a time horizon of one trading day and a confidence level of 99% – are based on interest rate repricing gaps at the reporting date. Daily rate moves are modelled using observations from the last 500 business days. These incorporate customer products plus associated funding and hedging transactions as well as non-financial assets and liabilities. Behavioural assumptions are applied as appropriate.

The non-traded interest rate risk VaR metrics for NWB Group's retail and commercial banking activities are included in the banking book VaR table above. The VaR captures the risk resulting from mismatches in the repricing dates of assets and liabilities.

It also includes any mismatch between the maturity profile of external hedges and NWB Group's target maturity profile for the hedge.

Sensitivity of net interest earnings

Net interest earnings are sensitive to changes in the level of interest rates, mainly because maturing structural hedges are replaced at higher or lower rates and changes to coupons on managed rate customer products do not match changes in market rates of interest or central bank policy rates.

Earnings sensitivity is derived from a market-implied forward rate curve. Assumptions are applied to this curve to derive central bank policy rates. A simple scenario is shown that projects forward earnings over a 12-month period based on the 31 December 2019 balance sheet. A base-case earnings forecast is derived from the market-implied rate curve, which is then subject to interest rate shocks. The difference between the base-case forecast and the shock gives an indication of underlying sensitivity to interest rate movements.

Non-traded market risk continued

The sensitivity of net interest earnings table shows the expected impact to an immediate upward or downward change of 25 and 100 basis points to all interest rates. Yield curves are expected to move in parallel except that interest rates are assumed to floor at zero per cent or, for euro rates, at the current negative rate. At 31 December 2019, the floor also affects sterling interest rates, reducing the size of the down-rate shock at most maturities.

Reported sensitivities should not be considered a forecast of future performance in these rate scenarios. The projections do not capture potential management action in response to unexpected changes in the interest rate environment. Actions that could reduce interest earnings sensitivity include changes in pricing strategies on customer loans and deposits as well as hedging. Management action may also be taken to stabilise total income also taking into account non-interest income.

	Parallel shifts in yield curve			
2019	+25 basis points £m	-25 basis points £m	+100 basis points £m	-100 basis points £m
12-month interest earnings sensitivity	121	(119)	525	(539)
2018				
12-month interest earnings sensitivity	102	(141)	431	(518)

Key point

- The increased sensitivity to upward rate shocks and the reduced sensitivity to the downward 25-basis-point rate shock partly reflect changes to estimates of how product pricing will respond to interest rate shocks. These estimates are reviewed regularly and are influenced by the overall level of interest rates, NWB Group's competitive position and other strategic considerations.

Sensitivity of fair value through other comprehensive income (FVOCI) to interest rate movements.

NWB Group holds most of the bonds in its liquidity portfolio at fair value. Valuation changes that are not hedged (or not in effective hedge accounting relationships) are recognised in FVOCI reserves.

Interest rate swaps are used to implement the structural hedging programme and to hedge some personal and commercial lending portfolios, primarily fixed-rate mortgages. Changes in the valuation of swaps that are in effective cash flow hedge accounting relationships are recognised in cash flow hedge reserves.

The table below shows the sensitivity of FVOCI reserves and cash flow hedge reserves to a parallel shift in all rates. In this analysis, interest rates have not been floored at zero. Cash flow hedges are assumed to be fully effective and interest rate hedges of bonds in the liquidity portfolio are also assumed to be subject to fully effective hedge accounting. Hedge accounting ineffectiveness would result in some deviation from the results below, with some gains or losses recognised in P&L instead of reserves. Hedge ineffectiveness P&L is monitored and the effectiveness of cash flow and fair value hedge relationships is regularly tested in accordance with IFRS requirements. Note that a movement in the FVOCI reserve would have an impact on CET1 capital but a movement in the cash flow hedge reserve would not be expected to do so. Volatility in both reserves affects tangible net asset value.

	Parallel shifts in yield curve			
2019	+25 basis points £m	-25 basis points £m	+100 basis points £m	-100 basis points £m
FVOCI reserves	(35)	33	(144)	125
Cash flow hedge reserves	108	(109)	426	(445)
Total	73	(76)	282	(320)
2018				
FVOCI reserves	(32)	32	(131)	121

Key point

- NWB Group implemented its cash flow hedging programme in 2019.

Non-traded market risk continued

Credit spread risk

Credit spread risk arises from the potential adverse economic impact of a change in the spread between bond yields and swap rates, where the bond portfolios are accounted at FVOCI.

NWB Group's bond portfolios primarily comprise high-quality securities maintained as a liquidity buffer to ensure it 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.

Credit spread risk is monitored daily through sensitivities and VaR measures. The dealing authorities in place for the bond portfolios further mitigate the risk by imposing constraints by duration, asset class and credit rating. Exposures and limit utilisations are reported to senior management on a daily basis.

Foreign exchange risk

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

- Structural foreign exchange risk – arises from the capital deployed in foreign subsidiaries, branches and joint arrangements and related currency funding where it differs from 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.
- Forecast earnings or costs in foreign currencies – NWB Group assesses its potential exposure to forecast foreign currency income and expenses. NWB Group hedges forward some forecast expenses.

Structural foreign exchange exposures arise from investments in foreign subsidiaries, branches and associates and their related currency funding. These exposures are assessed and managed to predefined risk appetite levels under delegated authority from the Asset & Liability Management Committee. NWH Group seeks to limit the potential volatility impact on its CET1 ratio from exchange rate movements by maintaining a structural open currency position. 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. Sensitivity is minimised where, for a given currency, the ratio of the structural open position to RWAs equals the CET1 ratio.

The sensitivity of the NWH ratio to exchange rates is monitored monthly and reported to the Asset & Liability Management Committee at least quarterly. Foreign exchange exposures arising from customer transactions are sold down by businesses on a regular basis in line with NWH Group policy.

Foreign exchange risk (audited)

The table below shows structural foreign currency exposures.

2019	Net investments in foreign operations £m	Net investment hedges £m	Structural foreign currency exposures £m
Euro	147	(130)	17
Other non-sterling	409	(123)	286
Total	556	(253)	303
2018			
Euro	169	(159)	10
Other non-sterling	241	(56)	185
Total	410	(215)	195

Δ

Key point (audited)

- Changes in foreign currency exchange rates affect equity in proportion to structural foreign currency exposures. For example, at 31 December 2019, a 5% strengthening in foreign currencies against sterling would result in a gain in £0.02 billion in equity while a 5% weakening in foreign currencies against sterling would result in a loss of £0.02 billion in equity.

Δ

Pension risk

Definition

Pension risk is the risk to NWB 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 NWB Group will make payments or other contributions to, or with respect to, a pension scheme because of a moral obligation or because RBS Group considers that it needs to do so for some other reason.

Sources of risk

NWB Group has exposure to pension risk through its defined benefit schemes worldwide. The Main section of The Royal Bank of Scotland Group Pension Fund (the Main section) is the largest source of pension risk as NatWest Bank Plc is the principal employer to the Main section with £46.5 billion of assets and £39.7 billion of liabilities at 31 December 2019 (2018 – £43.8 billion of assets and £35.5 billion of liabilities). Further detail on NWB Group's pension obligations 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. NWB 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, NWB 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

- During 2019, the Scheme Actuary's annual funding update, undertaken as at 31 December 2018, showed that the Main section was fully funded on the basis used for formal triennial funding valuations. This funding position was reached following the £2 billion sponsor contribution made in 2018 while the Trustee reduced the investment risk in the Main section and added further protection against the potential impact of interest rate and inflation movements on the Main section's liabilities, as agreed through the Memorandum of Understanding in 2018.

Risk governance

The RBS Group Pension Committee is chaired by the RBS Group Chief Financial Officer. During 2019 it received its authority from the RBS Group Executive Committee and formulated RBS Group's view of pension risk. The RBS Group Pension Committee is a key component of RBS Group's approach to managing pension risk and it reviews and monitors risk management, asset and liability strategy and financing issues on behalf of RBS Group. It also considers investment strategy proposals from the Trustee of the Main section. For further information on Risk governance, refer to page 11.

Risk appetite

RBS Group maintains an independent view of the risk inherent in its pension funds. NWB Group has an annually reviewed pension risk appetite statement relating to the Main section, for which it is the principal sponsoring employer, incorporating defined metrics against which risk is measured. RBS Group undertakes regular pension risk monitoring and reporting to the RBS Group Board, the RBS Group Board Risk Committee and the RBS Group Pension Committee on the material pension schemes that RBS Group has an obligation to support.

Risk controls

A pension risk management framework is in place to provide formal controls for pension risk reporting, modelling, governance and stress testing. A pension risk policy which sits within the RBS Group policy framework is also in place and is subject to associated framework controls.

Risk monitoring and measurement

Pension risk is monitored by the Group Board Risk Committee by way of the quarterly Risk Management Report.

RBS Group also 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 Bank of England.

The stress testing framework includes pension risk capital calculations for the purposes of the Internal Capital Adequacy Assessment Process as well as additional stress tests for a number of internal management purposes.

The results of the stress tests and their consequential impact on NWB Group's balance sheet, income statement and capital position are incorporated into NWB Group's and overall RBS Group stress test results.

NatWest Bank Plc is the principal employer of the Main section, and could be required to fund any deficit that arises.

Risk mitigation

Following risk mitigation measures taken by the Trustee in recent years, the Main section is now well protected against interest rate and inflation risks and is being run on a low risk basis with relatively small equity risk exposure. The Main section also uses 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 Main section. 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 Main section 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 RBS 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 RBS Group and its subsidiaries and its staff towards customers – or in the markets in which it operates – leads to unfair or inappropriate customer outcomes and results in reputational damage, financial loss or both.

Sources of risk

Compliance and conduct risks exist across all stages of RBS Group's relationships with its customers and arise from a variety of activities including product design, marketing and sales, complaint handling, staff training, and handling of confidential insider information. As set out in Note 28 on the accounts, RBS Group and certain members of staff are party to legal proceedings and are subject to investigation and other regulatory action in the UK, the US and other jurisdictions.

Key developments in 2019

- Policies were simplified and enhanced to reflect regulatory changes and technical training delivered across the lines of defence.
- Ongoing investment in regulatory technology.
- Planning for LIBOR transition continued including an extended SONIA pilot and further industry engagement.
- Preparations continued for a number of Brexit outcomes.
- Enhanced operational capabilities to cope with unprecedented volumes of PPI mis-selling claims.

Compliance & conduct risk continued

Risk governance
RBS Group defines appropriate standards of compliance and conduct and ensures adherence to those standards through its risk management framework. Relevant compliance and conduct matters are escalated through Executive Risk Committee and Board Risk Committee.

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 RBS Group's 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. The first line of defence is responsible for effective risk identification, reporting and monitoring, with oversight, challenge and review by the second line. Compliance and conduct risk management is also integrated into the RBS Group's strategic planning cycle.

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 legal entities. Examples of mitigation include consideration of customer needs in business and product planning, targeted training, complaints management, as well as independent monitoring activity. Internal policies help support a strong customer focus across RBS Group. Independent assessments of compliance with applicable regulations are also carried out at a legal entity level.

Financial crime risk

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

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

Key developments in 2019
- Enhanced financial crime risk assessment processes were implemented to enable improved identification and mitigation of financial crime risks
- Improvements were made to transaction monitoring alert processes, including the use of risk-based artificial intelligence to facilitate focus on activity of higher concern.
- Financial crime policies were refreshed and updated to reflect changes to the regulatory environment and industry best practice.

Risk governance
The Financial Crime Risk Executive Committee, which is chaired by the Group Chief Financial Crime Risk Officer, is the principal financial crime risk management forum. The committee reviews and, where appropriate, escalates material financial crime risks and issues across RBS Group to the Executive Risk Committee and the 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. NWB Group's systems and controls must be comprehensive and proportionate to the nature, scale and complexity of its businesses. There is no tolerance to systematically or repeatedly breach relevant financial crime regulations and laws.

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

Risk monitoring and measurement
Financial crime risks are identified and reported through continuous risk management and regular monthly reporting to NWB Group's senior risk committees and the Board. Quantitative and qualitative data is reviewed and assessed to measure whether financial crime risk is within NWB Group's risk appetite.

Risk mitigation
Through the financial crime framework, NWB 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. NWB Group ensures that centralised expertise is available to detect and disrupt threats to NWB 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 of risk
Physical risks can arise from climate and weather-related events such as heatwaves, droughts, floods, storms and sea level rises. They can potentially result in financial losses, impairing asset values and the creditworthiness of borrowers. NWB 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. NWB Group could be exposed to transition risks directly through the costs of adaptation within economic sectors and markets as well as supply chain disruption leading to financial impacts on NWB Group and its customers. Potential indirect effects include the erosion of NWB Group's competitiveness, profitability, or potential reputation damage.

Capital and risk management

Climate-related financial risk continued

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 NWB Group's risk management framework.
- RBS Group developed a multi-phase, multi-year plan to build out capabilities across governance, risk management, scenario analysis & stress testing, and disclosures.
- In Q4 2019, a pilot project was launched with a consortium of partners to assess physical risk to elements of NWB Group's retail and commercial portfolios.

Risk governance

The RBS Group Board is responsible for addressing and overseeing the financial risks from climate change within NWB Group's overall business strategy and risk appetite. The potential impact, likelihood and preparedness of climate-related financial risk is reported quarterly to the Board and Board Risk Committee.

The RBS Group Chief Risk Officer is accountable for ensuring the financial risks from climate change are captured in RBS Group's risk management framework and for ensuring RBS Group can measure, monitor, manage and report those risks.

In H2 2019, RBS Group's climate change working group was formalised into an RBS Group-wide Climate Change Programme (GCCP), with an executive steering group co-chaired by the RBS Group Chief Risk Officer. The GCCP steering group, which includes cross-franchise and functional representation from RBS Group's subsidiary entities, provides executive-level support, advice and resource direction on climate change strategy, including both risk management and climate-related business opportunities.

The management of climate-related threats requires a strategic approach that considers how decisions today affect future financial risks. A Board-approved plan has been developed to integrate the management of climate-related risks within the risk management framework.

Risk appetite

As part of NWB Group's 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 Bank of England's 2021 biennial exploratory scenario will be used to further enhance NWB Group's capabilities for the measurement of climate-related risks.

RBS Group continues to participate in several industry-wide initiatives to develop consistent risk measurement methodologies. RBS Group is a founding signatory of the United Nations Environment Programme Finance Initiative (UNEP FI) Principles for Responsible Banking, which aims to promote sustainable finance around the globe. Through UNEP-FI, RBS Group is participating in three thematic modules exploring how climate change will affect real estate, agriculture and land use. It is also represented on the Climate Financial Risk Forum, established by the PRA and FCA to shape the financial service industry's response to the challenges posed by climate risk.

For further detail, please see the RBS Group Strategic Report pages 37 to 41.

Operational risk

Definition

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

Sources of risk

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

Key developments in 2019

- There was an improvement in the operational risk profile, indicated by an improved control environment, with residual elements under close management.
- A focus remained on maintaining operational resilience and ensuring preparedness for external threats and challenges such as cyber attacks and Brexit.
- The threat landscape continued to evolve during 2019 and NWB Group invested in control enhancements to keep pace. This included new anti-malware controls and improved security testing to quickly detect and remediate vulnerabilities.
- Progress was made in embedding an innovation framework to help deliver innovative solutions to customers safely and at pace.
- Following the introduction of ring-fencing and Operational Continuity in Resolution requirements, a consistent approach was introduced to identify and capture the risk associated with service provision of service between its legal entities.
- There was an increased focus on ensuring the security and business strategies were aligned. Security is considered at the outset of new business projects to ensure they are delivered in a safe and secure manner. The number of critical customer-impacting incidents continued to reduce year-on-year.
- Internal training programmes ensure all employees are aware of the threats facing NWB Group and remain vigilant to unauthorised attempts to access systems and data.

Risk governance

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

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

The Operational Risk function is responsible for the execution and continuous improvement of the operational risk management framework, reporting and escalating key concerns to Executive Risk Committee and Board Risk Committee.

Risk appetite

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

Capital and risk management

Operational risk continued

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

Risk controls and mitigation

The Control Environment Certification (CEC) process is a half yearly self-assessment by the CEOs of NWB Group's principal businesses, functions and legal entities, providing a consistent and comparable view on the adequacy and effectiveness of the internal control environment.

CEC covers material risks and the underlying key controls, including financial, operational and compliance controls, as well as supporting risk management frameworks. The CEC outcomes, including forward-looking assessments for the next two half-yearly cycles and progress on control environment improvements, are reported to the Group Audit Committee and Board Risk Committee. They are also shared with external auditors.

The CEC process helps to ensure compliance with the RBS Group Policy Framework, Sarbanes-Oxley 404 requirements concerning internal control over financial reporting (as referenced in the Compliance report on page 106 in the RBS Group Annual Report and Accounts), 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 RBS Group's Risk Directory. Risk assessments are refreshed at least annually to ensure they remain relevant and capture any emerging risks and also ensure risks are reassessed.

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

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

Scenario analysis is used to assess how extreme but plausible operational risks will affect NWB 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

NWB Group manages and monitors operational resilience through its risk and control assessments methodology. This is underpinned by setting and monitoring risk indicators and performance metrics for key business services. Progress continues on the response to regulator expectations on operational resilience, with involvement in a number of industry wide operational resilience forums. This enables a more holistic view of NWB Group's operational resilience risk profile and the pace of ongoing innovation and change, internally and externally.

Progress also continues on the response to the EBA Guidelines on Outsourcing Arrangements which were issued on 25 February 2019. This ensures that increases in outsourcing (as seen across the industry), to increase efficiency and further embrace new technologies, is managed safely.

Event and loss data management

The operational risk event and loss data management process ensures NWB 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 NWB 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. NWB 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

NWB 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 NWB Group holds sufficient capital, even in stressed market scenarios.

Governance

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

Risk appetite

Model risk appetite is defined in 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.

Model risk continued

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, an internal model governance committee 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 NWB 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 NWB 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 NWB Group. Reputational risk committees review relevant issues at an individual business or entity level, while the RBS Group Reputational Risk Committee – which has delegated authority from the Executive Risk Committee – opines on cases, issues, sectors and themes that represent a material reputational risk to RBS Group. The Board Risk Committee oversees the identification and reporting of reputational risk. The RBS Group Sustainable Banking Committee has a specific focus on environmental, social and ethical issues.

Risk appetite
NWB Group manages and articulates its appetite for reputational risk through a qualitative reputational risk appetite statement and quantitative measures. NWB Group seeks continuous improvement in the identification, assessment and management of customers, transactions, products and issues that present a material reputational risk.

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

Risk monitoring and measurement
Primary reputational risk measures are in place to assess internal activity relating to the management of reputational risk, including training. A number of secondary risk measures – including measures also used in the management of operational, conduct and financial risks – are used to assess relevant external factors. Quarterly reports on performance against these measures are provided to the Executive Risk Committee 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 RBS Group's Top and Emerging Risks process.

The most material threats to NWB Group's reputation continued to originate from historical and more recent conduct issues. As a result, RBS Group has been the subject of investigations and reviews by a number of regulators and governmental authorities, some of which have resulted in fines, settlements and public censure. Refer to the Litigation, investigations and reviews section of Note 28 on the accounts.

Report of the directors

The directors present their report together with the audited accounts for the year ended 31 December 2019.

Other information incorporated into this report by reference can be found at:

	Page/Note
Stakeholder engagement and s.172(1) statement	3
Board of directors and secretary	5
Financial review	7
Segmental analysis	Note 4
Share capital and reserves	Note 23
Post balance sheet events	Note 36
Risk factors	150

NWB Group structure

National Westminster Bank Plc ('NWB Plc') is a wholly-owned subsidiary of NatWest Holdings Limited ('NWH Ltd' or 'the intermediate holding company'). NatWest Bank Group ('NWB Group') comprises NWB Plc and its subsidiary and associated undertakings. The Royal Bank of Scotland Group plc ('RBSG plc') is 'the ultimate holding company'. The term 'RBS Group' comprises RBSG plc and its subsidiary and associated undertakings. RBSG plc is incorporated in the United Kingdom and has its registered office at 36 St Andrew Square, Edinburgh, EH2 2YB.

Details of NWB Plc's principal subsidiary undertakings and their activities are shown in Note 14 on the accounts. A full list of NWB Plc's related undertakings is shown in Note 37 on the accounts.

The financial statements of RBSG plc can be obtained from Legal, Governance & Regulatory Affairs, RBS Gogarburn, Edinburgh, EH12 1HQ, the Registrar of Companies or through RBS Group's website rbs.com.

Activities

NWB Group is engaged principally in providing a wide range of banking and other financial services.

Results and dividends

The profit attributable to the ordinary shareholders of NWB Plc for the year ended 31 December 2019 was £714 million compared with a profit of £2,649 million for the year ended 31 December 2018, as set out in the consolidated income statement on page 82.

NWB Plc paid an ordinary dividend to NWH Ltd in 2019 totalling £700 million. In 2018 it distributed NatWest Group Holdings Corp to NatWest Markets Plc by dividend in specie - £292 million.

Employees

As at 31 December 2019, NWB Group employed 52,600 people (full-time equivalent basis, including temporary workers). Details of related costs are included in Note 3 on the consolidated accounts.

NWB plc employs the majority of NWB Group UK customer-facing staff, with costs recharged. NWB plc also provides the majority of shared services (including technology) and operational processes under Intra-Group Agreements.

Corporate Governance statement

The Companies (Miscellaneous Reporting) Regulations 2018 introduced new statutory reporting requirements for financial years beginning on or after 1 January 2019. As a result of these new requirements, the directors of NWB Plc are required to provide a statement in the Report of the directors stating which corporate governance code, if any, NWB Plc followed during the year, how it applied the code and any part of the code it did not follow. For the financial year ended 31 December 2019, NWB Plc has chosen to report against the Wates Corporate Governance Principles for Large Private Companies, published by the Financial Reporting Council (FRC) in December 2018 and available on the FRC website (the Wates Principles). The disclosures below explain how NWB Plc has applied the Wates Principles in the context of its corporate governance arrangements.

1. Purpose and leadership

RBS Group's Purpose is established by the RBSG plc Board, promoted across RBS Group and cascaded to subsidiaries including NWB Plc. Further information on RBS Group's Purpose can be found in the 2019 Annual Report and Accounts of RBSG plc.

RBS Group's strategy is set and approved by the RBSG plc Board.

The board of directors of NWB Plc (the Board) monitors and maintains the consistency of NWB Plc's activities within the strategic direction of RBS Group and, as appropriate, the strategies approved by NWH Ltd for each of the businesses within the NWH Group (which comprises NWH Ltd and its subsidiary and associated undertakings, including NWB Plc).

The RBSG plc Board is supported in monitoring culture across RBS Group by the RBS Group Sustainable Banking Committee and the RBS Group Board Risk Committee. RBS Group is on a journey towards a generative risk culture whereby "risk is simply part of the way people work and think". There is regular reporting to the Board on risk culture which allows the Board to have appropriate oversight of risk culture matters that are relevant for NWB Plc.

The Board also considered the overall alignment of purpose and strategy with culture and values.

Building a healthy culture that embodies Our Values is a core priority for RBS Group. Our Values, which guide the way RBS Group identifies the right people to serve customers well, and how to manage, engage and reward colleagues, are at the heart of Our Code (the RBS Group-wide Code of Conduct).

2. Board composition

The Board has fifteen directors comprising the Chairman, two executive directors and twelve independent non-executive directors, one of whom is the Senior Independent Director.

The names of the current directors and secretary are shown on page 5.

The Board considers that the Chairman was independent on appointment and that all the non-executive directors are independent. Non-executive director independence and individual directors' continuing contribution to NWB Plc are considered at least annually, and all directors of NWB Plc are required to stand for election or re-election at the Annual General Meeting.

The Board operates a Boardroom Inclusion Policy which reflects the most recent industry targets and is aligned to the RBS Inclusion Policy and Principles applying to the wider RBS Group. This policy provides a framework to ensure that the Board attracts, motivates and retains the best talent and avoids limiting potential caused by bias, prejudice or discrimination. The policy currently applies to the Boards of RBSG plc, NWH Ltd, RBS plc, NWB Plc and Ulster Bank Limited (UBL). A copy of the Boardroom Inclusion Policy is available on rbs.com.

The Boardroom Inclusion Policy contains a number of measurable objectives, targets and ambitions reflecting the ongoing commitment of the Board to inclusion progress. The Board aims to meet the highest industry standards and recommendations wherever possible. That includes, but is not limited to, aspiring to meet the targets set by the Hampton-Alexander Report: FTSE100 Women Leaders (33% female representation on the boards) and the Parker Report: Beyond 1 by '21 (at least one director from an ethnic minority background on the boards) by 2020/2021. The policy supports the RBS Group-wide ambition to aim for a 50/50 gender balance across all levels of the organisation by 2030.

The Board currently meets the Parker target and exceeds the Hampton-Alexander target with a female representation of 47%.

The role of the Chairman is to lead the Board and ensure its overall effectiveness. This is distinct and separate from that of the Chief Executive Officer (CEO) who manages the business day-to-day.

All directors receive accurate, timely and clear information on relevant matters and have access to the advice and services of the Company Secretary. In addition, all directors are able, if necessary, to obtain independent professional advice at NWB Plc's expense.

Report of the directors

The Senior Independent Director acts as a sounding board for the Chairman and as an intermediary for other directors when necessary.

An integral part of RBS Group's governance arrangements is the appointment of four Double Independent Non-Executive Directors (DINEDs) to the boards of NWH Ltd, NWB Plc, RBS plc, and UBL (the NWH Sub Group). The DINEDs are independent in two respects: (i) independent of management as non-executives; and (ii) independent of the rest of RBS Group by virtue of their NWH Group only directorships.

The DINEDs play a critical role in RBS Group's ring-fencing governance structure, and are responsible for exercising appropriate oversight of the independence and effectiveness of the NWH Sub Group's governance arrangements, including the ability of each board to take decisions independently. The DINEDs also have an enhanced role in managing any conflicts which may arise between the interests of NWB Plc and other members of RBS Group.

All NWB Plc directors who are not DINEDs are directors of RBSG plc. All DINEDs attend RBSG plc Board meetings in an observer capacity.

The Board is structured to ensure that the directors provide NWB Plc with the appropriate balance of skills, experience and knowledge as well as independence. Given the nature of NWB Plc's businesses, experience of banking and financial services is clearly of benefit. A number of directors have substantial experience in that area, including retail and commercial banking. In addition, the directors have relevant experience in customer service; government and regulatory matters; mergers & acquisitions; corporate restructuring; stakeholder management; technology, digital and innovation; finance and accountancy; risk; and change management.

Board committees also comprise directors with a variety of skills and experience so that no undue reliance is placed on any one individual.

The independent non-executive directors combine broad business and commercial experience with independent and objective judgement and provide independent challenge to the executive directors and the leadership team. The balance between independent non-executive and executive directors enables the Board to provide clear and effective leadership across NWB Plc's business activities.

The Board monitors the commitment of the Chairman and directors and is satisfied that they are able to allocate sufficient time to enable them to discharge their duties and responsibilities effectively. Any additional external appointments require prior Board approval.

There is an induction programme for all new directors which is tailored to their specific experience and knowledge. In 2019, Katie Murray and Alison Rose undertook induction programmes following their appointments as Chief Financial Officer (CFO) and Deputy CEO respectively. These programmes focused on building existing knowledge of NWB Plc; meetings with relevant internal and external stakeholders and personal development. Alison Rose's induction programme continues following her appointment as CEO.

The Board is supported in its succession planning activities, including the recruitment of non-executive directors, by the Nominations Committee, which is responsible for considering and making recommendations to the Board in respect of Board appointments. The Nominations Committee reviews the structure, size and composition of the Board, and makes recommendations to the Board in relation to any necessary changes, having regard to the overall balance of skills, knowledge, experience and diversity on the Board, the length of service of the Board as a whole; and the requirement to keep membership regularly refreshed. The Nominations Committee considers Board composition and succession planning at least annually. The RBSG plc Group Nominations and Governance Committee also approves all appointments to the Board, reflecting NWB Plc's position as a subsidiary within RBS Group.

A review of the effectiveness of the Board, including the Chairman, individual directors and Board committees, is conducted at least annually.

2019 Performance evaluation

The 2019 evaluation of the NWH Sub Group Boards was facilitated by the Chief Governance Officer and Company Secretary, Jan Cargill, during Q4 2019, alongside the evaluation of the RBSG plc Board. The conclusion of the 2019 Board evaluation was that the Board operated effectively throughout the year and fulfilled its remit as set out in its terms of reference. Directors engaged fully with the evaluation exercise and commented positively in relation to many aspects of the Board's operations.

Key findings and recommendations were closely aligned with the RBSG plc findings and included the following:

- Agenda focus had improved following introduction of the Board objectives, particularly in relation to stakeholder voice.
- Ring-fencing governance arrangements had embedded well. The DINED role was clearly understood and functioning effectively, and a recovery fire drill had provided a useful opportunity to test the conflicts of interest process.
- Directors had responded positively to the new reporting style for Board and committee papers, which had driven better quality presentations and shorter packs.
- Although the Board's size had reduced following the departure of Brendan Nelson, most directors still felt the Board was too large, although not necessarily unwieldy or unworkable.
- The balance of skills, knowledge and experience on the Board was considered appropriate, however there was scope for additional technology experience, to support future strategy.
- Focus was needed to continue promoting good working relationships between the Board and executive management.
- Enhancing the quality of management information would enable the Board to focus less on the details and spend more time on key strategic issues.
- There was clear appetite amongst Board members to have more visibility of top executive talent.

Actions

Following Board discussion of the evaluation report, a number of actions were agreed for 2020:

- Agree a focused set of Board objectives for 2020.
- Maintain focus on Board composition and succession planning, balancing the desire to reduce overall Board size with the requirement to ensure an appropriate balance of skills, knowledge and experience, and the need to improve diversity.
- Consider further ways to improve Board dynamics.
- Consider improvements to future management reporting to the Board.
- Develop a structured programme for the Board to meet key executive talent.

Implementation of the 2019 Board evaluation actions will be overseen by the Nominations Committee during 2020.

The Chairman met each director individually to discuss their own performance and continuing professional development and establish whether each director continues to contribute effectively to NWB Plc's long-term sustainable success. The Chairman also shared peer feedback provided to the Company Secretary as part of the individual evaluation process.

Separately, the Senior Independent Director sought feedback on the Chairman's performance from the non-executive directors, executive directors and other key internal and external stakeholders and discussed it with the Chairman.

Non-executive directors discuss professional development annually with the Chairman and they participate in scheduled Board training sessions and other external sessions, as appropriate. Training topics during 2019 included financial crime; political and economic outlook, directors' duties (including the new statutory reporting requirements), suppliers' spotlight, climate risk, data teach-in, enterprise wide risk management (including the risk appetite framework), and inside information. Directors may also request individual in-depth briefings from time to time on areas of particular interest.

3. Director responsibilities

All directors receive guidance on their statutory duties under the Companies Act and are supported in the discharge of their duties by the Company Secretary, as further described on page 3.

Each director has a role profile which clearly articulates their responsibilities and accountabilities and any additional regulatory responsibilities and accountabilities are set out in their Statement of Responsibilities.

RBS Group also produces and maintains a document called "Our Governance" which sets out the governance, systems and controls applicable to RBSG plc and the NWH Sub Group. Our Governance is made available to all directors and is reviewed and approved by the Board at least annually.

The Directors' Conflicts of Interest policy sets out procedures to ensure that the Board's management of conflicts of interest and its powers for authorising certain conflicts are operating effectively. This includes the management of conflicts that may arise during Board decisions where the interests of NWB Plc conflict with the interests of other members of RBS Group. NWB Plc maintains a register of directors' interests and appointments, which is reviewed annually by the Board, and there is discussion of directors' conflicts in Board meetings, as required.

The Board is the main decision-making forum for NWB Plc. The Board is collectively responsible for the long-term success of NWB Plc and the delivery of sustainable value to its shareholders. The Board's role is to provide leadership of NWB Plc. It monitors and maintains the consistency of NWB Plc's activities within the strategic direction of RBS Group; it reviews and approves risk appetite for strategic and material risks in accordance with the RBS Group Risk Appetite Framework and it monitors performance against risk appetite for NWB Plc. It approves NWB Plc's key financial objectives and keeps the capital and liquidity positions of NWB Plc under review. The Board's terms of reference include a formal schedule of matters specifically reserved for the Board's decision and are reviewed at least annually.

The Chairman, CEO and Company Secretary are responsible for the quality and integrity of information provided to directors. At each scheduled Board meeting the directors receive reports from the Chairman, Board Committee Chairmen, CEO, CFO, and other members of the executive management team, as appropriate. Other senior executives attended Board meetings throughout the year to present reports to the Board. This provides the Board with an opportunity to engage directly with management on key issues and supports succession planning.

The Board held eight scheduled meetings during the year. The Board's key areas of focus for 2019 included CEO appointment; capital distributions; pensions derivatives transfer; approval of an intra group indemnity; risk appetite framework; a review of payments strategy; and Brexit planning and preparedness.

In order to provide effective oversight and leadership, the Board has established a number of Board committees with particular responsibilities. The Audit, Performance & Remuneration, and Nominations Committees of NWH Ltd operate as committees of each of NWH Ltd, NWB Plc, RBS plc and UBL, with meetings running concurrently. During 2019, the Executive Committee operated as a Committee of the Board.

The Audit Committee comprises at least three independent non-executive directors, two of whom are DINEDs. The Committee assists the Board in discharging its responsibilities for monitoring the integrity of the financial statements. It reviews the accounting policies, financial reporting and regulatory compliance practices of NWB Plc, NWB Plc's system and standards of internal controls, and monitors NWB Plc's processes for internal audit and external audit.

The Board Risk Committee comprises at least four independent non-executive directors, one of whom is the Chairman of the Audit Committee and two of whom are DINEDs. It provides oversight and advice to the Board in relation to current and potential future risk exposures and future risk profile, including determination of risk appetite; and the effectiveness of the risk management framework within NWB plc and (in conjunction with the Audit Committee) internal controls required to manage risk. It reviews compliance with the RBS Group Policy Framework within NWB Plc and reviews the performance of NWB Plc relative to risk appetite.

The Performance and Remuneration Committee (RemCo) comprises at least four independent non-executive directors and assists the RBSG plc Group Performance and Remuneration Committee with the oversight and implementation of RBS Group's remuneration policy. It also considers and makes recommendations on remuneration arrangements for senior executives of NWB Plc.

The Nominations Committee comprises the Chairman, Senior Independent Director and at least three further independent non-executive directors. It is responsible for assisting the Board in the formal selection and appointment of directors. It reviews the structure, size and composition of the Board, and membership and chairmanship of Board committees.

The Executive Committee comprises NWB Plc's most senior executives and supports the CEO in managing NWB Plc's businesses. It considers strategic, financial, capital, risk and operational issues.

4. Opportunity and risk

The role of the Board is to promote the long-term sustainable success of NWB Plc.

The Board reviews and approves risk appetite for strategic and material risks in accordance with the RBS Group risk appetite framework; monitors performance against risk appetite for NWB Plc; and considers any material risks and approves, as appropriate, recommended actions escalated by the Board Risk Committee.

NWB Plc's risk strategy is informed and shaped by an understanding of the risk landscape including a range of significant risks and uncertainties in the external economic, political and regulatory environments.

NWB Plc complies with RBS Group's risk appetite framework, which is approved annually by the RBSG plc Board, in line with RBS Group's risk appetite statements, frameworks and policies. RBS Group risk appetite is set in line with overall strategy.

RBS Group operates an 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 sound risk management and decision-making across the organisation.

During 2019, a number of enhancements to the 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.

NWB Plc also complies with the RBS Group Policy Framework, the purpose of which is to ensure that RBS Group establishes and maintains RBS Group-wide policies that adequately address the material inherent risks it faces in its business activities.

Further information on the NWB Plc risk management framework including risk culture, risk governance, risk appetite, risk controls and limits, and risk identification and measurement can be found in the capital and risk management section of this report on pages 10 to 16.

5. Remuneration

The RBS Group remuneration policy provides a consistent policy across all companies in RBS Group and ensures compliance with regulatory requirements. The remuneration policy is aligned with the business strategy, objectives, values and long-term interests of NWB Plc. The policy supports a culture where individuals are rewarded for delivering sustained performance in line with risk appetite and for demonstrating the right conduct and behaviours.

RemCo reviews remuneration for executives of NWB Plc and considers reports on the wider workforce including annual pay outcomes and diversity information. The RemCo helps to ensure that the remuneration policies, procedures and practices being applied are appropriate at NWB Plc level. Executive remuneration structures incentivise individuals to deliver sustainable performance based on strategic objectives for RBS Group and the relevant business area. Performance is assessed against a balanced scorecard of financial and non-financial measures and variable pay is subject to deferral as well as malus and clawback provisions to ensure rewards are justified in the long-term.

The approach to performance management provides clarity for employees about how their contribution links to RBS Group's ambition and all employees have goals set across a balanced scorecard of measures. RBS Group continues to ensure employees are paid fairly for the work they do and are supported by simple and transparent pay structures in line with industry best practices. This clarity and certainty on how pay is delivered is also helping to improve employees' financial wellbeing, which is a priority. Employees are provided with flexibility in terms of how they wish to receive pay to suit their circumstances. Pay is compared against the external market so that pay and benefits are competitive. RBS Group is a fully accredited Living Wage Employer in the UK with rates of pay that continue to exceed the Living Wage Foundation Benchmarks.

RBS Group ensures colleagues have a common awareness of the financial and economic factors affecting its performance through quarterly "Results Explained" communications and Workplace Live events with the Group CEO and CFO.

Further information on the remuneration policy can be found in the Directors' Remuneration Report (DRR) of the 2019 RBSG plc Report and Accounts along with the steps being taken to build an inclusive and engaged workforce and employee share plans. The DRR also contains details of pay ratios for RBS Group. Gender and Ethnicity Pay Gap information can be found in the Strategic Report section of the 2019 Annual Report and Accounts of RBSG plc.

6. Stakeholder relationships and engagement

In developing its annual objectives, the Board identified a number of key stakeholders, and the Board's agenda and engagement plans were structured to enhance the Board's understanding of these key stakeholders' views and interests. This in turn has supported more informed Board discussions and decision-making. Of particular note is the developing role of the Colleague Advisory Panel, which was established in 2018 in response to the requirements of the 2018 UK Corporate Governance Code.

Engagement with Employees, Suppliers, Customers and Others

For further details on the Board's engagement with employees, customers, suppliers and others, and how these stakeholders' interests have influenced Board discussions and principal decisions, see pages 3 and 4 of the Strategic Report, which includes a section.172(1) statement.

Internal control over financial reporting

The internal controls over financial reporting for NWB Group are consistent with those at RBS Group level. NWB Group has designed and assessed the effectiveness of its internal control over financial reporting as of 31 December 2019 based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in the 2013 publication of 'Internal Control – Integrated Framework'. Any deficiencies identified are reported to NWB Plc Audit Committee along with management's remediation plans.

RBS Group's auditors have audited the effectiveness of RBS Group's internal control over financial reporting and have given an unqualified opinion.

Directors' interests

Where directors of NWB Plc are also directors of RBSG plc, their interests in the shares of the ultimate holding company at 31 December 2019 are shown in the Corporate governance, Annual report on remuneration section of the 2019 Annual Report and Accounts of RBSG plc. None of the directors held an interest in the loan capital of the ultimate holding company or in the shares or loan capital of NWB Plc or any of its subsidiaries, during the period from 1 January 2019 to 13 February 2020.

Directors' indemnities

In terms of section 236 of the Companies Act 2006 (the "Companies Act"), Qualifying Third Party Indemnity Provisions have been issued by the ultimate holding company to its directors, members of NWB Plc's Executive Committee, individuals authorised by the PRA/FCA and certain directors and/or officers of RBS Group's subsidiaries and all trustees of RBS Group's pension scheme.

Going concern

NWB Group's business activities and financial position, the factors likely to affect its future development and performance and its objectives and policies in managing the financial risks to which it is exposed, and its capital are discussed in the Business review. The risk factors which could materially affect NWB Group's future results are set out on pages 150 to 162. NWB Group's regulatory capital resources and significant developments in 2019, and anticipated future developments are detailed in the Capital, liquidity and funding section on pages 17 to 22. This section also describes NWB Group's funding and liquidity profile, including changes in key metrics and the build up of liquidity reserves.

Having reviewed NWB Plc's forecasts, projections and other relevant evidence, the directors have a reasonable expectation that NWB Plc will continue in operational existence for the foreseeable future. Accordingly, the financial statements of NWB Plc have been prepared on a going concern basis.

Political donations

During 2019, no political donations were made in the UK or EU, nor any political expenditure incurred in the UK or EU.

Directors' disclosure to auditors

Each of the directors at the date of approval of this report confirms that:
(a) so far as the director is aware, there is no relevant audit information of which NWB Plc's auditors are unaware; and
(b) the director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that NWB Plc's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act.

Auditors

Ernst & Young LLP (EY LLP) are the auditors and have indicated their willingness to continue in office. A resolution to re-appoint EY LLP as NWB Plc's auditors will be proposed at the forthcoming Annual General Meeting.

By order of the Board

Jan Cargill
Company Secretary
13 February 2020

National Westminster Bank Plc
Is registered in England No. 929027

Statement of directors' responsibilities

This statement should be read in conjunction with the responsibilities of the auditor set out in their report on pages 71 to 81.

The directors are responsible for the preparation of the Annual Report and Accounts. The directors are required by Article 4 of the IAS Regulation (European Commission Regulation No 1606/2002) to prepare Group accounts, and as permitted by the Companies Act 2006 have elected to prepare company accounts, for each financial year in accordance with International Financial Reporting Standards as adopted by the European Union. They are responsible for preparing accounts that present fairly the financial position, financial performance and cash flows of NWB Group and NWB Plc. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of NWB Group and to enable them to ensure that the Annual Report and Accounts complies with the Companies Act 2006. They are also responsible for safeguarding the assets of NWB Plc and NWB Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that to the best of their knowledge:

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

By order of the Board

Howard Davies
Chairman

Alison Rose-Slade
Chief Executive Officer

Katie Murray
Chief Financial Officer

13 February 2020

Board of directors

Chairman
Howard Davies

Executive directors
Alison Rose
Katie Murray

Non-executive directors
Francesca Barnes
Graham Beale
Ian Cormack
Alison Davis
Patrick Flynn
Morten Friis
Robert Gillespie
Yasmin Jetha
Baroness Noakes
Mike Rogers
Mark Seligman
Lena Wilson

Financial statements

Independent auditor's report to the members of National Westminster Bank Plc

Opinion

We have audited the financial statements (see table below) of National Westminster Bank Plc (the Bank) and its subsidiaries (together, the 'Group') for the year ended 31 December 2019. In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Bank affairs as at 31 December 2019 and of the Group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Bank financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of the Group which comprise:

Group	Bank
• Consolidated balance sheet as at 31 December 2019; • Consolidated income statement for the year then ended; • Consolidated statement of comprehensive income for the year then ended; • Consolidated statement of changes in equity for the year then ended; • Consolidated cash flow statement for the year then ended; • Related Notes 1 to 37 to the financial statements; • Accounting Policies; and • Capital and risk management section of the Strategic report identified as 'audited'.	• Balance sheet as at 31 December 2019; • Statement of changes in equity for the year then ended; • Cash flow statement for the year then ended; and • Related Notes 1 to 37 to the financial statements which refer to the Bank.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the Bank financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In relation to the ISAs (UK) which require us to report to you, we have nothing to report in respect of the following matters:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Bank's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue

Separate opinion in relation to IFRSs as issued by the IASB

As explained in the accounting policies, in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, the Group has applied IFRSs as issued by the International Accounting Standards Board (IASB). In our opinion the Group financial statements comply with IFRSs as issued by the IASB.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk
Provisions for conduct, litigation and regulatory matters, customer remediation and claims	
At 31 December 2019, the Group has reported £1.4 billion (2018: £1.1 billion) of provisions for liabilities and charges, including £0.9 billion (2018: £0.7 billion) for conduct and litigation claims, including Payment Protection Insurance (PPI) as detailed in Note 21 of the financial statements. The continued litigious environment and heightened regulatory scrutiny give rise to a high level of management judgement in determining appropriate provisions and disclosures. Management judgement is needed to determine whether a present obligation exists, and a provision should be recorded at 31 December 2019 in accordance with the accounting criteria set out under IAS 37. The most significant areas of judgement are: • Auditing provisions for Payment Protection Insurance (PPI) is complex considering the large number of complaints that remain unprocessed following the significant number of complaints received in the run up to the 29 August 2019 FCA deadline and considering the judgement required by management to estimate the portion of Information Requests ("IR"s) and complaints that will ultimately require PPI redress payments along with the costs associated with doing so; • Auditing the adequacy of these provisions is complex because judgement is involved in the selection and use of assumptions in the estimation of material provisions and there is a risk of management bias in the determination of whether an outflow in respect of identified material conduct or legal matters is probable and can be estimated reliably; and • Judgement is required to assess the adequacy of disclosures of provision for contingent liabilities given the underlying estimation uncertainty in the provisions.	We evaluated the design and operating effectiveness of controls over the identification, estimation, monitoring and disclosure of provisions related to legal and conduct matters considering the potential for management override of controls. The controls tested, among others, included those designed and operated by management to identify and monitor claims, and to ensure the completeness and accuracy of data used to estimate provisions. Among other procedures, we examined the relevant regulatory and legal correspondence to assess developments in certain cases. For the cases which were settled during the period, we compared the actual outflows with the provision that had been recorded, considered whether further risk existed, and evaluated the level of disclosures provided. For the significant provisions made we assessed the provisioning methodology. For example, we tested the underlying data and assumptions used in the determination of the provisions recorded, including expected claim rates, legal costs, and the timing of settlement. We considered the accuracy of management's historical estimates and peer bank settlement in similar cases by comparing the actual settlement to the provision. We also developed our own range of reasonable alternative estimates and compared them to management's provision. Among other procedures, we assessed the appropriateness of the PPI provision assumptions, which included the complaint conversion, uphold and average redress rates assumed for unprocessed complaints. In assessing these assumptions, we considered the Group's recent experience, our own expectations, sensitivities, our industry knowledge, the Group's historical forecasting accuracy in this area and correspondence during the year with regulators. We also tested the clerical accuracy of the provision calculation. We also independently determined a range of future PPI claims and compared it to management's estimate. For significant legal matters, we received confirmations from the Group's external legal counsel for significant matters to evaluate the existence of the obligation and management's estimate of the outflow at year-end. We assessed management's conclusion by evaluating the underlying information used in estimating the provisions including consideration of alternate sources. We also conducted inquiries with internal legal counsel over the existence of the legal obligations and related provision. In evaluating the adequacy of these provisions, we considered regulatory developments and, for significant cases, assessed the reasonableness of the assumptions used by management by comparing to the results of our independently performed benchmarking and sensitivity analysis. Where appropriate, we involved our conduct risk specialists to assist us in evaluating the provision. We also analysed historical relevant data and whether it supported current estimates. We performed a test for unrecorded provisions to determine if there were cases not considered in the provision estimate by assessing against external legal confirmations and discussing with internal counsel. We evaluated the disclosures provided on conduct, litigation, regulatory, customer remediation and claims provisions to assess whether they complied with accounting standards.

Key observations communicated to the NWH Group Audit Committee:

We are satisfied that provisions for conduct, litigation and regulatory matters, customer remediation and claims are reasonable and recognised in accordance with IFRS. We highlighted the following matters to the NWH Group Audit Committee:

- The PPI provision remains sensitive to variations in key assumptions, the most significant of which are the conversion, uphold and average redress rates assumed for complaints not yet examined. The director's estimate was within our independent range of reasonable outcomes based on reasonably possible alternative assumptions. We were satisfied with the PPI disclosures; and
- We concurred with the recognition, measurement and level of disclosures of other conduct and litigation provisions. We did not identify any material unrecorded provisions.

Relevant references in the Annual Report and Accounts

Accounting policies
Note 21 on the financial statements

Note:
(1) NWH Audit Committee covers the ring-fenced bank legal entities of RBS Group, including the NWB Group.

<table>
<tr><th>Risk</th><th>Our response to the risk</th></tr>
<tr><td colspan="2">Impairment of loans</td></tr>
<tr><td>At 31 December 2019 the Group reported total gross loans of £241 billion (2018: £216 billion) and £2.0 billion of expected credit loss provisions (2018: £1.8 billion), which includes an overlay of £111m for economic uncertainty.

Management's judgements and estimates which are especially subjective to audit due to significant uncertainty associated with the assumptions used in the estimation in respect of the timing and measurement of expected credit losses (ECL) include:
• Allocation of assets to stage 1, 2, or 3 using criteria in accordance with the accounting standard;
• Accounting interpretations, modelling assumptions and data used to build and run the models that calculate the ECL;
• Inputs and assumptions used to estimate the impact of multiple economic scenarios;
• Completeness and valuation of post model adjustments considering the risk of management override; and
• Measurement of individual provisions including the assessment of multiple scenarios.

We also considered the complexity of management's process to design and create financial statement disclosures given their granularity and complexity.</td><td>We evaluated the design and operating effectiveness of controls across the processes relevant to ECL, including the judgements and estimates noted involving specialists to assist us in performing our procedures where appropriate. These controls, among others, included controls over the allocation of assets into stages including management's monitoring of stage effectiveness, model monitoring including the need for post model adjustments, model validation, data accuracy and completeness, credit monitoring, multiple economic scenarios, individual provisions and production of journal entries and disclosures.

Among other procedures, we observed the executive finance and risk committee meetings where the inputs, assumptions and adjustments to the ECL were discussed and approved.

We performed an overall assessment of the ECL provision levels by stage to determine if they were reasonable by considering the overall credit quality of the Group's portfolios, risk profile, credit risk management practices and the macroeconomic environment by considering trends in the economy and industries to which the Group is exposed.

We evaluated the criteria used to allocate a financial asset to stage 1, 2 or 3 in accordance with IFRS 9; this included peer benchmarking to assess staging levels. We recalculated the assets in stage 1, 2 and 3 to assess if they were allocated to the appropriate stage and performed sensitivity analysis to assess the impact of different criteria on the ECL.

We involved modelling specialists to assist us to test the assumptions, inputs and formulae used in a sample of ECL models. This included assessing the appropriateness of model design and formulae used, alternative modelling techniques, refinements made to models in the second year of IFRS 9, and recalculating the Probability of Default, Loss Given Default and Exposure at Default, and model implementation for a sample of models.
To evaluate data quality, we agreed ECL calculation data points to source systems. To test credit monitoring, we recalculated the risk ratings for a sample of performing loans. We involved economic specialists to assist us to evaluate the base case and alternative economic scenarios, including evaluating probability weights and comparing to other scenarios from a variety of external sources, as well as EY internally developed forecasts. This included assessing whether forecasted macroeconomic variables were appropriate, such as GDP, unemployment rate, interest rates and the House Price Index. With the support of our modelling specialists we assessed the correlation and the overall impact of the macroeconomic factors to the ECL.

We assessed the completeness and appropriateness of post model adjustments and recalculated a sample. Based on current economic conditions and market circumstances, we considered the need for sector or systemic adjustments. We assessed the scenarios used and calculation of the overlay in response to economic uncertainty.

We involved valuation specialists to recalculate a sample of individual provisions including the alternative scenarios and evaluating probability weights assigned. The sample was based on a number of factors, including higher risk sectors and materiality.
We assessed the adequacy of disclosures for compliance with the accounting standards and regulatory considerations.</td></tr>
</table>

Key observations communicated to the NWH Group Audit Committee

We are satisfied that provisions for the impairment of loans were reasonable and recognised in accordance with IFRS 9. We highlighted the following matters to the NWH Group Audit Committee:

- Overall provision levels were reasonable which also considered available peer information and our understanding of the credit environment;
- The economic uncertainty overlay was within our independently established reasonable range;
- Our testing of models and model assumptions identified some instances of over and under estimation. We aggregated these differences and were satisfied that the overall estimate recorded was reasonable;
- We recalculated the staging of all retail and wholesale exposures in material portfolios and noted no material differences. We also performed sensitivity analysis on the staging criteria and noted that substantial changes would be needed to the criteria to result in a material difference; and
- Considerable improvements were made to the control environment throughout the year, with previously identified control deficiencies remediated by year-end.

Relevant references in the Annual Report and Accounts

Credit Risk section of the Capital and risk management section
Accounting policies
Note 13 on the financial statements

Risk	Our response to the risk
Future profitability estimates impacting the recognition of deferred tax and, in the Bank accounts, investments in subsidiaries	
At 31 December 2019, the Group had reported deferred tax assets of £1.1 billion (2018: £1.2 billion). The Bank has reported investments in subsidiaries of £2.4 billion (2018: £2.5 billion). The recognition and carrying value of deferred tax assets and, in the Bank accounts, investments in subsidiaries are based on estimates of future profitability which require significant management judgement and include the risk of management bias. The recognition of deferred tax assets considers the future profit forecasts of the legal entities as well as interpretation of recent changes to tax rates and laws. Judgements and especially challenging, complex and subjective assumptions that are difficult to audit due to the forward-looking nature and inherent uncertainties associated with such assumptions include: • Revenue and cost forecasts which are also impacted by the Group's strategic review; • Assumptions used in the recoverability and valuation assessments (discount rates, growth rates, macroeconomic assumptions, etc.); and • Assumptions regarding the economic consequences of Brexit and other political developments over an extended period.	We evaluated the design and operating effectiveness of controls over the preparation and review of the forecasts, the significant assumptions (such as discount rate and long-term growth rate) used in the value in use model, inputs, calculations, methodologies and judgements. This included testing controls over the macroeconomic assumptions in addition to the overall revenue and cost projections, as well as the precision applied to these. With the support of our internal economic specialists, we tested whether macroeconomic assumptions, including Brexit and other geopolitical considerations, used in the Group's forecasting process were reasonable by comparing to external sources, as well as EY internally developed forecasts. Considering the recent developments on Brexit and the continued uncertainty relating to the macroeconomic environment and its consequential impact on the forecasts, we evaluated the adequacy of disclosures in the financial statements. . Among other procedures, we assessed the reasonableness of revenue forecasts by evaluating the underlying business strategies, comparing to expected market trends and considering anticipated balance sheet growth. We obtained an understanding of the strategic review of the Group and we considered its expected impact on the forecasts and the extent to which decisions had been factored into the forecasts, where appropriate, in accordance with the relevant accounting standards. This included the assessment of any accounting impact for the 2019 reporting period (e.g. impairment of assets, hedge accounting and provisions) and evaluation of the adequacy of the disclosure of events occurred after the reporting period. We also inspected the findings from the review performed by management including their own sensitivity analysis of the forecasts. We evaluated how the discount rates and long-term growth rates used by management compared to our ranges which were determined using peer practice, external market data and calculations performed by our valuation specialists. We tested how previous management forecasts, including the impact of cost reduction programmes, compared to actual results to evaluate the accuracy of the forecasting process. We assessed the achievability of future cost reduction plans by evaluating the details of the underlying initiatives and how cost ratios compared to peer banks and commentaries from external analysts. We evaluated how management considered alternative assumptions and performed our own sensitivity and scenario analyses on certain assumptions such as discount rate and long-term growth rate. With the support of our taxation specialists, we assessed the recoverability of deferred tax assets recognised considering management's estimate of future taxable profits, including an assessment of the time horizon used for the recoverability of losses and other temporary differences.

Key observations communicated to the NWH Group Audit Committee

We are satisfied that management methodologies, judgements and assumptions supporting the carrying value of deferred tax assets and, in the Bank accounts, investments in subsidiaries, were reasonable and in accordance with IFRS. We highlighted the following matters to the NWH Group Audit Committee:

- The macroeconomic assumptions were materially consistent with independent base case forecasts; and
- While the long-term growth rate decreased in the year and the discount rate remained constant, both these assumptions were within our reasonable range.

Relevant references in the Annual Report and Accounts

Accounting policies

Note 7 and 14 on the financial statements.

Risk	Our response to the risk
Valuation of financial instruments with higher risk characteristics including related income from trading activities	
A portfolio of derivatives with the RBS Group pension fund was transferred from NatWest Markets to the Group in November 2019. The day 1 impact on profit associated with the transfer was not material. The key judgements in this portfolio are: • Determining an appropriate discount rate that reflects the options in the collateral agreement to provide different types of collateral; and • The fair value adjustments made to the portfolio reflecting the Funding Valuation Adjustments (FVA).	We evaluated the design and operating effectiveness of controls including independent price verification, model review and approval, collateral management, and income statement analysis and reporting. We involved financial instrument valuation and modelling specialists to perform the following procedures: • Assessed management's accounting basis for the exclusion of certain collateral related valuation adjustments • Re-priced a sample of instruments from the portfolio using independently obtained alternative pricing sources challenging and substantiating any differences between management's valuation; and • For FVA we compared the methodology used to current market practice. We assessed the reasonableness of the future exposure profile, and we compared funding spreads to third party data. • Assessed the reasonableness of management's accounting approach for day 1 profit generated at the point of transfer • Where differences between our independent valuation and management's valuation were outside our thresholds, we performed additional testing over each variance to support our assessment of the appropriateness of the fair value.

Key observations communicated to the NWH Group Audit Committee

We are satisfied that the modelled assumptions used by management to reflect the fair value of the pension derivative portfolio were reasonable and in accordance with IFRS. We highlighted the following matters to the Audit Committee:

- The fair value estimate appropriately reflected the Group's and latest available pricing information; and
- Valuation adjustments applied for funding and other risks were appropriate based on our assessment of trade activity for positions with common risk characteristics and analysis of market data.

Relevant references in the Annual Report and Accounts

Accounting policies
Note 9 on the financial statements

Risk	Our response to the risk
Legal entity transactions	
Legal entity transactions are the recording of intercompany transactions, such as legal entity recharges, intercompany eliminations and consolidation transactions. Legal entity recharging consists of charging back costs incurred by one legal entity on behalf of or for the benefit of another legal entity. These costs are recharged in line with the transfer pricing policy and inter-group agreements (IGAs). Financial reporting is heavily dependent on the accuracy of the accounting processes to appropriately present and disclose the transactions with the rest of the RBS Group, including elimination of intercompany accounts, transfers of business and legal entities, which are pervasive across RBS Group entities and can be subject to different rules and agreements in place. Accounting and reporting risks arising include: • The percentage of costs that are allocated from one legal entity to another are manually updated by Management based on IGAs; • Transparency of the costs that are being allocated to each legal entity; • Volume and matching of intercompany eliminations and consolidation adjustments; and • Establishing a post-ICB implementation BAU process.	We evaluated the design and operating effectiveness of controls, including the review of the service catalogue, the allocation metrics, and the ending net recharge balance by management, as well as the application controls in place to calculate the allocation of costs and the mark-ups applied. With the support of our tax specialists, we discussed any changes in IGAs made during the current year with management and tested that changes to the service catalogue were made completely and accurately, including the transfer pricing implications. We tested the completeness of the cost base being allocated and tested that the costs had an IGA in place to govern the allocation. We obtained direct cost information from the ledger and recalculated the recharges based on the service catalogue. We reconciled this recalculation to the ledger. We inquired of the business to validate the completeness and accuracy of the recharging allocations applied, the business rationale and considered any contrary evidence. We evaluated the retained costs within NWB to understand the type of costs that were not allocated and challenged whether the costs should have been allocated to another legal entity and evaluated the impact. We also performed an analytical review at the legal entity level to understand the type of costs allocated per legal entity and the total costs allocated to each legal entity.

Key observations communicated to the NWH Group Audit Committee

We are satisfied that the costs recharged in the year were in accordance with the intra-group agreements and approvals in place. We highlighted the following matters to the NWH Group Audit Committee:

- Control deficiencies were identified within the process and we performed additional testing in response to those deficiencies; and
- Where exceptions were identified, we obtained further evidence that costs were allocated appropriately and transparently between the impacted legal entities, and that costs retained by the entity incurring the original expense were appropriate.

Relevant references in the Annual Report and Accounts

Accounting policies

Risk	Our response to the risk
Pension valuation and net pension balance	
The Group operates a number of defined benefit schemes which in total are significant in the context of the overall balance sheet. At 31 December 2019, the Group reported a net pension liability of £48 million (2018: £18 million) comprising £5 million of schemes in surplus and £53 million of schemes in deficit (2018: £23 million and £41 million respectively). The net pension liability is sensitive to changes in the key judgements and estimates, which include: • Actuarial assumptions and inputs including discount rate, inflation, pension payment and longevity to determine the valuation of retirement benefit liabilities; • Pricing inputs and calibrations for illiquid or complex model-dependent valuations of certain investments held by the schemes; • Quantification of trustee's rights to unilaterally augment benefits (Augmentation cap) to determine the recognition of surplus; and • Equalisation adjustments due to the court ruling in respect of Guaranteed Minimum Pensions (GMP).	We evaluated the design and operating effectiveness of key controls over the actuarial assumptions setting process, the data inputs used in the actuarial calculation and the measurement of the fair value of the schemes' assets. With the support of our actuarial specialists, we challenged the actuarial assumptions by comparing them to third party sources obtained independently by us and market practice. We challenged the impact on pension liabilities of changes in financial, demographic and longevity assumptions over the year and whether these were in line with our own expectations. With the support of our valuation specialists, we challenged the appropriateness of management's valuation methodology including the judgements made in determining significant assumptions used in the valuation of complex and illiquid pension assets. We tested the fair value of scheme assets by independently calculating fair value for a sample of the assets held. Our sample included cash, equity and debt instruments, derivative financial instruments and illiquid assets. With the support of our actuarial specialists, we challenged the estimation of the augmentation cap and GMP equalisation adjustments including the inputs used in the calculation. We also assessed the methodology and judgements made in calculating these estimates and the associated accounting treatment in accordance with IAS 19 and IFRIC 14. We assessed the adequacy of the disclosures made in the financial statements, including the appropriateness of the key assumptions and sensitivities disclosed.

Key observations communicated to the NWH Group Audit Committee

We are satisfied that the valuation and disclosure of the net pension balance are reasonable and in accordance with IFRS. We highlighted the following matters to the Group Audit Committee:

- Our benchmarking of key actuarial assumptions including the discount rate, inflation, longevity and pension payments concluded that assumptions tested were within a reasonable range;
- No material issues were identified through our independent valuation testing for a sample of pension assets; and
- Management's estimate of the impact of the GMP liability and Augmentation Cap was materially consistent with our independent estimate using our own model.

Relevant references in the Annual Report and Accounts

Accounting policies
Note 5 on the financial statements

Risk	Our response to the risk
IT systems and controls impacting financial reporting	
The IT environment is complex and pervasive to the operations of the Group due to the large volume of transactions processed in numerous locations daily and the reliance on automated and IT dependent manual controls. Appropriate IT controls are required to ensure that applications process data as expected and that changes are made in an appropriate manner. This risk is also impacted by the greater dependency on third-parties, increasing use of cloud platforms, decommissioning of legacy systems, and migration to new systems. Such controls contribute to mitigating the risk of potential fraud or errors as a result of changes to applications and data. Our audit approach relies upon IT applications and the related control environment including: • User access management across application, database and operating systems; • Changes to the IT environment, including transformation that changes the IT landscape including the general ledger and human resource system migrations; • IT operational controls; • IT application or IT dependent controls; and • Evaluation of IT control environment at third party service providers.	We evaluated the design and operating effectiveness of IT controls over the applications, operating systems and databases that are relevant to financial reporting. We assessed automated controls within business processes and the reliability of relevant reports used as part of a manual control. This included assessing the integrity of system interfaces, the completeness and accuracy of data feeds, automated calculations and specific input controls. We tested system migrations and related technology changes (including where relevant new systems) resulting from transformation programmes that were material to financial statement reporting. This included verifying the completeness of information transferred to new systems as well as testing the controls in place for both the migration and the new system. We tested user access by assessing the controls in place for in-scope applications and verifying the addition and removal of users. We identified an increasing number of systems outsourced to third party service providers. For these systems, we tested IT general controls through evaluating the relevant Service Organisation Controls reports produced by third parties by assessing the timing of the reporting and the controls tested. We also tested required complementary controls performed by management. Where control deficiencies were identified, we tested remediation activities performed by management and compensating controls in place and assessed where necessary to mitigate any residual risk.

Key observations communicated to the NWH Group Audit Committee:

We are satisfied that IT controls impacting financial reporting are designed and operating effectively. The following matters were reported to the NWH Group Audit Committee:

- We have seen a reduction in the number of IT control deficiencies identified compared to prior year;
- Improvements were made to user access management controls, where we noted the consolidation of access processes. Control deficiencies previously identified around access management, were remediated by year end or mitigated by compensating controls. We also performed additional testing in response to deficiencies identified, where required;
- Where IT transformation or change occurred within the year, particularly around outsourcing and the use of third parties, we updated our audit approach accordingly and tested relevant controls. Where we identified control deficiencies these were remediated by year end or mitigated by compensating controls; and
- As the Bank continues to increase the use of third, and 4th parties, (including cloud service providers), focus on the identification of and accountability for, internal controls over financial reporting, will be essential.

In the prior year, our auditor's report included key audit matters in relation to the financial impact of structural reform as it was the year of implementation. We did not consider this to be a key audit matter in the current year.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each component of the Group. Taken together, this enables us to form an opinion on the financial statements. We take into account the size and risk profile of the component and its activities, the organisation of the Group and effectiveness of group-wide controls, changes in the business environment and other factors such as recent internal audit results when assessing the level of work to be performed at each component. The scoping below is consistent with the prior year.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the six reporting components of the Group, we selected five components covering entities within three countries, which represent the principal business units within the Group.

Component	Scope	Key locations
UK Personal Banking	Full	United Kingdom
Commercial Banking	Full	United Kingdom
Private Banking	Specific	United Kingdom
Central items and other (including Services, and Treasury)	Full	United Kingdom, India
Central items and other (other areas)	Specific	United Kingdom

The table below illustrates the coverage obtained from the work performed by our audit teams, the coverage includes the full scope components presented in disposal groups as noted above. We considered total assets, total equity and total income to verify we had appropriate overall coverage on the income statement.

	Full scope (1)	Specific scope (2)	Other procedures (3)	Total
Total assets	95%	4%	1%	100%
Total equity	100%	—	—	100%
Absolute value of the income statement	93%	6%	1%	100%

Notes:
(1) Full scope: audit procedures on all significant accounts.
(2) Specific scope: audit procedures on selected accounts.
(3) Other procedures: considered in analytical procedures and specified procedures, as appropriate.

The audit scope of the specific scope component may not have included testing of all significant accounts within the component. However, the testing will have contributed to the total coverage of significant accounts tested for the overall Group.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken in each of the components by us, as the primary audit engagement team, or by component auditors in the United Kingdom or from other EY global network firms operating under our instruction.

The primary audit engagement team interacted regularly with the component audit teams where appropriate throughout the course of the audit, which included holding planning meetings, maintaining regular communications on the status of the audits, reviewing key working papers and taking responsibility for the scope and direction of the audit process. The primary audit engagement team also participated in meetings with key management personnel in the components and, for certain overseas locations, implemented a programme of planned visits. These visits involved discussing the audit approach with the component team and any issues arising from their work, as well as meeting with local management. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group and Bank to be £105 million (2018 materiality: £175 million), which is 5% of adjusted profit before tax of the Group, which removes the disproportionate effect of certain matters, and 0.6% of equity of the Bank. This measure is consistent with the basis from the prior year and is consistent with the wider industry and is the standard for listed and regulated entities and we believe it reflects the most useful measure for users of the financial statements. The materiality of the Bank is based on equity as we consider this to be the most appropriate factor to the users of the financial statements.

Performance materiality

The application of materiality at the individual account or balance level is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceed materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% of our planning materiality, namely £52 million (2018: £88 million). We have set performance materiality at this percentage (which is at the lowest end of the range of our audit methodology) based on various considerations including the past history of misstatements, the effectiveness of the control environment and other factors affecting the entity and its financial reporting.

Audit work of component teams for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component team is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated by the primary audit engagement team to components was between £25 million and £50 million.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the NWH Group Audit Committee that we would report to them all corrected and uncorrected audit misstatements in excess of £5 million (2018: £8 million), which is set at 5% of planning materiality, as well as misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the Annual Report and Accounts, including the Strategic report, Report of the directors, Statement of directors' responsibilities, Risk Factors, and Forward-looking statements, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration disclosure to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Report of the directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Report of the directors have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Bank and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Report of the directors.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Group, or returns adequate for our audit have not been received from branches not visited by us; or
- the Bank financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for the implementation of such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group and Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Bank or to cease operations, or have no realistic alternative but to do so.

Independent auditor's report to the members of National Westminster Bank Plc

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and have a direct impact on the preparation of the financial statements, We determined that the most significant are:

- The regulations, license conditions and supervisory requirements of the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA).
- Companies Act 2006
- Financial Reporting Council (FRC) and the UK Corporate Governance Code
- Tax Legislation (governed by HM Revenue and Customs)

We understood how the Group is complying with those frameworks by reviewing the RBS Policy Framework, holding discussions with the Group's general counsel, external counsel compliance group, regulatory group, internal audit, amongst others. We inquired as to any known instances of non-compliance or suspected non-compliance with laws and regulations. We also reviewed the Group's Complaints Management Policy and Whistleblowing Policy. We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by holding discussions with senior management, including the Chief Executive, Chief Financial Officer, Chief Risk Officer, Head of Internal Audit and NWH Group Audit Committee Chairman. We also reviewed the Group's fraud-related policies and mandates of different governance forums assessing fraud. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiring of key management, reviewing the key policies and reports on the aforementioned regulatory frameworks as well as reviewing the correspondence exchanged with the Regulators.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- Following the recommendation of the NWH Group Audit Committee we were appointed by the Group at its annual general meeting on 4 May 2016 to audit the financial statements of the Group for the period ending 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is 4 years, covering periods from our appointment through 31 December 2019.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Bank and we remain independent of the Group and the Bank in conducting the audit.
- The audit opinion is consistent with the additional report to the NWH Group Audit Committee.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Simon Michaelson (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London, United Kingdom
13 February 2020

Notes:
(1) The maintenance and integrity of the RBS Group web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
(2) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated income statement for the year ended 31 December 2019

	Note	2019 £m	2018* £m
Interest receivable		7,408	6,968
Interest payable		(1,572)	(1,154)
Net interest income	1	5,836	5,814
Fees and commissions receivable		2,208	2,113
Fees and commissions payable		(485)	(462)
Gain on redemption of own debt		—	46
Other operating income		1,604	2,021
Non-interest income	2	3,327	3,718
Total income		9,163	9,532
Staff costs		(2,859)	(2,184)
Premises and equipment		(1,078)	(757)
Other administrative expenses		(2,450)	(2,119)
Depreciation and amortisation		(834)	(521)
Impairment of other intangible assets		(44)	(13)
Operating expenses	3	(7,265)	(5,594)
Profit before impairment losses		1,898	3,938
Impairment losses	13	(572)	(428)
Operating profit before tax		1,326	3,510
Tax charge	7	(442)	(741)
Profit from continuing operations		884	2,769
Loss from discontinued operations net of tax	22	—	(3)
Profit for the year		884	2,766
Attributable to:			
Ordinary shareholders		714	2,649
Paid-in equity holders		166	111
Non-controlling interests		4	6
		884	2,766

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

	Note	2019 £m	2018* £m
Profit for the year		884	2,766
Items that do not qualify for reclassification	5		
Remeasurement of retirement benefit schemes			
- contributions in preparation for ring fencing (1)		—	(2,000)
- other movements		(127)	47
FVOCI financial assets		—	(44)
Tax		30	530
		(97)	(1,467)
Items that do qualify for reclassification			
FVOCI financial assets		(6)	(115)
Cash flow hedges		36	—
Currency translation		(85)	(811)
Tax		(3)	32
		(58)	(894)
Other comprehensive loss after tax		(155)	(2,361)
Total comprehensive Income for the year		729	405
Attributable to:			
Ordinary shareholders		559	289
Paid-in equity holders		166	111
Non-controlling interests		4	5
		729	405

*Restated for IAS12 'Income taxes' refer to accounting policy 1 for further details.

Notes:
(1) On 17 April 2018 RBS Group agreed a Memorandum of Understanding (MoU) with the Trustees of the RBS Group Pension Fund in connection with the requirements of ring-fencing. NWM Plc could not continue to be a participant in the Main section and separate arrangements were required for its employees and agreed to contribute £1.2 billion to the ring-fenced bank. Under the MoU, NWB Plc made a contribution of £2 billion on 9 October 2018 to strengthen funding of the Main section in recognition of the changes in covenant.
(2) A loss of nil in 2019 (2018 - £3 million loss) from discontinued operations was attributable to ordinary shareholders.

The accompanying notes on pages 92 to 149, the accounting policies on pages 87 to 91 and the audited sections of the Financial Review: Capital and risk management on pages 10 to 64 form an integral part of these financial statements.

Balance sheet as at 31 December 2019

		NWB Group		NWB Plc	
	Note	2019 £m	2018 £m	2019 £m	2018 £m
Assets					
Cash and balances at central banks	10	27,457	45,032	26,377	43,966
Derivatives	9	3,302	1,253	3,404	1,277
Loans to banks - amortised cost	10	3,325	6,406	2,741	5,875
Loans to customers - amortised cost	10	232,313	203,647	198,504	171,433
Amounts due from holding companies and fellow subsidiaries	10	3,828	5,206	31,705	30,780
Securities subject to repurchase agreements		4,175	9,890	4,175	9,890
Other financial assets excluding securities subject to repurchase agreements		36,773	31,336	36,383	30,944
Other financial assets	15	40,948	41,226	40,558	40,834
Investment in group undertakings	14	—	—	2,394	2,466
Other assets	18	7,320	7,168	5,271	4,993
Total assets		318,493	309,938	310,954	301,624
Liabilities					
Bank deposits	10	15,505	17,563	15,487	17,557
Customer deposits	10	242,117	237,770	208,698	204,279
Amounts due to holding companies and fellow subsidiaries	10	21,447	22,542	51,019	50,958
Derivatives	9	4,898	779	5,013	1,185
Other financial liabilities	19	8,307	6,497	7,635	5,889
Subordinated liabilities	20	1,242	1,275	1,242	1,267
Other liabilities	21	5,305	3,638	3,834	2,213
Total liabilities		298,821	290,064	292,928	283,348
Owners' equity	23	19,666	19,867	18,026	18,276
Non-controlling interests		6	7	—	—
Total equity		19,672	19,874	18,026	18,276
Total liabilities and equity		318,493	309,938	310,954	301,624

Owners' equity of NWB Plc as at 31 December 2019 includes the profit for the year of £724 million (2018 - £1,641 million).

As permitted by section 408(3) of the Companies Act 2006, the primary financial statements of the company do not include an income statement or a statement of comprehensive income.

The accompanying notes on pages 92 to 199; the accounting policies on pages 87 to 91 and the audited sections of the Financial review: Capital and risk management on pages 10 to 64 form an integral part of these financial statements.

The accounts were approved by the Board of directors on 13 February 2020 and signed on its behalf by:

Howard Davies	Alison Rose-Slade	Katie Murray	National Westminster Bank Plc
Chairman	Chief Executive Officer	Chief Financial Officer	Registration No. 929027

Statement of changes in equity for the year ended 31 December 2019

	NWB Group 2019 £m	NWB Group 2018 £m	NWB Plc 2019 £m	NWB Plc 2018 £m
Called-up share capital - at 1 January and 31 December	1,678	1,678	1,678	1,678
Paid-in equity - At 1 January	2,370	—	2,370	—
Securities issued during the year (1)	—	2,370	—	2,370
At 31 December	2,370	2,370	2,370	2,370
Share premium - at 1 January and 31 December	2,225	2,225	2,225	2,225
Merger reserve - at 1 January	412	—	(294)	—
Transfer from fellow subsidiary (2)				
- gross	—	473	—	(460)
- tax	—	124	—	124
Amortisation, net of tax	(245)	(185)	63	42
At 31 December	167	412	(231)	(294)
FVOCI reserve - at 1 January	250	(5)	249	1
Implementation of IFRS 9 on 1 January 2018	—	46	—	—
Unrealised losses	(22)	(85)	(20)	(86)
Realised losses/(gains)	16	(74)	16	(34)
Tax	6	32	6	32
Transfer from fellow subsidiary (2)				
- gross	—	460	—	460
- tax	—	(124)	—	(124)
At 31 December	250	250	251	249
Cash flow hedging reserve - at 1 January	—	—	—	—
Amount recognised in equity (3)	36	—	36	—
Tax	(9)	—	(9)	—
At 31 December (4)	27	—	27	—
Foreign exchange reserve - At 1 January	15	826	(13)	(10)
Retranslation of net assets	(30)	45	(16)	2
Foreign currency gains/(losses) on hedges of net assets	5	(9)	—	—
Tax	—	—	—	—
Recycled to profit or loss on disposal businesses	(60)	(847)	15	(5)
At 31 December (4)	(70)	15	(14)	(13)
Capital redemption reserve - at 31 December	796	796	796	796
Retained earnings - at 1 January	12,121	10,766	11,265	10,665
Implementation of IFRS 9 on 1 January 2018	—	(317)	—	(270)
Implementation of IFRS 16 on 1 January 2019 (5)	(153)	—	(150)	—
Profit/(loss) attributable to ordinary shareholders and other equity owners				
- continuing operations	880	2,763	724	1,641
- discontinued operations	—	(3)	—	—
Ordinary dividends paid	(700)	—	(700)	—
Paid-in-equity dividends paid	(166)	(111)	(166)	(111)
Distribution of subsidiary (6)	—	(902)	—	(292)
Capital contribution (7)	—	1,200	—	1,200
Realised losses in period on FVOCI equity shares	—	(6)	—	—
Remeasurement of retirement benefit schemes				
- contribution in preparation for ring-fencing (7)	—	(2,000)	—	(2,000)
- gross	(127)	47	(108)	(25)
- tax	30	530	29	530
Shares issued under employee share schemes	(6)	—	(6)	—
Share based payments	99	(31)	99	(31)
Amortisation of merger reserve, net of tax	245	185	(63)	(42)
At 31 December	12,223	12,121	10,924	11,265
Owners' equity at 31 December	19,666	19,867	18,026	18,276

Statement of changes in equity for the year ended 31 December 2019

	NWB Group		NWB Plc	
	2019 £m	2018 £m	2019 £m	2018 £m
Non-controlling interests - at 1 January	7	81	—	—
Currency translation adjustments and other movements	—	(1)	—	—
Profit attributable to non-controlling interests	4	6	—	—
Dividends paid	(5)	(5)	—	—
Equity withdrawn and disposals (6)	—	(74)	—	—
At 31 December	6	7	—	—
Total equity at 31 December	19,672	19,874	18,026	18,276
Total equity is attributable to:				
Ordinary shareholders	17,296	17,497	15,656	15,906
Paid-in equity holders	2,370	2,370	2,370	2,370
Non-controlling interests	6	7	—	—
	19,672	19,874	18,026	18,276

Notes:
(1) AT1 capital notes totalling £2.4 billion issued in April 2018 in preparation for ring-fencing.
(2) During 2018 the RBS Treasury and shared service activities transferred to NWB Plc from NWM Plc at net asset value. The assets, liabilities and IFRS reserves were recognised at inherited values. The difference has been recognised in the merger reserve.
(3) The amount credited to the cash flow hedging reserve comprised £60 million in relation to interest rate hedges less a debit of £24 million in relation to foreign exchange hedges. There was no cash flow hedging in 2018. Additionally, the cash flow hedging reserve was reduced by £3 million in relation to interest rate hedges credited to net interest income and increased by £3 million in relation to foreign exchange hedging which was debited to net interest income. There was no cash flow hedging in 2018.
(4) The hedging element of the cash flow hedging reserve and foreign exchange reserve relate mainly to de-designated hedges in NWB Group and continuing hedges in NWB Plc.
(5) Refer to Note 24 for further information on the impact of IFRS 16 implementation.
(6) On 2 March 2018, in preparation for ring-fencing, NatWest Group Holdings Corp, parent of NatWest Markets Securities Inc., was distributed to NatWest Markets Plc.
(7) On 17 April 2018 the RBS Group agreed a Memorandum of Understanding (MoU) with the Trustees of the RBS Group Pension Fund in connection with the requirements of ring-fencing. NWM Plc could not continue to be a participant in the Main section and separate arrangements were required for its employees and agreed to contribute £1.2 billion to the ring-fenced bank. Under the MoU, NWB Plc made a contribution of £2 billion on 9 October 2018 to strengthen funding of the Main section in recognition of the changes in covenant.

The accompanying notes on pages 92 to 199, the accounting policies on pages 87 to 91 and the audited sections of the Financial Review: Capital and risk management on pages 10 to 64 form an integral part of these financial statements.

Cash flow statement for the year ended 31 December 2019

	Note	NWB Group 2019 £m	NWB Group 2018 £m	NWB Plc 2019 £m	NWB Plc 2018 £m
Cash flows from operating activities					
Operating profit before tax from continuing operations		1,326	3,510	1,045	2,238
Loss before tax from discontinued operations		—	(3)	—	—
Interest on treasury bills and debt securities		(520)	(262)	(520)	—
Interest on subordinated liabilities		56	177	—	175
Interest on other financial assets		—	—	—	(557)
Interest on MRELs		133	—	131	—
Impairment losses/(releases) on loans to banks and customers		319	(198)	315	198
Profit on sale of subsidiaries and associates		—	(7)	16	(36)
Loss/(profit) on sale of securities		16	(32)	—	—
Defined benefit pension schemes		161	231	121	(2,025)
Provisions charges/releases		899	176	854	(201)
Depreciation, amortisation and impairment of property, plant, equipment, goodwill and intangibles		1,154	534	956	399
Loss on sale of property, plant and equipment		(44)	(40)	(40)	—
Write back of investment in subsidiaries		—	—	87	481
Change in fair value taken to profit or loss of other financial assets		—	349	—	(750)
Change in fair value taken to profit or loss of subordinated liabilities		—	—	—	20
Change in fair value taken to profit or loss of MRELs		175	20	175	—
Elimination of foreign exchange differences		452	(642)	484	(654)
Other non-cash items		(718)	(389)	(689)	(1,147)
Net cash inflow/(outflow) from trading activities		3,409	3,424	2,935	(1,859)
Decrease/(increase) in net loans to banks		3,485	(60,158)	477	(46,068)
Increase in net loans to customers		(28,787)	(7,802)	(27,190)	(11,123)
(Increase)/decrease in derivative assets		(2,049)	3,119	(2,127)	2,717
Decrease in amounts due from holding companies and subsidiaries		328	73,254	3,542	23,481
Decrease/(increase) in other financial assets		138	(432)	220	—
Decrease/(increase) in other assets		74	(6,825)	(27)	(295)
Decrease in bank deposits		(1,927)	(3,139)	(1,941)	(3,279)
Increase in customers deposits		4,347	6,439	4,419	5,428
Increase/(decrease) in derivative liabilities		4,119	(3,974)	(1,390)	26,099
(Decrease)/increase in amounts due to holding companies and subsidiaries		(2,547)	(23,546)	3,828	(3,467)
Increase in other financial liabilities		1,810	2,349	1,747	2,235
(Decrease)/increase in other liabilities		(637)	1,306	(575)	40
Changes in operating assets and liabilities		(21,646)	(19,409)	(19,017)	(4,232)
Income taxes (paid)/received		(221)	(360)	(136)	(108)
Net cash flows from operating activities		(18,458)	(16,345)	(16,218)	(6,199)
Cash flows from investing activities					
Sale and maturity of other financial assets		13,158	6,171	12,768	5,742
Purchase of other financial assets		(12,405)	(3,219)	(12,016)	(2,791)
Interest on other financial assets		520	262	520	557
Sale of property, plant and equipment		382	288	241	59
Purchase of property, plant and equipment		(497)	(516)	(231)	(262)
Net investment in business interests and intangible assets	29	(387)	(36,949)	(391)	(33,651)
Net cash flows from investing activities		771	(33,963)	891	(30,346)
Cash flows from financing activities					
Issue of Additional Tier 1 capital notes		—	2,370	—	2,370
Issue of subordinated liabilities		580	1,531	580	1,486
Capital contribution		—	—	—	
Redemption of non-controlling interests		—	—	—	
Redemption of subordinated liabilities		(708)	(3,000)	(700)	(3,000)
Redemption of preference shares		—	—	—	
Dividends paid		—	—	—	
Service cost of other equity instruments		(871)	1,084	(866)	1,089
Interest on subordinated liabilities		(49)	(182)	7	(179)
Issue of MRELs		1,439	1,525	1,179	1,475
Interest on MRELs		109	3	107	3
Net cash flows from financing activities (2)		500	3,331	307	3,244
Effects of exchange rate changes on cash and cash equivalents		(646)	241	(638)	220
Net decrease in cash and cash equivalents		(17,833)	(46,736)	(15,658)	(33,081)
Cash and cash equivalents at 1 January		51,317	98,053	49,492	82,573
Cash and cash equivalents at 31 December	31	33,484	51,317	33,834	49,492

Notes:

(1) NWB Group includes interest received of £7,422 million (2018 - £6,637 million) and interest paid of £1,570 million (2018 - £1,083 million), and NWB Plc includes interest received of £6,711 million (2018 – £5,866 million) and interest paid of £1,760 million (2018 - £1,165 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.

The accompanying notes on pages 92 to 199, the accounting policies on pages 87 to 91 and the audited sections of the Financial Review: Capital and risk management on pages 10 to 64 form an integral part of these financial statements.

Accounting policies

1. Presentation of accounts

The accounts, set out on pages 82 to 149, including these accounting policies on pages 87 to 91 and the audited sections of the Financial review: Capital and risk management on pages 10 to 64, are prepared on a going concern basis (see the Report of the directors, page 65) and in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB) and interpretations as issued by the IFRS Interpretations Committee of the IASB and adopted by the European Union (EU) (together IFRS). The significant accounting policies and related judgments are set out below.

National Westminster Bank Plc (NWB Plc) is incorporated in the UK and registered in England and Wales. Its accounts are presented in accordance with the Companies Act 2006.

The accounts are presented in the functional currency, pounds sterling.

With the exception of investment property and certain financial instruments as described in Accounting policies 8, 12 and 19, the accounts are presented on a historical cost basis.

Accounting changes effective 1 January 2019

Adoption of IFRS 16

Refer to Accounting policy 9 and Note 24 for details of the adoption of IFRS 16.

Other amendments to IFRS

IAS 12 'Income taxes' was revised with effect from 1 January 2019. The income statement now includes any tax relief on the servicing cost of instruments classified as equity. Relief of £30 million for NWB Group and NWB Plc was recognised in the statement of changes in equity for the year ended 31 December 2018; this and prior years have been restated.

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

Presentation of interest in suspense recoveries - In March 2019 the IFRS Interpretations Committee (IFRIC) issued an agenda decision on the presentation of unrecognised interest when a credit-impaired financial asset (commonly referred to as a 'Stage 3' financial asset) is subsequently paid in full or is no longer credit-impaired. This concluded that the difference arising from the additional interest recovered must be recognised as a reversal of impairment rather than within interest revenue. This affects both recognition and the reversal of the expected credit loss (ECL) allowance. RBS Group changed its accounting policy in line with the IFRIC decision. Hence, the gross carrying amount of the financial assets within the scope of the provisions of the decision, as well as the associated ECL allowance on the balance sheet, have been adjusted by £141 million (NWB Plc - £135 million) and the comparative period restated by £121 million (NWB Plc - £117 million) with no effect on equity. The coverage ratio for the current and comparative periods have been adjusted and restated accordingly.

In addition, until 1 January 2019, interest in suspense recoveries were presented as a component of interest receivable within Net interest income. From 1 January 2019 interest in suspense recoveries are presented within Impairment losses and amounted to £25 million for the year ended 31 December 2019. Comparatives have not been restated on the grounds of materiality.

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

The amendments provide relief on key areas of hedge accounting most notably the hedge effectiveness assessment and the ability to identify LIBOR-based cash flows for the purpose of designation (re-designation) during the period of the Reform. Additional disclosures are shown in Note 9.

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

2. Basis of consolidation

The consolidated accounts incorporate the financial statements of NWB Plc and entities (including certain structured entities) that give access to variable returns and that are controlled by NWB Group. Control is assessed by reference to our ability to enforce our will on the other entity, typically through voting rights.

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

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

3. Revenue recognition

Interest income or expense relates to financial instruments measured at amortised cost and debt instruments classified as fair value through OCI using the effective interest rate method, the effective part of any related accounting hedging instruments, and finance lease income recognised at a constant periodic rate of return before tax on the net investment on the lease. Negative effective interest accruing to financial assets is presented in interest payable.

Other interest relating to financial instruments measured at fair value is recognised as part of the movement in fair value.

Fees in respect of services are recognised as the right to consideration accrues through the performance of each distinct service obligation to the customer. The arrangements are generally contractual and the cost of providing the service is incurred as the service is rendered. The price is usually fixed and always determinable.

4. Employee benefits

Short-term employee benefits, such as salaries, paid absences, and other benefits are accounted for on an accruals basis over the period in which the employees provide the related services. Employees may receive variable compensation satisfied by cash, by debt instruments issued by NWB Group or by RBSG plc shares. NWB Group operates a number of share-based compensation schemes under which it awards RBSG plc shares and share options to its employees. Such awards are generally subject to vesting conditions.

Variable compensation that is settled in cash or debt instruments is charged to profit or loss on a straight-line basis over the vesting period, taking account of forfeiture and clawback criteria.

Contributions to defined contribution pension schemes are recognised in profit or loss when payable.

For defined benefit schemes, the defined benefit obligation is measured on an actuarial basis. Actuarial gains and losses (i.e. gains and/or losses on re-measuring the net defined benefit asset or liability) are recognised in other comprehensive income in full in the period in which they arise. The difference between scheme assets and scheme liabilities, the net defined benefit asset or liability, is recognised in the balance sheet subject to the asset celling test which requires the net defined benefit surplus to be limited to the present value of any economic benefits available to NWB Group in the form of refunds from the plan or reduced contributions to it.

The charge to profit or loss for pension costs (mainly the service cost and the net interest on the net defined benefit asset or liability) is recorded in operating expenses.

5. Intangible assets and goodwill
Intangible assets acquired by NWB Group are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to profit or loss over the assets' estimated useful economic lives.

Computer software	3 to 12 years
Other acquired intangibles	5 to 10 years

6. Property, plant and equipment
Items of property, plant and equipment (except investment property - see Accounting policy 8) are stated at cost less accumulated depreciation and impairment losses. Where an item of property, plant and equipment comprises major components having different useful lives, these are accounted for separately.

Depreciation is charged to profit or loss on a straight-line basis so as to write-off the depreciable amount of property, plant and equipment (including assets owned and let on operating leases) over their estimated useful lives. The depreciable amount is the cost of an asset less its residual value. Freehold land is not depreciated.

The estimated useful lives of NWB Group's property, plant and equipment are:

Freehold buildings	50 years
Long leasehold property (leases with more than 50 years to run)	50 years
Short leaseholds	unexpired period of lease
Property adaptation costs	10 to 15 years
Computer equipment	up to 5 years
Other equipment	4 to 15 years

The residual value and useful life of property, plant and equipment are reviewed at each balance sheet date and updated for any changes to previous estimates.

7. Impairment of intangible assets, rights of use and property, plant and equipment
At each balance sheet date, NWB Group assesses whether there is any indication that its intangible assets, rights of use or property, plant and equipment are impaired. If any such indication exists, NWB Group estimates the recoverable amount of the asset and the impairment loss, if any. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

The recoverable amount of an asset that does not generate cash flows that are independent from those of other assets or groups of assets, is determined as part of the cash-generating unit to which the asset belongs. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. For the purposes of impairment testing, goodwill acquired in a business combination is allocated to each of NWB Group's cash-generating units or groups of cash-generating units expected to benefit from the combination. The recoverable amount of an asset or cash-generating unit is the higher of its fair value less cost to sell or its value in use. Value in use is the present value of future cash flows from the asset or cash-generating unit discounted at a rate that reflects market interest rates adjusted for risks specific to the asset or cash-generating unit that have not been taken into account in estimating future cash flows.

An impairment loss is recognised if the recoverable amount of an intangible or tangible asset is less than its carrying value. The carrying value of the asset is reduced by the amount of the loss and a charge recognised in profit or loss. A reversal of an impairment loss on intangible assets (excluding goodwill) or property, plant and equipment can be recognised when an increase in service potential arises provided the increased carrying value is not greater than it would have been had no impairment loss been recognised. Impairment losses on goodwill are not reversed.

8. Investment property
Investment property comprises freehold and leasehold properties that are held to earn rentals or for capital appreciation or both. Investment property is not depreciated but is stated at fair value. Fair value is based on current prices for similar properties in the same location and condition. Any gain or loss arising from a change in fair value is recognised in profit or loss. Rental income from investment property is recognised on a straight-line basis over the term of the lease in Other operating income. Lease incentives granted are recognised as an integral part of the total rental income.

9. Leases
NWB Group has adopted IFRS 16 'Leases' with effect from 1 January 2019, replacing IAS 17 'Leases'. NWB Group has applied IFRS 16 on a modified retrospective basis without restating prior years. The effect is set out in Note 24.

As lessor
Finance lease contracts are those which transfer substantially all the risks and rewards of ownership of an asset to a customer. All other contracts with customers to lease assets are classified as operating leases.

Loans to customers include finance lease receivables measured at the net investment in the lease, comprising the minimum lease payments and any unguaranteed residual value discounted at the interest rate implicit in the lease. Interest receivable includes finance lease income recognised at a constant periodic rate of return before tax on the net investment. Unguaranteed residual values are subject to regular review; if there is a reduction in their value, income allocation is revised and any reduction in respect of amounts accrued is recognised immediately.

Rental income from operating leases is recognised in other operating income on a straight-line basis over the lease term unless another systematic basis better represents the time pattern of the asset's use. Operating lease assets are included within Property, plant and equipment and depreciated over their useful lives.

As lessee
On entering a new lease contract, NWB Group recognises a right of use asset and a liability to pay future rentals. The liability is measured at the present value of future lease payments discounted at the applicable incremental borrowing rate. The right of use asset is depreciated over the shorter of the term of the lease and the useful economic life, subject to review for impairment. Short term and low value leased assets are expensed on a systematic basis.

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

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

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

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

11. Tax
Income tax expense or income, comprising current tax and deferred tax, is recorded in the income statement except income tax on items recognised outside profit or loss which is credited or charged to other comprehensive income. The tax consequences of servicing

equity instruments are recognised in the income statement.

Current tax is income tax payable or recoverable in respect of the taxable profit or loss for the year arising in profit or loss, other comprehensive income or equity. Provision is made for current tax at rates enacted, or substantively enacted, at the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable in respect of temporary differences between the carrying amount of an asset or liability for accounting purposes and its carrying amount for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent their recovery is probable.

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

Deferred tax assets and liabilities are offset where NWB Group has a legally enforceable right to offset and where they relate to income taxes levied by the same taxation authority either on an individual RBS Group company or on RBS Group companies in the same tax group that intend, in future periods, to settle current tax liabilities and assets on a net basis or on a gross basis simultaneously.

Accounting for taxes is judgmental and carries a degree of uncertainty because tax law is subject to interpretation, which might be questioned by the relevant tax authority. RBS Group recognises the most likely current and deferred tax liability or asset, assessed for uncertainty using consistent judgments and estimates. Current and deferred tax assets are only recognised where their recovery is deemed probable, and current and deferred tax liabilities are recognised at the amount that represents the best estimate of the probable outcome having regard to their acceptance by the tax authorities.

12. Financial instruments

Financial instruments are classified either by product, by business model or by reference to the IFRS default classification.

Classification by product relies on specific designation criteria which are applicable to certain classes of financial assets or circumstances where accounting mismatches would otherwise arise. Classification by business model reflects how NWB Group manages its financial assets to generate cash flows. A business model assessment determines if cash flows result from holding financial assets to collect the contractual cash flows, from selling those financial assets, or both.

The product classifications apply to financial assets that are either designated at fair value through profit or loss (DFV), or to equity investments designated as at fair value through other comprehensive income (FVOCI). Financial assets may also be irrevocably designated at fair value through profit or loss upon initial recognition if such designation eliminates, or significantly reduces, accounting mismatch. In all other instances, fair value through profit or loss (MFVTPL) is the default classification and measurement category for financial assets.

Regular way purchases of financial assets classified as amortised cost, are recognised on the settlement date; all other regular way transactions in financial assets are recognised on the trade date.

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

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

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

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

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

13. Impairment: expected credit losses

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

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

Judgement is exercised as follows:

- Models – in certain low default portfolios, Basel parameter estimates are also applied for IFRS 9.
- Non-modelled portfolios, mainly in Private Banking and Lombard, use a standardised capital requirement under Basel II. Under IFRS 9, they have bespoke treatments for the identification of significant increase in credit risk. Benchmark PDs, EADs and LGDs are reviewed annually for appropriateness. The ECL calculation is based on expected future cash flows, which is typically applied at a portfolio level.
- Multiple economic scenarios (MES) – the central, or base, scenario is most critical to the ECL calculation, independent of the method used to generate a range of alternative outcomes and their probabilities.
- Significant increase in credit risk - IFRS 9 requires that at each reporting date, an entity shall assess whether the credit risk on an account has increased significantly since initial recognition. Part of this assessment requires a comparison to be made between the current lifetime PD (i.e. the current probability of default over the remaining lifetime) with the equivalent lifetime PD as determined at the date of initial recognition.

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

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

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

The typical time frames from initial impairment to write off for NWB Group's collectively-assessed portfolios are:

- Retail mortgages: write off usually occurs within five years, or when an account is closed, if earlier.
- Credit cards: the irrecoverable amount is written off after 12 months; three years later any remaining amounts outstanding are written off.
- Overdrafts and other unsecured loans: write off occurs within six years
- Commercial loans: write offs are determined in the light of individual circumstances; the period does not exceed five years.
- Business loans are generally written off within five years.

14. Financial guarantee contracts

Under a financial guarantee contract, NWB Group, in return for a fee, undertakes to meet a customer's obligations under the terms of a debt instrument if the customer fails to do so. A financial guarantee is recognised as a liability; initially at fair value and, if not designated as at fair value through profit or loss, subsequently at the higher of its initial value less cumulative amortisation and any provision under the contract measured in accordance with Accounting policy 13. Amortisation is calculated so as to recognise fees receivable in profit or loss over the period of the guarantee.

15. Loan commitments

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

16. Derecognition

A financial asset is derecognised when the contractual right to receive cash flows from the asset has expired or when it has been transferred and the transfer qualifies for derecognition. Conversely, an asset is not derecognised by a contract under which NWB Group retains substantially all the risks and rewards of ownership. If substantially all the risks and rewards have been neither retained nor transferred, NWB Group does not derecognise an asset over which it has retained control but limits its recognition to the extent of its continuing involvement.

A financial liability is removed from the balance sheet when the obligation is discharged, or is cancelled, or expires. Cancellation includes the issuance of a substitute instrument on substantially different terms.

17. Sale and repurchase transactions

Securities subject to a sale and repurchase agreement under which substantially all the risks and rewards of ownership are retained by NWB Group continue to be shown on the balance sheet and the sale proceeds recorded as a financial liability. Securities acquired in a reverse sale and repurchase transaction under which NWB Group is not exposed to substantially all the risks and rewards of ownership are not recognised on the balance sheet and the consideration paid is recorded as a financial asset. Sale and repurchase transactions that are not accounted for at fair value through profit or loss are measured at amortised cost. The difference between the consideration paid or received and the repurchase or resale price is treated as interest and recognised in interest income or (interest expense over the life of the transaction.

18. Netting

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

19. Derivatives and hedging

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

A derivative embedded in a financial liability contract is accounted for as a stand-alone derivative if its economic characteristics are not closely related to the economic characteristics of the host contract; unless the entire contract is measured at fair value with changes in fair value recognised in profit or loss.

Gains and losses arising from changes in the fair value of derivatives that are not the hedging instrument in a qualifying hedge are recognised as they arise in profit or loss. Gains and losses are recorded in Income from trading activities except for gains and losses on those derivatives that are managed together with financial instruments designated at fair value; these gains and losses are included in Other operating income. NWB Group enters into three types of hedge relationship: hedges of changes in the fair value of a recognised asset or liability or unrecognised firm commitment (fair value hedges); hedges of the variability in cash flows from a recognised asset or liability or a highly probable forecast transaction (cash flow hedges); and hedges of the net investment in a foreign operation (net investment hedges).

Hedge relationships are formally designated and documented at inception in line with the requirements of IAS 39 *Financial instruments – Recognition and measurement*.. The documentation identifies the hedged item, the hedging instrument and details of the risk that is being hedged, and the way in which effectiveness will be assessed at inception and during the period of the hedge. If the hedge is not highly effective in offsetting changes in fair values or cash flows attributable to the hedged risk, consistent with the documented risk management strategy, hedge accounting is discontinued. Hedge accounting is also discontinued if NWB Group revokes the designation of a hedge relationship.

Fair value hedge - in a fair value hedge, the gain or loss on the hedging instrument is recognised in profit or loss. The gain or loss on the hedged item attributable to the hedged risk is recognised in profit or loss and, where the hedged item is measured at amortised cost, adjusts the carrying amount of the hedged item. Hedge accounting is discontinued if the hedge no longer meets the criteria for hedge accounting; or if the hedging instrument expires or is sold, terminated or exercised; or if hedge designation is revoked. If the hedged item is one for which the effective interest rate method is used, any cumulative adjustment is amortised to profit or loss over the life of the hedged item using a recalculated effective interest rate.

Cash flow hedge - in a cash flow hedge, the effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income and the ineffective portion in profit or loss. When the forecast transaction results in the recognition of a financial asset or financial liability, the cumulative gain or loss is reclassified from equity to profit or loss in the same periods in which the hedged forecast cash flows affect profit or loss. Otherwise the cumulative gain or loss is removed from equity and recognised in profit or loss at the same time as the hedged transaction. Hedge accounting is discontinued if the hedge no longer meets the criteria for hedge accounting; if the hedging instrument expires or is sold, terminated or exercised; if the forecast transaction is no longer expected to occur; or if hedge designation is revoked. On the discontinuation of hedge accounting (except where a forecast transaction is no longer expected to occur), the cumulative unrealised gain or loss is reclassified from equity to profit or loss when the hedged cash flows occur or, if the forecast transaction results in the recognition of a financial asset or financial liability, when the hedged forecast cash flows affect profit or loss. Where a forecast transaction is no longer expected to occur, the cumulative unrealised gain or loss is reclassified from equity to profit or loss immediately.

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

20. Cash and cash equivalents

In the cash flow statement, cash and cash equivalents comprises cash and deposits with banks with an original maturity of less than three months together with short-term highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value.

21. Shares in NWB Group entities

The NWB Plc's investments in its subsidiaries are stated at cost less any impairment.

Critical accounting policies and key sources of estimation uncertainty

The reported results of NWB 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 NWB 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 NWB 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 NWB Group would affect its reported results.

Critical Accounting policy	Note
Deferred tax	7
Fair value – financial instruments	11
Loan impairment provisions	13
Provisions for liabilities and charges	21

Future accounting developments

International Financial Reporting Standards

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

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

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

Notes on the accounts

1 Net interest income

	2019 £m	2018 £m
Loans to banks - amortised cost	331	299
Loans to customers - amortised cost	6,512	6,086
Amounts due from holding company and fellow subsidiaries	45	321
Other financial assets	520	262
Interest receivable (1)	7,408	6,968
Bank deposits	213	148
Customer deposits: demand	210	158
Customer deposits: savings	452	373
Customer deposits: other time	61	35
Amounts due to holding company and fellow subsidiaries	414	286
Other financial liabilities	165	97
Subordinated liabilities	57	56
Internal funding of trading businesses	—	1
Interest payable	1,572	1,154
Net interest income	5,836	5,814

Note:
(1) Negative interest on loans is classed as interest payable and on customer deposits is classed as interest receivable.

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

2 Non-interest income

	2019 £m	2018 £m
Net fees and commissions	1,723	1,651
Gain on redemption of own debt	—	46
Other operating income		
Operating lease and other rental income	255	229
Changes in fair value of other financial assets held at mandatory fair value through profit or loss	6	45
Hedge ineffectiveness	(12)	4
Cost of economic hedging	(9)	112
Profit on disposal of amortised cost assets	26	28
(Losses)/profit on disposal of fair value through other comprehensive income assets	(16)	32
Profit on sale of property, plant and equipment	44	40
Share of profits of associated entities	(1)	—
Profit on disposal of subsidiaries and associates	71	906
Other income (2)	1,240	625
	1,604	2,021
	3,327	3,718

Notes:
(1) Negative interest on Loans to banks is classed as interest payable and on Customer deposits is classed as interest receivable.
(2) Includes income from recharging shared services to other RBS Group subsidiaries following the transfers completed in preparation for ring-fencing in 2018 and income from activities other than banking.

Notes on the accounts

3 Operating expenses

	2019 £m	2018 £m
Wages, salaries and other staff costs	2,069	1,484
Temporary and contract costs	334	251
Social security costs	217	168
Pension costs	239	281
Staff costs	2,859	2,184
Premises and equipment (1)	1,078	757
Depreciation and amortisation (2,3)	834	521
Other administrative expenses (4)	2,450	2,119
Administrative Expenses (5)	4,362	3,397
Impairment of intangible assets (see Note 16)	44	13
	7,265	5,594

Notes:
(1) Includes a £161 million charge relating to the reduction in property portfolio.
(2) Includes depreciation in relation to the right of use assets recognised following the adoption of IFRS 16 (previously leasing costs in relation to these were included in premises and equipment). For further details on the adoption of IFRS 16 refer to Note 24.
(3) Includes a £292 million charge relating to the reduction to the reduction in property portfolio.
(4) Includes litigation and conduct costs. Further details are provided in Note 21.
(5) The increase in 2019 compared to 2018 includes the impact of NWB Group becoming the provider of shared services to RBS Group in 2018 in preparation for ring-fencing. Direct costs incurred are recovered through legal entity recharging and recorded in Other income. For the period before the transfer NWB Group was a net receiver of shared services from NatWest Markets Plc (NWM Plc). Shared services staff working directly for NWM Plc, were transferred to NWM Plc at the beginning of 2019.

The average number of persons employed in continuing operations, rounded to the nearest hundred, during the year, excluding temporary staff, was 53,600 (2018 – 41,300); on the same basis, there were no people employed in discontinued operations (2018 – 300). The number of people employed in continued operations at 31 December 2019, excluding temporary staff was as follows:

	2019	2018
UK Personal Banking	20,100	21,200
Commercial Banking	9,500	9,500
Private Banking	1,800	1,800
Central items & other	20,300	22,900
Total	51,700	55,400
UK	38,400	40,100
Europe	1,300	1,400
Rest of the World	12,000	13,900
Total	51,700	55,400

The decrease in Central items & other in 2019 partly includes transfers of staff that wholly support businesses outside the ring-fence to the relevant entities.

Share-based payments

NWB Group grants share-based awards to employees principally on the following bases:

Award plan	Eligible employees	Nature of award	Vesting conditions (1)	Settlement
Sharesave	UK, Republic of Ireland, Channel Islands, Gibraltar and Isle of Man	Option to buy shares under employee savings plan	Continuing employment or leavers in certain circumstances	2020 to 2024
Deferred performance awards	All	Awards of ordinary shares	Continuing employment or leavers in certain circumstances	2020 to 2026
Long-term incentives (2)	Senior employees	Awards of conditional shares or share options	Continuing employment or leavers in certain circumstances and/or achievement of performance conditions	2020 to 2026

Notes:
(1) All awards have vesting conditions and therefore some may not vest.
(2) Long-term incentives include the Executive Share Option Plan, the Long-Term Incentive Plan and the Employee Share Plan.

The fair value of options granted in 2019 was determined using a pricing model that included: expected volatility of shares determined at the grant date based on historical volatility over a period of up to five years; expected option lives that equal the vesting period; expected dividends on equity shares; and risk-free interest rates determined from UK gilts with terms matching the expected lives of the options.

The strike price of options and the fair value on granting awards of fully paid shares is the average market price over the five trading days (three trading days for Sharesave) preceding grant date.

3 Operating expenses continued

Bonus awards

The following tables analyse NWB Group's bonus awards for 2019.

	2019 £m	2018 £m	Change %
Non-deferred cash awards (1)	30	29	3%
Total non-deferred bonus awards	30	29	3%
Deferred bond awards	125	122	2%
Deferred share awards	37	39	(5%)
Total deferred bonus awards	162	161	1%
Total bonus rewards (2)	192	190	1%

Reconciliation of bonus awards to income statement charge

	2019 £m	2018 £m
Bonus awarded	192	190
Less: deferral of charge for amounts awarded for current year	(67)	(60)
Less: amounts incurred by other RBSG entities (3)	—	(53)
Income statement charge for amounts awarded in current year	125	77
Add: current year charge for amounts deferred from prior years	66	39
Less: forfeiture of amounts deferred from prior years	(10)	(2)
Income statement charge for amounts deferred from prior years	56	37
Income statement charge for bonus awards (2)	181	114

Notes:
(1) Cash awards are limited to £2,000 for all employees.
(2) Excludes other performance related compensation.
(3) During 2018, business transfers occurred to comply with ring-fencing requirements. Of the total bonus award shown, a charge of £53 million was incurred by other RBS Group entities prior to these transfers taking place.

Notes on the accounts

4 Segmental analysis

Effective from 1 January 2019 Business Banking was transferred from UK Personal & Business Banking (UK PBB) to Commercial Banking, as the nature of the business, including distribution channels, products and customers were more closely aligned to the Commercial Banking business. Following the transfer, UK PBB was renamed UK Personal Banking. Comparatives have been re-stated.

Reportable operating segments

The reportable operating segments are as follows:

UK Personal Banking serves individuals and mass affluent customers in the UK and includes Ulster Bank customers in Northern Ireland.

Commercial Banking serves start-up, SME, commercial and corporate customers in the UK.

Private Banking serves UK connected high net worth individuals and their business interests.

Central items & other includes corporate functions, such as RBS Treasury, finance, risk management, compliance, legal, communications and human resources. Central functions manages RBS Group capital resources and RBS Group-wide regulatory projects and provides services to the reportable segments. Balances in relation to legacy litigation issues and the business are included in Central items in the relevant periods.

2019	Net interest income £m	Net fees and commissions £m	Other Non-interest income £m	Total income £m	Operating expenses £m	Depreciation and amortisation £m	Impairment (losses)/ releases £m	Operating profit/(loss) £m
UK Personal Banking	3,343	551	205	4,099	(2,969)	—	(329)	801
Commercial Banking	2,166	976	198	3,340	(2,167)	(142)	(247)	784
Private Banking	511	209	30	750	(467)	(4)	7	286
Central items & other	(184)	(13)	1,171	974	(828)	(688)	(3)	(545)
Total	5,836	1,723	1,604	9,163	(6,431)	(834)	(572)	1,326
2018*								
UK Personal Banking	3,370	538	169	4,077	(2,848)	—	(271)	958
Commercial Banking	2,008	910	257	3,175	(1,183)	(122)	(184)	1,686
Private Banking	444	213	27	684	(451)	(2)	8	239
Central items & other	(8)	(10)	1,614	1,596	(591)	(397)	19	627
Total	5,814	1,651	2,067	9,532	(5,073)	(521)	(428)	3,510

*2018 data has been restated for the business re-segmentation.

Notes on the accounts

4 Segmental analysis continued

Total revenue	2019 External £m	2019 Inter segment £m	2019 Total £m	2018* External £m	2018* Inter segment £m	2018* Total £m
UK Personal Banking	5,153	183	5,336	4,980	64	5,044
Commercial Banking	3,275	150	3,425	3,056	48	3,104
Private Banking	666	285	951	645	181	826
Central items & other	2,126	(618)	1,508	2,467	(293)	2,174
Total	11,220	—	11,220	11,148	—	11,148

*2018 data has been restated for the business re-segmentation.

Total income	2019 External £m	2019 Inter segment £m	2019 Total £m	2018* External £m	2018* Inter segment £m	2018* Total £m
UK Personal Banking	3,937	162	4,099	4,025	52	4,077
Commercial Banking	3,590	(250)	3,340	3,405	(230)	3,175
Private Banking	551	199	750	556	128	684
Central items & other	1,085	(111)	974	1,546	50	1,596
Total	9,163	—	9,163	9,532	—	9,532

*2018 data has been restated for the business re-segmentation.

Analysis of net fees and commissions

2019	UK Personal Banking £m	Commercial Banking £m	Private Banking £m	Central items & other £m	Total £m
Fees and commissions receivable					
- Payment Services	231	498	31	—	760
- Credit and debit card fees	341	107	12	—	460
- Lending (credit facilities)	311	277	2	—	590
- Brokerage	42	—	5	—	47
- Investment management, trustee and fiduciary services	37	3	172	—	212
- Trade finance	—	80	—	—	80
- Other	2	87	26	(56)	59
Total	964	1,052	248	(56)	2,208
Fees and commissions payable	(413)	(76)	(39)	43	(485)
Net fees and commissions	551	976	209	(13)	1,723
2018*					
Fees and commissions receivable					
- Payment Services	183	417	31	—	631
- Credit and debit card fees	311	113	12	—	436
- Lending (credit facilities)	344	230	2	—	576
- Brokerage	48	—	5	—	53
- Investment management, trustee and fiduciary services	42	26	179	—	247
- Trade finance	—	101	1	—	102
- Underwriting fees	10	11	—	—	21
- Other	2	49	15	(19)	47
Total	940	947	245	(19)	2,113
Fees and commissions payable	(402)	(37)	(32)	9	(462)
Net fees and commissions	538	910	213	(10)	1,651

*2018 data has been restated for the business re-segmentation.

	2019 Assets £m	2019 Liabilities £m	2019 Cost to acquire fixed assets and intangible assets £m	2018* Assets £m	2018* Liabilities £m	2018* Cost to acquire fixed assets and intangible assets £m
UK Personal Banking	140,415	123,092	—	130,258	118,718	—
Commercial Banking	75,466	99,285	278	72,259	98,927	277
Private Banking	15,383	26,587	15	14,110	26,626	11
Central items & other	87,229	49,857	673	93,311	45,793	539
Total	318,493	298,821	966	309,938	290,064	827

*2018 data has been restated for the business re-segmentation.

Notes on the accounts

4 Segmental analysis continued

The geographical analysis has in the tables below has been comprised on the basis of location of office where the transactions are recorded.

2019	UK £m	Europe £m	RoW £m	Total £m
Total revenue	11,077	143	—	11,220
Interest receivable	7,408	—	—	7,408
Interest payable	(1,532)	(40)		(1,572)
Net fees and commissions	1,723	—	—	1,723
Other operating income	1,423	181	—	1,604
Total income	9,022	141	—	9,163
Operating profit/(loss) before tax	1,582	26	(282)	1,326
Total assets	317,928	347	218	318,493
Total liabilities	298,632	107	82	298,821
Net assets attributable to equity owners and non-controlling interests	19,296	240	136	19,672
Contingent liabilities and commitments	74,929	46	—	74,975
Cost to acquire property, plant and equipment and intangible assets	917	43	6	966

2018*	UK £m	Europe £m	RoW £m	Total £m
Total revenue	10,893	255	—	11,148
Interest receivable	6,968	—	—	6,968
Interest payable	(1,107)	(47)	—	(1,154)
Net fees and commissions	1,651			1,651
Other operating income	1,775	292	—	2,067
Total income	9,287	245	—	9,532
Operating profit/ (loss) before tax	3,484	58	(32)	3,510
Total assets	309,209	378	351	309,938
Total liabilities	289,710	124	230	290,064
Net assets attributable to equity owners and non-controlling interests	19,499	254	121	19,874
Contingent liabilities and commitments	74,145	23	—	74,168
Cost to acquire property, plant and equipment and intangible assets	779	48	—	827

*2018 data has been restated for the business re-segmentation.

5 Pensions

Defined contribution schemes

NWB Group sponsors a number of defined contribution pension schemes in different territories, which new employees are offered the opportunity to join.

Defined benefit schemes

NWB Group sponsors a number of pension schemes in the UK and overseas, including the Main section of The Royal Bank of Scotland Group Pension Fund (the "Main section") which operates under UK trust law and is managed and administered on behalf of its members in accordance with the terms of the trust deed, the scheme rules and UK legislation.

Pension fund trustees are appointed to operate each fund and ensure benefits are paid in accordance with the scheme rules and national law. The trustees are the legal owner of a scheme's assets, and have a duty to act in the best interests of all scheme members.

The schemes generally provide a pension of one-sixtieth of final pensionable salary for each year of service prior to retirement up to a maximum of 40 years and are contributory for current members. These have been closed to new entrants for over ten years, although current members continue to build up additional pension benefits, currently subject to 2% maximum annual salary inflation, while they remain employed by NWB Group.

The Main section corporate trustee is RBS Pension Trustee Limited (the Trustee), a wholly owned subsidiary of NWB Plc, Principal Employer of the Main section. The Board of the Trustee comprises four member trustee directors selected from eligible active staff, deferred and pensioner members who apply and six appointed by RBS Group. Under UK legislation a defined benefit pension scheme is required to meet the statutory funding objective of having sufficient and appropriate assets to cover its liabilities (the pensions that have been promised to members).

Similar governance principles apply to NWB Group's other pension schemes.

Investment strategy

The assets of the Main section, which is typical of other group schemes, represent 97% of plan assets at 31 December 2019 (2018 - 97%) and are invested in a diversified portfolio as shown below.

The Main section employs derivative instruments to achieve a desired asset class exposure and to reduce the section's interest rate, inflation and currency risk. This means that the net funding position is considerably less sensitive to changes in market conditions than the value of the assets or liabilities in isolation.

	2019			2018		
Major classes of plan assets as a percentage of total plan assets of the Main section	Quoted %	Unquoted %	Total %	Quoted %	Unquoted %	Total %
Equities	3.9	4.8	8.7	3.7	5.2	8.9
Index linked bonds	47.8	—	47.8	40.1	—	40.1
Government bonds	9.3	—	9.3	12.9	—	12.9
Corporate and other bonds	11.6	5.0	16.6	12.2	5.2	17.4
Real estate	—	4.8	4.8	—	5.5	5.5
Derivatives	—	7.8	7.8	—	6.1	6.1
Cash and other assets	—	5.0	5.0	—	9.1	9.1
	72.6	27.4	100.0	68.9	31.1	100.0

The Main section's holdings of derivative instruments are summarised in the table below:

	2019			2018		
	Notional	Fair value		Notional	Fair value	
	amounts £bn	Assets £m	Liabilities £m	amounts £bn	Assets £m	Liabilities £m
Inflation rate swaps	16	909	1,094	13	347	502
Interest rate swaps	57	6,407	2,992	55	8,132	5,362
Currency forwards	9	215	42	10	22	164
Equity and bond call options	1	122	—	1	277	—
Equity and bond put options	5	3	1	4	3	1
Other	3	124	13	4	1,027	1,092

5 Pensions continued

Swaps have been executed at prevailing market rates and within standard market bid/offer spreads with a number of counterparty banks, including NWB Plc.

At 31 December 2019, the gross notional value of the swaps was £75 billion (2018 - £72 billion) and had a net positive fair value of £3,340 million (2018 - £2,557 million) against which the banks had posted approximately 110% collateral.

The schemes do not invest directly in NWB Group but can have exposure to NWB Group. The trustees of the respective UK schemes are responsible for ensuring that indirect investments in NWB Group do not exceed the 5% regulatory limit.

	NWB Group				NWB Plc			
Changes in value of net pension (asset)/liability	Fair value of plan assets £m	Present value of defined benefit obligation £m	Asset ceiling/ minimum funding (1) £m	Net pension (asset)/ liability £m	Fair value of plan assets £m	Present value of defined benefit obligation £m	Asset ceiling/ minimum funding (1) £m	Net pension (asset)/ liability £m
At 1 January 2018	46,199	39,120	7,088	9	44,653	37,937	6,715	(1)
Currency translation and other adjustments	5	8	—	3	—	—	—	—
Income statement	1,155	1,207	179	231	1,123	1,092	171	140
Statement of comprehensive income	(1,937)	(1,446)	1,462	1,953	(1,892)	(1,399)	1,532	2,025
Contributions by employer	2,190	—	—	(2,190)	2,165	—	—	(2,165)
Contributions by plan participants and other scheme members	56	56	—	—	61	61	—	—
Liabilities extinguished upon settlement	(259)	(259)	—	—	—	—	—	—
Benefits paid	(2,090)	(2,090)	—	—	(2,027)	(2,027)	—	—
Transfer to/from fellow subsidiaries	(258)	(161)	(85)	12	(276)	(198)	(78)	—
At 1 January 2019	45,061	36,435	8,644	18	43,807	35,466	8,340	(1)
Currency translation and other adjustments	(2)	1	—	3	—	—	—	—
Income statement								
Net interest expense	1,281	1,030	251	—	1,245	1,003	242	—
Current service cost	—	156	—	156	—	140	—	140
Less, direct contributions from other scheme members	—	(17)	—	(17)	—	(32)	—	(32)
Past service cost	—	16	—	16	—	13	—	13
	1,281	1,185	251	155	1,245	1,124	242	121
Statement of comprehensive income								
Return on plan assets excluding recognised interest income	3,156	—	—	(3,156)	3,021	—	—	(3,021)
Experience gains and losses	—	(264)	—	(264)	—	(275)	—	(275)
Effect of changes in actuarial financial assumptions	—	5,734	—	5,734	—	5,565	—	5,565
Effect of changes in actuarial demographic assumptions	—	(471)	—	(471)	—	(465)	—	(465)
Asset ceiling/minimum funding adjustments	—	—	(1,716)	(1,716)	—	—	(1,696)	(1,696)
	3,156	4,999	(1,716)	127	3,021	4,825	(1,696)	108
Contributions by employer	268	—	—	(268)	229	—	—	(229)
Contributions by plan participants and other scheme members	24	24	—	—	41	41	—	—
Benefits paid	(1,837)	(1,837)	—	—	(1,788)	(1,788)	—	—
Transfer to/from fellow subsidiaries	2	15	—	13	—	15	—	15
At 31 December 2019	47,953	40,822	7,179	48	46,555	39,683	6,886	14

Notes:
(1) NWB Group recognises the net pension scheme surplus or deficit as a net asset or liability. In doing so, the funded status is adjusted to reflect any schemes with a surplus that NWB Group may not be able to access, as well as any minimum funding requirement to pay in additional contributions. This is most relevant to the Main section, where the current surplus is not recognised.
(2) NWB Group expects to make contributions to the Main section of £247 million in 2020. Additional contributions of up to £500 million will be paid to the Main section, should RBS Group make distributions to shareholders during 2020, in line with the ring-fencing agreement with the Trustee.

5 Pensions continued

Amounts recognised on the balance sheet	2019 £m	2018 £m
Fund assets at fair value	47,953	45,061
Present value of fund liabilities	40,822	36,435
Funded status	7,131	8,626
Asset ceiling/minimum funding	7,179	8,644
	(48)	(18)

	NWB Group		NWB Plc	
Net pension asset/(liability) comprises	2019 £m	2018 £m	2019 £m	2018 £m
Net assets of schemes in surplus (included in Other assets, Note 18)	5	23	—	15
Net liabilities of schemes in deficit (included in Other liabilities, Note 21)	(53)	(41)	(14)	(14)
	(48)	(18)	(14)	1

Funding and contributions by NWB Group

In the UK, the trustees of defined benefit pension schemes are required to perform funding valuations every three years. The trustees and the sponsor, with the support of the Scheme Actuary, agree the assumptions used to value the liabilities and a Schedule of Contributions required to eliminate any funding deficit. The funding assumptions incorporate a margin for prudence over and above the expected cost of providing the benefits promised to members, taking into account the sponsor's covenant and the investment strategy of the scheme. Similar arrangements apply in the other territories where the NWB Group sponsors defined benefit pension schemes. The last funding valuation of the Main section was at 31 December 2017 and next funding valuation is due at 31 December 2020, to be agreed by 31 March 2022.

The triennial funding valuation of the Main section as at 31 December 2017 determined the funding level to be 96%, pension liabilities to be £47 billion and the deficit to be £2 billion, which was eliminated by a £2 billion cash payment in October 2018. The average cost of the future service of current members is 44% of salary before administrative expenses and contributions from those members.

In 2018, NWB Group recognised an updated estimate of the impact of guaranteed minimum pension equalisation (£102m) following the clarity provided by the October 2018 Court ruling and the impact of any future conversion exercise. This has been revised in 2019 to reflect changes in financial assumptions.

Assumptions

Placing a value on NWB Group's defined benefit pension schemes' liabilities requires NWB Group's management to make a number of assumptions, with the support of independent actuaries. The ultimate cost of the defined benefit obligations depends upon actual future events and the assumptions made are unlikely to be exactly borne out in practice, meaning the final cost may be higher or lower than expected.

5 Pensions continued

The most significant assumptions used for the Main section are shown below:

	Principal IAS 19 actuarial assumptions 2019 %	2018 %	Principal assumptions of 2017 triennial valuation 2017
Discount rate	2.1	2.9	Fixed interest swap yield curve plus 0.8% per annum
Inflation assumption (RPI)	2.9	3.2	RPI swap yield curve
Rate of increase in salaries	1.8	1.8	
Rate of increase in deferred pensions	3.0	3.1	
Rate of increase in pensions in payment	2.8	2.9	Modelled allowance for relevant caps and floors
Lump sum conversion rate at retirement	20	20	18%
Longevity at age 60:	years	years	
Current pensioners			
Males	26.9	27.2	28.1
Females	28.7	29.0	29.7
Future pensioners, currently aged 40			
Males	28.2	28.4	29.3
Females	30.2	30.5	31.5

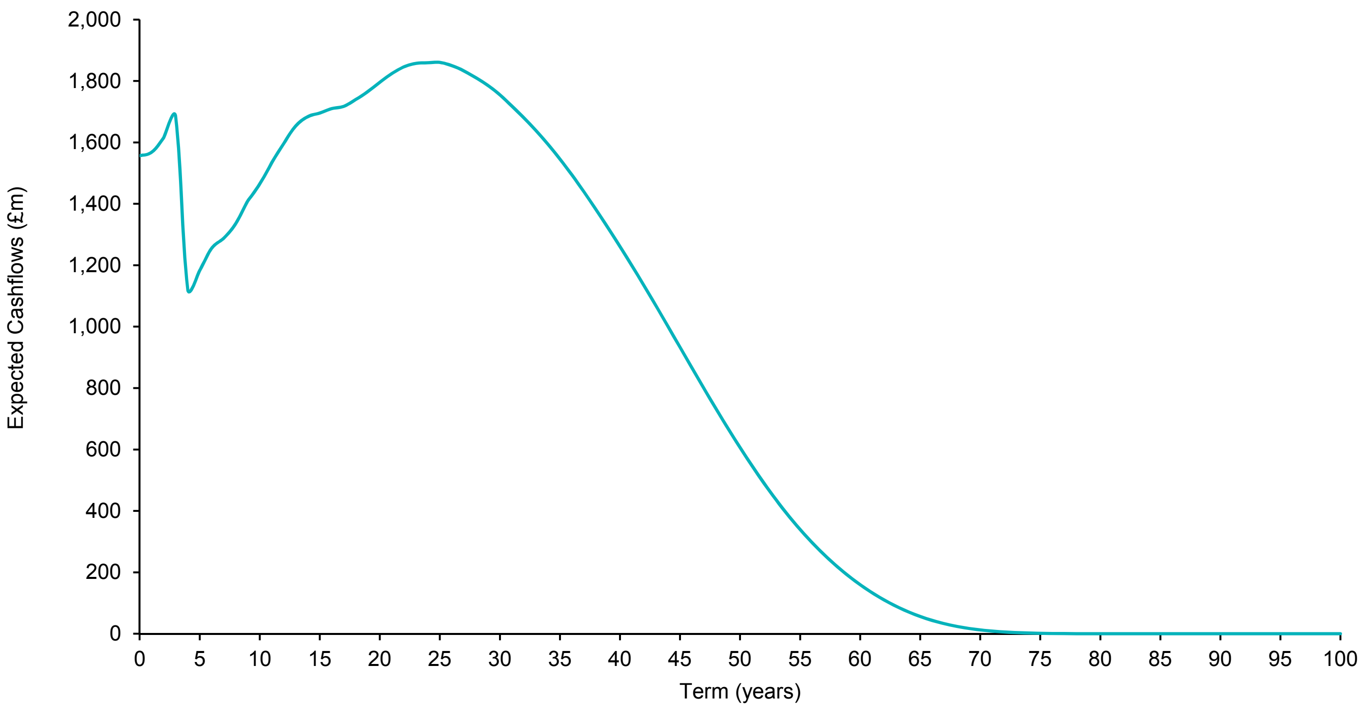
Discount rate

The IAS 19 valuation uses a single discount rate set by reference to the yield on a basket of 'high quality' sterling corporate bonds. For the triennial valuation discounting is by reference to a yield curve.

The weighted average duration of the Main section's defined benefit obligation at 31 December 2019 is 21 years (2018 - 20 years).

Significant judgement is required when setting the criteria for bonds to be included in the basket of bonds that is used to determine the discount rate used in the IAS 19 valuations. The criteria include issue size, quality of pricing and the exclusion of outliers. Judgement is also required in determining the shape of the yield curve at long durations: a constant credit spread relative to gilts is assumed. Sensitivity to the main assumptions is presented below.

The chart below shows the projected benefit payment pattern for the Main section in nominal terms. These cashflows are based on the most recent formal actuarial valuation, effective 31 December 2017.



The larger outflow in the first four years represents the expected level of transfers out to 31 December 2021.

5 Pensions continued

The table below shows how the defined benefit obligation of the Main section would change if the key assumptions used were changed independently. In practice the variables have a degree of correlation and do not move completely in isolation.

2019	(Decrease)/ increase in value of assets £m	(Decrease)/ increase in value of liabilities £m	Increase in net pension (obligations)/ assets £m
0.25% increase in interest rates/discount rate	(2,330)	(1,973)	(357)
0.25% increase in inflation	1,923	1,394	529
0.25% increase in credit spreads	(5)	(1,973)	1,968
Longevity increase of one year	—	1,706	(1,706)
0.25% additional rate of increase in pensions in payment	—	1,326	(1,326)
Increase in equity values of 10% (1)	430	—	430
2018			
0.25% increase in interest rates/discount rate	(2,214)	(1,644)	(570)
0.25% increase in inflation	1,487	1,199	288
0.25% increase in credit spreads	(5)	(1,644)	1,639
Longevity increase of one year	—	1,414	(1,414)
0.25% additional rate of increase in pensions in payment	—	1,215	(1,215)
Increase in equity values of 10% (1)	419	—	419

Note:
(1) Includes both quoted and private equity.

The funded status is most sensitive to movements in credit spreads and longevity. The table below shows the combined change in the funded status of the Main section as a result of larger movements in these assumptions, assuming no changes in other assumptions.

		Change in life expectancies				
2019		-2 years £bn	-1 years £bn	No change £bn	+ 1 year £bn	+ 2 years £bn
Change in credit spreads	+50 bps	6.9	5.4	3.9	2.3	0.8
	No change	3.6	1.7	—	(1.7)	(3.6)
	-50 bps	(0.2)	(2.3)	(4.4)	(6.5)	(8.7)

		Change in life expectancies				
2018		-2 years £bn	-1 years £bn	No change £bn	+ 1 year £bn	+ 2 years £bn
Change in credit spreads	+50 bps	5.8	4.5	3.2	1.9	0.7
	No change	3.0	1.4	—	(1.4)	(3.0)
	-50 bps	(0.4)	(2.1)	(3.8)	(5.5)	(7.3)

The defined benefit obligation of the Main section is attributable to the different classes of scheme members in the following proportions:

Membership category	2019 %	2018 %
Active members	13.6	12.9
Deferred members	49.7	48.6
Pensioners and dependants	36.7	38.5
	100.0	100.0

The experience history of NWB Group schemes is shown below:

	NWB Group					NWB Plc				
History of defined benefit schemes	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m
Fair value of plan assets	47,953	45,061	46,199	45,311	32,485	46,555	43,807	44,653	43,824	30,703
Present value of defined benefit obligations	40,822	36,435	39,120	40,010	32,896	39,683	35,466	37,937	38,848	30,964
Net surplus/(deficit)	7,131	8,626	7,079	5,301	(411)	6,872	8,341	6,716	4,976	(261)
Experience (losses)/gains on plan liabilities	264	(124)	(107)	766	276	275	(122)	(108)	658	233
Experience (losses)/gains on plan assets	3,156	(1,937)	1,602	8,824	(427)	3,021	(1,892)	1,580	8,562	(415)
Actual return on plan assets	4,437	(782)	2,790	10,198	707	4,266	(769)	2,735	9,872	703
Actual return on plan assets	9.8%	(1.7%)	6.2%	31.4%	2.2%	9.7%	(1.7%)	6.2%	32.2%	2.3%

6 Auditor's remuneration

Amounts paid to NWB Group's auditors for statutory audit and other services are set out below:

	2019 £m	2018 £m
Fees payable for:		
- the audit of NWB Group's annual accounts	9.5	9.8
- the audit of NWB Plc's subsidiaries	1.6	—
- audit-related assurance services	0.1	1.6
Total audit and audit-related assurance service fees	11.2	11.4

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

7 Tax

	2019 £m	2018* £m
Current tax		
Charge for the year	(457)	(728)
Over/(under) provision in respect of prior years	20	(63)
	(437)	(791)
Deferred tax		
(Charge)/credit for the year	(74)	18
(Decrease)/increase in the carrying value of deferred tax assets	(2)	7
Over provision in respect of prior years	71	25
Tax charge for the year	(442)	(741)

*Restated for IAS12 'Income taxes'. Refer to Accounting policy 1, Other amendments to IFRS.

The actual tax charge differs from the expected tax charge computed by applying the standard rate of UK corporation tax of 19% (2018 – 19%) as follows:

	2019 £m	2018* £m
Expected tax charge	(252)	(667)
Losses and temporary differences in year where no deferred tax asset recognised	—	(13)
Foreign profits taxed at other rates	(5)	(7)
UK tax rate change impact	—	(5)
Items not allowed for tax:		
- losses on disposals and write-downs	(3)	(24)
- UK bank levy	(17)	(20)
- regulatory and legal actions	(133)	(18)
- other disallowable items	(46)	(27)
Non-taxable items	27	243
(Decrease)/increase in the carrying value of deferred tax assets in respect of:		
- UK losses	(2)	7
Banking surcharge	(134)	(202)
Tax on paid in equity	32	30
Adjustments in respect of prior years (1)	91	(38)
Actual tax charge	(442)	(741)

*Restated for IAS12 'Income taxes'. Refer to Accounting policy 1, Other amendments to IFRS.

Note:
(1) Prior year tax adjustments incorporate refinements to tax computations made on submission and agreement with the tax authorities. Current taxation balances include provisions in respect of uncertain tax positions, in particular in relation to restructuring and other costs where the taxation treatment remains subject to agreement with the relevant tax authorities.

Judgment: Tax contingencies

NWB Group's income tax charge 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. NWB 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 assets and charges in the period when the matter is resolved.

	NWB Group		NWB Plc	
	2019 £m	2018 £m	2019 £m	2018 £m
Deferred tax liability	169	225	—	—
Deferred tax asset	(1,230)	(1,590)	(1,184)	(1,546)
Net deferred tax asset	(1,061)	(1,365)	(1,184)	(1,546)

Notes on the accounts

7 Tax continued

	NWB Group						
	Pension £m	Accelerated capital allowances £m	Expense provisions £m	Financial instruments £m	Tax losses carried forward £m	Other £m	Total £m
At 1 January 2018	(479)	4	(46)	1	(555)	18	(1,057)
Implementation of IFRS9 on 1 January 2018	—	—	—	(100)	—	—	(100)
Acquisitions and disposals of subsidiaries	(3)	(203)	(49)	180	—	27	(48)
(Credit)/charge to income statement	(48)	(26)	9	(13)	31	(3)	(50)
(Credit)/charge to other comprehensive income	(84)	—	—	(32)	—	1	(115)
Currency translation and other adjustments	—	5	—	—	—	—	5
At 31 December 2018	(614)	(220)	(86)	36	(524)	43	(1,365)
Implementation of IFRS16 on 1 January 2019	—	—	—	—	—	(51)	(51)
Acquisitions and disposals of subsidiaries	—	9	—	(6)	—	—	3
Charge/(credit) to income statement	12	20	18	(12)	(21)	(12)	5
Charge/(credit) to other comprehensive income	353	—	—	—	—	—	353
Currency translation and other adjustments	—	(4)	—	—	—	(2)	(6)
At 31 December 2019	(249)	(195)	(68)	18	(545)	(22)	(1,061)

	NWB Plc						
	Pension £m	Accelerated capital allowances £m	Expense provisions £m	Financial instruments £m	Tax losses carried forward £m	Other £m	Total £m
At 1 January 2018	(477)	(16)	(37)	—	(541)	11	(1,060)
Implementation of IFRS9 on 1 January 2018	—	—	—	(90)	—	—	(90)
Acquisitions and disposals of subsidiaries	—	(403)	(43)	124	—	22	(300)
(Credit)/charge to income statement	(48)	16	6	10	36	(1)	19
(Credit)/charge to other comprehensive income	(85)	—	—	(32)	—	1	(116)
Currency translation and other adjustments	—	—	—	—	—	1	1
At 31 December 2018	(610)	(403)	(74)	12	(505)	34	(1,546)
Implementation of IFRS16 on 1 January 2019	—	—	—	—	—	(51)	(51)
Acquisitions and disposal of subsidiaries	—	9	—	—	—	—	9
Charge/(credit) to income statement	13	40	16	10	(25)	(6)	48
Charge/(credit) to other comprehensive income	354	—	—	2	—	—	356
At 31 December 2019	(243)	(354)	(58)	24	(530)	(23)	(1,184)

Deferred tax assets in respect of unused tax losses are recognised if the losses can be used to offset probable future taxable profits after taking into account the expected reversal of other temporary differences. Recognised deferred tax assets in respect of tax losses are analysed further below.

	2019 £m	2018 £m
UK tax losses carried forward		
- NWB Plc	530	505
- Ulster Bank Limited	15	19
	545	524

Notes on the accounts

7 Tax continued

Critical accounting policy: Deferred tax

The deferred tax assets of £1,230 million as at 31 December 2019 (2018 - £1,590 million) principally comprises losses which arose in the UK, and temporary differences. These deferred tax assets are recognised to the extent that it is probable that there will be future taxable profits to recover them.

Judgment - NWB Group has considered the carrying value of deferred tax assets and concluded that, based on management's estimates, sufficient taxable profits will be generated in future years to recover recognised deferred tax assets.

Estimate **-** These estimates are based on forecast performance for management's detailed plans. They have regard to inherent uncertainties, such as Brexit and climate change.

UK tax losses - Under UK tax rules, tax losses can be carried forward indefinitely. As the recognised tax losses in the Group arose prior to 1 April 2015, credit in future periods is given against 25% of profits at the main rate of UK corporation tax, excluding the Banking Surcharge 8% rate introduced by The Finance (No. 2) Act 2015. Deferred tax assets and liabilities at 31 December 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.

National Westminster Bank Plc – A deferred tax asset of £530 million has been recognised in respect of total losses of £3,109 million. The losses arose principally as a result of significant impairment and conduct charges between 2009 and 2012 during challenging economic conditions in the UK banking sector. National Westminster Bank Plc returned to tax profitability during 2015 and expects the deferred tax asset to be consumed by future taxable profits by the end of 2025. During the year, losses of £881 million were transferred from NatWest Markets Plc as a consequence of the ring fencing regulations. These losses have not been recognised in the deferred tax balance at 31 December 2019.

Unrecognised deferred tax

Deferred tax assets of £163 million (2018 - £10 million) have not been recognised in respect of tax losses and other temporary differences carried forward of £956 million (2018 - £57 million) in jurisdictions where doubt exists over the availability of future taxable profits. The tax losses and other temporary differences carried forward have no expiry date.

Deferred tax liabilities of £123 million (2018 - £115 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.

8 Profit/(loss) dealt with in the accounts of the NWB Plc

As permitted by section 408(3) of the Companies Act 2006, no income statement for the Bank has been presented as a primary financial statement.

9 Derivatives

Companies in NWB Group transact derivatives to manage balance sheet foreign exchange, interest rate and credit risk.

	NWB Group					
	2019			2018		
	Notional £bn	Assets £m	Liabilities £m	Notional £bn	Assets £m	Liabilities £m
Exchange rate contracts	16	105	258	9	115	68
Interest rate contracts	382	3,182	4,640	330	1,120	711
Credit derivatives	—	15	—	—	18	—
		3,302	4,898		1,253	779

	NWB Plc					
	2019			2018		
	Notional £bn	Assets £m	Liabilities £m	Notional £bn	Assets £m	Liabilities £m
Exchange rate contracts	19	106	293	12	114	286
Interest rate contracts	392	3,283	4,720	337	1,145	899
Credit derivatives	—	15	—	—	18	—
		3,404	5,013		1,277	1,185

Refer to Note 10 for amounts due from/to fellow RBS Group subsidiaries.

The significant movement in the year relates to the transfer of derivative assets and derivative liabilities from NWM Plc in relation to the RBS Group Pension Scheme. The fair values were £2.3 billion and £3.9 billion for assets and liabilities respectively at the date of transfer, with a notional value of £16.7 billion.

9 Derivatives continued

NWB Group applies hedge accounting to manage the following risks; interest rate, foreign exchange and net investment in foreign operations.

NWB Group's interest rate hedging relate to the management of NWB Group's non-trading structural interest rate risk, caused by the mismatch between fixed interest rates and floating interest rates. NWB Group manages this risk within approved limits. Residual risk positions are hedged with derivatives principally interest rate swaps. Suitable larger financial instruments are fair value hedged; the remaining exposure, where possible, is hedged by derivatives documented as cash flow hedges.

Cash flow hedges of interest rate risk relate to exposures to the variability in future interest payments and receipts due to the movement of benchmark interest rates on forecast transactions and on recognised financial assets and financial liabilities. This variability in cash flows is hedged by interest rate swaps, fixing the hedged cash flows. For these cash flow hedge relationships, the hedged items are actual and forecast variable interest rate cash flows arising from financial assets and financial liabilities with interest rates linked to the relevant benchmark rate LIBOR, EURIBOR, SONIA or the Bank of England Official Bank Rate. The variability in cash flows due to movements in the relevant benchmark rate is hedged; this risk component is identified using the risk management systems of NWB Group. This risk component comprises the majority of cash flow variability risk.

Fair value hedges of interest rate risk involve interest rate swaps transforming the fixed interest rate risk in recognised financial assets and financial liabilities to floating. The hedged risk is the risk of changes in the hedged items fair value attributable to changes in the benchmark interest rate embedded in the hedged item. The significant embedded benchmark are LIBOR, EURIBOR and SONIA. This risk component is identified using the risk management systems of NWB Group. This risk component comprises the majority of the hedged items fair value risk.

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

Exchange rate risk also arises in NWB Group where payments are denominated in different currencies than the functional currency. Residual risk positions are hedged with forward foreign exchange contracts. Exposure to the variability in future payments due to the movement of foreign exchange rates is hedged, fixing the exchange rate the payments will be settled in. The derivatives are documented as cash flow hedges.

For all cash flow hedging and fair value hedge relationships NWB Group determines that there is an adequate level of offsetting 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/ fair value of the hedged item attributable to the hedged risk with movements in the fair value of the expected changes in cash flows from the hedging interest rate swap. Hedge effectiveness is measured on a cumulative basis over a time period management determines to be appropriate. NWB Group uses either the actual ratio between the hedged item and hedging instrument(s) or one that minimises hedge ineffectiveness to establish the hedge ratio for hedge accounting.

A number of the current cash flow and fair value hedges of interest rate risk will be directly affected by interest rate benchmark reform; RBS Group currently considers all of these relationships that mature post 31 December 2021 to be directly affected. As at 31 December 2019 the exact transition dates of affected hedge accounting relationships is not known. The disclosures are prepared on these assumptions where the amendments made to IAS39 paragraphs 102D-102N and 108G are applied. The disclosures made for the notional of hedging instruments and risk exposures affected by interest rate benchmark reform contain information for both the hedging instrument and hedged risks even if only one of these will be directly impacted by the reform.

NWB Group is managing the process to transition to alternative benchmark rates in the following ways:

- reviewed or is in the process of reviewing the fall-back language for IBOR linked instruments
- continues to liaise with regulators, standard setters, industry groups and customers on other relevant matters as the transition to risk free rates progresses
- is in the process of adjusting its products, processes and information systems to deal with the expected effects of the discontinuation of IBOR most notably the transition and calculation rules.

Included in the tables above are derivatives held for hedging purposes as follows:

	NWB Group							
	2019				2018			
	Notional £bn	Assets £m	Liabilities £m	Change in fair value used for hedge ineffectiveness (1) £m	Notional £bn	Assets £m	Liabilities £m	Change in fair value used for hedge ineffectiveness (1) £m
Fair value hedging - Interest rate contracts	36.6	456	1,401	(1,219)	35.9	587	776	(588)
Cash flow hedging - Interest rate contracts	19.7	58	23	56	—	—	—	—
Cash flow hedging - Exchange rate contracts	2.1	—	22	22	—	—	—	—
Net investment hedging - Exchange rate contracts	0.1	—	3	5	—	—	—	—
	58.5	514	1,449	(1,136)	35.9	587	776	(588)
IFRS netting		(501)	(1,387)			(587)	(763)	
		13	62	(1,136)		—	13	(588)

	NWB Plc							
	2019				2018			
	Notional £bn	Assets £m	Liabilities £m	Change in fair value used for hedge ineffectiveness (1) £m	Notional £bn	Assets £m	Liabilities £m	Change in fair value used for hedge ineffectiveness (1) £m
Fair value hedging - Interest rate contracts	36.6	456	1,381	(1,218)	35.8	587	765	(588)
Cash flow hedging - Interest rate contracts	19.7	58	23	56	—	—	—	—
Cash flow hedging - Exchange rate contracts	2.1	—	22	22	—	—	—	—
	58.4	514	1,426	(1,140)	35.8	587	765	(588)
IFRS netting		(501)	(1,387)			(587)	(698)	
		13	39	(1,140)		—	67	(588)

Note:
(1) The change in fair value used for hedge ineffectiveness includes instruments that were derecognised in the year.

Notes on the accounts

9 Derivatives continued

The notional of hedging instruments affected by interest rate benchmark reform is as follows:

	NWB Group 2019 £bn	NWB Plc 2019 £bn
Fair value hedging		
- LIBOR	20.5	20.5
- EURIBOR	4.5	4.4
Cash flow hedging		
- LIBOR	5.8	5.8
- EURIBOR	0.2	0.2
- SONIA	0.0	0.0

The following table shows the period in which the hedging contract ends:

2019	NWB Group 0-3 months £bn	3-12 months £bn	1-3 years £bn	3-5 years £bn	5-10 years £bn	10-20 years £bn	20+ years £bn	Total £bn
Fair value hedging								
Hedging assets - Interest rate risk	0.5	1.4	6.1	4.0	11.0	2.7	3.6	29.3
Hedging liabilities - Interest rate risk	—	—	0.3	5.4	1.6	—	—	7.3
Cash flow hedging (1)								
Hedging assets - Interest rate risk	—	—	0.5	0.5	0.4	—	—	1.4
Average fixed interest rate (%)	—	—	2.11	0.78	1.62	—	—	1.51
Hedging liabilities - Interest rate risk	—	—	14.3	2.6	1.4	—	—	18.3
Average fixed interest rate (%)	—	—	0.68	0.73	0.88	—	—	0.70
Hedging liabilities - Exchange rate risk	0.1	0.1	1.1	0.8	—	—	—	2.1
Average INR £ rate	88.60	94.0	—	—	—	—	—	93.11
Average USD £ rate	—	—	1.30	1.30	—	—	—	1.30
Net investment hedging (1)								
Exchange rate risk	0.1	—	—	—	—	—	—	0.1

2018	NWB Group 0-3 months £bn	3-12 months £bn	1-3 years £bn	3-5 years £bn	5-10 years £bn	10-20 years £bn	20+ years £bn	Total £bn
Fair value hedging								
Hedging assets - Interest rate risk	1.0	1.7	9.8	4.1	6.6	2.1	3.3	28.6
Hedging liabilities - Interest rate risk	—	—	2.1	3.8	1.4	—	—	7.3

2019	NWB Plc 0-3 months £bn	3-12 months £bn	1-3 years £bn	3-5 years £bn	5-10 years £bn	10-20 years £bn	20+ years £bn	Total £bn
Fair value hedging								
Hedging assets - Interest rate risk	0.5	1.4	6.1	4.0	11.0	2.7	3.6	29.3
Hedging liabilities - Interest rate risk	—	—	0.3	5.4	1.6	—	—	7.3
Cash flow hedging (1)								
Hedging assets - Interest rate risk	—	—	0.5	0.5	0.4	—	—	1.4
Average fixed interest rate (%)	—	—	2.11	0.78	1.62	—	—	1.51
Hedging liabilities - Interest rate risk	—	—	14.3	2.6	1.4	—	—	18.3
Average fixed interest rate (%)	—	—	0.68	0.73	0.88	—	—	0.70
Hedging liabilities - Exchange rate risk	0.1	0.1	1.1	0.8	—	—	—	2.1
Average INR £ rate	88.60	94.0	—	—	—	—	—	93.11
Average USD £ rate	—	—	1.30	1.30	—	—	—	1.30

2018	NWB Plc 0-3 months £bn	3-12 months £bn	1-3 years £bn	3-5 years £bn	5-10 years £bn	10-20 years £bn	20+ years £bn	Total £bn
Fair value hedging								
Hedging assets - Interest rate risk	1.0	1.7	9.8	4.1	6.5	2.1	3.3	28.5
Hedging liabilities - Interest rate risk	—	—	2.1	3.8	1.4	—	—	7.3

Note:
(1) Comparative balances are nil.

9 Derivatives continued

The table below analyses assets and liabilities subject to hedging derivatives:

	NWB Group			
2019	Carrying value (CV) of hedged assets and liabilities £m	Impact on hedged items included in CV £m	Change in fair value used as a basis to determine ineffectiveness (1) £m	Impact of hedged items ceased to be adjusted for hedging gains or losses £m
Fair value hedging - interest rate				
Loans to customers – amortised cost	593	65	32	30
Other financial assets - securities	32,959	1,205	1,409	—
Total	33,552	1,270	1,441	30
Other financial liabilities - debt securities in issue	5,320	262	(176)	39
Subordinated liabilities	2,396	71	(56)	—
Total	7,716	333	(232)	39
Cash flow hedge - interest rate (2)				
Loans to banks and customers – amortised cost	1,331		6	
Other financial assets - securities	23		—	
Total	1,354		6	
Customer deposits	18,086		(63)	
Subordinated liabilities	228		(1)	
Cash flow hedge - exchange rate (2)				
Other financial liabilities - debt securities in issue	2,054		(22)	
Total	20,368		(86)	
2018				
Fair value hedging - interest rate				
Loans to customers – amortised cost	199	27	—	—
Other financial assets - securities	30,991	375	615	10
Total	31,190	402	615	10
Other financial liabilities - debt securities in issue	7,528	228	(6)	—
Subordinated liabilities	—	—	(17)	—
Total	7,528	228	(23)	—

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

9 Derivatives continued

2019	NWB Plc Carrying value (CV) of hedged assets and liabilities £m	Impact on hedged items included in CV £m	Change in fair value used as a basis to determine ineffectiveness (1) £m	Impact of hedged items ceased to be adjusted for hedging gains or losses £m
Fair value hedging - interest rate				
Loans to customers – amortised cost	456	44	31	1
Other financial assets - securities	32,959	1,205	1,409	—
Total	33,415	1,249	1,440	1
Other financial liabilities - debt securities in issue	5,320	262	(176)	39
Subordinated liabilities	2,396	71	(57)	—
Total	7,716	333	(233)	39
Cash flow hedge - interest rate (2)				
Loans to banks and customers – amortised cost	1,331		6	
Other financial assets - securities	23		—	
Total	1,354		6	
Customer deposits	18,086		(63)	
Other financial liabilities - debt securities in issue	228		(1)	
Cash flow hedge - exchange rate (2)				
Other financial liabilities - deposits	2,054		(22)	
Total	20,368		(86)	
2018				
Fair value hedging - interest rate				
Loans to customers – amortised cost	133	16	—	—
Other financial assets - securities	30,991	375	615	10
Total	31,124	391	615	10
Other financial liabilities - debt securities in issue	7,528	228	(6)	—
Subordinated liabilities	—	—	(17)	—
Total	7,528	228	(23)	—

Notes:
(1) The change in fair value used for ineffectiveness includes instruments that were derecognised in the year.
(2) Comparative balances are nil.

The following risk exposures will be affected by interest rate benchmark reform (notional, hedged adjustment):

	NWB Group		NWB Plc	
	Notional £bn	Hedged adjustment £m	Notional £bn	Hedged adjustment £m
Fair value hedging				
- LIBOR	20.6	533	20.6	525
- EURIBOR	4.5	193	4.4	182
Cash flow hedging				
- LIBOR	0.6	6	0.6	6
- EURIBOR	0.2	(2)	0.2	(2)
- BOE Base rate	5.2	(50)	5.2	(50)

Hedge ineffectiveness recognised in other operating income comprised:

	2019 £m	2018 £m
Fair value hedging		
Gains on the hedged items attributable to the hedged risk	1,209	592
Losses on the hedging instruments	(1,219)	(588)
Fair value hedging ineffectiveness	(10)	4
Cash flow hedging		
- Interest rate risk	(2)	—
Cash flow hedging ineffectiveness	(2)	—
Total	(12)	4

The main sources of ineffectiveness for interest rate risk hedge accounting relationships are:
- the effect of the counterparty credit risk on the fair value of the interest rate swap, which is not reflected in the fair value of the hedged item attributable to the change in interest rate; and
- upfront present values on the hedging derivatives where hedge accounting relationships have been designated after the trade date.

Additional information on cash flow hedging and hedging of net assets can be found in the Statement of Changes in Equity.

Notes on the accounts

10 Financial instruments - classification

The following tables analyse the NWB Group's financial assets and liabilities in accordance with the categories of financial instruments on an IFRS 9 basis at 31 December 2019. Assets and liabilities outside the scope of IFRS 9 are shown within other assets and other liabilities.

	NWB Group					
	MFVTPL (1) £m	DFV (2) £m	FVOCI (3) £m	Amortised cost £m	Other assets £m	Total £m
Assets						
Cash and balances at central banks				27,457		27,457
Derivatives (4)	3,302					3,302
Loans to banks - amortised cost (5)				3,325		3,325
Loans to customers - amortised cost				232,313		232,313
Amounts due from holding companies and fellow subsidiaries	427	—	—	3,389	12	3,828
Other financial assets	385	—	36,401	4,162		40,948
Other assets	—	—	—	—	7,320	7,320
31 December 2019	4,114	—	36,401	270,646	7,332	318,493
Cash and balances at central banks				45,032		45,032
Derivatives (4)	1,253					1,253
Loans to banks - amortised cost (5)				6,406		6,406
Loans to customers - amortised cost				203,647		203,647
Amounts due from holding companies and fellow subsidiaries	26	10	—	5,165	5	5,206
Other financial assets	280	—	35,400	5,546		41,226
Other assets	—	—	—	—	7,168	7,168
31 December 2018	1,559	10	35,400	265,796	7,173	309,938

	Held-for-trading £m	DFV (2) £m	Amortised cost £m	Other liabilities £m	Total £m
Liabilities					
Bank deposits (6)			15,505		15,505
Customer deposits			242,117		242,117
Amounts due to holding companies and fellow subsidiaries	—	—	21,413	34	21,447
Derivatives (4)	4,898				4,898
Other financial liabilities (7)	114	—	8,193		8,307
Subordinated liabilities	—	—	1,242	—	1,242
Other liabilities (8)	—	—	903	4,402	5,305
31 December 2019	5,012	—	289,373	4,436	298,821
Bank deposits (6)			17,563		17,563
Customer deposits			237,770		237,770
Amounts due to holding companies and fellow subsidiaries	17	—	22,525		22,542
Derivatives (4)	779				779
Other financial liabilities (7)	50	20	6,427		6,497
Subordinated liabilities	—	—	1,275	—	1,275
Other liabilities	—	—	857	2,781	3,638
31 December 2018	846	20	286,417	2,781	290,064

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

10 Financial instruments - classification continued

The above includes amounts due from/to holding companies and fellow subsidiaries:

	NWB Group					
	2019			2018		
	Holding companies £m	Fellow subsidiaries £m	Total £m	Holding companies £m	Fellow subsidiaries £m	Total £m
Assets						
Loans to banks and customers	156	3,233	3,389	40	5,125	5,165
Other financial assets/other assets	—	439	439	—	41	41
Total inter-group assets	156	3,672	3,828	40	5,166	5,206
Not included above:						
Derivatives	34	946	980	61	1,143	1,204
Liabilities						
Bank and customer deposits	5,998	9,512	15,510	4,469	13,647	18,056
Other financial liabilities/other liabilities	3,116	34	3,150	—	1,582	1,582
Subordinated liabilities	2,787	—	2,787	2,904	—	2,904
Total inter-group liabilities	11,901	9,546	21,447	7,373	15,229	22,542
Not included above:						
Derivatives	43	1,134	1,177	—	744	744

Notes:
(1) Mandatory fair value through profit or loss.
(2) Designated at fair value through profit or loss.
(3) Fair value through other comprehensive income.
(4) Includes net hedging derivative assets of £13 million (2018 – nil) and net hedging derivative liabilities of £62 million (2018 - £13 million).
(5) Includes items in the course of collection from other third party banks of £4 million (2018 - £386 million).
(6) Includes items in the course of transmission to other banks are nil (2018 - £131 million).
(7) The carrying amount of other customer accounts designated as at fair value through profit or loss is nil (2018 - £1 million) higher than the principal amount. No amounts have been recognised in the profit or loss for changes in credit risk associated with these liabilities as the changes are immaterial both during the period and cumulatively.
(8) Includes lease liabilities.

	NWB Group	
	2019	2018
Financial assets and liabilities include:	£m	£m
Reverse repos		
Loans to banks - amortised cost	163	3,539
Repos		
Bank deposits	2,218	518
Customer deposits	1,765	3,774

	NWB Plc					
	MFVTPL (1) £m	DFV (2) £m	FVOCI (3) £m	Amortised cost £m	Other assets £m	Total £m
Assets						
Cash and balances at central banks				26,377		26,377
Derivatives (4)	3,404					3,404
Loans to banks - amortised cost (5)				2,741		2,741
Loans to customers - amortised cost				198,504		198,504
Amounts due from holding companies and fellow subsidiaries	794	—	—	30,749	162	31,705
Other financial assets	385	—	36,400	3,773		40,558
Investment in group undertakings					2,394	2,394
Other assets	—	—	—	—	5,271	5,271
31 December 2019	4,583	—	36,400	262,144	7,827	310,954
Cash and balances at central banks				43,966		43,966
Derivatives (4)	1,277					1,277
Loans to banks - amortised cost (5)				5,875		5,875
Loans to customers - amortised cost				171,433		171,433
Amounts due from holding companies and fellow subsidiaries	88	10		30,497	185	30,780
Other financial assets	280	—	35,398	5,156		40,834
Investment in group undertakings					2,466	2,466
Other assets	—	—	—	—	4,993	4,993
31 December 2018	1,645	10	35,398	256,927	7,644	301,624

10 Financial instruments - classification continued

	NWB Plc				
	Held-for-trading £m	DFV (2) £m	Amortised cost £m	Other liabilities £m	Total £m
Liabilities					
Bank deposits (6)			15,487		15,487
Customer deposits			208,698		208,698
Amounts due to holding companies and fellow subsidiaries	—	—	50,985	34	51,019
Derivatives (4)	5,013				5,013
Other financial liabilities (7)	114	—	7,521		7,635
Subordinated liabilities	—	—	1,242	—	1,242
Other liabilities (8)	—	—	57	3,777	3,834
31 December 2019	5,127	—	283,990	3,811	292,928
Bank deposits (6)			17,557		17,557
Customer deposits			204,279		204,279
Amounts due to holding companies and fellow subsidiaries	—	—	50,958	—	50,958
Derivatives (4)	1,185				1,185
Other financial liabilities (7)	50	10	5,829		5,889
Subordinated liabilities	—	—	1,267	—	1,267
Other liabilities	—	—	34	2,179	2,213
31 December 2018	1,235	10	279,924	2,179	283,348

The above includes amounts due from/to holding companies and fellow subsidiaries:

	NWB Plc							
	2019				2018			
	Holding companies £m	Fellow subsidiaries £m	Subsidiaries £m	Total £m	Holding companies £m	Fellow subsidiaries £m	Subsidiaries £m	Total £m
Assets								
Loans to banks and customers	156	2,625	27,968	30,749	1,554	2,614	26,329	30,497
Other financial assets/other assets	—	439	517	956	—	—	283	283
Total inter-group assets	156	3,064	28,485	31,705	1,554	2,614	26,612	30,780
Not included above:								
Derivatives	34	943	124	1,101	61	1,139	47	1,247
Liabilities								
Bank and customer deposits	5,955	6,330	32,797	45,082	9,639	3,831	31,463	46,483
Other financial liabilities	3,116	34	—	3,150	—	1,571	—	1,571
Subordinated liabilities	2,787	—	—	2,787	2,904	—	—	2,904
Total inter-group liabilities	11,858	6,364	32,797	51,019	12,543	5,402	31,463	50,958
Not included above:								
Derivatives	43	1,061	190	1,294	—	739	414	1,153

Notes:
(1) Mandatory fair value through profit or loss.
(2) Designated at fair value through profit or loss.
(3) Fair value through other comprehensive income.
(4) Includes net hedging derivative assets of £13 million (2018 - nil) and net hedging derivative liabilities of £39 million (2018 - £67 million).
(5) Includes items in the course of collection from other banks of £4 million (2018 - £353 million).
(6) Includes items in the course of transmission to other banks of nil (2018 - £129 million).
(7) The carrying amount of other customer accounts designated as at fair value through the profit or loss is nil (2018 - £1 million) higher than the principal amount. No amounts have been recognised in the profit or loss for changes in credit risk associated with these liabilities as the changes are immaterial both during the period and cumulatively.
(8) Includes lease liabilities.

	NWB Plc	
Financial assets and liabilities include:	2019 £m	2018 £m
Reverse repos		
Loans to banks - amortised cost	163	3,539
Repos		
Bank deposits	2,218	518
Customer deposits	1,765	3,774

10 Financial instruments - classification continued

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

	Offsetable Instruments			Offsetable potential not recognised by IFRS					
2019	Gross £m	IFRS offset £m	Balance sheet £m	Effect of master netting and similar agreements £m	Cash collateral £m	Other financial collateral £m	Net amount after the effect of netting agreements and related collateral £m	Amounts not subject to offset £m	Balance sheet total £m
Derivatives assets	9,424	(7,037)	2,387	(2,343)	(3)	—	41	915	3,302
Derivative liabilities	11,647	(7,713)	3,934	(2,343)	(109)	—	1,482	964	4,898
Net position (1)	(2,223)	676	(1,547)	—	106	—	(1,441)	(49)	(1,596)
2018									
Derivatives assets	2,976	(2,969)	7	—	—	—	7	1,246	1,253
Derivative liabilities	4,366	(4,338)	28	—	—	—	28	751	779
Net position (1)	(1,390)	1,369	(21)	—	—	—	(21)	495	474

Note:
(1) The net IFRS offset balance of £676 million (2018 - £1,369 million) relates to variation margin netting reflected on other balance sheet lines.

Notes on the accounts

11 Financial instruments - valuation

Critical accounting policy: Fair value - financial instruments

In accordance with Accounting policies 12 and 19, 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 NWB Group maximises the use of relevant observable inputs and minimises the use of unobservable inputs.

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

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

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

Where the market for a financial instrument is not active, fair value is established using a valuation technique. These valuation techniques involve a degree of estimation, the extent of which depends on the instrument's complexity and the availability of market-based data. Further details about the valuation methodologies and the sensitivity to reasonably possible alternative assumptions of the fair value of financial instruments valued using techniques where at least one significant input is unobservable are given below.

Critical accounting policy: Fair value - financial instruments

	2019			2018		
	Level 1 £m	Level 2 £m	Level 3 £m	Level 1 £m	Level 2 £m	Level 3 £m
Assets						
Derivatives	—	3,298	4	—	1,244	9
Amounts due from holding companies and fellow subsidiaries	—	427	—	—	36	—
Other financial assets						
Securities	31,234	5,167	—	31,476	3,924	—
Loans - MFVTPL	—	385	—	—	280	—
Total financial assets held at fair value	31,234	9,277	4	31,476	5,484	9
Liabilities						
Derivatives	—	4,717	181	—	738	41
Amounts due to holding companies and fellow subsidiaries	—	—	—	—	17	—
Other financial liabilities						
Deposits - MFVTPL	—	114	—	—	50	—
Deposits - DFV	—	—	—	—	20	—
Total financial liabilities held at fair value	—	4,831	181	—	825	41

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

11 Financial instruments – valuation continued

Valuation of financial instruments carried at fair value

Fair Value Hierarchy

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

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

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

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

Valuation Techniques

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

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

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

Inputs to valuation models

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

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

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

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

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

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

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

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

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

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

Valuation Control

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

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

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

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

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

11 Financial instruments – valuation continued

Initial classification of a financial instrument is carried out following the principles in IFRS 13. These initial classifications are subject to senior management review. Particular attention is paid to instruments crossing from one level to another, new instrument classes or products, instruments that are generating significant profit and loss and instruments where valuation uncertainty is high.

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

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

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

	2019 £m	2018 £m
Funding – FVA	47	—
Credit – CVA	2	3
Bid – Offer	27	3
Product and deal specific	—	3
	76	9

The increase in valuation reserves was primarily driven by FVA reserves on customer and pension derivatives along with increase in bid-offer on derivatives (IR Delta Risk).

Funding valuation adjustment (FVA)

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

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

Credit valuation adjustments (CVA)

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

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

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

Bid-offer

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

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

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

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

Financial instruments – Valuation -Areas of judgment

The majority of NWB Group's financial instruments carried at fair value are classified as level 2: inputs are observable either directly (i.e. as a price) or indirectly (i.e. derived from prices).

Active and inactive markets

A key input in the decision making process for the allocation of assets to a particular level is market activity. In general, the degree of valuation uncertainty depends on the degree of liquidity of an input.

Where markets are liquid, little judgment is required. However, when the information regarding the liquidity in a particular market is not clear, a judgment may need to be made. This can be more difficult as assessing the liquidity of a market is not always straightforward. For an equity traded on an exchange, daily volumes of trading can be seen, but for an over-the-counter (OTC) derivative assessing the liquidity of the market with no central exchange is more difficult.

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

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

11 Financial instruments – valuation continued

Modelled products

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

The decision to classify a modelled instrument as level 2 or 3 will be dependent upon the product/model combination, the observability and quality of input parameters and other factors. All these must be assessed to classify the asset.

If an input fails the observability or quality tests then the instrument is considered to be in level 3 unless the input can be shown to have an insignificant effect on the overall valuation of the product.

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

Non-modelled products

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

The availability and quality of independent pricing information are considered during the classification process. An assessment is made regarding the quality of the independent information. If the depth of contributors falls below a set hurdle rate, the instrument is considered to be level 3. This hurdle rate is that used in the IPV process to determine the IPV quality rating. However, where an instrument is generally considered to be illiquid, but regular quotes from market participants exist, these instruments may be classified as level 2 depending on frequency of quotes, other available pricing and whether the quotes are used as part of the IPV process or not.

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

	2019			2018		
	Level 3 £m	Favourable £m	Unfavourable £m	Level 3 £m	Favourable £m	Unfavourable £m
Assets						
Derivatives	4	—	—	9	—	—
	4	—	—	9	—	—
Liabilities						
Derivatives	181	10	(60)	41	10	(10)
	181	10	(60)	41	10	(10)

11 Financial instruments: valuation – areas of judgement continued

Level 3

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

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

Other considerations

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

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

	2019				2018			
	Trading assets (2) £m	Other financial assets (3) £m	Total assets £m	Total liabilities £m	Trading assets (2) £m	Other financial assets (3) £m	Total assets £m	Total liabilities £m
At 1 January	9	—	9	41	30	73	103	18
Amounts recorded in the income statement (1)	3	—	3	9	(7)	21	14	(7)
Level 3 transfers in	—	—	—	—	4	—	4	54
Level 3 transfers out	(4)	—	(4)	(7)	—	(85)	(85)	—
Purchases	—	—	—	157	—	—	—	—
Settlements	(4)	—	(4)	(19)	(5)	—	(5)	(24)
Sales	—	—	—	—	(13)	(10)	(23)	—
Foreign exchange and other adjustments	—	—	—	—	—	1	1	
At 31 December	4	—	4	181	9	—	9	41
Amounts recorded in the income statement in respect of balances held at year end:								
- unrealised	2	—	2	(9)	(2)	—	—	7
- realised	3	—	3	19	—	—	—	20

Notes:

(1) Net losses on trading assets and liabilities of £6 million (2018 - nil) were recorded in income from trading activities. Net gains on other instruments of nil (2018 - £21 million) were recorded in other operating income and interest income as appropriate

(2) Trading assets comprise assets held at fair value in trading portfolios.

(3) Other financial assets comprise fair value through other comprehensive income, designated as at fair value through profit or loss and mandatory fair value through profit or loss.

11 Financial instruments: fair value of financial instruments not carried at fair value

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

	NWB Group						NWB Plc					
	Items where fair value approximates carrying value	Carrying value	Fair value	Fair value hierarchy level			Items where fair value approximates carrying value	Carrying value	Fair value	Fair value hierarchy level		
				Level 1	Level 2	Level 3				Level 1	Level 2	Level 3
2019	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Financial assets												
Cash and balances at central banks	27.5						26.4					
Loans to banks		3.3	3.3	—	2.9	0.4		2.7	2.7	—	2.6	0.1
Loans to customers		232.3	230.5	—	10.8	219.7		198.5	196.8	—	10.6	186.2
Amounts due from holding companies and fellow subsidiaries		3.4	3.4	—	0.4	3.0		30.7	31.2	—	19.1	12.1
Other financial assets - securities		4.2	4.3	2.6	1.3	0.4		3.8	3.9	2.6	1.3	—
Financial liabilities												
Bank deposits	2.8	12.7	12.7	—	12.2	0.5	2.8	12.7	12.7	—	12.2	0.5
Customer deposits	206.5	35.6	35.6	—	6.4	29.2	188.1	20.6	20.6	—	6.4	14.2
Amounts due to holding companies and fellow subsidiaries	4.4	17.0	16.9	—	8.4	8.5	2.2	48.8	48.7	—	19.7	29.0
Other financial liabilities												
Debt securities in issue		8.2	8.2	—	5.9	2.3		7.5	7.5	—	5.9	1.6
Subordinated liabilities		1.2	1.3	—	1.3	—		1.2	1.3	—	1.3	—
Other liabilities - Notes in circulation	0.8											
2018												
Financial assets												
Cash and balances at central banks	45.0						44.0					
Loans banks	0.4	6.0	6.0	—	5.4	0.6	0.4	5.5	5.5	—	5.2	0.3
Loans customers		203.6	202.3	—	0.1	202.2		171.4	170.3	—	—	170.3
Amounts due from holding companies and fellow subsidiaries		5.2	5.3	—	0.7	4.6		30.5	30.8	—	15.7	15.1
Other financial assets												
Securities		5.3	5.4	3.6	1.5	0.3		5.0	5.0	3.6	1.4	—
Settlement balances	0.2						0.2					
Financial liabilities												
Bank deposits	3.0	14.6	13.9	—	13.9	—	3.0	14.6	13.9	—	13.9	—
Customer deposits	203.0	34.8	35.4	—	9.0	26.4	184.4	19.9	20.5	—	9.0	11.5
Amounts due to holding companies and fellow subsidiaries	5.7	16.8	17.1	—	6.8	10.3	3.1	47.9	48.1	—	15.6	32.5
Other financial liabilities												
Debt securities in issue		6.3	6.4	—	5.5	0.9		5.7	5.8	—	5.5	0.3
Settlement balances	0.1						0.1					
Subordinated liabilities		1.3	1.2	—	1.2	—		1.3	1.2	—	1.2	—
Other liabilities - Notes in circulation	0.8											

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

Short-term financial instruments

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

Loans to banks and customers – amortised cost

In estimating the fair value of net loans to customers and banks measured at amortised cost, NWB Group's loans are segregated into appropriate portfolios reflecting the characteristics of the constituent loans. Two principal methods are used to estimate fair value:

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

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

For certain portfolios where there are very few or no recent transactions a bespoke approach is used.

Debt securities

The majority of debt securities are valued using quoted prices in active markets, or using quoted prices for similar assets in active markets. Fair values of the rest are estimated using discounted cash flow valuation techniques.

Bank and customer deposits

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

Debt securities in issue and subordinated liabilities

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

12 Financial instruments - maturity analysis

Remaining maturity

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

	NWB Group					
	2019			2018		
	Less than 12 months £m	More than 12 months £m	Total £m	Less than 12 months £m	More than 12 months £m	Total £m
Assets						
Cash and balances at central banks	27,457	—	27,457	45,032	—	45,032
Derivatives	225	3,077	3,302	116	1,137	1,253
Loans to banks - amortised cost	3,317	8	3,325	6,330	76	6,406
Loans to customers - amortised cost	53,265	179,048	232,313	41,929	161,718	203,647
Amounts due from holding companies and fellow subsidiaries (1)	3,521	295	3,816	4,879	322	5,201
Other financial assets	3,798	37,150	40,948	5,525	35,701	41,226
Liabilities						
Bank deposits	5,505	10,000	15,505	3,540	14,023	17,563
Customer deposits	241,074	1,043	242,117	236,590	1,180	237,770
Derivatives	117	4,781	4,898	20	759	779
Amounts due to holding companies and fellow subsidiaries (2)	15,194	6,219	21,413	17,733	4,809	22,542
Other financial liabilities	4,738	3,569	8,307	531	5,966	6,497
Subordinated liabilities	14	1,228	1,242	23	1,252	1,275
Lease liabilities	142	1,337	1,479			

	NWB Plc					
	2019			2018		
	Less than 12 months £m	More than 12 months £m	Total £m	Less than 12 months £m	More than 12 months £m	Total £m
Assets						
Cash and balances at central banks	26,377	—	26,377	43,966	—	43,966
Derivatives	225	3,179	3,404	116	1,161	1,277
Loans to banks - amortised cost	2,741	—	2,741	5,808	67	5,875
Loans to customers - amortised cost	38,320	160,184	198,504	27,584	143,849	171,433
Amounts due from holding companies and fellow subsidiaries (1)	17,238	14,305	31,543	15,483	15,112	30,595
Other financial assets	3,408	37,150	40,558	5,134	35,700	40,834
Liabilities						
Bank deposits	5,487	10,000	15,487	3,533	14,024	17,557
Customer deposits	207,656	1,042	208,698	203,102	1,177	204,279
Derivatives	75	4,938	5,013	21	1,164	1,185
Amounts due to holding companies and fellow subsidiaries (2)	29,467	21,518	50,985	31,369	19,589	50,958
Other financial liabilities	4,738	2,897	7,635	521	5,368	5,889
Subordinated liabilities	14	1,228	1,242	15	1,252	1,267
Lease liabilities	131	1,242	1,373			

Notes:

(1) Amounts due from holding companies and fellow subsidiaries relate to non-financial instruments of £12 million (2018 - £5 million) for NWB Group and £162 million (2018 – £185 million) for NWB Plc have been excluded from the tables.

(2) Amounts due to holding companies and fellow subsidiaries relate to non-financial instruments of £34 million (2018 - nil) for NWB Group and £34 million (2018 – nil) for NWB Plc have been excluded from the tables.

12 Financial instruments - maturity analysis continued

Liabilities by contractual cash flow maturity

The tables below show 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 conditions could be fulfilled without considering the probability of the conditions being met. For example, if a structured note automatically prepays hen 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 year end.

The settlement date of debt securities issued by certain securitisation vehicles consolidated by the Group depends on when cash flows are received from the securitised assets. Where these assets are prepayable, the timing of cash outflow relating to securities assumes that each asset will be prepaid at the earliest possible date.

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

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

Held-for-trading liabilities amounting to £5 billion (2018 - £0.1 billion) for the NWB Group and £5.1 billion (2018 - £0.5 billion) for the bank have been excluded from the tables

	NWB Group					
2019	0-3 months £m	3-12 months £m	1-3 years £m	3-5 years £m	5-10 years £m	10-20 years £m
Liabilities by contractual maturity						
Bank deposits	5,119	388	10,130	—	—	—
Customer deposits	237,047	4,036	1,023	6	21	—
Amounts due to holding company and fellow subsidiaries	10,560	4,897	725	3,922	2,029	160
Derivatives held for hedging	11	18	47	33	39	25
Other financial liabilities	1,145	3,519	133	2,929	594	79
Subordinated liabilities	7	49	479	56	137	275
Lease liabilities	35	106	238	199	382	473
Other liabilities (1)	842	—	—	—	—	—
	254,766	13,013	12,775	7,145	3,202	1,012
Guarantees and commitments notional amount						
Guarantees (2)	1,013	—	—	—	—	—
Commitments (3)	71,924	—	—	—	—	—
	72,937	—	—	—	—	—
2018						
Liabilities by contractual maturity						
Bank deposits	3,539	—	12,023	2,003	—	—
Customer deposits	232,878	3,719	1,163	—	—	18
Amounts due to holding company and fellow subsidiaries	16,739	1,238	738	849	3,699	933
Derivatives held for hedging	6	6	27	10	16	13
Other financial liabilities	355	268	3,218	114	2,324	399
Subordinated liabilities	6	64	413	78	196	392
Other liabilities (1)	821	—	—	—	—	—
	254,344	5,295	17,582	3,054	6,235	1,755
Guarantees and commitments notional amount						
Guarantees (2)	901	—	—	—	—	—
Commitments (3)	71,349	—	—	—	—	—
	72,250	—	—	—	—	—

12 Financial instruments - maturity analysis continued

	NWB Plc					
2019	0-3 months £m	3-12 months £m	1-3 years £m	3-5 years £m	5-10 years £m	10-20 years £m
Liabilities by contractual maturity						
Bank deposits	5,101	388	10,130	—	—	—
Customer deposits	204,083	3,577	1,023	6	21	—
Amounts due to holding company and fellow subsidiaries	21,946	8,424	6,012	8,879	4,663	3,130
Derivatives held for hedging	9	16	41	28	32	23
Other financial liabilities	1,145	3,519	133	2,929	—	—
Subordinated liabilities	7	49	479	56	137	275
Lease liabilities	34	97	228	195	376	443
	232,325	16,070	18,046	12,093	5,229	3,871
Guarantees and commitments notional amount						
Guarantees (2)	920	—	—	—	—	—
Commitments (3)	66,139	—	—	—	—	—
	67,059	—	—	—	—	—
2018						
Liabilities by contractual maturity						
Bank deposits	3,533	—	12,023	2,003	—	—
Customer deposits	199,916	3,189	1,159	—	—	18
Amounts due to holding company and fellow subsidiaries	27,545	4,086	5,181	849	15,953	933
Derivatives held for hedging	5	5	22	8	13	12
Other financial liabilities	349	263	3,218	114	2,126	—
Subordinated liabilities	6	56	413	78	196	392
	231,354	7,599	22,016	3,052	18,288	1,355
Guarantees and commitments notional amount						
Guarantees (2)	804	—	—	—	—	—
Commitments (3)	65,484	—	—	—	—	—
	66,288	—	—	—	—	—

Notes:
(1) Other liabilities include notes in circulation.
(2) NWB Group is only called upon to satisfy a guarantee when the guaranteed party fails to meet its obligations. NWB Group expects most guarantees it provides to expire unused.
(3) NWB 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. NWB does not expect all facilities to be drawn, and some may lapse before drawdown.

13 Loan impairment provisions

Loan exposure and impairment metrics

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

	NWB Group		NWB Plc	
	31 December 2019 £m	31 December 2018* £m	31 December 2019 £m	31 December 2018* £m
Loans - amortised cost				
Stage 1	215,111	191,478	184,611	162,335
Stage 2	19,392	16,732	15,783	13,599
Stage 3	2,835	3,127	2,266	2,334
Inter-Group (1)	3,389	5,046	30,754	30,502
Total	240,727	216,383	233,414	208,770
ECL provisions (2)				
Stage 1	223	184	190	150
Stage 2	518	452	452	384
Stage 3	1,281	1,163	1,091	967
Inter-Group (1)	—	1	4	6
	2,022	1,800	1,737	1,507
ECL provision coverage (3,4)				
Stage 1 (%)	0.10	0.10	0.10	0.09
Stage 2 (%)	2.67	2.70	2.86	2.82
Stage 3 (%)	45.19	37.19	48.15	41.43
Inter-Group (%) (1)	—	0.02	0.01	0.02
	0.85	0.85	0.86	0.85
Impairment losses				
ECL charge (5)				
Stage 1	(122)	(61)	(79)	(47)
Stage 2	305	253	291	228
Stage 3	389	253	329	202
Third party	572	445	541	383
Inter-Group	—	(17)	(1)	(1)
	572	428	540	382
ECL loss rate - annualised (basis points)(4)	24.10	21.06	26.69	21.46
Amounts written-off	404	612	364	504

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

Notes:
(1) The NWB Group's intercompany assets were classified in Stage 1. The ECL attached to these loans was £0.4 million at 31 December 2019.
(2) Includes £2 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 £28 million charge (2018 – £2 million charge) related to other financial assets, of which a £1 million charge (2018 – £2 million charge) related to assets classified as FVOCI; and a £27 million charge (2018 – £17 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 page 33 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 totaling £26.8 billion and debt securities of £40.2 billion (2018 – £44.3 billion and £40.4 billion respectively).

Credit risk enhancement and mitigation

For information on Credit risk enhancement and mitigation held as security, refer to Capital and risk management – credit risk.

Critical accounting policy: Loan impairment provisions

The loan impairment provisions have been established in accordance with IFRS 9. Accounting policy 13 sets out how the expected loss approach is applied. At 31 December 2019, customer loan impairment provisions amounted to £2,022 million (2018 - £1,800 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. Further information and sensitivity analysis are on page 28.

13 Loan impairment provisions continued

IFRS 9 ECL model design principles

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

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

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

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

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

Approach for multiple economic scenarios (MES)

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

14 Investments in Group undertakings

Investments in Group undertakings are carried at cost less impairment. Movements during the year were as follows:

	NWB Plc	
	2019	2018
	£m	£m
At 1 January	2,466	2,546
Currency translation and other adjustments	(12)	3
Additional investments in Group undertakings	21	436
Acquisitions	6	369
Disposals	—	(407)
Impairment of investments	(87)	(481)
At 31 December	2,394	2,466

In 2019, additions relate to the acquisition of National Westminster Home Loans Ltd from NatWest Markets Plc. 2018 additions relate to RBS Services India Private Limited and Silvermere Holdings Limited. Additional investments in Group undertakings in 2018 relate mainly to NatWest Group Holdings Corporation and Coutts & Company.

Disposal in 2018 relates to NatWest Group Holdings Corporation disposal to NatWest Market Plc. The impairment in 2018 mainly relates to National Westminster International Holdings B.V..

The principal subsidiary undertakings of the NWB Plc are shown below. Their capital consists of ordinary shares which are unlisted.

All of the subsidiary undertakings are owned directly or indirectly through intermediate holding companies, and are all wholly-owned. All of these subsidiary undertakings are included in NWB Group's consolidated financial statements and have an accounting reference date of 31 December.

	Nature of business	Country of incorporation and principal area of operations
Coutts & Company (1)	Private banking	Great Britain
Ulster Bank Limited	Banking	Northern Ireland
Lombard North Central PLC	Leasing	Great Britain

Note:
(1) Coutts & Company is incorporated with unlimited liability. Its registered office is 440 Strand, London WC2R OQS.

For full information on all related undertakings refer to Note 37.

15 Other financial assets

	NWB Group							
	Debt securities							
	Central and local government			Other			Settlement	
	UK	US	Other	debt	Total	Loans	balances	Total
2019	£m	£m	£m	£m	£m	£m	£m	£m
Mandatory fair value through profit or loss	—	—	—	—	—	385	—	385
Fair value through other comprehensive income	18,203	8,739	4,291	5,168	36,401	—	—	36,401
Amortised cost	2,465	—	—	1,697	4,162	—	—	4,162
Total	20,668	8,739	4,291	6,865	40,563	385	—	40,948
2018								
Mandatory fair value through profit or loss	—	—	—	—	—	280	—	280
Fair value through other comprehensive income	17,194	8,836	5,446	3,924	35,400	—	—	35,400
Amortised cost	3,584	—	—	1,760	5,344	—	202	5,546
Total	20,778	8,836	5,446	5,684	40,744	280	202	41,226

	NWB Plc							
	Debt securities							
	Central and local government			Other			Settlement	
	UK	US	Other	debt	Total	Loans	balances	Total
2019	£m	£m	£m	£m	£m	£m	£m	£m
Mandatory fair value through profit or loss	—	—	—	—	—	385	—	385
Fair value through other comprehensive income	18,203	8,739	4,291	5,167	36,400	—	—	36,400
Amortised cost	2,465	—	—	1,308	3,773	—	—	3,773
Total	20,668	8,739	4,291	6,475	40,173	385	—	40,558
2018								
Mandatory fair value through profit or loss	—	—	—	—	—	280	—	280
Fair value through other comprehensive income	17,193	8,836	5,446	3,923	35,398	—	—	35,398
Amortised cost	3,484	—	—	1,470	4,954	—	202	5,156
Total	20,677	8,836	5,446	5,393	40,352	280	202	40,834

Notes on the accounts

16 Intangible assets

	NWB Group					
	2019			2018		
	Goodwill £m	Other (1) £m	Total £m	Goodwill £m	Other (1) £m	Total £m
Cost						
At 1 January	671	1,958	2,629	618	1,340	1,958
Currency translation and other adjustments	(7)	2	(5)	5	1	6
Acquisitions of subsidiaries	—	—	—	48	2	50
Transfers from holding company and fellow subsidiaries	—	—	—	—	880	880
Additions	—	380	380	—	277	277
Disposals and write-off of fully amortised assets	—	(64)	(64)	—	(542)	(542)
At 31 December	664	2,276	2,940	671	1,958	2,629
Accumulated amortisation and impairment						
At 1 January	613	958	1,571	608	828	1,436
Currency translation and other adjustments	(7)	2	(5)	5	1	6
Acquisitions of subsidiaries						
Transfers from holding company and fellow subsidiaries	—	—	—	—	413	413
Disposals and impairment of fully amortised assets	—	(25)	(25)	—	(515)	(515)
Charge for the year	—	290	290	—	218	218
Impairment of intangible assets	—	44	44	—	13	13
At 31 December	606	1,269	1,875	613	958	1,571
Net book value at 31 December	58	1,007	1,065	58	1,000	1,058

	NWB Plc	
	2019 £m	2018 £m
Cost		
At 1 January	1,892	1,288
Currency translation and other adjustments	—	2
Transfers from/to fellow subsidiaries	—	880
Additions	364	264
Disposals and write-off of fully amortised assets	(64)	(542)
At 31 December	2,192	1,892
Accumulated amortisation		
At 1 January	926	798
Currency translation and other adjustments	—	1
Transfers from/to fellow subsidiaries	—	413
Disposals and write-off of fully amortised assets	(27)	(515)
Charge for the year	286	216
Impairment of intangible assets	44	13
At 31 December	1,229	926
Net book value at 31 December	963	966

Note:
(1) Principally internally generated software.

Intangible assets are reviewed for indicators of impairment. In 2019 £44 million (2018 - £13 million) of previously capitalised software was impaired primarily as a result of software which was no longer expected to yield future economic benefit.

Impairment testing involves the comparison of the carrying value of each cash-generating unit (CGU) with its recoverable amount. The carrying values of the segments reflect the equity allocations made by management which are consistent with the NWB Group's capital targets. Recoverable amount is the higher of fair value and value in use. Value in use is the present value of expected future cash flows from the CGU. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants.

The recoverable amounts for all CGUs at 31 December 2018 were based on value in use, using management's latest five-year revenue and cost forecasts. The long-term growth rates have been based on expected nominal growth of the CGUs. The pre-tax risk discount rates are based on those observed to be applied to businesses regarded as peers of the CGUs.

17 Property, plant and equipment

	NWB Group			
2019	Investment properties £m	Business Property, plant and equipment £m	Operating leases £m	Total £m
Cost or valuation				
At 1 January	1,008	4,950	1,059	7,017
Implementation of IFRS 16 on 1 January 2019	—	2,416	—	2,416
Transfers to disposal groups	—	(455)	—	(455)
Currency translation and other adjustments	(51)	4	—	(47)
Additions	16	337	233	586
Change in fair value of investment properties	(20)	—	—	(20)
Disposals and write-off of fully depreciated assets	(85)	(128)	(172)	(385)
At 31 December	868	7,124	1,120	9,112
Accumulated impairment, depreciation and amortisation				
At 1 January	—	3,061	450	3,511
Implementation of IFRS 16 on 1 January 2019	—	1,406	—	1,406
Transfers to disposal groups	—	(251)	—	(251)
Currency translation and other adjustments	—	(3)	—	(3)
Disposals and write-off of fully depreciated assets	—	(77)	(121)	(198)
Charge for the year	—	311	138	449
Impairment of property, plant and equipment	—	95	—	95
At 31 December	—	4,542	467	5,009
Net book value at 31 December	868	2,582	653	4,103
2018				
Cost or valuation				
At 1 January	1,048	1,693	1,044	3,785
Transfers to disposal groups	—	(144)	—	(144)
Currency translation and other adjustments	9	5	—	14
Transfers from fellow subsidiaries	(68)	3,372	17	3,321
Additions	46	276	228	550
Change in fair value of investment properties	(6)	—	—	(6)
Disposals and write-off of fully depreciated assets	(21)	(252)	(230)	(503)
At 31 December	1,008	4,950	1,059	7,017
Accumulated impairment, depreciation and amortisation				
At 1 January	—	757	448	1,205
Transfers to disposal groups	—	(82)	—	(82)
Currency translation and other adjustments	—	1	—	1
Transfers from fellow subsidiaries	—	2,390	16	2,406
Disposals and write-off of fully depreciated assets	—	(188)	(134)	(322)
Charge for the year	—	183	120	303
At 31 December	—	3,061	450	3,511
Net book value at 31 December	1,008	1,889	609	3,506

17 Property, plant and equipment continued

2019	NWB Plc Business property, plant and equipment
Cost or valuation	
At 1 January	4,468
Implementation of IFRS 16 on 1 January 2019	2,306
Transfers to disposal groups	(440)
Currency translation and other adjustments	7
Additions	298
Disposals and write-off of fully depreciated assets	(114)
At 31 December	6,525
Accumulated impairment, depreciation and amortisation	
At 1 January	2,828
Implementation of IFRS 16 on 1 January 2019	1,392
Transfers to disposal groups	(241)
Currency translation and other adjustments	4
Disposals and write-off of fully depreciated assets	(70)
Charge for the year	281
Impairment of property, plant and equipment	89
At 31 December	4,283
Net book value at 31 December	2,242

2018	
Cost or valuation	
At 1 January	1,319
Transfers to disposal groups	(138)
Transfers from/(to) holding company and fellow subsidiaries	3,262
Additions	267
Disposals and write-off of fully depreciated assets	(242)
At 31 December	4,468
Accumulated impairment, depreciation and amortisation	
At 1 January	627
Transfers to disposal groups	(80)
Transfers from/(to) holding company and fellow subsidiaries	2,296
Disposals and write-off of fully depreciated assets	(183)
Charge for the year	168
At 31 December	2,828
Net book value at 31 December	1,640

Investment property valuations principally employ present value techniques that discount expected cash flows. Expected cash flows reflect rental income, occupancy and residual market values; valuations are sensitive to changes in these factors. The investment property fair value measurements are categorised as level 3. A 5% change in the most sensitive assumption, residual values, is £40 million.

Valuations were carried out by qualified surveyors who are members of the Royal Institution of Chartered Surveyors, or an equivalent overseas body; property with a fair value of £71 million (2018 - £108 million) was valued by independent valuers.

Rental income from investment properties was £74 million (2018 - £79 million). Direct operating expenses of investment properties were £7 million (2018 - 10 million).

Notes on the accounts

18 Other assets

	NWB Group		NWB Plc	
	2019 £m	2018 £m	2019 £m	2018 £m
Prepayments	338	395	298	346
Accrued income	174	177	119	122
Tax recoverable	85	19	162	—
Pension schemes in net surplus (Note 5)	5	23	—	15
Deferred tax (Note 7)	1,230	1,590	1,184	1,546
Interests in associates	7	1	7	—
Property, plant and equipment (Note 17)	4,103	3,506	2,242	1,640
Intangible assets (Note 16)	1,065	1,058	963	966
Assets of disposal groups	28	58	23	57
Other assets	285	341	273	301
	7,320	7,168	5,271	4,993

19 Other financial liabilities

	NWB Group		NWB Plc	
	2019 £m	2018 £m	2019 £m	2018 £m
Bank deposits - held-for-trading	3	12	3	12
Customer deposits				
- designated as at fair value through profit or loss	—	20	—	10
- held-for-trading	111	38	111	38
Settlement balances	—	131	—	131
Debt securities in issue - amortised cost	8,193	6,296	7,521	5,698
Total	8,307	6,497	7,635	5,889

20 Subordinated liabilities

	NWB Group		NWB Plc	
	2019 £m	2018 £m	2019 £m	2018 £m
Dated loan capital	309	316	309	308
Undated loan capital	790	816	790	816
Preference shares	143	143	143	143
	1,242	1,275	1,242	1,267

Note:
(1) The table above excludes amounts due to holding company and fellow subsidiaries of £2,787 million (2018 - £2,904 million) for NWB Group and £2,787 million (2018 - £2,904 million) for NWB. Refer to intercompany balances in Note 10.

The preference shares issued by the company are classified as liabilities; these securities remain subject to the capital maintenance rules of the Companies Act 2006.

The following tables analyse third party subordinated liabilities:

Dated loan capital	Capital Treatment	2019 £m	2018 £m
National Westminster Bank Plc			
£300 million 6.50% notes 2021 (not callable)	Tier 2	309	308
		309	308

Notes:
(1) In the event of certain changes in tax laws, dated loan capital issues may be redeemed in whole, but not in part, at the option of the issuer, at the principal amount thereof plus accrued interest, subject to prior regulatory approval.
(2) Except as stated above, claims in respect of NWB Group's dated loan capital are subordinated to the claims of other creditors. None of NWB Group's dated loan capital is secured.
(3) Interest on all floating rate subordinated notes is calculated by reference to market rates.

Undated loan capital	Capital Treatment	2019 £m	2018 £m
National Westminster Bank Plc			
US$193 million floating rate notes (callable semi-annually) (5)	Tier 2	147	153
US$229 million floating rate notes (callable semi-annually) (5)	Tier 2	175	181
US$285 million floating rate notes (callable semi-annually) (5)	Tier 2	217	223
€178 million floating rate notes (callable quarterly) (5)	Tier 2	152	160
€10 million floating rate notes (callable quarterly) (5)	Tier 2	9	9
£53 million 7.125% notes (callable every five years from October 2022)	Tier 2	55	55
£35 million 11.50% notes (callable December 2022) (1)	Tier 2	35	35
		790	816

Notes:
(1) Exchangeable at the option of the issuer into 8.392% (gross) non-cumulative preference shares of £1 each of NWB Plc at any time.
(2) The company can satisfy interest payment obligations by issuing sufficient ordinary shares to appointed Trustees to enable them, on selling these shares, to settle the interest payment.
(3) Except as stated above, claims in respect of NWB Group's undated loan capital are subordinated to the claims of other creditors. None of NWB Group's undated loan capital is secured.
(4) In the event of certain changes in tax laws, undated loan capital issues may be redeemed in whole, but not in part, at the option of NWB Group, at the principal amount thereof plus accrued interest, subject to prior regulatory approval.
(5) Interest on all floating rate subordinated notes is calculated by reference to market rates.

20 Subordinated liabilities continued

Preference shares (1)	Capital Treatment	2019 £m	2018 £m
National Westminster Bank Plc			
£140 million 9.00% Series A Non-cumulative preference shares of £1 (not callable)	Tier 1	143	143
		143	143

Note:
(1) Further details of the contractual terms of the preference shares are given in Note 22.

There were no issuances in the year. There was a redemption of £8 million (2018 – nil) on SEK 90 million floating rate notes 2019 which was treated as Tier 1 capital.

The following tables analyse the intercompany subordinated liabilities.

Dated loan capital	Capital treatment	2019 £m	2018 £m
National Westminster Bank Plc			
US$1,900 million subordinated loan capital 2024	Tier 2	1,517	1,504
US$750 million 3.754% dated notes 2029	Tier 2	570	—
		2,087	1,504
Undated loan capital			
National Westminster Bank Plc			
£700 million floating rate notes (callable every five years from January 2018)	Tier 2	—	700
£700 million floating rate notes (callable quarterly from September 2016)	Tier 2	700	700
		700	1,400

Issuances in the period (values as at date of transaction)	Capital treatment	2019 £m	2018 £m
National Westminster Bank Plc			
US$ 1,900 million subordinated loan capital 2024	Tier 2	—	1,486
Coutts - £45 million floating rate loan capital	Tier 2	—	45
US$750 million 3.754% dated notes 2029	Tier 2	580	—
		580	1,531
Redemptions in the period (values as at date of transaction)			
National Westminster Bank Plc			
£2,000 million floating rate subordinated notes 2023	Tier 2	—	2,000
£1,000 million floating rate subordinated notes 2019	Tier 2	—	1,000
£700 million floating rate undated notes (callable every five years from January 2018)	Tier 2	700	—
		700	3,000

NWB Group has now resumed payments on all discretionary non-equity capital instruments following the end of the European Commission ban in 2012. Future coupons and dividends on hybrid capital instruments will only be paid subject to, and in accordance with, the terms of the relevant instruments.

The preference shares issued by the company are classified as liabilities; these securities remain subject to the capital maintenance rules of the Companies Act 2006.

Notes on the accounts

21 Other liabilities

	NWB Group 2019 £m	NWB Group 2018 £m	NWB Plc 2019 £m	NWB Plc 2018 £m
Notes in circulation	842	821	—	—
Current tax	2	100	1	84
Accruals	708	670	702	588
Deferred income	214	233	183	203
Deferred tax (Note 7)	169	225	—	—
Retirement benefit liabilities (Note 5)	53	41	14	14
Provisions for liabilities and charges	1,365	1,143	1,267	1,045
Lease liabilities (Note 24)	1,479		1,372	
Other liabilities	473	405	295	279
	5,305	3,638	3,834	2,213

	NWB Group				
Provisions for liabilities and charges	Payment protection insurance (1) £m	Other customer redress £m	Litigation and other regulatory £m	Other (2) £m	Total £m
At 1 January 2019	411	216	38	478	1,143
Implementation of IFRS 16 on 1 January 2019 (3)	—	—	—	(150)	(150)
ECL impairment charge	—	—	—	23	23
Transfer	—	8	—	61	69
Currency translation and other movements	(2)	(24)	6	13	(7)
Charge to income statement	604	81	6	297	988
Releases to income statement	—	(17)	(2)	(70)	(89)
Provisions utilised	(281)	(140)	(4)	(187)	(612)
At 31 December 2019	732	124	44	465	1,365

	NWB Plc			
Provisions for liabilities and charges	Payment Protection Insurance (1) £m	Other customer redress £m	Other (2) £m	Total £m
At 1 January 2019	405	197	443	1,045
Implementation of IFRS 16 on 1 January 2019 (3)	—	—	(147)	(147)
ECL impairment charge	—	—	22	22
Currency translation and other movements	—	(19)	21	2
Transfer	—	11	60	71
Charge to income statement	603	58	275	936
Releases to income statement	—	(14)	(68)	(82)
Provisions utilised	(278)	(122)	(180)	(580)
At 31 December 2019	730	111	426	1,267

Notes:
(1) Balances at 31 December 2019 include provisions held in relation to offers made in 2018 and earlier years of £59 million.
(2) Materially comprises provisions relating to property closures and restructuring costs.
(3) Refer to Note 24 for further information of the implementation of IFRS 16.

There are uncertainties as to the eventual cost of redress in relation to certain of the provisions contained in the table above. Assumptions relating to these are inherently uncertain and the ultimate financial impact may be different from the amount provided.

Payment protection insurance

An additional provision of £0.6 billion was taken in 2019, reflecting greater than predicted complaints volumes in the lead up to the 29 August 2019 deadline for making new PPI complaints. NWB Group has made provisions totalling £3.8 billion to date for PPI claims, of which £3.1 billion had been utilised by 31 December 2019.

21 Other liabilities continued

The table below shows the sensitivity of the provision to reasonable changes in the principle assumptions in relation to claims which are still being processed, all other assumptions remaining the same. RBS Group has received 4.9 million claims at the 29 August 2019 deadline.

			Sensitivity	
Assumptions	Claims processed as at 31 December	Claims still to process	Change in assumption %	Consequential change in provision £m
Average redress (1)	£1,631	£1,552	+/- £150	+/-47
No PPI % (2)	28%	60%	+/-3%	+/-8
Uphold rate (3)	85%	94%	+/-2%	+/-10

Notes:
(1) Average redress for PPI (mis-sale) and Plevin (commission) pay-outs.
(2) No PPI % relates to those cases where no PPI policy exists.
(3) Average uphold rate per customer initiated claims received directly by NatWest Bank Group, including those received via claims management companies, to end of timebar for both PPI (mis-sale) and Plevin (commission), excluding those for which no PPI policy exists.

Critical accounting policy: Provisions for liabilities

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

Background information on all material provisions is given in Note 28.

22 Discontinued operations

As part of implementing the legislation following the recommendations of the Independent Commission on Banking, NatWest Group Holdings Corp (NWGH), which was a direct subsidiary of NatWest and which wholly owned NatWest Markets Securities Inc. (formerly RBS Securities Inc.; renamed in 2018), was transferred to RBSG in H1 2018 in preparation for ring-fencing.

	2018 £m
NWGH (1)	
Interest income	—
Interest expense	(1)
Net interest income	(1)
Other income	15
Total income	14
Operating expenses	(17)
Loss before impairment losses	(3)
Impairment losses	—
Operating loss before tax	(3)
Tax credit/(charge)	—
Loss from NWGH discontinued operations, net of tax	(3)

Notes:
(1) Other comprehensive loss from discontinued operations for the year ended 31 December 2018 was £381 million.
(2) Net cash flows for 2018 were nil.

Notes on the accounts

23 Share capital and reserves

Allotted, called up and fully paid	2019 £m	2018 £m	Number of shares - 000s 2019	2018
Ordinary shares of £1	1,678	1,678	1,678,177	1,678,177
Non-cumulative preference shares of £1	140	140	140,000	140,000

Ordinary shares
NWB Plc paid an ordinary dividend to NWH Ltd in 2019 totalling £700 million. In 2018 it distributed NatWest Group Holdings Corp to NatWest Markets Plc by dividend in specie - £292 million.

Preference shares
The 9% non-cumulative preference shares Series A of £1 each are non-redeemable.

The holders of sterling preference shares are entitled, on the winding-up of NWB Plc, to priority over the ordinary shareholders as regards payment of capital. Otherwise the holders of preference shares are not entitled to any further participation in the profits or assets of NWB Plc and accordingly these shares are classified as non-equity shares.

The holders of sterling preference shares are not entitled to receive notice of, attend, or vote at any general meeting unless the business of the meeting includes the consideration of a resolution for the winding-up of NWB Plc or the sale of the whole of the business of NWB Plc or any resolution directly affecting any of the special rights or privileges attached to any of the classes of preference shares.

Under IFRS, NWB Group's preference shares are classified as debt and are included in subordinated liabilities on the balance sheet (Note 20).

Reserves
Under UK companies legislation, when shares are redeemed or purchased wholly or partly out of NWB Plc's profits, the amount by which NWB Plc's issued share capital is diminished must be transferred to the capital redemption reserve. The capital maintenance provisions of UK companies legislation apply to the capital redemption reserve as if it were part of NWB Plc's paid up share capital.

UK law prescribes that only reserves of NWB Plc are taken into account for the purpose of making distributions and the permissible applications of the share premium account and capital redemption reserve of £608 million (2018 - £608 million) included within other reserves.

In 2018, NWB Group received capital contributions of £1,200 million from the holding company for which no additional share capital was issued. As such, these were recorded as capital contributions in retained earnings. No capital contributions were received in 2019.

NWB Group optimises capital efficiency by maintaining reserves in subsidiaries, including regulated entities. Certain preference shares and subordinated debt are also included within regulatory capital. The remittance of reserves to the parent company or the redemption of shares or subordinated capital by regulated entities may be subject to maintaining the capital resources required by the relevant regulator.

Merger reserve
During 2018, NWB Plc acquired RBS Treasury at net asset value. The assets, liabilities and IFRS reserves were recognised at inherited values. The difference has been recognised in the merger reserve.

24 Leases

NWB Group has adopted IFRS 16 Leases retrospectively from 1 January 2019 on a modified retrospective basis without restating prior periods. The impact on the NWB Group's balance sheet and retained earnings is shown below:

	NWB Group 2019 £bn	NWB Plc 2019 £bn
Retained earnings at 1 January 2019	12.1	11.3
Loans to customers - Finance leases	0.2	0.2
Other assets - Net right of use assets	1.0	0.9
- Recognition of lease liabilities	(1.6)	(1.5)
- Provision for onerous leases	0.2	0.2
Other liabilities	(1.4)	(1.3)
Net impact on retained earnings	(0.2)	(0.2)
Retained earnings at 1 January 2019	11.9	11.1

On adoption of IFRS 16, NWB Group recognised right of use assets and lease liabilities in relation to leases which had been previously classified as operating leases under IAS 17 Leases subject to certain practical expedients as allowed by the standard.

The following practical expedients permitted by the standard were used:

- A single rate discount rate has been applied to a portfolio of lease with reasonably similar characteristics.
- Not applying IFRS 16 to operating leases with a remaining lease term of less than 12 months or low volume leases (non-property leases).
- Exclusion of initial direct costs from the measurement of the right of use asset at the date of initial application.
- Reliance on the assessment of whether the lease contract is onerous under IAS 37 Provisions, Contingent liabilities and Contingent assets at 31 December 2018 as an alternative to performing an impairment review of right of use assets created on 1 January 2019.
- The use of hindsight where contracts contain options to extend or terminate the lease in determining the lease term.

The lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 2.2%

	NWB Group 2019 £m	NWB Plc 2019 £m
Operating lease commitments as disclosed as at 31 December 2018	2,264	1,887
Adjustments as a result of a different treatment of extension and termination options	(138)	(74)
Discounted using the incremental borrowing rate	(579)	(369)
Other	9	12
Lease liability recognised as at 1 January 2019 on adoption of IFRS 16	1,556	1,456

Lessees

	NWB Group 2019 £m
Amounts recognised in consolidated income statement	
Interest payable	(34)
Depreciation (1)	(170)
Rental expense on short term leases	(3)
Income from subleasing right-of-use assets	24

Rental expense in respect of operating leases in 2018 was £179 million.

	NWB Group 2019 £m	NWB Plc 2019 £m
Amounts recognised on balance sheet		
Right of use assets included in property, plant and equipment (2)	913	809
Additions to right of use assets	42	21
Lease liabilities (3,4)	(1,479)	(1,373)

The total cash outflow for leases is £168 million.

Notes:
(1) Depreciation includes impairment of right of use assets of £68 million.
(2) Includes right of use asset for plant and equipment of £23 million and depreciation of £5 million.
(3) Contractual cashflows of lease liabilities is shown in Note 12.
(4) NWB Plc lease liabilities include amounts due of £1 million to NWB Group.

24 Leases continued

Other lease commitments

	NWB Group 2018 £m	NWB Plc 2018 £m
Operating leases		
Minimum rentals payable under non-cancellable leases (1)		
- within 1 year	176	155
- after 1 year but within 5 years	597	523
- after 5 years	1,491	1,209
	2,264	1,887

Note:
(1) Predominantly property leases

Lessor

Acting as a lessor, NWB Group provides asset finance to its customers. It purchases plant, equipment and intellectual property, renting them to customers under lease arrangements that, depending on their terms, qualify as either operating or finance leases.

Amounts included in consolidated income statement	NWB Group 2019 £m
Finance leases	
Finance income on the net investment in leases	285
Operating leases	
Lease income	27

Amount receivable under finance leases	NWB Group 2019 £m	NWB Plc 2019 £m
Within 1 year	3,235	22
1 to 2 years	2,064	22
2 to 3 years	1,605	281
3 to 4 years	732	20
4 to 5 years	620	119
After 5 years	1,677	94
Lease payments total	9,933	558
Unguaranteed residual values	(215)	—
Future drawdowns	(30)	—
Unearned income	(1,129)	(22)
Present value of lease payments	8,559	536
Impairments	(104)	(2)
Net investment in finance leases	8,455	534

24 Leases continued

2018	NWB Group Finance lease contracts and hire purchase agreements Gross amounts £m	Present value adjustments £m	Other movements £m	Future Drawdowns £m	Present value £m
Within 1 year	2,983	(196)	(83)	(70)	2,634
1 to 5 years	4,213	(322)	(100)	—	3,791
After 5 years	1,789	(662)	(38)	—	1,089
Total	8,985	(1,180)	(221)	(70)	7,514

The total present value of finance lease contracts and hire purchase agreements excludes £62 million of impairment allowance.

The following tables show undiscounted lease receipts from operating leases:

Amounts receivable under operating leases receivables	NWB Group 2019 £m
Within 1 year	154
1 to 2 years	123
2 to 3 years	83
3 to 4 years	48
4 to 5 years	17
After 5 years	12
Total	437

	NWB Group 2018 £m
Within 1 year	127
1 to 5 years	271
After 5 years	16
Total	414

	NWB Group 2019 £m	2018 £m
Nature of operating lease assets on the balance sheet		
Transportation	334	313
Cars and light commercial vehicles	24	11
Other	295	285
	653	609

Residual value exposures

The table below gives details of the unguaranteed residual value included in the carrying value of finance lease receivables and operating lease assets.

2018	NWB Group Year in which residual value will be recovered Within 1 year £m	After 1 year but within 2 years £m	After 2 years but within 5 years £m	After 5 years £m	Total £m
Operating leases					
- transportation	25	15	94	14	148
- cars and light commercial vehicles	1	1	2	—	4
- other	26	19	37	10	92
Finance lease contracts	28	32	67	38	165
Hire purchase agreements	55	2	—	—	57
	135	69	200	62	466

25 Structured entities

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

Consolidated structured entities

Securitisations

In a securitisation, assets, or interests in a pool of assets, are transferred generally to a SE which then issues liabilities to third party investors. The majority of securitisations are supported through liquidity facilities or other credit enhancements. NWB Group arranges securitisations to facilitate client transactions and undertakes own asset securitisations to sell or to fund portfolios of financial assets.

NWB Group also acts as an underwriter and depositor in securitisation transactions in both client and proprietary transactions.

NWB Group's involvement in client securitisations takes a number of forms. It may: sponsor or administer a securitisation programme; provide liquidity facilities or programme-wide credit enhancement; and purchase securities issued by the vehicle.

Other credit risk transfers securitisations

NWB Group also transfers credit risk on originated loans and mortgages without the transfer of the assets to an SE. As part of this, NWB Group enters into credit derivative and financial guarantee contracts with consolidated SEs. At 31 December 2019, debt securities in issue by such SEs (and held by third parties) were £673 million (2018 - £596 million). The associated loans and mortgages at 31 December 2019 were £9,001 million (2018 - £8,402 million).

Covered bond programme

Certain loans to customers have been assigned to bankruptcy remote limited liability partnerships to provide security for issues of debt securities by NWB Group. NWB Group retains all of the risks and rewards of these loans. The partnerships are consolidated by NWB Group, the loans retained on NWB Group's balance sheet and the related covered bonds included within debt securities in issue of the NWB Group. At 31 December 2019, £8,481 million of loans to customers have been assigned to bankruptcy remote limited liability partnerships to provide security for issues of debt securities by the NWB Group of £5,948 million (2018: loans to customers - £7,086 million, debt securities in issue – £5,367 million).

Unconsolidated structured entities

NWB Group's interests in unconsolidated structured entities are analysed below.

	2019			2018		
	Asset backed Securitisation vehicles £m	Investment funds and other £m	Total £m	Asset backed Securitisation vehicles £m	Investment funds and other £m	Total £m
Non-trading assets						
Loans to customers	26	374	400	39	235	274
Other financial assets	1,501	—	1,501	1,830	—	1,830
Total	1,527	374	1,901	1,869	235	2,104
Liquidity facilities/loan commitments	7	68	75	2	89	91
Maximum exposure	1,534	442	1,976	1,871	324	2,195

26 Asset transfers

Transfers that do not qualify for derecognition

NWB Group enters into securities repurchase agreements and securities lending transactions under which it transfers securities in accordance with normal market practice.
Generally, the agreements require additional collateral to be provided if the value of the securities falls below a predetermined level.

Under standard terms for repurchase transactions in the UK and US markets, the recipient of collateral has an unrestricted right to sell or re-pledge it, subject to returning equivalent securities on settlement of the transaction.

Securities sold under repurchase transactions are not derecognised if NWB Group retains substantially all the risks and rewards of ownership. The fair value (and carrying value) of securities transferred under such repurchase transactions included on the balance sheet, are set out below. All of these securities could be sold or re-pledged by the holder.

	NWB Group		NWB Plc	
The following assets have failed derecognition	2019 £m	2018 £m	2019 £m	2018 £m
Other financial assets (1)	4,267	9,890	4,267	9,890

Note:
(1) Associated liabilities were £4,165 million for both NWB Group and NWB Plc (2018- £9,871 million).

Assets pledged as collateral

NWB Group pledges collateral with its counterparties in respect of derivative liabilities and bank and stock borrowings.

	NWB Group		NWB Plc	
Assets pledged against liabilities	2019 £m	2018 £m	2019 £m	2018 £m
Loans to banks - amortised cost	39	654	—	607
Loans to customers - amortised cost	15,921	21,682	15,921	21,682
Other financial assets (1)	1,920	724	1,920	724
	17,880	23,060	17,841	23,013

Notes:
(1) Includes amounts pledged for pension derivatives.

The following table analyses assets that have been transferred but have failed the derecognition rules under IFRS 9 and therefore continue to be recognised on NWB Plc's balance sheet.

Asset type (1)	2019 £m	2018 £m
UK mortgages - covered bond programme	8,481	7,086

Note:
(1) The associated liabilities are £8,287 million (2018 - £6,948 million).

Notes on the accounts

27 Capital resources

Under Capital Requirements Regulation (CRR), regulators within the European Union 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 NWB Plc are set out below.

	2019 £m	2018 £m
Shareholders' equity (excluding non-controlling interests)		
Shareholders' equity	18,026	18,276
Other equity instruments	(2,370)	(2,370)
	15,656	15,906
Regulatory adjustments and deductions		
Defined benefit pension fund adjustment	—	(11)
Cash flow hedging reserve	(27)	—
Deferred tax assets	(474)	(462)
Prudential valuation adjustments	(16)	(18)
Qualifying deductions exceeding AT1 capital	—	—
Goodwill and other intangible assets	(963)	(966)
Expected losses less impairments	(109)	(193)
Instruments of financial sector entities where the institution has a significant investment	(716)	(538)
Significant investments in excess of secondary capital	(133)	(574)
Foreseeable charges	(365)	—
Other regulatory adjustments	(2)	(6)
	(2,805)	(2,768)
CET1 capital	12,851	13,138
Additional Tier 1 (AT1) capital		
Qualifying instruments and related share premium	2,370	2,370
Qualifying instruments and related share premium subject to phase out	88	117
	2,458	2,487
Tier 1 capital		
Instruments of financial sector entities where the institution has a significant investment	(262)	(236)
Qualifying deductions exceeding AT1 capital	—	—
	(262)	(236)
Tier 1 capital	15,047	15,389
Qualifying Tier 2 capital		
Qualifying instruments and related share premium	3,075	3,376
Tier 2 deductions		
Instruments of financial sector entities where the institution has a significant investment	(321)	(275)
Other regulatory adjustments		
	(321)	(275)
Tier 2 capital	2,754	3,101
Total regulatory capital	17,801	18,490

In the management of capital resources, NWB Plc is governed by RBS Group's policy to maintain a strong capital base, to expand it as appropriate and to utilise it efficiently throughout its activities to optimise the return to shareholders while maintaining a prudent relationship between the capital base and the underlying risks of the business. In carrying out this policy, RBS Group has regard to the supervisory requirements of the PRA. The PRA uses capital ratios as a measure of capital adequacy in the UK banking sector, comparing a bank's capital resources with its risk-weighted assets (the assets and off-balance sheet exposures are 'weighted' to reflect the inherent credit and other risks); by international agreement, the Pillar 1 capital ratios, excluding capital buffers should be not less than 8% with a Common equity Tier 1 component of not less than 4%. NWB Plc has complied with the PRA's capital requirements throughout the year.

A number of subsidiaries and sub-groups within NWB Group, principally banking entities, are subject to various individual regulatory capital requirements in the UK and overseas. Furthermore, the payment of dividends by subsidiaries and the ability of members of RBS Group to lend money to other members of RBS Group may be subject to restrictions such as local regulatory or legal requirements, the availability of reserves and financial and operating performance.

28 Memorandum items

Contingent liabilities and commitments

The amounts shown in the table below are intended only to provide an indication of the volume of business outstanding at 31 December 2019. Although NWB Group is exposed to credit risk in the event of non-performance of the obligations undertaken by customers, the amounts shown do not, and are not intended to, provide any indication of NWB Group's expectation of future losses.

	NWB Group		NWB Plc	
	2019 £m	2018 £m	2019 £m	2018 £m
Contingent liabilities and commitments				
Guarantees	1,015	901	920	804
Other contingent liabilities	1,368	1,321	1,327	1,279
Standby facilities, credit lines and other commitments	72,592	71,946	66,799	66,071
	74,975	74,168	69,046	68,154

Note:
(1) In the normal course of business, the Bank 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. NWB 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 NWB Group's normal credit approval processes.

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

Indemnity deed

In April 2019, NWM Plc and National Westminster Bank Plc entered into a cross indemnity agreement for losses incurred within the entities in relation to business transferred to or from the ring-fenced bank under the RBS Group's structural re-organisation. Under the agreement, NWM Plc is indemnified by National Westminster Bank Plc against losses relating to the National Westminster Bank Plc transferring businesses and ring-fenced bank obligations and National Westminster Bank Plc is indemnified by NWM Plc against losses relating to NWM Plc transferring businesses and non ring-fenced bank obligations with effect from the relevant transfer date.

Capital Support Deed

NWB Plc, together with certain other subsidiaries of NatWest Holdings Limited, is party to a Capital Support Deed (CSD). Under the terms of the CSD, the Bank 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 NWB Plc's capital resources in excess of the capital and financial resources needed to meet its regulatory requirements. NWB Plc may also be obliged to make onward distribution to its ordinary shareholders of dividends or other capital distributions received from subsidiaries that are party to the CSD. The CSD also provides that, in certain circumstances, funding received by NWB Plc from other parties to the CSD becomes immediately repayable, such repayment being limited to the NWB Plc's available resources.

Contractual obligations for future expenditure not provided for in the accounts

The following table shows contractual obligations for future expenditure not provided for in the accounts at the year end.

	NWB Group 2019 £m	NWB Plc 2019 £m
Capital expenditure on other property, plant and equipment	9	7
Contracts to purchase goods or services (1)	607	497
	616	504

	NWB Group 2018 £m	NWB Plc 2018 £m
Capital expenditure on other property, plant and equipment	16	14
Contracts to purchase goods or services (1)	537	416
	553	430

Note:
(1) Of which due within 1 year: £281 million (2018 - £251 million)

28 Memorandum items continued

Trustee and other fiduciary activities

In its capacity as trustee or other fiduciary role, NWB Group may hold or place assets on behalf of individuals, trusts, companies, pension schemes and others. The assets and their income are not included in NWB Group's financial statements. NWB Group earned fee income of £187 million (2018 - £218 million) from these activities.

The Financial Services Compensation Scheme

The Financial Services Compensation Scheme (FSCS), the UK's statutory fund of last resort for customers of authorised financial services firms, pays compensation if a firm is unable to meet its obligations. The FSCS funds compensation for customers by raising management expenses levies and compensation levies on the industry. In relation to protected deposits, each deposit-taking institution contributes towards these levies in proportion to their share of total protected deposits on 31 December of the year preceding the scheme year (which runs from 1 April to 31 March), subject to annual maxima set by the Prudential Regulation Authority. In addition, the FSCS has the power to raise levies on a firm that has ceased to participate in the scheme and is in the process of ceasing to be authorised for the costs that it would have been liable to pay had the FSCS made a levy in the financial year it ceased to be a participant in the scheme.

The FSCS had borrowed from HM Treasury to fund compensation costs associated with the failure of Bradford & Bingley, Heritable Bank, Kaupthing Singer & Friedlander, Landsbanki 'Icesave' and London Scottish Bank plc. The industry has now repaid all outstanding loans with the final £4.7 billion being repaid in June 2018. The loan was interest bearing with the reference rate being the higher of 12 month LIBOR plus 111 basis points or the relevant gilt rate for the equivalent cost of borrowing from HMT.

NWB Group has accrued £1.4 million for its share of estimated FSCS levies.

Litigation, investigations and reviews

NWB Plc and its subsidiary and associated undertakings ('NWB Group') are party to legal proceedings and the subject of investigation and other regulatory and governmental action ('Matters') in the United Kingdom (UK), the United States (US), the European Union (EU) and other jurisdictions.

NWB 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 NWB 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. NWB 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 NWB 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 NWB 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 NWB Group has recognised. Where (and as far as) liability cannot be reasonably estimated, no provision has been recognised. NWB 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 NWB Group's litigation, investigations and reviews, see the Risk Factor relating to legal, regulatory and governmental actions and investigations set out on page 160.

Litigation

London Interbank Offered Rate (LIBOR) and other rates litigation

In January 2019, a class action antitrust complaint was filed in the United States District Court for the Southern District of New York 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 RBS Group defendants are RBSG plc, NatWest Markets Plc, NatWest Markets Securities Inc., and NWB Plc.

US Anti-Terrorism Act litigation

NWB Plc is defending lawsuits filed in the United States District Court for the Eastern District of New York by a number of US nationals (or their estates, survivors, or heirs) who were victims of terrorist attacks in Israel. The plaintiffs allege that NWB Plc is liable for damages arising from those attacks pursuant to the US Anti-Terrorism Act because NWB Plc previously maintained bank accounts and transferred funds for the Palestine Relief & Development Fund, an organisation which plaintiffs allege solicited funds for Hamas, the alleged perpetrator of the attacks.

In October 2017, the trial court dismissed claims against NWB Plc with respect to two of the 18 terrorist attacks at issue. In March 2018, the trial court granted a request by NWB Plc for leave to file a renewed summary judgment motion in respect of the remaining claims, and in March 2019, the court granted summary judgment in favour of NWB Plc. The plaintiffs have commenced an appeal of the judgment to the United States Court of Appeals for the Second Circuit.

Investigations and reviews

NWB 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. NWB Group and/or RBS Group has 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, anti-money laundering and sanctions regimes.

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 NWB Group, remediation of systems and controls, public or private censure, restriction of NWB 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 NWB Group, its business, authorisations and licences, reputation, results of operations or the price of securities issued by it.

28 Memorandum items continued

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

FCA review of RBS Group's treatment of SMEs

In 2014, the FCA appointed an independent Skilled Person under section 166 of the Financial Services and Markets Act 2000 to review RBS Group's treatment of SME customers whose relationship was managed by RBS Group's Global Restructuring Group (GRG) in the period 1 January 2008 to 31 December 2013.

The Skilled Person delivered its final report to the FCA during September 2016, and the FCA published an update in November 2016. In response, RBS Group announced redress steps for SME customers in the UK and the Republic of Ireland that were in GRG between 2008 and 2013. These steps were (i) an automatic refund of certain complex fees; and (ii) a new complaints process, overseen by an independent third party. The complaints process has since closed to new complaints.

NWB Group's remaining provisions in relation to these matters at 31 December 2019 were £63 million.

In July 2018, the FCA confirmed that it had concluded its investigation and that it did not intend to take disciplinary or prohibitory action against any person in relation to these matters. On 13 June 2019, the FCA published a full report explaining how it had reached that conclusion.

Investment advice review

As a result of an FSA review in 2013, the FCA required RBS Group to carry out a past business review and customer contact exercise on a sample of historic customers who received investment advice on certain lump sum products, during the period from March 2012 to December 2012. The review was conducted under section 166 of the Financial Services and Markets Act 2000. Redress was paid to certain customers in that sample group.

RBS Group later agreed with the FCA that it would carry out a wider review/remediation exercise relating to certain investment, insurance and pension sales from 1 January 2011 to 1 April 2015. That exercise is now complete. Phase 2 (covering sales in 2010) started in April 2018 and, with the exception of a small cohort of former customers for whom there is an extended completion date, was completed by the end of 2019, with full completion and formal closure expected by the end of June 2020.

In addition, RBS Group agreed with the FCA that it would carry out a remediation exercise, for a specific customer segment who were sold a particular structured product. Redress was paid to certain customers who took out the structured product. This remediation activity was completed in December 2019.

NWB Group's remaining provisions in relation to these matters at 31 December 2019 were £6 million.

During October 2019, the FCA notified RBS Group of its intention to appoint a Skilled Person under section 166 of the Financial Services and Markets Act 2000 to conduct a review of whether RBS Group's past business review of investment advice provided during 2010 to 2015 was subject to appropriate governance and accountability and led to appropriate customer outcomes. RBS Group is co-operating with the Skilled Person's review, which is expected to conclude during Q1 2020.

Packaged accounts

RBS Group has had dedicated resources in place since 2013 to investigate and resolve packaged account complaints on an individual basis. The FCA conducted a thematic review of packaged bank accounts across the UK from October 2014 to April 2016, the results of which were published in October 2016. RBS Group made amendments to its sales process and complaints procedures to address the findings from that review.

NWB Group's remaining provisions in relation to these matters at 31 December 2019 were £17 million.

FCA investigation into RBS Group's compliance with the Money Laundering Regulations 2007

In July 2017, the FCA notified RBS Group that it was undertaking an investigation into RBS Group's compliance with the Money Laundering Regulations 2007 in relation to certain customers. There are currently two areas under review: (1) compliance with Money Laundering Regulations in respect of Money Service Business customers; and (2) the Suspicious Transactions regime in relation to the events surrounding particular customers. The investigations in both areas are assessing both criminal and civil culpability. RBS Group is cooperating with the investigations, including responding to information requests from the FCA.

Systematic Anti-Money Laundering Programme assessment

In December 2018, the FCA commenced a Systematic Anti-Money Laundering Programme assessment of 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 Q1 2020. It is not yet possible to assess the likely impact of these matters.

Payment Protection Insurance (PPI)

Since 2011, RBS Group has been implementing the FCA's policy statement for the handling of complaints about the mis-selling of PPI (Policy Statement 10/12). In August 2017, the FCA's new rules and guidance on PPI complaints handling (Policy Statement 17/3) came into force. The Policy Statement introduced new so called 'Plevin' rules, under which customers may be eligible for redress if the bank earned a high level of commission from the sale of PPI, but did not disclose this detail at the point of sale. The Policy Statement also introduced a two year deadline for making new PPI complaints, which expired on 29 August 2019.

NWB Group has made provisions totalling £3.8 billion to date for PPI claims, including an additional provision of £0.6 billion taken at 30 September 2019, reflecting greater than predicted complaints volumes in the lead up to the 29 August 2019 deadline. £3.1 billion of total provisions had been utilised by 31 December 2019.

FCA mortgages market study

In December 2016, the FCA launched a market study into the provision of mortgages. On 26 March 2019 the final report was published. This found that competition was working well for many customers but also proposed remedies to help customers shop around more easily for mortgages. A period of consultation is underway and the FCA has indicated that it intends to provide updates on the remedies in due course.

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

Acquisitions and disposals	NWB Group 2019 £m	NWB Group 2018 £m	NWB Plc 2019 £m	NWB Plc 2018 £m
Value recognised for business transferred from fellow subsidiary	(7)	(37,178)	(21)	(32,996)
Additional investments in associates	—	—	(6)	—
Additional investments in Group undertakings	—	—	—	(805)
Fair Value given for business acquired	—	(48)	—	—
Net inflow/(outflow) of cash in respect of purchases	(7)	(37,226)	(27)	(33,801)
Disposal of investment in group undertakings	—	32	—	115
Net liabilities disposed	—	—	—	(20)
Repayments of investments	—	1,423	—	—
Non-cash consideration	—	(902)	—	292
Net Cash and cash equivalents disposed	—	1	—	—
Net inflow of cash in respect of disposals	—	554	—	387
Net cash expenditure on intangible assets	(380)	(277)	(364)	(237)
Net outflow	(387)	(36,949)	(391)	(33,651)

30 Analysis of changes in financing during the year

	NWB Group						NWB Plc					
	Share capital and share premium		Subordinated liabilities		MRELs		Share capital and share premium		Subordinated liabilities		MRELs	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
At 1 January	6,685	3,903	4,178	5,755	1,548	—	5,979	3,903	4,170	5,640	(1,498)	—
Issue of subordinated liabilities	—	—	580	1,531	—	—	—	—	580	1,486	—	—
Repayment of subordinated liabilities	—	—	(708)	(3,000)	—	—	—	—	(700)	(3,000)	—	—
Interest on subordinated liability	—	—	7	—	—	—	—	—	7	—	—	—
Issue of capital notes	—	2,370	—	—	—	—	—	2,370	—	—	—	—
Issue of MRELs	—	—	—	—	1,439	1,525	—	—	—	—	(1,179)	(1,475)
Interest on MRELs	—	—	—	—	109	—	—	—	—	—	107	(3)
Redemption of preference shares	—	—	—	—	—	—	—	—	—	—	—	—
Net cash outflow from financing	—	2,370	(121)	(1,469)	1,548	1,525	—	2,370	(113)	(1,514)	(1,072)	(1,478)
Transfer to retained earnings	(245)	—	—	—	—	—	—	—	—	—	—	—
Currency translation and other adjustments	—	412	(28)	(108)	105	20	63	(294)	(29)	44	(105)	(20)
At 31 December	6,440	6,685	4,029	4,178	3,201	1,545	6,042	5,979	4,028	4,170	(2,675)	(1,498)

31 Analysis of cash and cash equivalents

	NWB Group 2019 £m	NWB Group 2018 £m	NWB Plc 2019 £m	NWB Plc 2018 £m
At 1 January				
- cash	45,032	35,799	43,966	34,763
- cash equivalents	6,285	62,141	5,526	47,681
	51,317	97,940	49,492	82,444
Net cash (outflow)/inflow	(18,051)	(46,623)	(15,872)	(32,952)
At 31 December	33,266	51,317	33,620	49,492
Comprising:				
Cash and balances at central banks	27,457	45,032	26,377	43,966
Loans to banks - amortised cost	5,809	6,285	7,243	5,526
Cash and cash equivalents	33,266	51,317	33,620	49,492

Note:
(1) Includes cash collateral posted with bank counterparties in respect of derivative liabilities of £17 million (2018 - £47 million)

NWB Plc and certain subsidiary undertakings are required to maintain balances with central banks which, at 31 December 2019, amounted to £0.7 billion (2018 - £0.6 billion).

Notes on the accounts

32 Directors' and key management remuneration

The composition of NWB Plc's board of directors changed on 30 April 2018 in preparation for ring-fencing.

Up to 30 April 2018 the executive and non-executive directors of NWB Plc were aligned to the directors of the ultimate holding company RBSG plc. From 30 April 2018, the executive and non executive directors of NWB Plc were aligned to the intermediate holding company, NatWest Holdings Ltd. In both periods the directors were remunerated for their services to RBS Group as a whole, and their remuneration could not be apportioned in respect of their services to NWB Plc.

The directors' emoluments in the table below represent the NWH Group emoluments of the directors from April 2018 and the remuneration they received from RBS Group prior to that. The remuneration of RBSG plc directors is disclosed in the 2019 Annual Report and Accounts of RBSG plc.

Directors' remuneration	2019 £000	2018 £000
Non-executive directors emoluments	2,276	2,209
Chairman and executive directors emoluments	6,471	4,802
	8,747	7,011
Amounts receivable under long-term incentive plans and share option plans	741	—
	9,488	7,011

The total emoluments and amounts receivable under long-term incentive plans and share option plans of the highest paid director were £2,082,000 (2018 - £2,467,000).

No directors accrued benefits under defined benefit schemes or money purchase schemes during 2019 and 2018. The executive directors may participate in the RBS Group's long-term incentive plans, executive share option and sharesave schemes. Where directors of NWB Plc are also directors of RBSG plc, details of their share interests can be found in the 2019 Annual Report and Accounts of RBSG plc, in line with regulations applying to RBSG plc as a premium listed company.

Compensation of key management

The aggregate remuneration of directors and other members of key management(1) during the year was as follows:

	2019 £000	2018 £000
Short-term benefits	17,295	17,461
Post-employment benefits	249	60
Share-based payments	1,686	—
	19,230	17,521

Note:
(1) Key management comprises members of the NWH Ltd Executive Committee.

33 Transactions with directors and key management

At 31 December 2019, amounts outstanding in relation to transaction, arrangements and agreements entered into by authorised institutions in NWB Group, as defined in UK legislation, were £740,303 in respect of loans to seven persons who were directors of NWB Plc at any time during the financial period.

For the purposes of IAS 24 'Related Party Disclosures', key management comprise directors of NWB Plc and members of the NWB Plc Executive Committee. Applying the captions in NWB Group's primary financial statements the following amounts (1) are attributable, in aggregate, to key management:

	2019 £000	2018 £000
Loans to customers	1,566	1,530
Customer deposits	29,887	28,728

Key management have banking relationships with RBS Group entities which are entered into in the normal course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with other persons of a similar standing or, where applicable, with other employees. These transactions did not involve more than the normal risk of repayment or present other unfavourable features. Key management had no reportable transactions or balances with the holding companies.

Note:
(1) Amounts are attributed to each person at their highest level of RBS Group key management.

Notes on the accounts

34 Related parties

The table below discloses transactions between NWB Group and subsidiaries of RBS Group.

	2019 £m	2018 £m
Income		
Interest receivable	45	321
Interest payable	(414)	(286)
Fees and commissions receivable	1	—
Fees and commissions payable	(2)	(1)
Other administrative expenses	1	(747)
	(369)	(713)
Discontinued operations		
Net expenses	—	(1)
	—	(1)

UK Government

On 1 December 2008, the UK Government through HM Treasury became the ultimate controlling party of The Royal Bank of Scotland Group plc. The UK Government's shareholding is managed by UK Government Investments Limited, a company wholly owned by the UK Government. As a result, the UK Government and UK Government controlled bodies became related parties of NWB Group. During 2015, all of the B shares held by the UK Government were converted into ordinary shares of £1 each.

In 2015, HM Treasury sold 630 million of RBSG plc's ordinary shares and a further 925 million in June 2018. At 31 December 2019, HM Treasury's holding in RBSG plc's ordinary shares was 62.1%.

NWB 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 (Note 7) and value added tax; national insurance contributions; local authority rates; and regulatory fees and levies; together with banking transactions such as loans and deposits undertaken in the normal course of banker-customer relationships.

Bank of England facilities

NWB Group may participate in a number of schemes operated by the Bank of England in the normal course of business.

Members of NWB Group that are UK authorised institutions are required to maintain non-interest bearing (cash ratio) deposits with the Bank of England amounting to 0.324% of their average eligible liabilities in excess of £600 million. They also have access to Bank of England reserve accounts: sterling current accounts that earn interest at the Bank of England Rate.

NWB Plc guarantees certain liabilities of NWH Group to the Bank of England.

Service entity

On 30 April 2018, in preparation for ring-fencing, NWB Plc became the main provider of shared service activities for RBS Group. This includes Treasury services supporting, as well as providing, services to both the ring-fenced bank (RFB) and non-ring-fenced bank (NRFB).

Other related parties

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

(b) NWB 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 NWB Group.

(c) In accordance with IAS 24, transactions or balances between NWB 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.

35 Ultimate holding company

NWB Group's ultimate holding company is The Royal Bank of Scotland Group plc (RBSG plc) and its intermediate parent company is NatWest Holdings Limited ('NWH Ltd' or 'the intermediate holding company').

All companies are incorporated in Great Britain and RBSG plc is registered in Scotland and NWH Ltd is registered in England. As at 31 December 2019, RBSG plc heads the largest group in which NWB Group is consolidated. Copies of the consolidated accounts of both companies may be obtained from The Secretary, The Royal Bank of Scotland Group plc, Gogarburn, PO Box 1000, Edinburgh EH12 1HQ. Following placing and open offers by RBSG plc in December 2008 and April 2009, the UK Government, through HM Treasury, currently holds 62.1% of the issued ordinary share capital of the ultimate holding company and is therefore NWB Group's ultimate controlling party.

36 Post balance sheet events

There have been no other significant events between 31 December 2019 and the date of approval of these accounts which would require a change to or additional disclosure in the accounts.

37 Related undertakings

Legal entities and activities at 31 December 2019

In accordance with the Companies Act 2006, NWB Plc's related undertakings and the accounting treatment for each are listed below. All undertakings are wholly-owned by NWB Plc or subsidiaries of NWB Plc and are consolidated by reason of contractual control (Section 1162(2) CA 2006), unless otherwise indicated. RBS Group interest refers to ordinary shares of equal values and voting rights unless further analysis is provided in the notes. Activities are classified in accordance with Annex I to the Capital Requirements Directive ("CRD IV") and the definitions in Article 4 of the Capital Requirements Regulation.

The following table details active related undertakings incorporated in the UK which are 100% owned by NWB Group and fully consolidated for accounting purposes

Entity name	Activity	Regulatory treatment	Notes
Caledonian Sleepers Rail Leasing Ltd	BF	FC	(8)
Coutts & Company	CI	FC	(9)
Coutts Finance Company	BF	FC	(9)
Digi Ventures Ltd	OTH	FC	(1)
Esme Loans Ltd	BF	FC	(1)
Euro Sales Finance Ltd	BF	FC	(1)
FreeAgent Central Ltd	SC	FC	(12)
FreeAgent Holdings Limited	SC	FC	(12)
G L Trains Ltd	BF	FC	(8)
Gatehouse Way Developments Ltd	INV	DE	(8)
KUC Properties Ltd	BF	DE	(2)
Land Options (West) Ltd	INV	DE	(2)
Lombard & Ulster Ltd	BF	FC	(15)
Lombard Business Finance Ltd	BF	FC	(1)
Lombard Business Leasing Ltd	BF	FC	(1)
Lombard Corporate Finance (June 2) Ltd	BF	FC	(1)
Lombard Corporate Finance (December 1) Ltd	BF	FC	(1)
Lombard Corporate Finance (December 3) Ltd	BF	FC	(1)
Lombard Discount Ltd	BF	FC	(1)
Lombard Finance Ltd	BF	FC	(1)
Lombard Industrial Leasing Ltd	BF	FC	(1)
Lombard Initial Leasing Ltd	BF	FC	(1)
Lombard Lease Finance Ltd	BF	FC	(1)
Lombard Leasing Company Ltd	BF	FC	(1)
Lombard Leasing Contracts Ltd	BF	FC	(8)
Lombard Lessors Ltd	BF	FC	(1)
Lombard Maritime Ltd	BF	FC	(1)
Lombard North Central Leasing Ltd	BF	FC	(1)
Lombard North Central PLC	BF	FC	(1)
Lombard Property Facilities Ltd	BF	FC	(8)
Lombard Technology Services Ltd	BF	FC	(1)
National Westminster Home Loans Ltd	BF	FC	(1)
National Westminster Properties No. 1 Ltd	SC	DE	(1)
NatWest Capital Finance Ltd	BF	FC	(8)
NatWest Corporate Investments	BF	FC	(1)
NatWest Invoice Finance Ltd	OTH	FC	(1)
NatWest Property Investments Ltd	INV	DE	(1)
Northern Isles Ferries Ltd	BF	FC	(1)
Pittville Leasing Ltd	BF	FC	(1)
Premier Audit Company Ltd	BF	FC	(1)
R.B. Capital Leasing Ltd	BF	FC	(1)
R.B. Leasing (September) Ltd	BF	FC	(1)
R.B. Quadrangle Leasing Ltd	BF	FC	(1)
RBS Asset Finance Europe Ltd	BF	FC	(1)
RBS Asset Management (ACD) Ltd	BF	FC	(9)
RBS Asset Management Holdings	BF	FC	(9)
RBS Collective Investment Funds Ltd	BF	FC	(2)
RBS Invoice Finance Ltd	BF	FC	(1)
RBSG Collective Investments Holdings Ltd	BF	FC	(2)
RBSSAF (2) Ltd	BF	FC	(1)
RBSSAF (7) Ltd	BF	FC	(1)
RBSSAF (8) Ltd	BF	FC	(1)
RBSSAF (25) Ltd	BF	FC	(1)
Royal Bank Invoice Finance Ltd	BF	FC	(1)
Royal Bank Leasing Ltd	BF	FC	(2)
Royal Bank of Scotland (Industrial Leasing) Ltd	BF	FC	(2)
Royal Scot Leasing Ltd	BF	FC	(2)
RoyScot Trust Plc	BF	FC	(1)
Safetosign Ltd	SC	FC	(1)
The Royal Bank of Scotland Group Independent Financial Services Ltd	BF	FC	(2)
The Royal Bank of Scotland Invoice Discounting Ltd	BF	FC	(1)
Ulster Bank Ltd	CI	FC	(15)
Ulster Bank Pension Trustees Ltd	TR	DE	(15)
Voyager Leasing Ltd	BF	FC	(1)
Walton Lake Developments Ltd	INV	DE	(8)

The following table details active related undertakings incorporated outside the UK which are 100% owned by NWB Group and fully consolidated for accounting purposes

Entity name	Activity	Regulatory treatment	Notes
Airside Properties AB	BF	FC	(3)
Airside Properties ASP Denmark AS	BF	FC	(4)
Airside Properties Denmark AS	BF	FC	(4)
Arkivborgen KB	BF	FC	(3)
Artul Kiinteistöt Oy	BF	FC	(6)
Backsmedjan KB	BF	FC	(3)
BD Lagerhus AS	BF	FC	(7)
Bilfastighet i Akalla AB	BF	FC	(3)
Braheberget KB	BF	FC	(3)
Brödmagasinet KB	BF	FC	(3)
Eiendomsselskapet Apteno La AS	BF	FC	(7)
Eurohill 4 KB	BF	FC	(3)
Fab Ekenäs Formanshagen 4	BF	FC	(6)
Fastighets AB Flöjten I Norrköping	BF	FC	(3)
Fastighets AB Stockmakaren	BF	FC	(26)
Fastighets Aktiebolaget Sambiblioteket	BF	FC	(3)
Fastighetsbolaget Holma I Höör AB	BF	FC	(3)
Forskningshöjden KB	BF	FC	(3)
Förvaltningsbolaget Dalkyrkan KB	BF	FC	(3)
Fyrsate Fastighets AB	BF	FC	(3)
Kastrup Commuter K/S	BF	FC	(4)
Gredelinen KB	BF	FC	(3)
Grinnhagen KB	BF	FC	(3)
Hatros 1 AS	BF	FC	(7)
Horrsta 4:38 KB	BF	FC	(3)
IR Fastighets AB	BF	FC	(3)
IR IndustriRenting AB	BF	FC	(3)
Kallebäck Institutfastigheter AB	BF	FC	(3)
Kastrup Hangar 5 K/S	BF	FC	(4)
Kastrup V & L Building K/S	BF	FC	(4)
KB Eurohill	BF	FC	(3)
KB IR Gamlestaden	BF	FC	(3)
KB Lagermannen	BF	FC	(3)
KB Likriktaren	BF	FC	(3)
Kiinteistö Oy Forssan Kutomonkuja 1	BF	FC	(6)
Kiinteistö Oy Järvenpään Helsingintie 41	BF	FC	(6)

37 Related undertakings continued

Entity name	Activity	Regulatory treatment	Notes
Kiinteistö Oy Kemin K-CM	BF	FC	(6)
Kiinteistö Oy Kokkolan Teollisuuskatu 10	BF	FC	(6)
Kiinteistö Oy Lohjan Ojamonharjuntie 61	BF	FC	(6)
Kiinteistö Oy Pennalan Johtotie 2	BF	FC	(6)
Kiinteistö Oy Pieksämäen Kukkaroniementie 5	BF	FC	(6)
Kiinteistö Oy Vantaan Rasti IV	BF	FC	(6)
Koy Espoon Entresse II	BF	FC	(6)
Koy Espoon Niittysillantie 5	BF	FC	(6)
Koy Helsingin Mechelininkatu 1	BF	FC	(6)
Koy Helsingin Osmontie 34	BF	FC	(6)
Koy Helsingin Panuntie 11	BF	FC	(6)
Koy Helsingin Panuntie 6	BF	FC	(6)
Koy Iisalmen Kihlavirta	BF	FC	(6)
Koy Jämsän Keskushovi	BF	FC	(6)
Koy Kokkolan Kaarlenportti Fab	BF	FC	(6)
Koy Kouvolan Oikeus ja Poliisitalo	BF	FC	(6)
Koy Lohjan Huonekalutalo	BF	FC	(6)
Koy Millennium	BF	FC	(6)
Koy Nummelan Portti	BF	FC	(6)
Koy Nuolialan päiväkoti	BF	FC	(6)
Koy Päiväläisentie 1-6	BF	FC	(6)
Koy Peltolantie 27	BF	FC	(16)
Koy Puotikuja 2 Vaasa	BF	FC	(6)
Koy Raision Kihlakulma	BF	FC	(6)
Koy Ravattulan Kauppakeskus	BF	FC	(6)
Koy Tapiolan Louhi	BF	FC	(6)
Koy Vapaalan Service-Center	BF	FC	(6)
Läkten 1 KB	BF	FC	(3)
LerumsKrysset KB	BF	FC	(3)
Limstagården KB	BF	FC	(3)
Narmovegen 455 AS	BF	FC	(32)
National Westminster International Holdings B.V.	BF	FC	(31)
Nightingale CRE 2018-1 Ltd	BF	DE	(18)
Nightingale Project Finance 2019 1 Ltd	BF	DE	(18)
Nightingale Securities 2017-1 Securities 2017-1 Ltd	BF	DE	(18)
Nordisk Renting AB	BF	FC	(3)
Nordisk Renting AS	BF	FC	(7)
Nordisk Renting OY	BF	FC	(6)
Nordisk Specialinvest AB	BF	FC	(3)
Nordiska Strategifastigheter Holding AB	BF	FC	(3)
Nybergflata 5 AS	BF	FC	(7)
RBS Asset Management (Dublin) Ltd	BF	FC	(22)
RBS Deutschland Holdings GmbH	BF	FC	(23)
RBS Polish Financial Advisory Services Sp. Z o.o.	BF	FC	(21)
RBS Services (Switzerland) Ltd	SC	FC	(10)
RBS Services India Private Ltd	SC	FC	(24)
Ringdalveien 20 AS	BF	FC	(25)
SFK Kommunfastigheter AB	BF	FC	(3)
Sjöklockan KB	BF	FC	(3)
Skinnarängen KB	BF	FC	(3)
Solbänken KB	BF	FC	(3)
Strand European Holdings AB	BF	FC	(26)
Svenskt Fastighetskapital AB	BF	FC	(3)
Svenskt Energikapital AB	BF	FC	(3)
Svenskt Fastighetskapital Holding AB	BF	FC	(3)
Tygverkstaden 1 KB	BF	FC	(3)

The following table details active related undertakings which are 100% owned by NWB Group but are not consolidated for accounting purposes

Entity name	Activity	Regulatory treatment	Notes
West Granite Homes Inc.	INV	DE	(28)

The following table details active related undertakings incorporated in the UK where NWB Group ownership is less than 100%

Entity name	Activity	Accounting treatment	Regulatory treatment	Group %	Notes
Belfast Bankers' Clearing Company Ltd	BF	IA	PC	25	(29)
GWNW City Developments Ltd	BF	EAJV	DE	50	(13)
Jaguar Cars Finance Ltd	BF	FC	FC	50	(1)
JCB Finance (Leasing) Ltd	BF	FC	FC	75	(14)
JCB Finance Ltd	BF	FC	FC	75	(14)
Landpower Leasing Ltd	BF	FC	FC	75	(14)
London Rail Leasing Ltd	BF	EAA	PC	50	(17)
NatWest Covered Bonds (LM) Ltd	BF	IA	PC	20	(5)
NatWest Covered Bonds LLP	BF	FC	FC	73	(8)
Pollinate International Ltd	OTH	EAA	DE	35	(30)
Silvermere Holdings Ltd	BF	FC	FC	95	(2)

The following table details active related undertakings incorporated outside the UK where NWB Group ownership is less than 100%

Entity name	Activity	Accounting treatment	Regulatory treatment	Group %	Notes
Förvaltningsbolaget Klöverbacken Skola KB	BF	FC	FC	51	(3)
Optimus KB	BF	FC	FC	51	(3)
Pharos Estates	OTH	EAA	DE	49	(20)
Wiöniowy Management sp. Z.o.o.	SC	EAA	DE	25	(27)

The following table details related undertakings that are not active (actively being dissolved)

Entity name	Accounting treatment	Regulatory treatment	Group %	Notes
Lombard Ireland Group Holdings Unlimited Company	FC	FC	100	(11)
Lombard Ireland Ltd	FC	FC	100	(11)
NatWest Nominees Ltd	FC	FC	100	(8)
RBS Invoice Finance (Holdings) Ltd	FC	FC	100	(1)
Riossi Ltd	FC	DE	100	(1)
The Royal Bank of Scotland Finance (Ireland)	FC	FC	100	(11)

37 Related undertakings continued

The following table details related undertakings that are dormant

Entity name	Accounting treatment	Regulatory treatment	Group %	Notes
Dixon Vehicle Sales Ltd	FC	FC	100	(8)
Dunfly Trustee Ltd	FC	FC	100	(8)
JCB Finance Pension Ltd	FC	DE	88	(15)
National Westminster Ltd	FC	FC	100	(8)
NatWest FIS Nominees Ltd	FC	FC	100	(1)
NatWest PEP Nominees Ltd	FC	FC	100	(8)
Nordisk Renting A/S	FC	FC	100	(19)
Nordisk Renting HB	FC	FC	100	(3)
R.B. Leasing (March) Ltd	FC	FC	100	(1)
RBS Investment Executive Ltd	NC	DE	100	(2)
RBS Pension Trustee Ltd	NC	DE	100	(8)
RBS Retirement Savings Trustee Ltd	FC	FC	100	(8)
RBS Secretarial Services Ltd	FC	FC	100	(2)
RBSG Collective Investments Nominees Ltd	FC	FC	100	(2)
Strand Nominees Ltd	FC	FC	100	(9)
Syndicate Nominees Ltd	FC	FC	100	(8)

The following table details the overseas branches of NWB Group

Subsidiary	Geographic location
National Westminster Bank Plc	Finland, France, Germany, Italy, Netherlands, Norway, Spain, Sweden

Key:

BF	Banking and financial institution
CI	Credit institution
INV	Investment (shares or property) holding company
SC	Service company
TR	Trustee
OTH	Other
DE	Deconsolidated
FC	Full consolidation
PC	Pro-rata consolidation
EAA	Equity accounting – Associate
EAJV	Equity accounting – Joint venture
IA	Investment accounting
NC	Not consolidated

Notes	Registered addresses	Country of incorporation
(1)	250 Bishopsgate, London, EC2M 4AA, England	UK
(2)	24/25 St Andrew Square, Edinburgh, EH2 1AF, Scotland	UK
(3)	c/o Nordisk Renting AB, Jakobsbergsgatan 13, 8 storey, Box 14044, SE-111 44, Stockholm	Sweden
(4)	c/o Visma Services Danmark A/S, Lyskaer 3C-3D, 2730 Herlev, Hjortespring	Denmark
(5)	35 Great St Helen's, London, EC3A 6AP, England	UK
(6)	c/o Epicenter, Mikonkatu 9, 6th Floor, 00100, Helsinki	Finland
(7)	Hieronymus Heyerdahlsgate 1, Postboks 2020 Vika, 0125, Oslo	Norway
(8)	1 Princes Street, London, EC2R 8BP, England	UK
(9)	440 Strand, London, WC2R OQS, England	UK
(10)	Lerchenstrasse 18, Zurich, CH-8022	Switzerland
(11)	Ulster Bank Group Centre, George's Quay, Dublin 2, D02 VR98	RoI
(12)	One Edinburgh Quay, 133 Fountainbridge, Edinburgh, EH3 9QG, Scotland	UK
(13)	Gate House, Turnpike Road, High Wycombe, Buckinghamshire, HP12 3NR, England	UK
(14)	The Mill, High Street, Rocester, Staffordshire, ST14 5JW, England	UK
(15)	11-16 Donegall Square East, Belfast, Co Antrim, BT1 5UB, Northern Ireland	UK
(16)	c/o Nordisk Renting Oy, Mikonkatu 9, 00100 Helsinki	Finland
(17)	99 Queen Victoria Street, London, EC4V 4EH, England	UK
(18)	44 Esplanade, St Helier, JE4 9WG	Jersey
(19)	c/o Adv Jan-Erik Svensson, HC Andersens Boulevard 12, Kopenhaum V, 1553	Denmark
(20)	24 Demostheni Severi, 1st Floor, Nicosia, 1080	Cyprus
(21)	Wiśniowy Business Park, ul. 1-go Sierpnia 8A, Warsaw, 02-134	Poland
(22)	One Dockland Central, Guild Street, IFSC, Dublin, Dublin 1, D01 E4X0	RoI
(23)	Roßmarkt 10, Frankfurt am Main, 60311	Germany
(24)	6th Floor, Building 2, Tower A, GIL IT/ITES SEZ, Candor TechSpace, Sector 21, Dundahera, Gurugram, Haryana, 122016	India
(25)	c/o Nordisk Renting AS, 9 Etasje, Klingenberggata 7, NO-0161, Oslo	Norway
(26)	c/o Nordisk Renting AB, Box 14044, SE-104 40, Stockholm	Sweden
(27)	Wisniowy Business Park Ul Ilzecka 26, Building E, 02-135 , Warsaw, 02-135	Poland
(28)	200, Bellevue Parkway, Suite 210, Wilmington, Delaware 19809	USA
(29)	c/o Pinsent Masons LLP, The Soloist Building, 1 Lanyon Place, Belfast, BT1 3LP, Northern Ireland	UK
(30)	The Chestnuts Brewers End, Takeley, Bishop's Stortford, CM22 6QJ	UK
(31)	Kokermolen 16, 3994 Dh Houten	Netherlands
(32)	c/o Advokatfirmaet Wirsholm AS, Dokkveien 1, NO-0250, Oslo	Norway

Risk factors

Principal Risks and Uncertainties

Set out below are certain risk factors that could adversely affect the NWB Group's future results, its financial condition and prospects and cause them to be materially different from what is forecast or expected and directly or indirectly impact the value of its securities in issue.

These risk factors are broadly categorised and should be read in conjunction with other sections of this annual report, including the forward looking statements section, the strategic report and the capital and risk management section, and should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties facing the NWB Group.

Strategic risk

The NWB Group's parent company has announced a new Purpose-led strategy which will entail a period of transformation and require an internal cultural shift across the NWB Group. It carries significant execution and operational risks and it may not achieve its stated aims and targeted outcomes.

On 14 February 2020, the RBS Group, the NWB's Group parent company announced a new strategy, focused on becoming a Purpose-led business, designed to champion potential and to help individuals, families and businesses to thrive. This strategy is intended to reflect the rapidly shifting environment and backdrop of unprecedented disruption in society driven by technology and changing customer expectations. 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'. As a Purpose-led Strategy, it is intended to balance the interests and changing needs of all stakeholders of the RBS Group (including those of the NWB Group) and to focus on building relationships that create mutual value across customers' lives. It will require an internal cultural shift the NWB Group as to how performance is perceived and how the NWB Group conduct its business. The changes required are substantial and will take many years to fully embed and may not result in the expected outcome within the timeline and in the manner currently contemplated.

To deliver against this purpose and deliver sustainable returns, the RBS Group intends to: focus on the lifecycles of its customers using insights about customers to evolve product and service offerings; re-engineer and simplify the RBS Group by updating operational and technological capabilities 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 deploying it more effectively for customers, in particular by re-focusing the NWM franchise of the RBS Group ('NWM Franchise').

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 which could, in turn, affect the NWB Group. Over the medium to long term, the RBS Group intends to achieve a 9-11% return on tangible equity, and a CET1 ratio of 13-14%, with a sustained pay-out ratio of around 40% of attributable profit. In addition to making significant reductions in RWAs, achieving these targets will require further significant reductions to the RBS Group's cost base, with c. £250 million of reductions targeted in 2020. Realising these cost reductions will result in material strategic costs, which may be more than currently expected. The continued focus on meeting cost reduction targets may also mean limited investment in other areas which could affect the NWB Group's long-term prospects, product offering or competitive position and its ability to meet its other targets, including those related to customer satisfaction. Any of the above could jeopardise the NWB Group's ability to achieve its associated financial targets and generate sustainable returns.

The implementation of the new Purpose-led Strategy is highly complex, will take many years to fully embed including within the NWB Group. The NWB Group may not be able to successfully implement all aspects of this strategy or reach any or all of the related targets or expectations in the time frames contemplated or at all. In addition, the NWB Group's ability to serve its target customers, scale certain ventures, deliver growth in new markets may be impacted or lower than expected and previously anticipated revenue, profitability and cost reduction levels may not be achieved in the timescale envisaged or at any time. In particular, the Purpose-led Strategy entails a strategic cultural shift across the RBS Group including the NWB Group which involves a large number of concurrent and interdependent actions and initiatives, including re-focussing of the NWM Franchise, any of which could fail to be implemented in the manner and to the extent currently contemplated, due to operational, legal, execution or other issues. In addition, the successful implementation of the Purpose-led Strategy in part depends on initiatives and growth in ventures that are new to the RBS Group and the NWB Group, or to the market and therefore there is a risk that some or all such initiatives will not succeed, or may be limited in scope or scale, including due to its current ownership structure.

The scale and scope of the intended changes present material business, operational, IT system, internal culture, conduct and people risks to the NWB Group, as the planning and implementation of the transformation programme are resource-intensive and disruptive, and will divert management resources. In addition, changes being concurrently implemented will require the implementation and application of robust governance and controls frameworks, in particular with respect to any strategic partnerships and acquisitions, and further consolidation of IT systems and there is no guarantee that the NWB Group will be successful in doing so. The implementation of the Purpose-led Strategy could result in materially higher costs than currently contemplated, (including due to material uncertainties and factors outside of the NWB Group's control) or could be phased in a manner other than currently expected. These risks will be present throughout the period of implementation which is expected to last during the medium term, and in some cases, materially beyond.

Changes in the economic, political and regulatory environment in which the NWB Group operates or regulatory uncertainty and changes, strong market competition and industry disruption or economic volatility, including 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 RBS Group (including the NWB Group) to adjust aspects of the Purpose-led Strategy or the timeframe for its implementation. In particular because some initiatives depend on achieving growth in new ventures and markets for the NWB Group, the Purpose-led Strategy is vulnerable to an economic downturn. Furthermore, any new strategy requires ongoing confidence from customers and the wider market, without which customer activity and related income levels may fall or the NWB Group's reputation may be adversely affected.

Each of these risks, and others identified in these Risk Factors, individually or collectively could jeopardise the implementation and delivery of the Purpose-led Strategy, result in higher than expected restructuring costs, impact the NWB Group's products and services offering, reputation with customers or business model and adversely impact the NWB Group's ability to deliver the Purpose-led Strategy and meet its targets and guidance, each of which could in turn have a material adverse impact on the NWB Group's results of operations, financial condition and prospects.

The RBS Group's new 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 NWB 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 NWB 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 with 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 10 years. Any delay to establishing such targets and developing its plan for alignment with the 2015 Paris Agreement may entail reputational and market risk, and increase the risks the RBS Group (including NWB Group) faces as a result of climate change.

It is expected that the targets and measures that the NWB Group will need to adopt in line with the RBS Group's Purpose-led Strategy on climate change will require significant reductions to the NWB Group's financed emissions to be realised which, 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 NWB Group's business model and existing exposures, and potentially on timescales outside of risk appetite. Whilst the risks presented by climate change are unprecedented in magnitude and scale, how the NWB Group implements RBS Group's Purpose-led Strategy to respond to climate change may also have a material adverse effect on the NWB Group's business growth, its competitiveness, and profitability over the short, medium and long term. Once established, there is no certainty that the NWB Group will be able to meet its climate change targets and ambitions or that seeking to do so will not have an adverse impact on the NWB Group, including its competition position. See also, 'The NWB Group expects to face significant risks in connection with climate change and the transition to a low carbon economy, which may adversely impact the NWB Group.'

Operational and IT resilience risk

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

The NWB Group is experiencing an increase in cyberattacks across both the entire NWB Group and against the NWB Group's supply chain, reinforcing the importance of due diligence and close working with the third parties on which the NWB Group relies. The NWB 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 NWB Group is required to continue to invest in additional capability designed to defend against the emerging threats. In 2019, the NWB Group was subjected to a small number of Distributed Denial of Service ('DDOS') attacks, which are a pervasive and significant threat to the global financial services industry. The focus is to mitigate the impact of the attacks and sustain availability of services for NWB Group's customers. The NWB 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 NWB Group's IT systems, and to exploit vulnerabilities. The NWB 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, 'The NWB Group's operations are highly dependent on its complex IT systems, and any IT failure could adversely affect the NWB Group'.

Any failure in the NWB 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 customers, credit monitoring or card reissuance), result in regulatory investigations or sanctions being imposed, or may affect the NWB Group's ability to retain and attract customers. Regulators in the UK, US and Europe 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 NWB Group's systems to disclose sensitive information in order to gain access to the NWB Group's data or that of the NWB Group's customers 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 NWB Group's employees or third parties, including third party providers, or may result from accidental technological failure.

The NWB Group expects greater regulatory engagement, supervision and enforcement in relation to its overall resilience to withstand IT systems and related disruption, either through a cyberattack or some other disruptive event. Such increased regulatory engagement, supervision and enforcement is uncertain in relation to scope, consequence and pace of change, which could negatively impact the NWM Group. Due to the NWB 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 NWB Group.

In accordance with the EU General Data Protection Regulation ('GDPR'), the NWB Group is required to ensure it implements timely, appropriate and effective organisational and technological safeguards against unauthorised or unlawful access to the data of the NWB Group, its customers and its employees. In order to meet this requirement, the NWB 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 NWB 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 NWB Group takes measures to prevent, detect and minimise attacks, the NWB Group's systems, and those of third party providers, are subject to frequent cyberattacks.

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

The NWB 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 NWB 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 NWB Group's strategy. The use of unethical or inappropriate data and/or non-compliance with customer data and privacy protection could give rise to conduct and litigation risks and could also increase the risk of an operational event or losses or other adverse consequences due to inappropriate models, systems, processes, decisions or other actions.

Operational risks are inherent in the NWB 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. As at 31 December 2019, the NWB Group offered a diverse range of products and services supported by 53,600 employees; it therefore has complex and diverse operations. As a result, operational risks or losses can arise from a number of internal or external factors. These risks are also present when the NWB Group relies on third-party suppliers or vendors to provide services to it or its customers, as is increasingly the case as the NWB 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 RBS Group's Purpose-led Strategy, the RBS Group's current cost-reduction measures and conditions affecting the financial services industry generally (including Brexit and other geo-political developments) as well as the legal and regulatory uncertainty resulting therefrom. This may place significant pressure on the NWB Group's ability to maintain effective internal controls and governance frameworks. The NWB Group is also dependent on the RBS Group for certain shared critical services, including property and 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 liabilities to the NWB Group should the NWB Group have to increase its capacity to provide these services internally or by outsourcing to third parties for these services. Because the NWB Group utilises certain services provided by the RBS Group, changes in the cost of these services may adversely impact the NWB Group's results of operations. The effective management of operational risks is critical to meeting customer service expectations and retaining and attracting customer business. Ineffective management of such risks could adversely affect the NWB Group.

Although the NWB 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 NWB Group.

See also, 'The NWB Group's parent company has announced a new Purpose-led strategy which will entail a period of transformation and require an internal cultural shift across the NWB Group. It carries significant execution and operational risks and it may not achieve its stated aims and targeted outcomes'.

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

The NWB 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 NWB Group's 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), as well as the communication networks between their branches and main data processing centres, is critical to the NWB 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 NWB Group's ability to provide services to its customers, 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 NWB Group's reputation and could affect its regulatory approvals, competitive position, business and brands, which could undermine its ability to attract and retain customers. This risk is heightened as the NWB Group outsources certain functions and continues to innovate and offer new digital solutions to its customers as a result of the trend towards online and mobile banking.

In 2019, the NWB 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). The NWB Group continues to develop and enhance digital services for its customers and seeks to improve its competitive position through enhancing controls and procedures and strengthening the resilience of services including cyber security. Should such investment and rationalisation initiatives fail to achieve the expected results or prove to be insufficient due to cost challenges or otherwise, this could negatively affect the NWB Group's operations, its reputation and ability to retain or grow its customer business or adversely impact its competitive position, thereby negatively impacting the NWB Group's financial position.

The NWB Group relies on attracting, retaining and developing senior management and skilled personnel, and is required to maintain good employee relations.

The NWB Group's current and future success depends on its ability to attract, retain and develop highly skilled and qualified personnel, including senior management, directors and key employees, in a highly competitive labour market and under internal cost reduction pressures. This entails risk, particularly in light of the implementation of the RBS Group's Purpose-led Strategy, 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, all of which may have an adverse effect on the NWB 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.

Many of the NWB Group's employees in the UK, the ROI and continental Europe are represented by employee representative bodies, including trade unions. Engagement with its employees and such bodies is important to the NWB Group in maintaining good employee relations. Any failure to do so could impact the NWB Group's ability to operate its business effectively.

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

Risk management is an integral part of all of the NWB Group's activities and includes the definition and monitoring of the NWB Group's risk appetite and reporting on its risk exposure and the potential impact thereof on its 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 NWB Group's reputation or its relationship with its regulators, customers, shareholders or other stakeholders.

The NWB 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 NWB Group's regulatory obligations, customers' needs or do not reflect the NWB 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 NWB 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 NWB Group.

The NWB Group has been 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 NWB Group from future instances of misconduct and no assurance can be given that the NWB Group's strategy and control framework will be effective. See also, the 'The NWB Group's parent company has announced a new Purpose-led strategy which will entail a period of transformation and require an internal cultural shift across the NWB Group. It carries significant execution and operational risks and it may not achieve its stated aims and targeted outcomes'. Any failure in the NWB Group's risk management framework could negatively affect the NWB Group and its financial condition through reputational and financial harm and may result in the inability to achieve its strategic objectives for their customers, employees and wider stakeholders.

The NWB Group's operations are subject to inherent reputational risk.
Reputational risk relates to stakeholder and public perceptions of the NWB Group arising from an actual or perceived failure to meet stakeholder expectations, including with respect to the RBS Group's Purpose-led Strategy and related targets, due to any events, behaviour, action or inaction by the NWB Group, its employees or those with whom the NWB Group is associated. This includes brand damage, which may be detrimental to the NWB Group's business, including its ability to build or sustain business relationships with customers, 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 NWB Group's ability to attract and retain customers. In particular, the NWB Group's ability to attract and retain customers (and, in particular, corporate and retail depositors) may be adversely affected by, amongst others: negative public opinion resulting from the actual or perceived manner in which the NWB 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 NWB Group's financial performance, IT systems failures or cyberattacks, data breaches, the level of direct and indirect government support, or the actual or perceived practices in the banking and financial industry in general, or a wide variety of other factors. See also, 'The NWB Group's parent company has announced a new Purpose-led strategy which will entail a period of transformation and require an internal cultural shift across the NWB Group. It carries significant execution and operational risks and it may not achieve its stated aims and targeted outcomes'.

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 NWB Group has implemented a Reputational Risk Policy to improve the identification, assessment and management of customers, transactions, products and issues which represent a reputational risk, the NWB Group cannot be certain that it will be successful in avoiding damage to its business from reputational risk.

Economic and political risk

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

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

The direct and indirect effects of the UK's exit from the EU and the EEA are expected to affect many aspects of the NWB 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, 'The NWB Group faces increased political and economic risks and uncertainty in the UK and global markets'. As a result of such anticipated effects, 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 RBS Group's ability to deliver its Purpose-led Strategy. See also, 'The NWB Group's parent company has announced a new Purpose-led strategy which will entail a period of transformation and require an internal cultural shift across the NWB Group. It carries significant execution and operational risks and it may not achieve its stated aims and targeted outcomes'.

The longer term effects of Brexit on the NWB 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 NWB 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 NWB 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 NWB 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 adversely impact the NWB 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 NWB 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 NWB Group's business operations may be required.

The NWB Group faces 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 and may adversely affect the NWB Group. See also, 'Prevailing uncertainty regarding the terms of the UK's withdrawal from the European Union has adversely affected and will continue to affect the NWB Group'.

The NWB 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 NWB Group. RBSG plc and a number of other RBS Group entities 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's (including the NWB Group's) structure, independently or in conjunction with other mandatory or strategic structural and organisational changes which could adversely impact the NWB Group.

Actual or perceived difficult global economic conditions can create challenging economic and market conditions and a difficult operating environment for the NWB Group's businesses and its customers and counterparties, thereby affecting its financial performance.

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 NWB 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 NWB Group directly (for example, as a result of credit losses) or indirectly (for example, by impacting global economic growth and financial markets and the NWB Group's customers and their banking needs).

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

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

Interest rate risk is significant for the NWB Group, as monetary policy has been accommodative in recent years, including as a result of certain policies implemented by the Bank of England 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 Bank of England) as well as the general UK political climate. Further decreases in interest rates and/or continued sustained low or negative interest rates could put pressure on the NWB Group's interest margins and adversely affect the NWB 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 NWB Group's interest rate margin realised between lending and borrowing costs.

Conversely, while increases in interest rates may support NWB 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, adverse changes to levels of inflation, and falling property prices in the markets in which the NWB Group operates.

The NWB Group expects to face significant risks in connection with climate change and the transition to a low carbon economy, which may adversely impact the NWB Group.

The risks associated with climate change are subject to rapidly increasing prudential and regulatory, political and societal focus, both in the UK and internationally. Embedding climate risk into the NWB Group's risk framework, and adapting the NWB 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 NWB 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, will require widespread levels of adjustment across all sectors of the UK economy and markets in which the NWB Group operates. Some sectors such as property, energy, infrastructure (including transport) and agriculture are expected to be particularly impacted. The nature and timing of the far-reaching commercial, technological, policy and regulatory changes that this transition will entail remain uncertain. The UK Government and UK regulators, including the PRA, NWB'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, 'The RBS Group's new 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 NWB Group over the next ten years', 'The NWB Group's businesses are subject to substantial regulation and oversight, which are constantly evolving and may adversely affect the NWB Group' and 'Any reduction in the credit rating assigned to RBSG plc, any of its subsidiaries (including NWB Plc or other NWB Group subsidiaries) or any of their respective debt securities could adversely affect the availability of funding for the NWB Group, reduce its liquidity position and increase the cost of funding'.

If the NWB 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 NWB Group fail to implement the RBS Group's new strategy on climate change and adapt its business model to the changing regulatory requirements and market expectations on a timely basis, it may have a material and adverse impact on the NWB 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 foreign currency exchange rates may affect the NWB Group's results and financial position.

The NWB Group's foreign exchange exposure arises from structural foreign exchange risk, including capital deployed in the NWB Group's foreign subsidiaries, branches and joint arrangements, and non-trading foreign exchange risk, including customer transactions and profits and losses that are in a currency other than the functional currency of the transaction entity. The NWB Group issues instruments in foreign currencies that assist in meeting the NWB Group's minimum requirements for own funds and eligible liabilities ('MREL'). The NWB 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 regulatory capital and MREL eligible instruments), income, RWAs, capital base and expenses and the reported earnings of NWB Plc's UK and non-UK subsidiaries and may affect the NWB Group's reported consolidated financial condition.

Decisions of major central banks (including by the Bank of England, the European Central Bank and the US Federal Reserve) and political or market events (including Brexit and the general UK political climate), which are outside of the NWB 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 NWB Group is controlled by the RBS 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 at 31 December 2019, the UK Government held 62.1% of the issued ordinary share capital of RBSG plc. There can be no certainty as to the continuation of the sell-down process or the timing or extent of such sell-downs.

UK Government Investments Limited ('UKGI') manages HM Treasury's shareholder relationship with RBSG plc and, although HM Treasury has indicated that it intends to respect the commercial decisions of the RBS Group and that the RBS Group entities (including the NWB Group) will continue to have their 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 NWB Group's) capital strategy, dividend policy, remuneration policy or the conduct of the RBS Group's (including the NWB Group's) operations, and HM Treasury or UKGI's approach depends on government policy, which could change, including as a result of a general election. The exertion of such influence over RBS Group could in turn have an adverse effect on the governance or business strategy of the NWB Group.

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

Financial resilience risk

The NWB Group may not meet targets or generate sustainable returns.

As part of the RBS Group's strategy, the NWB Group has principally become a UK-focussed domestic banking group and is included in a number of financial, capital and operational targets for the RBS Group as part of its Purpose-led Strategy including in respect of: leverage ratio targets, funding plans and requirements, reductions in RWAs and the timing thereof, employee engagement, diversity and inclusion as well as environmental, social and customer satisfaction targets. See also, 'The NWB Group's parent company has announced a new Purpose-led strategy which will entail a period of transformation and require an internal cultural shift across the NWB Group. It carries significant execution and operational risks and it may not achieve its stated aims and targeted outcomes'.

The NWB Group's ability to meet the RBS Group and the NWB Group's respective targets and to successfully meet its strategy are subject to various internal and external factors and risks. These include, but are not limited to, market, regulatory, economic and political factors, developments relating to litigation, governmental actions, investigations and regulatory matters, and operational risks and risks relating to the NWB Group's business model and strategy (including risks associated with environmental, social and governance issues). A number of factors may impact the Bank's ability to maintain its current CET1 ratio, including impairments, limited organic capital generation or unanticipated increases in RWAs. In addition, the run-down of RWAs may be accompanied by the recognition of disposal losses which may be higher than anticipated.

The NWB Group's ability to meet its planned reductions in its annual underlying 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 NWB Group's long-term product offering or competitive position and its ability to meet its other targets, including those related to customer satisfaction.

There is no certainty that the RBS Group's Purpose-led Strategy will be successfully executed, that the NWB Group will meet its targets and expectations, or that the NWB Group will be a viable, competitive or profitable banking business.

The NWB Group has significant exposure to counterparty and borrower risk.

The NWB 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 NWB Group's businesses. The NWB 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. The NWB Group's lending strategy and associated processes may fail to identify or anticipate weaknesses or risks in a particular sector, market or borrower, or fail to adequately value physical or financial collateral. This may result in increased default rates or a higher loss given default for loans, which may, in turn, impact the NWB Group's profitability. See 'Capital and risk management — Credit Risk'.

The credit quality of the NWB 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 any deterioration in such conditions or changes to legal or regulatory landscapes could worsen borrower and counterparty credit quality and consequently impact the NWB Group's ability to enforce contractual security rights. See also, 'The NWB Group faces increased political and economic risks and uncertainty in the UK and global markets'. In particular, developments relating to Brexit or the consequences thereof, may adversely impact credit quality in the UK and the resulting negative economic outlook could drive an increased level of credit impairments reflecting the more forward-looking nature of IFRS 9. See also 'Prevailing uncertainty regarding the terms of the UK's withdrawal from the European Union has adversely affected and will continue to affect the NWB Group'.

Within the UK, the level of household indebtedness remains high although the pace of consumer credit growth has slowed during 2019. The ability of such households to service their debts could be challenged by a period of high unemployment or increased interest rates. In particular, the NWB Group may be affected by volatility in property prices (including as a result of Brexit and the general UK political climate) given that the NWB Group's mortgage loan and wholesale property portfolio as at 31 December 2019, amounted to £124.1 billion, representing 58.7% of the NWB Group's customer loan exposure. If property prices were to weaken this could lead to higher impairment charges, particularly if default rates also increase. In addition, the NWB Group's credit risk may be exacerbated if the collateral that it holds cannot be realised as a result of market conditions or regulatory intervention or if it is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure that is due to the NWB Group. This is most likely to occur during periods of illiquidity or depressed asset valuations.

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 NWB Group. This systemic risk may also adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with which the NWB Group interacts on a daily basis. See also, 'The NWB Group may not be able to adequately access sources of liquidity and funding'.

As a result, 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 NWB Group and an inability to engage in routine funding transactions.

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

The market for UK financial services is highly competitive. The NWB Group expects such competition to continue or intensify in response to evolving customer behaviour, technological changes (including the growth of digital banking, including from fintech entrants), competitor behaviour, new entrants to the market (including non-traditional financial services providers such as large retail or technology conglomerates, who may have competitive advantages in scale, technology and customer engagement), competitive foreign-exchange offerings, industry trends resulting in increased disaggregation or unbundling of financial services or conversely the re-intermediation of traditional banking services, and the impact of regulatory actions and other factors. In particular, developments in the financial sector resulting from new banking, lending and payment solutions offered by rapidly evolving incumbents, challengers and new entrants, notably with respect to payment services and products, and the introduction of disruptive technology may impede the NWB Group's ability to grow or retain its market share and impact its revenues and profitability, particularly in its key UK retail banking segment. Moreover, innovations such as biometrics, artificial intelligence, the cloud, blockchain, and quantum computing may rapidly facilitate industry transformation. These trends may be catalysed by various regulatory and competition policy interventions, particularly as a result of the UK initiative on Open Banking and other remedies imposed by the Competition and Markets Authority ('CMA') which are designed to further promote competition within retail banking, as well as the competition-enhancing measures under the RBS Group's Alternative Remedies Package. See also, 'The cost of implementing the Alternative Remedies Package could be more onerous than anticipated'.

Increasingly many of the products and services offered by the NWB Group are, and will become, technology intensive for example Bó, Mettle, Esme, FreeAgent, Tyl, APtimise and Path, some of the NWB Group's recent fintech ventures. The NWB Group's ability to develop digital solutions that comply with related regulatory changes has become increasingly important to retaining and growing the NWB Group's customer business in the UK. There can be no certainty that the NWB Group's innovation strategy (which includes investment in its IT capability intended to address the material increase in customer use of online and mobile technology for banking as well as selective acquisitions, which carry associated risks) will be successful or that it will allow the NWB Group to continue to grow such services in the future. Certain of the NWB Group's current or future competitors may be more successful in implementing innovative technologies for delivering products or services to their customers. The NWB 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, including the UK initiative on Open Banking (PSD2) and Open Finance (for which the FCA announced a call for input in December 2019), resulting in increased competition from both traditional banking businesses as well as new providers of financial services, including technology companies with strong brand recognition, that may be able to develop financial services at a lower cost base.

Furthermore, the NWB Group's competitors may be better able to attract and retain customers and key employees and may have access to lower cost funding and/or be able to attract deposits on more favourable terms than the NWB Group. Although the NWB 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 NWB Group's focus on its cost savings targets. This may limit additional investment in areas such as financial innovation and therefore could affect the NWB Group's offering of innovative products or technologies for delivering products or services to customers and its competitive position. Furthermore, the development of innovative products depends on the NWB Group's ability to produce underlying high quality data, failing which its ability to offer innovative products may be compromised.

If the NWB 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 NWB 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 NWB 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 NWB Group.

In addition, recent and future disposals and restructurings by the NWB Group, the implementation of the RBS Group's Purpose-led Strategy and delivery on its climate ambition, cost-reduction measures, as well as employee remuneration constraints, may also have an impact on the NWB Group's ability to compete effectively and intensified competition from incumbents, challengers and new entrants in the NWB Group's core markets could affect the NWB Group's ability to maintain satisfactory returns. See also, 'The NWB Group's parent company has announced a new Purpose-led strategy which will entail a period of transformation and require an internal cultural shift across the NWB Group. It carries significant execution and operational risks and it may not achieve its stated aims and targeted outcomes'. 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 NWB Group's remaining competitors gaining greater capital and other resources, including the ability to offer a broader range of products and services and geographic diversity, or the emergence of new competitors.

The NWB Group may not meet the prudential regulatory requirements for capital or manage its capital effectively, which could trigger the execution of certain management actions or recovery options.

The RBS Group and NWB Plc (on a standalone basis) are required by regulators in the UK, the EU and other jurisdictions in which they undertake regulated activities to maintain adequate financial resources. Adequate capital also gives the RBS Group (including the NWB Group) financial flexibility in the face of turbulence and uncertainty in the global economy and specifically in their core UK and European markets.

As at 31 December 2019, NWB Plc's CET1 ratio was 15.9%. The RBS Group currently targets to maintain its CET1 ratio at 13-14% over the medium to long term. The RBS Group's target capital ratio is based on a combination of its expected regulatory requirements and internal modelling, including stress scenarios and management's and/or the PRA's views on appropriate buffers above minimum operating levels.

The RBS Group's current capital strategy for NWB Plc is based on: the expected accumulation of additional capital through the accrual of profits over time; the receipt of

RWAs from other RBS Group entities; RWA growth in the form of regulatory uplifts and lending growth and other capital management initiatives which focus on improving capital efficiency through improved data and upstreaming of dividends from NWB Plc to RBSG plc.

A number of factors may impact the NWB Group's ability to maintain its current CET1 ratio target and achieve its capital strategy. These include, amongst other things:

- a depletion of its capital resources through increased costs or liabilities, reduced profits or losses (including as a result of extreme one-off incidents such as cyber, fraud or conduct issues) or, sustained periods of low or lower interest rates, reduced asset values resulting in write-downs, impairments, changes in accounting policy, accounting charges or foreign exchange movements;
- a failure to reduce RWAs in accordance within the timeline contemplated by the RBS Group's capital plan;
- an increase in the quantum of RWAs in excess of that expected, including due to regulatory changes; and
- changes in prudential regulatory requirements including NWB Plc's Total Capital Requirement set by the PRA, including Pillar 2 requirements and regulatory buffers (including the increased 2% countercyclical capital buffer for UK banks with effect from 16 December 2020), as well as any applicable scalars.

In addition to regulatory capital, NWB Plc is required to maintain a set quantum of internal MREL set as a percentage of its RWAs, which comprises loss-absorbing senior funding and regulatory capital instruments internally issued (indirectly) up to RBSG plc. The Bank of England has identified single point-of-entry as the preferred resolution strategy for RBS Group. As a result, RBSG plc is the only RBS Group entity that is able to externally issue securities that count towards the RBS Group's MREL requirements, the proceeds of which can then be downstreamed to meet the internal MREL issuance requirements of its operating entities, including NWB Plc, as required. NWB Plc is therefore dependent on RBSG plc's ability to raise external MREL securities in order to meet the internal MREL requirements of NWB. See also, 'The NWB Group is reliant on the RBS Group for capital and funding support, and is substantially reliant on the RBSG plc's ability to issue sufficient amounts of external MREL securities and downstream the proceeds to the NWB Group'.

If, under a stress scenario, the level of capital or MREL falls outside of risk appetite, there are a range of recovery management actions (focussed on risk reduction and mitigation) that the NWB Group could take to manage its capital levels, which may not be sufficient to restore adequate capital levels. Under the EU Bank Recovery and Resolution Directive ('BRRD'), as implemented in the UK, the RBSG Group must maintain a recovery plan acceptable to its regulator, such that a breach of the NWB Group's applicable capital or leverage requirements may trigger the application of the RBS Group's recovery plan to remediate a deficient capital position. The RBS Group's regulator may request that the NWB Group carry out certain capital management actions or, if the RBS Group's CET1 ratio falls below 7%, certain regulatory capital instruments issued by the RBS Group will be written-down or converted into equity and there may be an issue of additional equity by the RBS Group, which could result in the dilution of the RBS Group's existing shareholders. The success of such issuances will also be dependent on favourable market conditions and the RBS Group may not be able to raise the amount of capital required or on acceptable terms or at all. Separately, the RBS Group may address a shortage of capital by taking action to reduce leverage exposure and/or RWAs via asset or business disposals. Such actions may, in turn, affect, among other things, the NWB Group's product offering, credit ratings, ability to operate its businesses, pursue its current strategies and pursue strategic opportunities, any of which may affect the underlying profitability of the NWB Group and future growth potential. See also, 'The RBS Group (including the NWB 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 NWB Group's Eligible Liabilities'.

The NWB Group may not be able to adequately access sources of liquidity and funding.

The NWB Group is required to access sources of liquidity and funding through retail and wholesale deposits, as well as through the debt capital markets. As at 31 December 2019, the NWB Group held £39.7 billion in deposits and the level of deposits may fluctuate due to factors outside the NWB Group's control, such as a loss of confidence (including in other RBS Group entities), increasing competitive pressures for retail customer deposits or the reduction or cessation of deposits by foreign wholesale depositors, which could result in a significant outflow of deposits within a short period of time. An inability to grow, or any material decrease in, the NWB Group's deposits could, particularly if accompanied by one of the other factors described above, materially affect the NWB Group's ability to satisfy its liquidity or funding needs.

If the NWB Group's liquidity position were to come under stress, and if the NWB Group were unable to raise funds through deposits or in the debt capital markets on acceptable terms or at all, its liquidity position could be adversely affected and it might be unable to meet deposit withdrawals on demand or at their contractual maturity, 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 NWB 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. In a time of reduced liquidity, the NWB 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 NWB Group's results.

The NWB Group is reliant on the RBS Group for capital and funding support, and is substantially reliant on RBSG plc's ability to issue sufficient amounts of external MREL securities and downstream the proceeds to the NWB Group.

NWB Plc receives capital and funding from the RBS Group. NWB Plc has set target levels for different tiers of capital and for the internal MREL, as percentages of its RWAs. The level of capital and funding required for NWB Plc to meet its internal targets is therefore a function of the level of RWAs and its leverage exposure in NWB Plc and this may vary over time.

NWB Plc's internal MREL comprises the capital value of regulatory capital instruments and loss-absorbing senior funding issued by NWB Plc to its ultimate parent, RBSG plc. The Bank of England 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 MREL targets and/or requirements of its operating entities, including NWB Plc. NWB 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. NWB Plc is also dependent on RBSG plc to fund its internal MREL target over time and its ability to raise and maintain sufficient amounts of external MREL liabilities to support this.

If RBSG plc is unable to issue adequate levels of MREL securities such that it is unable to downstream sufficient amounts to the NWB Plc, this could lead to a failure of the NWB Group to meet its own individual internal MREL requirements as well as the internal MREL requirements of subsidiaries within the NWB Group. See also, 'The NWB Group may not meet the prudential regulatory requirements for capital or manage its capital effectively, which could trigger the execution of certain management actions or recovery options'.

Any reduction in the credit rating assigned to RBSG plc, any of its subsidiaries (including NWB Plc or other NWB Group subsidiaries) or any of their respective debt securities could adversely affect the availability of funding for the NWB Group, reduce its liquidity position and increase the cost of funding.

Rating agencies regularly review RBSG plc, NWB 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 NWB 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 NWB Group operates; the implementation of structural reform; the legal and regulatory frameworks applicable to the NWB 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 NWB 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, 'The NWB Group's parent company has announced a new Purpose-led strategy which will entail a period of transformation and require an internal cultural shift across the NWB Group. It carries significant execution and operational risks and it may not achieve its stated aims and targeted outcomes'.

In addition, credit ratings agencies are increasingly taking into account environmental, social and governance ("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, NWB Plc or of certain other RBS Group entities, including, in particular, downgrades below investment grade, or a deterioration in the capital markets' perception of the NWB Group's financial resilience could significantly affect the NWB 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 NWB Group's (and, in particular, NWB 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 NWB Group (and, in particular, NWB Plc). This could in turn adversely impact its competitive position and threaten the prospects of the NWB Group in the short to medium-term.

The NWB 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 the bank will need to take action to strengthen its capital position.

Failure by the RBS Group to meet the quantitative and qualitative requirements of the stress tests as set forth by its UK regulator 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, restrictions on capital distributions and loss of investor confidence. This may, in turn, negatively affect the NWB Group.

The NWB 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 NWB Group's business, strategy and capital requirements, the NWB 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 NWB Group utilises models for valuation, credit approvals, calculation of loan impairment charges on an IFRS 9 basis, financial reporting and for financial crime and fraud risk management. The NWB 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 NWB Group operates, to capture risks and exposures at the subsidiary level, to be updated in line with the RBS Group's or the NWB Group's current business model or operations, or findings of deficiencies by the RBS Group's (and in particular, the NWB 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 NWB Group may also face adverse consequences as a result of actions based on models that are poorly developed, implemented or used, models that are based on inaccurate or compromised data or as a result of the modelled outcome being misunderstood, or by such information being used for purposes for which it was not designed.

The NWB Group's financial statements are sensitive to the 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 NWB Group's results and financial position, based upon materiality and significant judgments and estimates, which include loan impairment provisions, are set out in 'Critical accounting policies and key sources of estimation uncertainty' on page 91. New accounting standards and interpretations that have been issued by the International Accounting Standards Board but which have not yet been adopted by the NWB Group are discussed in 'Accounting developments' on page 91.

Changes in accounting standards may materially impact the NWB 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 NWB Group having to recognise additional liabilities on its balance sheet, or in further write-downs or impairments to its assets and could also significantly impact the financial results, condition and prospects of the NWB Group.

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 NWB 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 NWB Group's internal valuation models require the NWB Group to make assumptions, judgments and estimates to establish fair value, which are complex and often relate to matters that are inherently uncertain.

With effect from 1 January 2019, the NWB Group adopted IFRS 16 Leases, as disclosed in the Accounting policies. This increased Other assets by £1.0 billion and Other liabilities by £1.4 billion. While adoption of this standard has no effect on the NWB Group's cash flows, it has impacted financial ratios, which may influence investors' perception of the financial condition of the NWB Group.

The RBS Group (including the NWB 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 NWB Group's Eligible Liabilities.
The Banking Act 2009, as amended ('Banking Act'), implemented the BRRD in the UK and

created a special resolution regime ('SRR'). Under the SRR, HM Treasury, the Bank of England 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 Bank of England; (iii) transfer of part of the assets, rights or liabilities of the relevant entity to one or more asset management vehicles for management of the transferor's assets, rights or liabilities; (iv) the write-down, conversion, transfer, modification, or suspension of the relevant entity's equity, capital instruments and liabilities ('Eligible Liabilities'); and (v) temporary public ownership of the relevant entity. These tools may be applied to RBSG plc as the parent company or to the NWB 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.

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 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 NWB Group) and may depend on factors outside of the NWB Group's control. Moreover, the relevant provisions of the Banking Act remain untested in practice.

If the NWB 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 NWB 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 NWB Group and any Eligible Liabilities of the NWB Group, including write-down, conversion, transfer or modification which may adversely affect the financial results, condition and prospects of the NWB Group.

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

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

The RBS Group has dedicated significant resources towards the preparation of the RBS Group for a potential resolution scenario. However, if the assessment reveals that the RBS Group is not adequately prepared to be resolved, or does not have adequate plans in place to meet resolvability requirements by 1 January 2022, the RBS Group may be required to take action to enhance its preparations to be resolvable, resulting in additional cost and the dedication of additional resources. Such actions may adversely affect the RBS Group and/or the NWB Group, resulting in restrictions on maximum individual and aggregate exposures, a requirement to dispose of specified assets, a requirement to cease carrying out certain activities and/or maintaining a specified amount of MREL. This may also result in reputational damage and/or loss of investor confidence.

Legal, regulatory and conduct risk

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

The NWB 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 NWB 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', and increased regulatory focus in certain areas, including conduct, consumer protection regimes, anti-money laundering, anti-bribery, anti-tax evasion, payment systems, sanctions and anti-terrorism laws and regulations. This has resulted in the NWB Group facing greater regulation and scrutiny in the UK and other countries in which it operates.

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 NWB Group is required to continue to comply with regulatory requirements in respect of the implementation of the UK ring-fencing regime and 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 NWB 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 NWB 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 NWB Group's authorisations and licences, the products and services that the NWB Group may offer, its reputation and the value of its assets, the NWB Group's operations or legal entity structure, and the manner in which the NWB 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 NWB 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 NWB Group operates;
- amendments to the framework or requirements relating to the quality and quantity of regulatory capital to be held by the NWB 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;
- additional rules and regulatory initiatives and review relating to customer protection and resolution of disputes and complaints, including increased focus by regulators (including the Financial Ombudsman Service) on how institutions conduct business, particularly with regard to the delivery of fair outcomes for customers and orderly/transparent markets;
- rules and regulations relating to, and enforcement of, anti-corruption, anti-bribery, anti-money laundering, anti-terrorism, sanctions, anti-tax evasion or other similar regimes;
- the imposition of additional restrictions on the NWB 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 governance practice and disclosure 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;
- increased attention to the protection and resilience of, and competition and innovation in, UK payment systems and retail banking developments relating to the UK initiative on Open Banking, Open Finance and the European directive on payment services;
- 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 NWB Group's operations, such as the imposition of a financial transaction tax, changes in tax rates, changes in the scope and administration of the Bank Levy, 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 NWB 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, such as the minimum energy efficient requirements for residential and commercial real estate, may have a significant impact on the markets in which the NWB Group operates, especially mortgage lending, 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 Bank of England 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 NWB 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 NWB 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 NWB Group to comply with such laws, rules and regulations, may adversely affect the NWB Group's business, financial condition and results. In addition, uncertainty and insufficient international regulatory coordination as enhanced supervisory standards are developed and implemented may adversely affect the NWB Group's ability to engage in effective business, capital and risk management planning.

The NWB Group is subject to a number of legal and regulatory actions and investigations including conduct-related reviews, anti-money laundering and redress projects, the outcomes of which are inherently difficult to predict, and which could have an adverse effect on the NWB Group.

The NWB 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 NWB 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 UK, the US and other jurisdictions.

The legal and regulatory actions specifically referred to below are, in the NWB Group's view, the most significant legal and regulatory actions to which the NWB Group is currently exposed. However, the NWB Group is also subject to a number of ongoing reviews, investigations and litigation proceedings relating to, among other matters, the setting of benchmark rates such as LIBOR and related derivatives trading, product mis-selling, customer mistreatment, anti-money laundering, antitrust and various other compliance issues. Legal and regulatory actions are subject to many uncertainties, and their outcomes, including the timing, amount of fines or settlements or the form of any settlements, which may be material and in excess of any related provisions, are often difficult to predict, particularly in the early stages of a case or investigation, and the NWB Group's expectations for resolution may change.

In particular, the NWB Group has for a number of years been involved in conduct-related reviews and redress projects, including a review of certain historical customer connections in its former Global Restructuring Group (GRG) and management of claims arising from historical sales of payment protection insurance. In relation to the GRG review, the NWB Group established a complaints process in November 2016, overseen by an independent third party. The complaints process is now closed to new complaints, although the NWB Group continues to handle certain complaints that were made before the deadline for new complaints passed. In addition, the NWB Group continues to handle claims in relation to historical sales of payment protection insurance and took an additional provision of £604 million in third quarter of 2019, reflecting greater than predicted complaints volumes in the lead up to the 29 August 2019 deadline for making new complaints. See 'Litigation, investigations and reviews' of Note 28 on the consolidated accounts for details of these matters. The NWB Group has dedicated resources in place to manage claims and complaints relating to the above and other conduct-related matters. Provisions taken in respect of such matters include the costs involved in administering the various complaints processes. Any failure to administer such processes adequately, or to handle individual complaints fairly or appropriately, could result in further claims as well as the imposition of additional measures or limitations on the NWB Group's operations, additional supervision by the NWB Group's regulators, and loss of investor confidence.

Adverse outcomes or resolution of current or future legal or regulatory actions, including conduct-related reviews or redress projects, could result in restrictions or limitations on the NWB Group's operations, and could adversely impact the NWB Group's capital position or its ability to meet regulatory capital adequacy requirements. Failure to comply with undertakings made by the NWB Group to its regulators may result in additional measures or penalties being taken against the NWB Group.

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

UK and international regulators are driving a transition from the use of interbank offer rates (IBORs), including LIBOR, to alternative risk free rates (RFRs). In the UK, the FCA has asserted that they will not compel LIBOR submissions beyond 2021, thereby jeopardising its continued availability, and have strongly urged market participants to transition to RFRs, as the CFTC and other regulators in the US. The NWB Group has a significant exposure to IBORs, and continues to reference it in certain products, primarily its commercial lending and legacy securities. Although the NWB 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 NWB Group, its customers and the financial services industry more widely. Following an analysis of the NWB Group's IBOR-linked financial products and instruments, the NWB 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 NWB 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 NWB 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 certain financial instruments and could have an adverse effect on the value of, return on and trading market for such financial instruments and on the NWB 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.

The NWB Group operates in markets that are subject to intense scrutiny by the competition authorities.

There is significant oversight by competition authorities of the markets which the NWB Group operates in. The competitive landscape for banks and other financial institutions in the UK and the rest of Europe is rapidly changing. Recent regulatory and legal changes have and may continue to result in new market participants and changed competitive dynamics in certain key areas, such as in retail and SME banking in the UK where the introduction of new entrants is being actively encouraged by the UK Government.

The UK retail banking sector has been subjected to intense scrutiny by the UK competition authorities and by other bodies, including the FCA and the Financial Ombudsman Service, in recent years, including with a number of reviews/inquiries being carried out, including market reviews conducted by the CMA and its predecessor the Office of Fair Trading regarding SME banking and personal banking products and services, the Independent Commission on Banking and the Parliamentary Commission on Banking Standards.

These reviews raised significant concerns about the effectiveness of competition in the retail banking sector. The CMA's Retail Banking Market Order 2017 imposes remedies primarily intended to make it easier for consumers and businesses to compare personal current account ('PCA') and SME bank products, increase the transparency of price comparison between banks and amend PCA overdraft charging. These remedies impose additional compliance requirements on the RBS Group and the NWB Group and could, in aggregate, adversely impact the NWB Group's competitive position, product offering and revenues.

Adverse findings resulting from current or future competition investigations may result in the imposition of reforms or remedies which may impact the competitive landscape in which the NWB Group operates or result in restrictions on mergers and consolidations within the financial sector.

The cost of implementing the Alternative Remedies Package could be more onerous than anticipated.

In connection with the implementation of the Alternative Remedies Package (regarding the business previously described as Williams & Glyn), an independent body ('Independent Body') has been established to administer the Alternative Remedies Package. The implementation of the Alternative Remedies Package has involved costs for the NWB Group, including but not limited to the funding commitments of £425 million for the Capability and Innovation Fund and £350 million for the incentivised switching scheme, both being administered by the Independent Body. Implementation of the Alternative Remedies Package may involve additional costs for the NWB Group and may also divert resources from the NWB Group's operations and jeopardise the delivery and implementation of other significant plans and initiatives. In addition, under the terms of the Alternative Remedies Package, the Independent Body may require the NWB Group to modify certain aspects of the NWB Group's execution of the incentivised switching scheme, which could increase the cost of implementation. Furthermore, should the uptake within the incentivised switching scheme not be sufficient, the Independent Body has the ability to extend the duration of the scheme by up to twelve months, impose penalties of up to £50 million, and can compel the RBS Group to extend the customer base to which the scheme applies which may result in prolonged periods of disruption to a wider portion of the NWB Group's business.

As a direct consequence of the incentivised switching scheme (which comprises part of the Alternative Remedies Package), the NWB Group will lose existing customers and deposits, which in turn will have adverse impacts on the NWB Group's business and associated revenues and margins. Furthermore, the capability and innovation fund (which also comprises part of the Alternative Remedies Package) is intended to benefit eligible competitors and negatively impact the NWB Group's competitive position. To support the incentivised switching initiative, upon request by an eligible bank, the RBS Group has agreed to grant those customers which have switched to eligible banks under the incentivised switching scheme access to its branch network for cash and cheque handling services, which may impact customer service quality for the NWB Group's own customers with consequent competitive, financial and reputational implications. The implementation of the incentivised switching scheme is also dependent on the engagement of the eligible banks with the incentivised switching scheme and the application of the eligible banks to and approval by the Independent Body. The incentivised transfer of SME customers to third party banks places reliance on those third parties to achieve satisfactory customer outcomes which could give rise to reputational damage to the NWB Group if these are not forthcoming.

A failure to comply with the terms of the Alternative Remedies Package could result in the imposition of additional measures or limitations on the NWB Group's operations, additional supervision by the NWB Group's regulators, and loss of investor confidence.

Changes in tax legislation or failure to generate future taxable profits may impact the recoverability of certain deferred tax assets recognised by the NWB Group.
In accordance with IFRS (as adopted by the European Union), the NWB 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 NWB Group's capital position. In addition, the NWB Group's interpretation or application of relevant tax laws may differ from those of the relevant tax authorities and provisions are made for potential tax liabilities that may arise on the basis of the amounts expected to be paid to tax authorities. The amounts ultimately paid may differ materially from the amounts provided depending on the ultimate resolution of such matters.

Forward-looking statements

Cautionary statement regarding forward-looking statements
Certain sections in this document contain 'forward-looking statements' as that term is defined in the United States Private Securities Litigation Reform Act of 1995, such as statements that include the words 'expect', 'estimate', 'project', 'anticipate', 'commit', 'believe', 'should', 'intend', 'plan', 'could', 'probability', 'risk', 'Value-at-Risk (VaR)', 'target', 'goal', 'objective', 'may', 'endeavour', 'outlook', 'optimistic', 'prospects' and similar expressions or variations on these expressions.

In particular, this document includes forward-looking statements relating, but not limited to: future profitability and performance, including financial performance targets such as return on tangible equity; cost savings and targets; implementation of the RBS Group and NWB Group's strategy; litigation and government and regulatory investigations, including the timing and financial and other impacts thereof; the implementation of the Alternative Remedies Package; the continuation of the NWB Group's balance sheet reduction programme, including the reduction of risk-weighted assets (RWAs) and the timing thereof; capital and strategic plans and targets; capital, liquidity and leverage ratios and requirements, including CET1 Ratio, RWA equivalents (RWAe), Pillar 2 and other regulatory buffer requirements, minimum requirement for own funds and eligible liabilities, and other funding plans; funding and credit risk profile; capitalisation; portfolios; net interest margin; customer loan and income growth; the level and extent of future impairments and write-downs, including with respect to restructuring and remediation costs and charges; and the NWB Group's exposure to political risk, economic risk, climate change risk, operational risk, conduct risk, cyber and IT risk and credit rating risk and to various types of market risks, including interest rate risk, foreign exchange rate risk and commodity and equity price risk; customer experience including our Net Promotor Score (NPS); employee engagement and gender balance in leadership positions.

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

Important factors that could affect the actual outcome of the forward-looking statements
We caution you that a large number of important factors could adversely affect our results or our ability to implement our strategy, cause us to fail to meet our targets, predictions, expectations and other anticipated outcomes or affect the accuracy of forward-looking statements we describe in this document including in the risk factors and other uncertainties set out in the NWB Group's 2019 Annual Report and other risk factors and uncertainties discussed in this document. These include the significant risks presented by: strategic risk (including in respect of: the implementation and execution of the RBS Group's Purpose-led Strategy, including as it relates to RBS Group's climate ambition and the risk that the RBS Group and/or the NWB Group may not achieve its targets); operational and IT resilience risk (including in respect of: the NWB Group being subject to cyberattacks; operational risks inherent in the NWB Group's business; the NWB Group's operations being highly dependent on its IT systems; the NWB Group relying on attracting, retaining and developing senior management and skilled personnel and maintaining good employee relations; the NWB Group's risk management framework; and reputational risk), economic and political risk (including in respect of: uncertainties surrounding the terms of the UK's withdrawal from the European Union; increased political and economic risks and uncertainty in the UK and global markets; changes in interest rates; climate change and the transition to a low carbon economy; changes in foreign currency exchange rates; and HM Treasury's ownership of RBSG plc and the possibility that it may exert a significant degree of influence over the RBS Group), financial resilience risk (including in respect of: the NWB Group's ability to meet targets and generate sustainable returns; deteriorations in borrower and counterparty credit quality; the highly competitive markets in which the NWB Group operates; the ability of the NWB Group to meet prudential regulatory requirements for capital or manage its capital effectively; the ability of the NWB Group to access adequate sources of liquidity and funding; the NWB Group's reliance on RBS Group for capital and funding support; changes in the credit ratings of RBSG plc, any of its subsidiaries or any of its respective debt securities; the RBS Group's ability to meet requirements of regulatory stress tests; possible losses or the requirement to maintain higher levels of capital as a result of limitations or failure of various models; sensitivity of the NWB 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) and legal, regulatory and conduct risk (including in respect of: the NWB 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; heightened regulatory and governmental scrutiny (including by competition authorities); implementation of the Alternative Remedies Package and the costs related thereto; and changes in tax legislation).

The forward-looking statements contained in this document speak only as at the date hereof, and the NWB Group does not assume or undertake any obligation or responsibility to update any forward-looking statement to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

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