Risk and capital management

Presentation of information

Where indicated by a bracket in the margins, certain information in the Risk and capital management section (pages 157 to 245) is within the scope of the Independent auditor's report.

Update on COVID-19

The unprecedented challenge posed by the global pandemic – for families, businesses and governments around the world – also led to a number of significant risk management challenges. NatWest Group remained committed to supporting its customers while operating safely and soundly in line with its strategic objectives. Most notably, the credit risk profile was heightened due to deteriorating economic conditions. NatWest Group provided a significant level of payment holidays during the crisis, and facilitated a high volume of loans through the UK government CBILS, CLBILS and BBLS initiatives. This is detailed in the Credit risk section.

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

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

Risk management framework

Introduction

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

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

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

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

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

Culture

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

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

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

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

Training

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

Our Code

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

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

If conduct falls short of NatWest Group's required standards, the accountability review process is used to assess how this should be reflected in pay outcomes for those individuals concerned. The NatWest Group 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

Governance

Committee structure

The diagram shows NatWest Group plc's risk committee structure in 2020 and the main purposes of each committee.

NatWest Group plc Board
Considers material risks and approves, as appropriate, actions recommended by the Group Board Risk Committee. Monitors performance against risk appetite. Reviews and approves the risk appetite framework and qualitative statements of risk appetite for all key risks.

Group Board Risk Committee
Provides oversight and advice to the Board on current and future risk exposures, risk profile, risk appetite and risk culture. Reviews the design and implementation of the risk management framework and provides input to remuneration decisions.

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

Group Executive Risk Committee(1)
Reviews, challenges and debates all material risk and control matters across the Group. Supports the CEO and other accountable executives in approval of the risk management framework, agrees executive approved risk appetite measures and discharges other risk management accountabilities.

Group Executive Committee(2)
Supports the Group CEO in discharging her individual accountabilities including matters relating to strategy, financials, capital, risk and operational issues. Monitors the implementation of culture change. Supports the Group CEO in forming recommendations to the Board and relevant board committees.

Group Asset & Liability Management Committee(3, 4)
Supports the Group CFO in overseeing the effective management of the Group's current and future balance sheet in line with Board-approved strategy and risk appetite.

Group Executive Disclosure Committee(5)
Ensures that NatWest Group and relevant subsidiary disclosures are accurate, complete and fair. Supports the Group CRO in reviewing and evaluating all significant expected credit losses and the Group CFO in reviewing and evaluating related provisions and valuations.

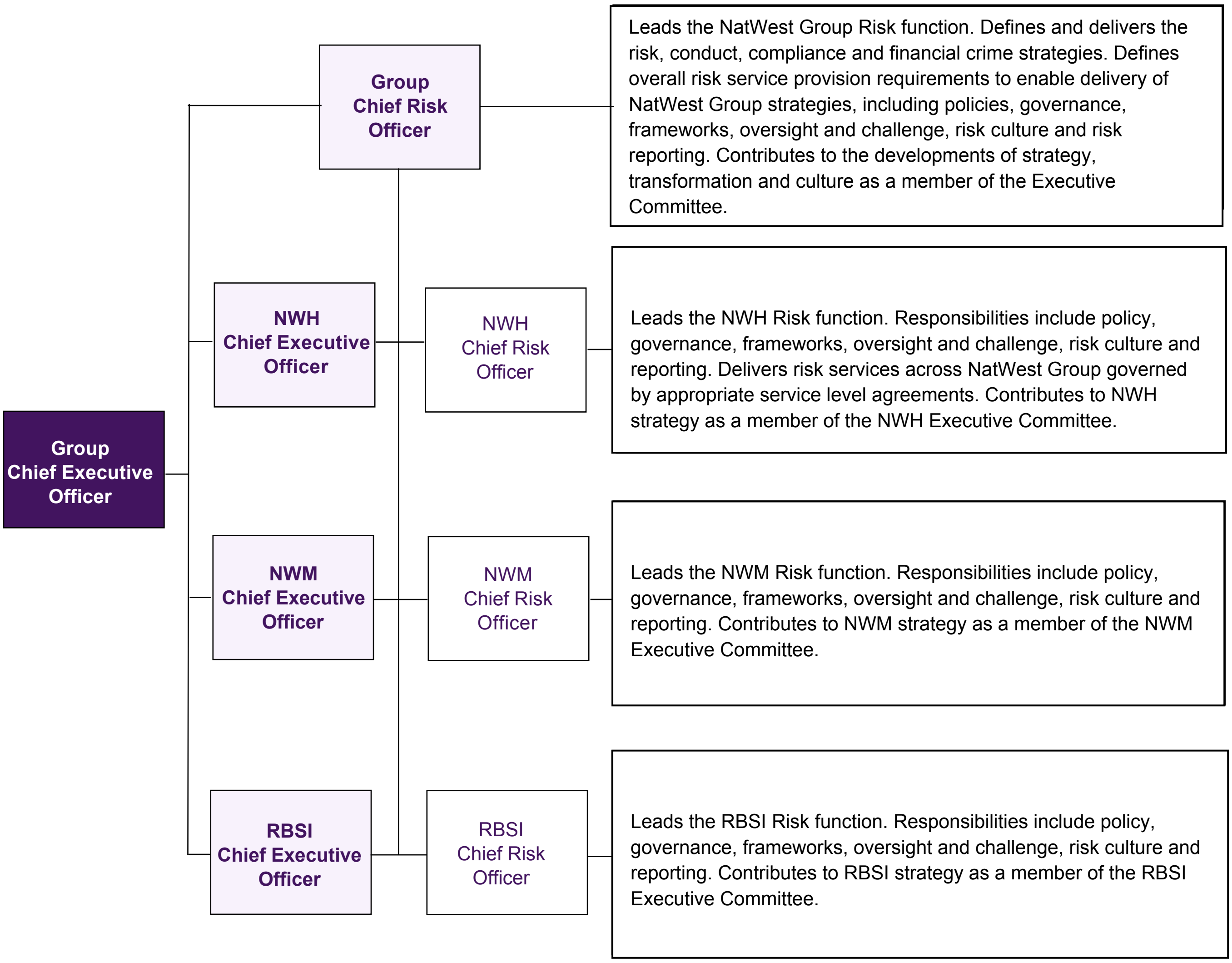
Notes:
(1) The Group Executive Risk Committee is chaired by the Group Chief Executive Officer and supports her (and other accountable executives) in discharging risk management accountabilities.
(2) The Group Executive Committee is chaired by the Group Chief Executive Officer and supports her in discharging her individual accountabilities in accordance with the authority delegated to her by the Board.
(3) The Group Asset & Liability Management Committee is chaired by the Group Chief Financial Officer and supports her in discharging her individual accountabilities relating to treasury and balance sheet management.
(4) In addition, the Group Technical Asset & Liability Management Committee, chaired by the Group Treasurer, provides oversight of capital and balance sheet management in line with approved risk appetite under normal and stress conditions. Reviews and challenges the financial strategy, risk management, balance sheet and remuneration and policy implications of the Group's pension schemes.
(5) The Group Executive Disclosure Committee is chaired by the Group Chief Financial Officer and supports her in discharging her accountabilities relating to the production and integrity of the Group's financial information and disclosures.

Risk and capital management

Risk management framework continued

Risk management structure

The diagram shows NatWest Group's risk management structure in 2020 and key risk management responsibilities.



Notes:

(1) The Group Chief Executive Officer also performs the NWH Chief Executive Officer role.

(2) The Group Chief Risk Officer also performs the NWH Chief Risk Officer role.

(3) The NWH Risk function provides risk management services across NWH, including to the NWH Chief Risk Officer and – where agreed – to NWM and RBSI Chief Risk Officers. These services are managed, as appropriate, through service level agreements.

(4) The NWH Risk function is independent of the NWH customer-facing 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 NWH. 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. The Directors of Risk, (Retail Banking; Commercial Banking; wealth businesses; Financial & Strategic Risk; Non-Financial Risk & Frameworks and Compliance & Conduct) as well as the Director, Financial Crime Risk NatWest Holdings and the Chief Operating Officer report to the NWH Chief Risk Officer. The Director of Risk, Ulster Bank Ireland DAC reports to the Ulster Bank Ireland DAC Chief Executive. He also has a reporting line to the NWH Chief Risk Officer and to the Chair of the Ulster Bank Ireland DAC Board Risk Committee.

(5) The Chief Risk Officers for NWM and RBSI have dual reporting lines into the Group Chief Risk Officer and the respective Chief Executive Officers of their entities. There are additional reporting lines to the NWM and RBSI Board Risk Committee chairs and a right of access to the respective Risk Committees.

Risk and capital management

Risk management framework continued

Three lines of defence

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

First line of defence

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

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

Second line of defence

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

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

Third line of defence

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

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

Risk appetite

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

Risk appetite framework

The risk appetite framework bolsters effective risk management by promoting sound risk-taking through a structured approach, within agreed boundaries. It also ensures emerging risks and risk-taking activities that might be out of appetite are identified, assessed, escalated and addressed in a timely manner.

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

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

The Board approves the risk appetite framework annually.

Establishing risk appetite

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

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

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

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

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

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

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

Identification and measurement

Identification and measurement within the risk management process comprise:

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

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

Risk management framework continued

Mitigation

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

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

Testing and monitoring

Targeted credit risk, 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 NatWest Group's regulators – that 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, anti-bribery and corruption and tax evasion processes and controls are also tested and monitored. This helps provide an independent understanding of the financial crime control environment, whether or not controls are adequate and effective and whether financial crime risk is appropriately identified, managed and mitigated.

The 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 NatWest Group's approach to capital management. It is used to quantify and evaluate the potential impact of specified changes to risk factors on the financial strength of NatWest 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 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 across NatWest Group.
Calculate results and assess implications	• Aggregate impacts into overall results. • Results form part of the risk management process. • Scenario results are used to inform business and capital plans.
Develop and agree management actions	• Scenario results are analysed by subject matter experts. Appropriate management actions are then developed. • Scenario results and management actions are reviewed and agreed by senior committees, including the Executive Risk Committee, the Board Risk Committee and the Board.

Stress testing is used widely across NatWest Group. The diagram below summarises key areas of focus.

Risk and capital management

Risk management framework continued

Specific areas that involve capital management include:

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

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

Capital sufficiency – going concern forward-looking view

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

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

The examination of capital requirements under normal economic and adverse market conditions enables NatWest 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 NatWest Group but also by the regulators to set specific capital buffers. NatWest Group takes part in stress tests run by regulatory authorities to test industry-wide vulnerabilities under crystallising global and domestic systemic risks.

Stress and peak-to-trough movements are used to help assess the amount of capital NatWest 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 NatWest Group's specific capital requirements through the Pillar 2 framework.

Capital allocation

NatWest 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 on a regular basis. Liquidity Condition Indicators are monitored daily. This ensures any build-up of stress is detected early and the response escalated appropriately through recovery planning.

Internal assessment of liquidity

Under the liquidity risk management framework, NatWest Group maintains the Individual Liquidity Adequacy Assessment Process. This includes assessment of net stressed liquidity outflows under a range of severe but plausible stress scenarios. Each scenario evaluates either an idiosyncratic, market-wide or combined stress event as described in the table below.

Type	Description
Idiosyncratic scenario	The market perceives NatWest 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. NatWest 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.

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

Risk management framework continued

Stress testing – recovery and resolution planning

The NatWest Group recovery plan explains how NatWest 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 NatWest Group to maintain critical services and products it provides to its customers, maintain its core business lines and operate within risk appetite while restoring NatWest 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.

Fire drill simulations of possible recovery events are used to test the effectiveness of NatWest 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 NatWest Group's approach to recovery planning.

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

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

Stress testing – climate

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

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

Stress testing – market risk

Non-traded market risk

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

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

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

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

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

Traded market risk

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

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

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

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

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

Risk and capital management

Risk management framework continued

Internal scenarios

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

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

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

Regulatory stress testing

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

Risk and capital management

Credit risk

Definition

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

Sources of risk

The principal sources of credit risk for NatWest Group are lending, off-balance sheet products, derivatives and securities financing, and debt securities. NatWest Group is also exposed to settlement risk through foreign exchange, trade finance and payments activities.

Key developments in 2020

- The outlook for credit risk and asset quality deteriorated during the year driven by the unprecedented economic impact and disruption from COVID-19.
- The severity of the disruption impacted both Personal and Wholesale customers.
- The overall expected credit loss (ECL) charge increased materially as a result during 2020, largely during the second quarter of the year. The ECL charge was driven by Stage 2 where, due to the forward-looking nature of the IFRS 9 ECL model, there was a large migration of exposure into this category. Stage 3 ECL charges remained supressed as a result of government support schemes mitigating against defaults at this stage.
- NatWest Group participated in government backed support mechanisms, including granting payment holidays (also referred to as payment deferrals), originating loans and offering concessions where appropriate. As the various support schemes conclude, NatWest Group anticipates further credit deterioration in portfolios.
- Further details on the impact of COVID-19 on credit risk in NatWest Group are disclosed in the impact of COVID-19 section.

Governance

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

Governance activities include:

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

Risk appetite

Credit risk appetite aligns to the strategic risk appetite set by the Board and is set and monitored through risk appetite frameworks tailored to NatWest Group's Personal and Wholesale segments.

Personal

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 mortgage portfolios.

Wholesale

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

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

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

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

Identification and measurement

Credit stewardship

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

Asset quality

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

Counterparty credit risk

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

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

Mitigation

Mitigation techniques, as set out in the appropriate credit policies and transactional acceptance standards, are used in the management of credit portfolios across NatWest 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 collateral in the form of residential mortgage property and CRE are detailed below.

Credit risk continued

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

Region	Index used
UK (including Northern Ireland)	Office for National Statistics House Price Index
Republic of Ireland	Central Statistics Office Residential Property Price Index

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

Commercial real estate valuations – NatWest Group has a panel of chartered surveying firms that cover the spectrum of geography and property sectors in which NatWest 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. In the Republic of Ireland, assets are revalued in line with the Central Bank of Ireland threshold requirements, which permits indexation for lower value residential assets, but demands regular Red Book valuations for higher value assets.

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 offering a large number of small-value loans. To ensure that these lending decisions are made consistently, NatWest Group analyses internal credit information as well as external data supplied by credit reference agencies (including historical debt servicing behaviour of customers with respect to both NatWest Group and other lenders). NatWest 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 governance risk policies which restrict exposure to certain highly carbon intensive industries as well as those with potentially heightened reputational impacts.

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

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

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

Problem debt management

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 NatWest Group data, and external using information from credit reference agencies. Proactive 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.

Collections

When a customer exceeds an agreed limit or misses a regular monthly payment the customer is contacted by NatWest 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 or has an interest non-accrual status, in which case it is categorised as Stage 3.

In the Republic of Ireland, the relationship may pass to a specialist support team prior to any transfer to recoveries, depending on the outcome of customer financial assessment.

Credit risk continued

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 have 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 materially since origination. Expert judgement is applied by experienced credit risk officers to classify cases into categories that reflect progressively deteriorating credit risk to NatWest 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 NatWest 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 NatWest 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 NatWest 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 NatWest 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

Where customers are categorised as Risk of Credit Loss, relationships are mainly managed by the Restructuring team. The purpose of Restructuring is to protect NatWest 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

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 credit exposure 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.

In the Personal portfolio, loans are reported as 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), capitalisation of arrears and, in the Republic of Ireland only, temporary interest-only or partial capital and interest arrangements. Forbearance support is provided for both mortgages and unsecured lending.

Credit risk continued

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 reassessed prior to finalising any forbearance arrangement. The ultimate outcome of a forbearance strategy is highly dependent on the co-operation of the borrower and a viable business or repayment outcome. Where forbearance is no longer appropriate, NatWest Group will consider other options such as the enforcement of security, insolvency proceedings or both, although these are options of last resort.

Provisioning requirements on forbearance are detailed in the Provisioning for forbearance section.

Impact of COVID-19

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

Risk appetite

Personal

The onset of COVID-19 resulted in a significant deterioration in the economic outlook and consequently the credit environment. In response, credit risk appetite was tightened including changes to credit score acceptance thresholds and certain credit policy criteria, for example, maximum loan-to-values on new mortgage business. The criteria were reviewed and adapted on an ongoing basis throughout the year.

Wholesale

At the outset of COVID-19, Wholesale Credit Risk undertook a vulnerability assessment of sectors and conducted more frequent monitoring of these portfolios, including sub-sector and single name analysis. Additional oversight forums for both new and existing customer requests linked to sector, customer viability and transaction value were also introduced. Monitoring of government support scheme lending, including tracking customer lending journeys to prioritise resources, ensured customers could be supported in a timely manner. Risk appetite limits were reduced to reflect current risks and remain under constant review.

Identification and measurement

Credit stewardship

Wholesale

Natwest Group's credit stewardship included carrying out regular portfolio or customer reviews and problem debt identification and management.

In line with existing credit policy parameters, relationship managers were able to defer annual reviews for a maximum of three months. These deferrals were used during 2020 to provide capacity to focus on supporting government lending scheme requests. Customer review meetings took place virtually unless a specific customer request was made, prior approval obtained and a risk assessment carried out.

Mitigation

Personal

During the COVID-19 lockdown from April to June in the UK, valuers were prohibited from conducting physical property inspections. As a result, mortgage application processing was suspended where a physical valuation was required. Applications eligible for remote valuations (known as desktops) and automated valuations (AVM) were able to continue and NatWest Group increased its valuation capacity to provide an additional quality assurance benchmark for ongoing assessment of desktop and AVM standards. Following the April to June lockdown, the application backlog was cleared once valuers were able to safely return to physical property inspections.

Commercial real estate valuations

Commercial property valuations were not conducted during the initial national lockdown due to travel restrictions, during which time physical valuations were postponed. Following this period, government guidance across the UK nations in respect of local and national lockdowns, confirmed that full internal property inspections could continue subject to adopting COVID-19 secure protocols. However, this required the full co-operation of occupiers and in addition, some commercial premises remained closed. Due to the limitations of some property valuations, The Royal Institute for Chartered Surveyors introduced a Material Valuation Uncertainty Clause (MVUC) for use at the time. There was a general lifting of the MVUC for all UK real estate valuations in September. However, where there is still considerable uncertainty for a location or particular sub-sector (for example, assets valued with reference to their trading potential such as hotels), the MVUC may still apply. This position has not changed with second wave local or subsequent national lockdowns.

Assessment and monitoring

Personal

Reflecting the deteriorated economic outlook, underwriting standards were tightened including additional information requirements from self-employed applicants.

Customers requesting a COVID-19 related payment holiday were not subject to a credit assessment for those requests.

Portfolio performance monitoring was expanded to include insight on customers accessing payment holiday support and their performance at the end of the payment holiday period.

Wholesale

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

- Within the Wholesale portfolio, customer credit grades were reassessed when a request for financing was made, a scheduled customer credit review undertaken or a material event specific to that customer occurred.
- A request for support using one of the government-backed COVID-19 support schemes was not, in itself, a reason for a customer's credit grade to be amended.
- Large or complex customers were graded using financial forecasts, incorporating both the effect of COVID-19 and the estimated length of time to return to within credit appetite metrics.
- All other customers who were not subject to any wider significant increase in credit risk (SICR) triggers and who were assessed as having the ability in the medium-term post-COVID-19 to be viable and meet credit appetite metrics were graded using audited accounts.
- NatWest Group identified those customers for whom additional borrowing would require remedial action to return to within risk appetite over the medium term, and customers who were exhibiting signs of financial stress before COVID-19. These customers were graded with reference to the impact COVID-19 had on their business.
- Tailored guidance applies to financial institutions and, where appropriate, specialist credit grading models such as CRE.
- For certain types of COVID-19 related lending under government support schemes, notably BBLs, in line with the requirements of those schemes, a credit assessment was not undertaken.

Credit risk continued

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

Problem debt management

Personal

In accordance with regulatory guidance, Personal customers were able to obtain a payment holiday of up to three months, twice, if requested. Such payment holidays would not necessarily have been considered forbearance (refer to Forbearance below).

In addition, NatWest Group suspended new formal repossession recovery action for Personal customers.

Wholesale

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

Forbearance

Personal

In the absence of any other forbearance or SICR triggers, customers granted COVID-19 related payment holidays were not considered forborne and were not subject to Collections team engagement. However, a subset of customers who had accessed payment holiday support, and where their risk profile was identified as relatively high risk, were collectively migrated to Stage 2. Any support provided beyond the completion of a second payment holiday is considered forbearance, provided the customer's circumstances met the definitions for forbearance as described above.

Wholesale

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

ECL modelling

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

Credit grading models

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

Credit grading models are designed to provide:

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

Impairment, provisioning and write-offs

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

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

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

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

Refer to Accounting policy 13 for further details.

IFRS 9 ECL model design principles

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

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

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

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

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

PD estimates

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. However, the unprecedented nature of COVID-19 required certain modelling interventions that are detailed in the UK economic uncertainty section.

Credit risk continued

Wholesale models

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

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

LGD estimates

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

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. For Ulster Bank RoI, a bespoke IFRS 9 mortgage LGD model is used, reflecting its specific regional market.

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.

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 modelled directly.

Analysis has indicated that there is minimal impact on EAD arising from changes in the economy for all Personal 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 (CCFs), closely following the product segmentation and approach of the respective Basel model. However, the CCFs are estimated over multi-year time horizons to produce unbiased model estimates.

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

Governance and post model adjustments

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

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

ECL post model adjustments

2020	Retail Banking £m	Ulster Bank RoI £m	Commercial Banking £m	Other £m	Total £m
Deferred model calibrations	**34**	**2**	**13**	**—**	**49**
Economic uncertainty	**158**	**176**	**526**	**18**	**878**
Other adjustments	**20**	**26**	**19**	**3**	**68**
Total	**212**	**204**	**558**	**21**	**995**
2019					
Deferred model calibrations	—	1	—	—	1
Economic uncertainty	83	14	98	7	202
Other adjustments	45	25	5	4	79
Total	128	40	103	11	282

Note:

(1) For 2019, the PMA for model calibrations of approximately £22 million was reported on a different basis. At that time, the value was based on the required ECL uplift pending systematic updates to model parameters, although the adjustment value was included in the reported ECL. For 2020, the value of PD calibration releases that were deemed not supportable and retained on the balance sheet is disclosed. Therefore, to be consistent in approach, the PMA value for 2019 has been reported as nil. For LGD, where model monitoring outcomes were less clear, and emerged over an extended period, monitoring focused on assessing the adequacy of loss estimates, and was duly assured and governed at the year end.

Credit risk continued

Retail Banking – The PMA for deferred model calibrations of £34 million (of which £25 million was in mortgages) reflected management's judgement that the beneficial modelling impact, and implied ECL decrease, arising from underlying portfolio performance, that had been influenced by the various customer support mechanisms, was not supportable.

The PMA for economic uncertainty included an ECL uplift of £63 million (of which £39 million was in mortgages) on a subset of customers who had accessed payment holiday support where their risk profile was identified as relatively high risk. In addition, there was a holdback of a modelled ECL release of £69 million, again due to the delayed default emergence reflective of the various customer support mechanisms (£15 million related to mortgages and £54 million related to unsecured lending). The overlay as at 31 December 2019 was reflective of the uncertainty associated with Brexit, subsequently systematically incorporated within the multiple economic scenarios. The 2020 overlay also included an ECL uplift on buy-to-let mortgages of £15 million (2019 – £8 million) to mitigate the risk of a disproportionate credit deterioration in challenging economic circumstances.

Other judgmental overlays included £13 million (2019 – £15 million) in respect of the repayment risk not captured in the models, that a proportion of customers on interest-only mortgages would not be able to repay the capital element of their loan at the end of term, as well as a £7 million overlay for an identified weakness in the mortgage PD model pending remediation.

Ulster Bank RoI – The PMA for economic uncertainty included an adjustment of £103 million in the mortgage portfolio reflecting concerns that expected losses arising from defaults in the year ahead would be significantly higher than modelled. Like Commercial Banking (further detail below), there was an overlay of £30 million in the Wholesale portfolio relative to concerns about debt recovery values and the risk of idiosyncratic credit outcomes. It also included adjustments of £10 million in respect of high risk payment break mortgage customers and £31 million in the SME portfolio reflective of the elevated risk for this sector. These two overlays were also associated with a collective migration of exposures to Stage 2. Refer to the Stage 2 decomposition analysis for further details.

Other judgemental overlays included a Stage 3 ECL uplift of £25 million in the mortgage portfolio to address concerns that the loss outcome under the forecast macro-economic scenarios would be higher than modelled. Similar to Retail Banking and Commercial Banking, there was also a PMA for deferred model calibrations of £2 million in the retail unsecured and business banking portfolios.

Commercial Banking – The PMA for economic uncertainty included an overlay of £409 million (£450 million across NatWest Group's Wholesale portfolio) based on a judgemental thesis, reflecting concern that the unprecedented nature of COVID-19 could result in longer debt recovery periods and lower values than history suggested, and also the risk of idiosyncratic credit outcomes. It also included an overlay of £52 million in respect of elevated concerns around borrowers' ability to refinance facilities at the end of the contractual term. Additionally, it included overlays to address the effects of customer support mechanisms. Similar to Retail Banking, the overlay as at 31 December 2019 was reflective of the uncertainty associated with Brexit, subsequently systematically incorporated within the multiple economic scenarios.

There was also a PMA for deferred model calibrations on the business banking portfolio reflecting management's judgement that the beneficial modelling impact, and implied ECL decrease, was not supportable again whilst portfolio performance was being under-pinned by the various support mechanisms. Other adjustments included an overlay of £19 million to mitigate the effect of operational timing delays in the identification and flagging of a SICR.

Other – The PMAs in the other businesses were for similar reasons as those described above.

Significant increase in credit risk (SICR)

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

The framework comprises the following elements:

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

Personal risk bands	PD 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 adverse credit bureau results for Personal customers. Where a Personal customer was granted a payment holiday (also referred to as a payment deferral) in response to COVID-19, they were not automatically transferred into Stage 2. However, a subset of Personal customers who had accessed payment holiday support, and where their risk profile was identified as relatively high risk, were collectively migrated to Stage 2 (if not in Stage 2 already). Any support provided beyond completion of the second payment holiday was considered forbearance. Wholesale customers accessing the various COVID-19 support mechanisms were assessed as detailed in the Impact of COVID-19 section.
- 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. The persistence rule 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.

Credit risk continued

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 continue to be reported as forborne until it meets the exit criteria set out by the European Banking Authority.

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 (Retail 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.

In the absence of any other forbearance or SICR triggers, customers granted COVID-19 related payment holidays were not considered forborne. However, any support provided beyond completion of a second payment holiday is considered forbearance.

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 increase 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.

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

Asset lifetimes

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

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

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 £110 million (2019 – £90 million). However, credit card balances originated under the 0% balance transfer product, and representing approximately 12% of drawn cards balances, have their ECL calculated on a behavioural life-time approach as opposed to being capped at a maximum of three years.

The capped approach reflects NatWest Group 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.

Credit risk continued

Economic loss drivers

Introduction

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

The most material economic loss drivers for the Personal portfolio include unemployment rates, house price indices and the Bank of England and the European Central Bank base rates. For the Wholesale portfolio, in addition to interest and unemployment rates, national GDP, stock price indices and world GDP are primary loss drivers.

Economic scenarios

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

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

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

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

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

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

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

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

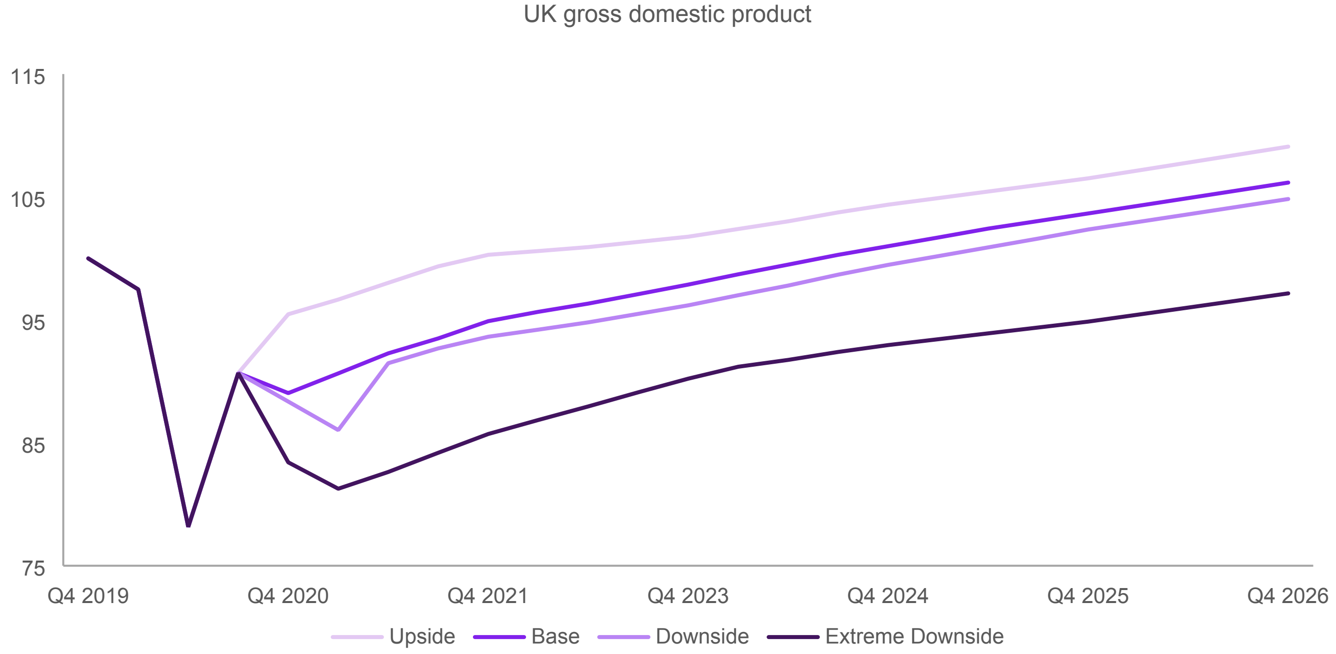
Main macroeconomic variables

	2020				2019				
	Upside	Base case	Downside	Extreme downside	Upside 2	Upside 1	Base case	Downside 1	Downside 2
Five-year summary	%	%	%	%	%	%	%	%	%
UK									
GDP - CAGR	3.6	3.1	2.8	1.3	2.5	2.3	1.6	1.3	0.9
Unemployment - average	4.4	5.7	7.1	9.7	3.6	3.9	4.4	4.6	5.2
House Price Inflation - total change	12.5	7.6	4.4	(19.0)	22.4	17.6	8.3	4.0	(5.1)
Bank of England base rate - average	0.2	—	(0.1)	(0.5)	1.0	0.7	0.3	—	—
Commercial real estate price - total change	4.3	0.7	(12.0)	(31.5)	13.0	8.1	(1.3)	(5.8)	(15.1)
Republic of Ireland									
GDP - CAGR	4.2	3.5	3.0	1.6	3.8	3.5	2.7	2.3	1.8
Unemployment - average	5.6	7.5	9.3	11.2	4.0	4.3	4.8	5.6	6.8
House Price Inflation - total change	21.0	13.3	6.8	(7.0)	29.3	25.7	15.5	10.8	4.2
European Central Bank base rate - average	0.1	—	—	—	1.5	0.8	—	—	—
World GDP - CAGR	3.5	3.4	2.9	2.8	3.9	3.3	2.8	2.5	2.0
Probability weight	20.0	40.0	30.0	10.0	12.7	14.8	30.0	29.7	12.7

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

Credit risk continued

Economic loss drivers



Annual figures

GDP - annual growth

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

Republic of Ireland	Upside %	Base case %	Downside %	Extreme downside %
2020	(1.6)	(2.2)	(2.7)	(4.9)
2021	9.9	5.2	0.8	(6.4)
2022	5.2	5.2	4.6	8.4
2023	3.1	3.5	3.9	5.9
2024	1.9	2.7	3.8	2.5
2025	2.1	2.6	3.8	2.4

Unemployment rate - annual average

UK	Upside %	Base case %	Downside %	Extreme downside %
2020	4.4	4.4	4.9	5.4
2021	5.6	6.3	8.5	12.3
2022	4.5	6.3	7.7	12.0
2023	3.8	5.5	6.7	9.0
2024	3.8	5.1	6.2	7.5
2025	3.9	5.1	6.2	7.3

Republic of Ireland	Upside %	Base case %	Downside %	Extreme downside %
2020	11.6	11.9	12.1	13.0
2021	7.2	9.4	11.4	14.9
2022	5.1	7.4	9.6	11.7
2023	4.4	6.5	8.6	9.6
2024	4.5	6.2	7.8	8.6
2025	4.6	6.1	7.2	8.5

House Price Inflation - four quarter growth

UK	Upside %	Base case %	Downside %	Extreme downside %
2020	2.7	1.5	(1.8)	(5.2)
2021	2.2	(3.0)	(7.4)	(26.9)
2022	1.7	3.6	6.5	5.1
2023	2.2	2.2	4.6	5.0
2024	2.8	2.8	2.8	5.6
2025	3.1	3.1	3.1	3.1

Republic of Ireland	Upside %	Base case %	Downside %	Extreme downside %
2020	2.3	(0.1)	(0.8)	(3.2)
2021	3.6	(4.1)	(12.9)	(24.9)
2022	3.3	3.8	3.4	7.4
2023	2.9	4.1	5.9	7.4
2024	3.3	4.9	7.6	5.7
2025	4.2	4.6	5.4	5.5

Commercial real estate price - four quarter growth

UK	Upside %	Base case %	Downside %	Extreme downside %
2020	(7.7)	(9.5)	(16.6)	(21.4)
2021	2.6	(2.6)	(15.9)	(26.6)
2022	0.3	5.7	10.8	3.2
2023	0.4	(0.4)	3.2	3.2
2024	1.2	0.4	1.6	3.2
2025	1.2	1.2	1.2	1.2

Credit risk continued

Worst points

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

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

	31 December 2020				31 December 2019	
	Upside	Base case	Downside	Extreme downside	Downside 1	Downside 2
Republic of Ireland	%	%	%	%		%
GDP (year-on-year)	**(4.4)**	**(6.7)**	**(8.4)**	**(17.0)**	0.5	(2.1)
Unemployment	**16.5**	**16.5**	**16.5**	**18.1**	5.8	7.3
House Price Inflation (year-on-year)	**(0.6)**	**(4.2)**	**(13.3)**	**(24.9)**	(2.6)	(8.4)

Peak (Q3 2020 to trough)

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

	31 December 2020			
	Upside	Base case	Downside	Extreme downside
Republic of Ireland	%	%	%	%
GDP	**(0.6)**	**(3.0)**	**(5.5)**	**(13.8)**
House Price Inflation	**—**	**(4.2)**	**(13.3)**	**(27.0)**

Credit risk continued

Economic loss drivers

Probability weightings of scenarios

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

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

Use of the scenarios in Personal lending

Personal lending follows a discrete scenario approach which means that for each account, PD and LGD values are calculated as probability weighted averages across the individual, discrete economic scenarios. The PD values for each discrete scenario are in turn calculated using product specific econometric models that aggregate forecasts of the relevant economic loss drivers into forecasts of the exogenous component of the respective PD models (refer to IFRS 9 ECL model design principles).

Use of the scenarios in Wholesale lending

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

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

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

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

Business banking, while part of the Wholesale segment, for reporting purposes, utilises the Personal lending rather than the Wholesale lending methodology.

UK economic uncertainty

Treatment of COVID-19 relief mechanisms

Use of COVID-19 relief mechanisms (for example, payment holidays, CBILS and BBLS) will not automatically merit identification of SICR and trigger a Stage 2 classification in isolation. However, a subset of Personal customers who had accessed payment holiday support, and where their risk profile was identified as relatively high risk were collectively migrated to Stage 2 (if not already captured by other SICR criteria).

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

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

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

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

Credit risk continued

Model monitoring and enhancement

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

Government support

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

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

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

Extreme GDP movements – Wholesale only

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

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

Industry sector detail – Wholesale only

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

Scenario sensitivity – Personal only

For the Personal lending portfolio, the forward-looking components of the IFRS 9 PD models were modified, leveraging existing econometric models used in stress testing to ensure that PDs appropriately reflect the forecasts for unemployment and house prices in particular.

All in-model adjustments described have been applied by correcting the PD and LGD estimates within the core ECL calculation process and therefore consistently and systematically inform SICR identification and ECL measurement.

Additionally, post model ECL adjustments were made in Personal to ensure that the ECL was adjusted for known model over and under-predictions pre-existing COVID-19, pending the systematic re-calibration of the underlying models.

Government guarantees

During 2020, the UK government launched a series of temporary schemes designed to support businesses deal with the impact of COVID-19. The BBLS, CBILS and CLBILS lending products are originated by NatWest Group but are covered by government guarantees. These are to be set against the outstanding balance of a defaulted facility after the proceeds of the business assets have been applied. The government guarantee is 80% for CBILS and CLBILS and 100% for BBLS. NatWest Group recognises lower LGDs for these lending products as a result, with 0% applied to the government guaranteed part of the exposure.

Notwithstanding the government guarantees, NatWest Group's measurements of PD are unaffected and NatWest Group continues to move exposures to Stage 2 and Stage 3 where a significant deterioration in credit risk or a default is identified.

Wholesale support schemes

The table below shows the uptake of Bounce Back Loan Scheme (BBLS), Coronavirus Business Interruption Loan Scheme (CBILS) and Coronavirus Large Business Interruption Loan Scheme (CLBILS) in Wholesale, by sector.

	BBLS			CBILS			CLBILS		
2020	Approved volume	Drawdown amount (£m)	% of BBLS to sector loans	Approved volume	Drawdown amount (£m)	% of CBILS to sector loans	Approved volume	Drawdown amount (£m)	% of CLBILS to sector loans
Wholesale lending by sector									
Airlines and aerospace	253	7	0.35%	21	9	0.45%	4	8	0.40%
Automotive	12,301	416	6.60%	553	139	2.21%	31	58	0.92%
Education	1,943	53	3.24%	111	73	4.46%	11	37	2.26%
Health	9,821	314	5.41%	601	101	1.74%	3	24	0.41%
Land transport and logistics	8,575	255	5.31%	365	97	2.02%	3	5	0.10%
Leisure	31,148	989	10.07%	1,983	512	5.21%	34	173	1.76%
Oil and gas	303	9	0.58%	15	8	0.51%			-
Retail	31,315	1,078	11.75%	1,548	416	4.54%	29	121	1.32%
Property	67,698	1,996	5.24%	2,350	664	1.74%	41	133	0.35%
Other (including Business Banking)	118,486	3,181	3.57%	8,504	1,752	1.97%	86	267	0.30%
Total	281,843	8,298	4.93%	16,051	3,771	2.24%	242	826	0.49%

Notes:
(1) The UK government has extended these support schemes to 31 March 2021 and NatWest Group continues to lend under the schemes to customers who meet the applicable lending criteria.
(2) The table contains some cases which as at 31 December 2020 were approved but not yet drawn down. Approved limits as at 31 December 2020 were as follows: BBLS – £8.6 billion (96% drawn); CBILS – £4.2 billion (91% drawn); and CLBILS – £1.3 billion (62% drawn).

Credit risk continued

Measurement uncertainty and ECL sensitivity analysis

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

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

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

The impact arising from the upside, downside and extreme downside scenarios has been simulated. These scenarios are three of the four discrete scenarios used in the methodology for Personal multiple economic scenarios as described in the Economic loss drivers section. In the simulations, NatWest Group has assumed that the economic macro variables associated with these scenarios replace the existing base case economic assumptions, giving them a 100% probability weighting and thus serving as a single economic scenario.

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

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

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

Credit risk continued

Measurement uncertainty and ECL sensitivity analysis

2020	Actual	Upside	Downside	Extreme downside
Stage 1 modelled exposure (£m)				
Retail Banking	135,017	136,977	133,600	99,170
Ulster Bank RoI Personal & Business Banking	11,124	11,318	11,030	9,590
Wholesale	115,572	124,501	114,149	96,616
	261,713	272,796	258,779	205,376
Stage 1 modelled ECL (£m)				
Retail Banking	124	94	128	130
Ulster Bank RoI Personal & Business Banking	27	25	29	29
Wholesale	322	316	331	311
	473	435	488	470
Stage 1 coverage (%)				
Retail Banking	0.09%	0.07%	0.10%	0.13%
Ulster Bank RoI Personal & Business Banking	0.24%	0.22%	0.26%	0.30%
Wholesale	0.28%	0.25%	0.29%	0.32%
	0.18%	0.16%	0.19%	0.23%
Stage 2 modelled exposure (£m)				
Retail Banking	32,942	30,982	34,359	68,789
Ulster Bank RoI Personal & Business Banking	1,738	1,544	1,832	3,272
Wholesale	45,194	36,265	46,617	64,150
	79,874	68,791	82,808	136,211
Stage 2 modelled ECL (£m)				
Retail Banking	897	665	968	1,727
Ulster Bank RoI Personal & Business Banking	95	83	107	152
Wholesale	2,066	1,504	2,214	3,376
	3,058	2,252	3,289	5,255
Stage 2 coverage (%)				
Retail Banking	2.72%	2.15%	2.82%	2.51%
Ulster Bank RoI Personal & Business Banking	5.47%	5.38%	5.84%	4.65%
Wholesale	4.57%	4.15%	4.75%	5.26%
	3.83%	3.27%	3.97%	3.86%
Stage 1 and Stage 2 modelled exposure (£m)				
Retail Banking	167,959	167,959	167,959	167,959
Ulster Bank RoI Personal & Business Banking	12,862	12,862	12,862	12,862
Wholesale	160,766	160,766	160,766	160,766
	341,587	341,587	341,587	341,587
Stage 1 and Stage 2 modelled ECL (£m)				
Retail Banking	1,021	759	1,096	1,857
Ulster Bank RoI Personal & Business Banking	122	108	136	181
Wholesale	2,388	1,820	2,545	3,687
	3,531	2,687	3,777	5,725
Stage 1 and Stage 2 coverage (%)				
Retail Banking	0.61%	0.45%	0.65%	1.11%
Ulster Bank RoI Personal & Business Banking	0.95%	0.84%	1.06%	1.41%
Wholesale	1.49%	1.13%	1.58%	2.29%
	1.03%	0.79%	1.11%	1.68%
Reconciliation to Stage 1 and Stage 2 ECL (£m)				
ECL on modelled exposures	3,531	2,687	3,777	5,725
ECL on non-modelled exposures	68	68	68	68
Total Stage 1 and Stage 2 ECL	3,599	2,755	3,845	5,793
Variance – (lower)/higher to actual total Stage 1 and Stage 2 ECL		(844)	246	2,194

Notes:
(1) Variations in future undrawn exposure values across the scenarios are modelled, however the exposure position reported is that used to calculate modelled ECL as at 31 December 2020 and therefore does not include variation in future undrawn exposure values.
(2) Reflects ECL for all modelled exposure in scope for IFRS 9; in addition to loans this includes bonds and cash. The analysis excludes non-modelled portfolios and exposure relating to bonds and cash.
(3) All simulations are run on a stand-alone basis and are independent of each other, with the potential ECL impact reflecting the simulated impact as at 31 December 2020. The simulations change the composition of Stage 1 and Stage 2 exposure but total exposure is unchanged under each scenario as the loan population is static.
(4) Refer to the Economic loss drivers section for details of economic scenarios.
(5) 2019 comparatives are not included as the sensitivity scenario analysis relates to the 31 December 2020 balance sheet position. Refer to the NatWest Group plc (formerly The Royal Bank of Scotland Group plc) 2019 Annual Report and Accounts for the sensitivity analysis carried out at that time.

Credit risk continued

Key points

- During 2020, ECL increased materially as a result of COVID-19 disruption and a negative economic outlook. Downside risk persisted and was reflected in the scenario weightings with heavier weighting to the downside than to the upside. Judgemental ECL post model adjustments reflected heightened uncertainty and expectation of increased defaults in 2021 and beyond. To a certain extent, these adjustments dampen the ECL uplift in the downside scenario, particularly in Wholesale which had already observed a larger proportionate increase in actual reported ECL and coverage.
- If the economics were as negative as observed in the extreme downside, overall Stage 1 and Stage 2 ECL was simulated to increase by over 60%. The non-linearity was more apparent in the Personal portfolio driven by mortgages, with the ECL mitigation impact of Wholesale portfolio securitisations observed in downside scenarios, where ECL did not increase to the same extent.
- The relatively small ECL uplift in the downside scenario (£246 million, 7% of actual) reflected the weighting within the multiple economic scenarios used in the actual reported ECL to the downside.
- In the upside scenario, the simulated ECL reduction (£844 million, 24% of actual) was lower than the uplift observed in the extreme downside (£2.2 billion), again reflecting the expectation that the non-linearity of losses was skewed to the downside.
- The simulated value of exposures in Stage 2 increased significantly in the extreme downside and was the key driver of the simulated ECL increase. The movement in Stage 2 balances in the other simulations was less marked, with the exception of Wholesale, where a significant reduction was observed in the upside scenario reflecting the sensitivity of SICR criteria to relatively small movements in PD.
- In a separate simulation covering the base case economic scenario (one of the multiple economic scenarios), and assuming a 100% weighting to that scenario, the total Stage 1 and Stage 2 ECL was simulated to be approximately 8% lower than the actual reported ECL.

Credit risk – Banking activities

Introduction

This section details the credit risk profile of NatWest Group's banking activities. Refer to Accounting policy 13 and Note 14 to the consolidated financial statements for policies and critical judgements relating to impairment loss determination.

Financial instruments within the scope of the IFRS 9 ECL framework

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

Financial assets

	2020 £bn	2019* £bn
Balance sheet total gross amortised cost and FVOCI	**555.0**	484.3
In scope of IFRS 9 ECL framework	**548.8**	475.5
% in scope	**99%**	98%
Loans - in scope	**372.3**	336.9
Stage 1	**287.1**	302.4
Stage 2	**78.9**	27.9
Stage 3	**6.3**	6.6
Other financial assets - in scope	**176.5**	138.6
Stage 1	**175.5**	138.6
Stage 2	**1.0**	—
Out of scope of IFRS 9 ECL framework	**6.2**	8.8

*2019 data has been restated for the accounting policy change for balances held with central banks. Refer to Accounting policy changes effective 1 January 2020 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 £4.1 billion (2019 – £6.1 billion). These were assessed as having no ECL unless there was evidence that they were credit impaired.
- Equity shares of £0.3 billion (2019 – £0.9 billion) as not within the IFRS 9 ECL framework by definition.
- Fair value adjustments on loans hedged by interest rate swaps, where the underlying loan was within the IFRS 9 ECL scope – £1.4 billion (2019 – £1.1 billion).
- NatWest Group-originated securitisations, where ECL was captured on the underlying loans of £0.4 billion (2019 – £0.4 billion).

Contingent liabilities and commitments

In addition to contingent liabilities and commitments disclosed in Note 26 to the consolidated financial statements – reputationally-committed limits are also included in the scope of the IFRS 9 ECL framework. These are offset by £0.2 billion (2019 – £2.6 billion) out of scope balances primarily related to facilities that, if drawn, would not be classified as amortised cost or FVOCI, or undrawn limits relating to financial assets exclusions. Total contingent liabilities (including financial guarantees) and commitments within IFRS 9 ECL scope of £133.6 billion (2019 – £127.9 billion) comprised Stage 1 £107.4 billion (2019 – £121.7 billion); Stage 2 £25.2 billion (2019 – £5.6 billion) and Stage 3 £1.0 billion (2019 – £0.6 billion).

Risk and capital management

Credit risk – Banking activities continued
Portfolio summary – segment analysis

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

2020	Retail Banking £m	Ulster Bank RoI £m	Commercial Banking £m	Private Banking £m	RBS International £m	NatWest Markets £m	Central items & other £m	Total £m
Loans - amortised cost and FVOCI								
Stage 1	139,956	14,380	70,685	15,321	12,143	7,780	26,859	287,124
Stage 2	32,414	3,302	37,344	1,939	2,242	1,566	110	78,917
Stage 3	1,891	1,236	2,551	298	211	171	—	6,358
Of which: individual	*—*	*43*	*1,578*	*298*	*211*	*162*	*—*	*2,292*
Of which: collective	*1,891*	*1,193*	*973*	*—*	*—*	*9*	*—*	*4,066*
	174,261	18,918	110,580	17,558	14,596	9,517	26,969	372,399
ECL provisions (1)								
Stage 1	134	45	270	31	14	12	13	519
Stage 2	897	265	1,713	68	74	49	15	3,081
Stage 3	806	492	1,069	39	48	132	—	2,586
Of which: individual	*—*	*13*	*607*	*39*	*48*	*124*	*—*	*831*
Of which: collective	*806*	*479*	*462*	*—*	*—*	*8*	*—*	*1,755*
	1,837	802	3,052	138	136	193	28	6,186
ECL provisions coverage (2,3)								
Stage 1 (%)	0.10	0.31	0.38	0.20	0.12	0.15	0.05	0.18
Stage 2 (%)	2.77	8.03	4.59	3.51	3.30	3.13	13.64	3.90
Stage 3 (%)	42.62	39.81	41.91	13.09	22.75	77.19	—	40.67
	1.05	4.24	2.76	0.79	0.93	2.03	0.10	1.66
Impairment losses								
ECL charge (4)	792	250	1,927	100	107	40	26	3,242
Stage 1	(36)	(68)	(58)	25	8	(2)	10	(121)
Stage 2	619	261	1,667	60	71	54	15	2,747
Stage 3	209	57	318	15	28	(12)	1	616
Of which: individual	*—*	*(12)*	*166*	*15*	*28*	*(3)*	*—*	*194*
Of which: collective	*209*	*69*	*152*	*—*	*—*	*(9)*	*1*	*422*
ECL loss rate - annualised (basis points) (3)	45	132	174	57	73	42	10	87
Amounts written-off	378	219	321	5	3	11	—	937
Of which: individual	*—*	*—*	*172*	*5*	*3*	*11*	*—*	*191*
Of which: collective	*378*	*219*	*149*	*—*	*—*	*—*	*—*	*746*

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

Credit risk – Banking activities continued
Portfolio summary – segment analysis

2019*	Retail Banking £m	Ulster Bank RoI £m	Commercial Banking £m	Private Banking £m	RBS International £m	NatWest Markets £m	Central items & other £m	Total £m
Loans - amortised cost and FVOCI								
Stage 1	144,513	15,409	88,100	14,956	14,834	9,273	15,282	302,367
Stage 2	13,558	1,642	11,353	587	545	180	3	27,868
Stage 3	1,902	2,037	2,162	207	121	169	—	6,598
Of which: individual	*—*	*68*	*1,497*	*207*	*121*	*158*	*—*	*2,051*
Of which: collective	*1,902*	*1,969*	*665*	*—*	*—*	*11*	*—*	*4,547*
	159,973	19,088	101,615	15,750	15,500	9,622	15,285	336,833
ECL provisions (1)								
Stage 1	114	29	152	7	4	10	6	322
Stage 2	467	53	214	7	6	5	—	752
Stage 3	823	693	1,021	29	21	131	—	2,718
Of which: individual	*—*	*22*	*602*	*29*	*21*	*122*	*—*	*796*
Of which: collective	*823*	*671*	*419*	*—*	*—*	*9*	*—*	*1,922*
	1,404	775	1,387	43	31	146	6	3,792
ECL provisions coverage (2,3)								
Stage 1 (%)	0.08	0.19	0.17	0.05	0.03	0.11	0.04	0.11
Stage 2 (%)	3.44	3.23	1.88	1.19	1.10	2.78	—	2.70
Stage 3 (%)	43.27	34.02	47.22	14.01	17.36	77.51	—	41.19
	0.88	4.06	1.36	0.27	0.20	1.52	0.04	1.13
Impairment losses								
ECL charge (4)	393	(34)	391	(6)	2	(51)	1	696
Stage 1	(90)	(37)	(66)	(14)	(5)	—	—	(212)
Stage 2	256	(35)	99	—	5	(8)	1	318
Stage 3	227	38	358	8	2	(43)	—	590
Of which: individual	*—*	*—*	*328*	*8*	*2*	*(35)*	*—*	*303*
Of which: collective	*227*	*38*	*30*	*—*	*—*	*(8)*	*—*	*287*
ECL loss rate - annualised (basis points) (3)	25	(15)	38	(4)	1	(53)	1	20
Amounts written-off	235	85	450	1	5	16	—	792
Of which: individual	*—*	*5*	*345*	*1*	*5*	*16*	*—*	*372*
Of which: collective	*235*	*80*	*105*	*—*	*—*	*—*	*—*	*420*

*2019 data has been restated for the accounting policy change for balances held with central banks. Refer to Accounting policy changes effective 1 January 2020 for further details.

Notes:
(1) Includes £6 million (2019 – £4 million) related to assets classified as FVOCI.
(2) ECL provisions coverage is calculated as ECL provisions divided by loans – amortised cost and FVOCI.
(3) ECL provisions coverage and ECL loss rates are calculated on third party loans and related ECL provisions and charge respectively. ECL loss rate is calculated as annualised third party ECL charge divided by loans – amortised cost and FVOCI.
(4) Includes a £12 million charge (2019 – £2 million) related to other financial assets, of which £2 million (2019 – £1 million release) related to assets classified as FVOCI; and £28 million (2019 – nil) related to contingent liabilities.
(5) The table shows gross loans only and excludes amounts that are outside the scope of the ECL framework. Refer to the Financial instruments within the scope of the IFRS 9 ECL framework section for further details. Other financial assets within the scope of the IFRS 9 ECL framework were cash and balances at central banks totalling £122.7 billion (2019 – £79.2 billion) and debt securities of £53.8 billion (2019 – £59.4 billion).

Key points

- The ECL requirement increased significantly year-on-year, primarily in Stage 1 and Stage 2, in expectation of credit deterioration reflecting the severity of the economic impact arising from COVID-19. The deteriorated economic outlook also resulted in a significant migration of exposures from Stage 1 to Stage 2, consequently moving from a 12 month to a life-time ECL requirement.
- The various customer support mechanisms continued to mitigate against flows to default during the year. Hence, there was a more limited impact on Stage 3 ECL requirements which reduced slightly year-on-year reflecting the lower Stage 3 stock of exposures, driven by the sale of legacy non-performing mortgages in Ulster Bank RoI.
- Reflecting the continued high level of uncertainty arising from COVID-19, management judged that certain ECL post model adjustments were necessary. Refer to the Governance and post model adjustments section for further detail.
- Reflective of the economic environment, the annualised loss rate was elevated and significantly above the previously advised view of NatWest Group's normalised blended long-term loss rate of 30 to 40 basis points.
- Business level commentary is provided in the Segmental loans and impairment metrics section.

Risk and capital management

Credit risk – Banking activities continued

Segmental loans and impairment metrics

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)					
2020	Stage 1 £m	Not past due £m	1-30 DPD £m	>30 DPD £m	Total £m	Stage 3 £m	Total £m	Stage 1 £m	Not past due £m	1-30 DPD £m	>30 DPD £m	Total £m	Stage 3 £m	Total £m
Retail Banking	**139,956**	**30,714**	**1,080**	**620**	**32,414**	**1,891**	**174,261**	**134**	**762**	**70**	**65**	**897**	**806**	**1,837**
Ulster Bank RoI	**14,380**	**2,964**	**144**	**194**	**3,302**	**1,236**	**18,918**	**45**	**227**	**15**	**23**	**265**	**492**	**802**
Personal	***11,117***	***1,500***	***115***	***130***	***1,745***	***1,064***	***13,926***	***27***	***74***	***9***	***13***	***96***	***392***	***515***
Wholesale	***3,263***	***1,464***	***29***	***64***	***1,557***	***172***	***4,992***	***18***	***153***	***6***	***10***	***169***	***100***	***287***
Commercial Banking	**70,685**	**36,451**	**589**	**304**	**37,344**	**2,551**	**110,580**	**270**	**1,648**	**44**	**21**	**1,713**	**1,069**	**3,052**
Private Banking	**15,321**	**1,908**	**17**	**14**	**1,939**	**298**	**17,558**	**31**	**67**	**—**	**1**	**68**	**39**	**138**
Personal	***12,799***	***116***	***17***	***11***	***144***	***263***	***13,206***	***7***	***2***	***—***	***—***	***2***	***19***	***28***
Wholesale	***2,522***	***1,792***	***—***	***3***	***1,795***	***35***	***4,352***	***24***	***65***	***—***	***1***	***66***	***20***	***110***
RBS International	**12,143**	**2,176**	**46**	**20**	**2,242**	**211**	**14,596**	**14**	**72**	**1**	**1**	**74**	**48**	**136**
Personal	***2,676***	***18***	***17***	***14***	***49***	***70***	***2,795***	***3***	***1***	***—***	***—***	***1***	***11***	***15***
Wholesale	***9,467***	***2,158***	***29***	***6***	***2,193***	***141***	***11,801***	***11***	***71***	***1***	***1***	***73***	***37***	***121***
NatWest Markets	**7,780**	**1,457**	**—**	**109**	**1,566**	**171**	**9,517**	**12**	**49**	**—**	**—**	**49**	**132**	**193**
Central items & other	**26,859**	**110**	**—**	**—**	**110**	**—**	**26,969**	**13**	**15**	**—**	**—**	**15**	**—**	**28**
Total loans	**287,124**	**75,780**	**1,876**	**1,261**	**78,917**	**6,358**	**372,399**	**519**	**2,840**	**130**	**111**	**3,081**	**2,586**	**6,186**
Of which:														
Personal	***166,548***	***32,348***	***1,229***	***775***	***34,352***	***3,288***	***204,188***	***171***	***839***	***79***	***78***	***996***	***1,228***	***2,395***
Wholesale	***120,576***	***43,432***	***647***	***486***	***44,565***	***3,070***	***168,211***	***348***	***2,001***	***51***	***33***	***2,085***	***1,358***	***3,791***
2019*														
Retail Banking	144,513	11,921	1,034	603	13,558	1,902	159,973	114	375	45	47	467	823	1,404
Ulster Bank RoI	15,409	1,405	104	133	1,642	2,037	19,088	29	39	6	8	53	693	775
Personal	*10,858*	*944*	*96*	*105*	*1,145*	*1,877*	*13,880*	*12*	*20*	*6*	*6*	*32*	*591*	*635*
Wholesale	*4,551*	*461*	*8*	*28*	*497*	*160*	*5,208*	*17*	*19*	*—*	*2*	*21*	*102*	*140*
Commercial Banking	88,100	10,837	254	262	11,353	2,162	101,615	152	195	12	7	214	1,021	1,387
Private Banking	14,956	478	63	46	587	207	15,750	7	6	—	1	7	29	43
Personal	*11,630*	*180*	*60*	*41*	*281*	*192*	*12,103*	*3*	*2*	*—*	*1*	*3*	*23*	*29*
Wholesale	*3,326*	*298*	*3*	*5*	*306*	*15*	*3,647*	*4*	*4*	*—*	*—*	*4*	*6*	*14*
RBS International	14,834	520	18	7	545	121	15,500	4	6	—	—	6	21	31
Personal	*2,799*	*27*	*17*	*6*	*50*	*65*	*2,914*	*1*	*1*	*—*	*—*	*1*	*12*	*14*
Wholesale	*12,035*	*493*	*1*	*1*	*495*	*56*	*12,586*	*3*	*5*	*—*	*—*	*5*	*9*	*17*
NatWest Markets	9,273	176	4	—	180	169	9,622	10	5	—	—	5	131	146
Central items & other	15,282	3	—	—	3	—	15,285	6	—	—	—	—	—	6
Total loans	302,367	25,340	1,477	1,051	27,868	6,598	336,833	322	626	63	63	752	2,718	3,792
Of which:														
Personal	*169,800*	*13,072*	*1,207*	*755*	*15,034*	*4,036*	*188,870*	*130*	*398*	*51*	*54*	*503*	*1,449*	*2,082*
Wholesale	*132,567*	*12,268*	*270*	*296*	*12,834*	*2,562*	*147,963*	*192*	*228*	*12*	*9*	*249*	*1,269*	*1,710*

*2019 data has been restated for the accounting policy change for balances held with central banks. Refer to Accounting policy changes effective 1 January 2020 for further details.

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

Credit risk – Banking activities continued

Segmental loans and impairment metrics

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

	ECL provisions coverage							ECL		
		Stage 2 (1,2)								
2020	Stage 1 %	Not past due %	1-30 DPD %	>30 DPD %	Total %	Stage 3 %	Total %	Total charge £m	Loss rate basis points	Amounts written-off £m
Retail Banking	**0.10**	**2.48**	**6.48**	**10.48**	**2.77**	**42.62**	**1.05**	**792**	**45**	**378**
Ulster Bank RoI	**0.31**	**7.66**	**10.42**	**11.86**	**8.03**	**39.81**	**4.24**	**250**	**132**	**219**
Personal	***0.24***	***4.93***	***7.83***	***10.00***	***5.50***	***36.84***	***3.70***	***106***	***76***	***212***
Wholesale	***0.55***	***10.45***	***20.69***	***15.63***	***10.85***	***58.14***	***5.75***	***144***	***288***	***7***
Commercial Banking	**0.38**	**4.52**	**7.47**	**6.91**	**4.59**	**41.91**	**2.76**	**1,927**	**174**	**321**
Private Banking	**0.20**	**3.51**	**—**	**7.14**	**3.51**	**13.09**	**0.79**	**100**	**57**	**5**
Personal	***0.05***	***1.72***	***—***	***—***	***1.39***	***7.22***	***0.21***	***(5)***	***(4)***	***1***
Wholesale	***0.95***	***3.63***	***—***	***33.33***	***3.68***	***57.14***	***2.53***	***105***	***241***	***4***
RBS International	**0.12**	**3.31**	**2.17**	**5.00**	**3.30**	**22.75**	**0.93**	**107**	**73**	**3**
Personal	***0.11***	***5.56***	***—***	***—***	***2.04***	***15.71***	***0.54***	***4***	***14***	***3***
Wholesale	***0.12***	***3.29***	***3.45***	***16.67***	***3.33***	***26.24***	***1.03***	***103***	***87***	***—***
NatWest Markets	**0.15**	**3.36**	**—**	**—**	**3.13**	**77.19**	**2.03**	**40**	**42**	**11**
Central items & other	**0.05**	**13.64**	**—**	**—**	**13.64**	**—**	**0.10**	**26**	**10**	**—**
Total loans	**0.18**	**3.75**	**6.93**	**8.80**	**3.90**	**40.67**	**1.66**	**3,242**	**87**	**937**
Of which:										
Personal	***0.10***	***2.59***	***6.43***	***10.06***	***2.90***	***37.35***	***1.17***	***897***	***44***	***594***
Wholesale	***0.29***	***4.61***	***7.88***	***6.79***	***4.68***	***44.23***	***2.25***	***2,345***	***139***	***343***
2019*										
Retail Banking	0.08	3.15	4.35	7.79	3.44	43.27	0.88	393	25	235
Ulster Bank RoI	0.19	2.78	5.77	6.02	3.23	34.02	4.06	(34)	(15)	85
Personal	*0.11*	*2.12*	*6.25*	*5.71*	*2.79*	*31.49*	*4.57*	*(16)*	*(12)*	*69*
Wholesale	*0.37*	*4.12*	*—*	*7.14*	*4.23*	*63.75*	*2.69*	*(18)*	*(22)*	*16*
Commercial Banking	0.17	1.80	4.72	2.67	1.88	47.22	1.36	391	38	450
Private Banking	0.05	1.26	—	2.17	1.19	14.01	0.27	(6)	(4)	1
Personal	*0.03*	*1.11*	*—*	*2.44*	*1.07*	*11.98*	*0.24*	*5*	*4*	*1*
Wholesale	*0.12*	*1.34*	*—*	*—*	*1.31*	*40.00*	*0.38*	*(11)*	*(30)*	*—*
RBS International	0.03	1.15	—	—	1.10	17.36	0.20	2	1	5
Personal	*0.04*	*3.70*	*—*	*—*	*2.00*	*18.46*	*0.48*	*—*	*—*	*5*
Wholesale	*0.02*	*1.01*	*—*	*—*	*1.01*	*16.07*	*0.14*	*2*	*2*	*—*
NatWest Markets	0.11	2.84	—	—	2.78	77.51	1.52	(51)	(53)	16
Central items & other	0.04	—	—	—	—	—	0.04	1	1	—
Total loans	0.11	2.47	4.27	5.99	2.70	41.19	1.13	696	20	792
Of which:										
Personal	*0.08*	*3.04*	*4.23*	*7.15*	*3.35*	*35.90*	*1.10*	*382*	*20*	*310*
Wholesale	*0.14*	*1.86*	*4.44*	*3.04*	*1.94*	*49.53*	*1.16*	*314*	*21*	*482*

*2019 data has been restated for the accounting policy change for balances held with central banks. Refer to Accounting policy changes effective 1 January 2020 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 a SICR.
(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

- Retail Banking – Balance sheet growth was primarily due to mortgages. This reflected strong customer demand as well as the £3.0 billion acquisition of an owner-occupied mortgage portfolio from Metro Bank (for which a Stage 1 ECL charge of £9 million was incurred on acquisition).
- Unsecured lending balances decreased reflecting reduced customer demand and the pay down of existing borrowing as well as a more restrictive risk appetite reflective of the uncertain external environment. The deteriorated economic outlook, including forecast increases in unemployment, resulted in increased account level IFRS 9 PDs. Consequently, compared to 2019, a larger proportion of customer accounts exhibited a significant increase in credit risk (SICR) which caused a migration of assets from Stage 1 to Stage 2. As a result, the ECL requirement increased.
- While the granting of a COVID-19 related payment holiday did not automatically trigger a migration to Stage 2, a subset of customers who had accessed payment holiday support, and where their risk profile was identified as relatively high risk, were collectively migrated to Stage 2 and their ECL uplifted (refer to the Governance and post model adjustments section for further details). The various COVID-19 related customer support mechanisms (loan repayment holidays, government job retention scheme) continued to mask actual portfolio deterioration in the short-term, with the days past due, and flows to Stage 3 metrics, yet to be impacted. Provisions coverage increased overall. However, coverage in Stage 2 alone reduced, mainly due to a proportionately higher share of mortgage exposures where coverage levels were lower. This reflected the secured nature of the borrowing. The loss rate was significantly higher than in the prior year.

Credit risk – Banking activities continued

- Ulster Bank RoI – Balances remained broadly flat year-on-year. Further drawdowns on existing facilities and new lending across both the Wholesale and Personal portfolios were offset by ongoing reduction of the non-performing mortgage portfolio through the execution of a portfolio sale agreed in 2019. The deteriorated economic outlook included forecast increases in unemployment, reductions in property prices and GDP, which resulted in increased IFRS 9 PDs across all portfolios. Consequently, compared to 2019, a larger proportion of the exposures exhibited a SICR with an associated migration of assets from Stage 1 to Stage 2. As a result, the ECL increased. The various COVID-19 related customer support mechanisms (for example, loan payment breaks, government job retention scheme) masked actual portfolio deterioration in the short-term, with the days past due, and flows to Stage 3, yet to be materially affected. The loss rate was significantly higher than in the prior year.
- Commercial Banking – Balance sheet growth was primarily due to further drawdowns on existing facilities and new lending under the COVID-19 government lending schemes. The deteriorated economic outlook, including significant reductions in GDP and commercial real estate valuations, resulted in increased IFRS 9 PDs. Consequently, compared to 2019, a larger proportion of the exposures exhibited a SICR which caused a migration of assets from Stage 1 to Stage 2. As a result, the ECL requirement increased. Reflecting the continued high level of uncertainty arising from COVID-19, management judged that certain ECL post model adjustments were necessary, refer to the Governance and post model adjustments section for further details. The increase in Stage 2 assets due to PD deterioration was also the primary driver of the increase in the Stage 2 exposures less than 30 days past due. A small number of large cases resulted in the increase in the 1-30 DPD category. The various COVID-19 related customer support mechanisms mitigated against flows into default in the short-term. Increased coverage in Stage 1 and Stage 2 was mainly due to the increased ECL, primarily as a result of the deteriorated economic outlook, which was partially offset by a decrease in Stage 3 coverage driven by a small number of individual cases with low ECL. The loss rate was significantly higher than in the prior year.
- Other businesses – The drivers of the increased ECL requirement were similar to those described above.

Credit risk – Banking activities continued

Portfolio summary – sector analysis

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

	Personal				Wholesale					Total
2020	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	190,516	3,895	9,777	204,188	38,076	77,533	47,643	4,959	168,211	372,399
- UK	176,866	3,816	9,580	190,262	35,617	65,968	34,847	3,776	140,208	330,470
- RoI	13,650	79	197	13,926	1,241	4,056	348	30	5,675	19,601
- Other Europe	—	—	—	—	772	4,132	4,535	538	9,977	9,977
- RoW	—	—	—	—	446	3,377	7,913	615	12,351	12,351
Loans by asset quality (2)	190,516	3,895	9,777	204,188	38,076	77,533	47,643	4,959	168,211	372,399
- AQ1	3,053	—	650	3,703	1,856	1,195	7,325	2,422	12,798	16,501
- AQ2	6,263	—	—	6,263	3,134	409	26,953	866	31,362	37,625
- AQ3	279	—	—	279	3,547	5,503	1,824	1,286	12,160	12,439
- AQ4	114,932	27	643	115,602	6,236	13,376	8,105	263	27,980	143,582
- AQ5	48,429	997	1,472	50,898	8,917	19,407	1,857	2	30,183	81,081
- AQ6	3,642	1,092	3,713	8,447	6,939	14,494	711	99	22,243	30,690
- AQ7	8,333	1,375	1,567	11,275	3,680	12,896	563	3	17,142	28,417
- AQ8	1,434	249	729	2,412	2,029	7,038	98	11	9,176	11,588
- AQ9	1,593	46	382	2,021	416	1,488	190	3	2,097	4,118
- AQ10	2,558	109	621	3,288	1,322	1,727	17	4	3,070	6,358
Loans by stage	190,516	3,895	9,777	204,188	38,076	77,533	47,643	4,959	168,211	372,399
- Stage 1	158,387	2,411	5,750	166,548	23,733	48,090	44,002	4,751	120,576	287,124
- Stage 2	29,571	1,375	3,406	34,352	13,021	27,716	3,624	204	44,565	78,917
- Stage 3	2,558	109	621	3,288	1,322	1,727	17	4	3,070	6,358
- Of which: individual	308	—	26	334	987	958	9	4	1,958	2,292
- Of which: collective	2,250	109	595	2,954	335	769	8	—	1,112	4,066
Loans - past due analysis (3,4)	190,516	3,895	9,777	204,188	38,076	77,533	47,643	4,959	168,211	372,399
- Not past due	186,592	3,770	8,868	199,230	36,818	75,690	47,195	4,689	164,392	363,622
- Past due 1-30 days	1,482	29	192	1,703	348	990	328	270	1,936	3,639
- Past due 31-89 days	863	26	135	1,024	260	251	113	—	624	1,648
- Past due 90-180 days	456	20	66	542	161	67	—	—	228	770
- Past due >180 days	1,123	50	516	1,689	489	535	7	—	1,031	2,720
Loans - Stage 2	29,571	1,375	3,406	34,352	13,021	27,716	3,624	204	44,565	78,917
- Not past due	27,893	1,340	3,115	32,348	12,708	27,036	3,484	204	43,432	75,780
- Past due 1-30 days	1,038	18	173	1,229	160	457	30	—	647	1,876
- Past due 31-89 days	640	17	118	775	153	223	110	—	486	1,261
Weighted average life**										
- ECL measurement (years)	9	2	5	6	4	6	4	—	5	5
Weighted average 12 months PDs**										
- IFRS 9 (%)	0.72	6.17	4.82	1.03	3.99	3.70	0.51	0.13	2.73	1.81
- Basel (%)	0.85	3.40	3.82	1.03	1.66	2.51	0.32	0.15	1.54	1.25
ECL provisions by geography	1,005	354	1,036	2,395	1,175	2,478	121	17	3,791	6,186
- UK	506	351	1,024	1,881	1,069	1,907	60	12	3,048	4,929
- RoI	499	3	12	514	41	277	3	1	322	836
- Other Europe	—	—	—	—	53	125	46	1	225	225
- RoW	—	—	—	—	12	169	12	3	196	196
ECL provisions by stage	1,005	354	1,036	2,395	1,175	2,478	121	17	3,791	6,186
- Stage 1	51	53	67	171	123	188	23	14	348	519
- Stage 2	319	225	452	996	507	1,487	90	1	2,085	3,081
- Stage 3	635	76	517	1,228	545	803	8	2	1,358	2,586
- Of which: individual	18	—	12	30	360	436	3	2	801	831
- Of which: collective	617	76	505	1,198	185	367	5	—	557	1,755
ECL provisions coverage (%)	0.53	9.09	10.60	1.17	3.09	3.20	0.25	0.34	2.25	1.66
- Stage 1 (%)	0.03	2.20	1.17	0.10	0.52	0.39	0.05	0.29	0.29	0.18
- Stage 2 (%)	1.08	16.36	13.27	2.90	3.89	5.37	2.48	0.49	4.68	3.90
- Stage 3 (%)	24.82	69.72	83.25	37.35	41.23	46.50	47.06	50.00	44.23	40.67
ECL charge	284	191	422	897	741	1,502	95	7	2,345	3,242
- UK	181	190	420	791	703	1,276	48	6	2,033	2,824
- RoI	103	1	2	106	7	149	—	—	156	262
- Other Europe	—	—	—	—	21	34	38	—	93	93
- RoW	—	—	—	—	10	43	9	1	63	63
ECL loss rate (%)	0.15	4.90	4.32	0.44	1.95	1.94	0.20	0.14	1.39	0.87
Amounts written-off	221	95	278	594	54	287	2	—	343	937

**Not within audit scope.

For the notes to this table refer to page 189.

Credit risk – Banking activities continued

Portfolio summary – sector analysis

	Personal				Wholesale					Total
2020	Mortgages (1) £m	Credit cards £m	Other personal £m	Total £m	Property £m	Corporate £m	FI £m	Sovereign £m	Total £m	£m
Loans by residual maturity	190,516	3,895	9,777	204,188	38,076	77,533	47,643	4,959	168,211	372,399
- <1 year	3,831	2,557	3,249	9,637	8,669	23,015	38,203	2,196	72,083	81,720
- 1-5 year	12,193	1,338	5,509	19,040	20,029	36,640	8,340	1,590	66,599	85,639
- 5 year	174,492	—	1,019	175,511	9,378	17,878	1,100	1,173	29,529	205,040
Other financial assets by asset quality (2)	—	—	—	—	98	116	11,093	165,209	176,516	176,516
- AQ1-AQ4	—	—	—	—	—	116	10,734	165,184	176,034	176,034
- AQ5-AQ8	—	—	—	—	98	—	359	25	482	482
Off-balance sheet	14,557	14,262	10,186	39,005	17,397	58,635	17,011	1,587	94,630	133,635
- Loan commitments	14,554	14,262	10,144	38,960	16,829	55,496	15,935	1,585	89,845	128,805
- Financial guarantees	3	—	42	45	568	3,139	1,076	2	4,785	4,830
Off-balance sheet by asset quality (2)	14,557	14,262	10,186	39,005	17,397	58,635	17,011	1,587	94,630	133,635
- AQ1-AQ4	13,610	148	8,008	21,766	12,917	33,939	15,460	1,404	63,720	85,486
- AQ5-AQ8	937	13,809	2,152	16,898	4,372	24,065	1,544	183	30,164	47,062
- AQ9	1	8	9	18	13	76	1	—	90	108
- AQ10	9	297	17	323	95	555	6	—	656	979

For the notes to this table refer to page 189.

Credit risk – Banking activities continued

Portfolio summary – sector analysis

	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
Loans by geography	174,003	4,478	10,389	188,870	36,371	71,042	36,266	4,284	147,963	336,833
- UK	*160,431*	*4,383*	*10,176*	*174,990*	*33,644*	*58,666*	*22,564*	*3,479*	*118,353*	*293,343*
- RoI	*13,572*	*95*	*213*	*13,880*	*1,310*	*4,169*	*513*	*32*	*6,024*	*19,904*
- Other Europe	—	—	—	—	*921*	*4,350*	*5,120*	*328*	*10,719*	*10,719*
- RoW	—	—	—	—	*496*	*3,857*	*8,069*	*445*	*12,867*	*12,867*
Loans by asset quality (2)	174,003	4,478	10,389	188,870	36,371	71,042	36,266	4,284	147,963	336,833
-AQ1	*3,837*	—	*665*	*4,502*	*4,474*	*2,272*	*17,841*	*1,931*	*26,518*	*31,020*
-AQ2	*2,866*	—	—	*2,866*	*2,490*	*496*	*1,763*	*1,780*	*6,529*	*9,395*
-AQ3	*277*	—	—	*277*	*2,465*	*5,561*	*2,939*	*385*	*11,350*	*11,627*
-AQ4	*92,520*	*375*	*625*	*93,520*	*6,574*	*14,660*	*9,979*	*41*	*31,254*	*124,774*
-AQ5	*58,051*	*786*	*1,708*	*60,545*	*10,419*	*19,584*	*2,027*	*107*	*32,137*	*92,682*
-AQ6	*5,253*	*1,211*	*3,344*	*9,808*	*5,809*	*13,470*	*811*	*3*	*20,093*	*29,901*
-AQ7	*5,326*	*1,531*	*2,328*	*9,185*	*2,853*	*11,404*	*867*	*30*	*15,154*	*24,339*
-AQ8	*1,379*	*393*	*792*	*2,564*	*302*	*1,478*	*20*	*2*	*1,802*	*4,366*
- AQ9	*1,217*	*66*	*284*	*1,567*	*90*	*468*	*6*	—	*564*	*2,131*
- AQ10	*3,277*	*116*	*643*	*4,036*	*895*	*1,649*	*13*	*5*	*2,562*	*6,598*
Loans by stage	174,003	4,478	10,389	188,870	36,371	71,042	36,266	4,284	147,963	336,833
- Stage 1	*159,261*	*3,103*	*7,436*	*169,800*	*32,896*	*59,689*	*35,707*	*4,275*	*132,567*	*302,367*
- Stage 2	*11,465*	*1,259*	*2,310*	*15,034*	*2,580*	*9,704*	*546*	*4*	*12,834*	*27,868*
- Stage 3	*3,277*	*116*	*643*	*4,036*	*895*	*1,649*	*13*	*5*	*2,562*	*6,598*
- of which: individual	*235*	—	*21*	*256*	*646*	*1,137*	*7*	*5*	*1,795*	*2,051*
- of which: collective	*3,042*	*116*	*622*	*3,780*	*249*	*512*	*6*	—	*767*	*4,547*
Loans - past due analysis (3,4)	174,003	4,478	10,389	188,870	36,371	71,042	36,266	4,284	147,963	336,833
- Not past due	*169,536*	*4,313*	*9,473*	*183,322*	*35,445*	*68,730*	*36,214*	*4,230*	*144,619*	*327,941*
- Past due 1-30 days	*1,578*	*43*	*164*	*1,785*	*317*	*1,339*	*36*	*54*	*1,746*	*3,531*
- Past due 31-89 days	*955*	*36*	*123*	*1,114*	*82*	*271*	*7*	—	*360*	*1,474*
- Past due 90-180 days	*495*	*30*	*84*	*609*	*26*	*148*	—	—	*174*	*783*
- Past due >180 days	*1,439*	*56*	*545*	*2,040*	*501*	*554*	*9*	—	*1,064*	*3,104*
Loans - Stage 2	11,465	1,259	2,310	15,034	2,580	9,704	546	4	12,834	27,868
- Not past due	*9,798*	*1,204*	*2,070*	*13,072*	*2,466*	*9,266*	*534*	*4*	*12,270*	*25,342*
- Past due 1-30 days	*1,050*	*29*	*128*	*1,207*	*49*	*214*	*5*	—	*268*	*1,475*
- Past due 31-89 days	*617*	*26*	*112*	*755*	*65*	*224*	*7*	—	*296*	*1,051*
Weighted average life**										
- ECL measurement (years)	9	2	6	5	6	6	3	1	6	6
Weighted average 12 months PDs**										
- IFRS 9 (%)	0.31	3.86	2.98	0.54	0.63	0.98	0.13	0.05	0.60	0.56
- Basel (%)	0.81	3.59	3.75	1.03	0.96	1.25	0.20	0.07	0.83	0.94
ECL provisions by geography	964	261	857	2,082	494	1,181	28	7	1,710	3,792
- UK	*342*	*259*	*846*	*1,447*	*424*	*800*	*14*	*4*	*1,242*	*2,689*
- RoI	*622*	*2*	*11*	*635*	*39*	*117*	*3*	*1*	*160*	*795*
- Other Europe	—	—	—	—	*28*	*130*	*9*	*1*	*168*	*168*
- RoW	—	—	—	—	*3*	*134*	*2*	*1*	*140*	*140*
ECL provisions by stage	964	261	857	2,082	494	1,181	28	7	1,710	3,792
- Stage 1	*25*	*40*	*65*	*130*	*45*	*124*	*16*	*7*	*192*	*322*
- Stage 2	*118*	*132*	*253*	*503*	*47*	*198*	*4*	—	*249*	*752*
- Stage 3	*821*	*89*	*539*	*1,449*	*402*	*859*	*8*	—	*1,269*	*2,718*
- of which: individual	*24*	—	*11*	*35*	*236*	*521*	*4*	—	*761*	*796*
- of which: collective	*797*	*89*	*528*	*1,414*	*166*	*338*	*4*	—	*508*	*1,922*
ECL provisions coverage (%)	0.55	5.83	8.25	1.10	1.36	1.66	0.08	0.09	1.13	1.12
- Stage 1 (%)	*0.02*	*1.29*	*0.87*	*0.08*	*0.14*	*0.21*	*0.04*	*0.09*	*0.14*	*0.11*
- Stage 2 (%)	*1.03*	*10.48*	*10.95*	*3.35*	*1.82*	*2.04*	*0.73*	—	*1.94*	*2.70*
- Stage 3 (%)	*25.05*	*76.72*	*83.83*	*35.90*	*44.92*	*52.09*	*61.54*	—	*49.53*	*41.19*
ECL charge	25	104	253	382	33	283	(4)	2	314	696
- UK	*28*	*105*	*261*	*394*	*64*	*230*	*(4)*	*2*	*292*	*686*
- RoI	*(3)*	*(1)*	*(8)*	*(12)*	*(2)*	*(16)*	*1*	—	*(17)*	*(29)*
- Other Europe	—	—	—	—	*(29)*	*117*	—	—	*88*	*88*
- RoW	—	—	—	—	—	*(48)*	*(1)*	—	*(49)*	*(49)*
ECL loss rate (%)	0.01	2.32	2.44	0.20	0.09	0.40	(0.01)	0.05	0.21	0.21
Amounts written-off	78	76	156	310	250	219	13	—	482	792

*2019 data has been restated for the accounting policy change for balances held with central banks. Refer to Accounting policy changes effective 1 January 2020 for further details.

**Not within audit scope.

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

Credit risk – Banking activities continued

Portfolio summary – sector analysis

2019*	Personal Mortgages £m	Credit cards £m	Other personal £m	Total £m	Wholesale Property £m	Corporate £m	FI £m	Sovereign £m	Total £m	Total £m
Loans by residual maturity	174,003	4,478	10,389	188,870	36,371	71,042	36,266	4,284	147,963	336,833
- <1 year	*3,996*	*2,750*	*3,480*	*10,226*	*7,318*	*24,539*	*27,299*	*2,342*	*61,498*	*71,724*
- 1-5 year	*8,771*	*1,728*	*5,769*	*16,268*	*19,774*	*31,215*	*7,922*	*1,164*	*60,075*	*76,343*
- 5 year	*161,236*	—	*1,140*	*162,376*	*9,279*	*15,288*	*1,045*	*778*	*26,390*	*188,766*
Other financial assets by asset quality (2)	—	—	—	—	—	110	12,185	126,305	138,600	138,600
- AQ1-AQ4	—	—	—	—	—	*110*	*11,742*	*126,041*	*137,893*	*137,893*
- AQ5-AQ8	—	—	—	—	—	—	*441*	*264*	*705*	*705*
- AQ9	—	—	—	—	—	—	*2*	—	*2*	*2*
Off-balance sheet	14,348	16,686	12,332	43,366	15,383	51,390	16,742	1,022	84,537	127,903
- Loan commitments	*14,345*	*16,686*	*12,285*	*43,316*	*14,739*	*47,883*	*15,417*	*1,021*	*79,060*	*122,376*
- Financial guarantees	*3*	—	*47*	*50*	*644*	*3,507*	*1,325*	*1*	*5,477*	*5,527*
Off-balance sheet by asset quality (2)	14,348	16,686	12,332	43,366	15,383	51,390	16,742	1,022	84,537	127,903
- AQ1-AQ4	*13,506*	*3,818*	*10,049*	*27,373*	*11,364*	*34,852*	*15,397*	*984*	*62,597*	*89,970*
- AQ5-AQ8	*832*	*12,588*	*2,271*	*15,691*	*3,948*	*16,228*	*1,340*	*38*	*21,554*	*37,245*
- AQ9	*1*	*4*	*12*	*17*	*11*	*49*	*4*	—	*64*	*81*
- AQ10	*9*	*276*	—	*285*	*60*	*261*	*1*	—	*322*	*607*

Notes:

(1) Includes a portion of secured lending in Private Banking, in line with ECL calculation methodology. Private Banking and RBS International mortgages are reported in UK, which includes crown dependencies, reflecting the country of lending origination.

(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

£0.3 billion (2019 – £0.3 billion) of AQ10 Personal balances primarily relate to loan commitments, the drawdown of which is effectively prohibited. AQ10 includes £0.4 billion (2019 – £0.6 billion) of RoI mortgages which are not currently considered defaulted for capital calculation purposes for RoI but are included in Stage 3.

(3) 30 DPD – 30 days past due, the mandatory 30 days past due backstop as prescribed by the IFRS 9 guidance for a SICR.

(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.

Credit risk – Banking activities continued

Sector analysis

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

	Loans - amortised cost and FVOCI				Off-balance sheet		ECL provisions			
2020	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	**Loan commitments (1) £m**	**Contingent liabilities £m**	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
Personal	**166,548**	**34,352**	**3,288**	**204,188**	**38,960**	**45**	**171**	**996**	**1,228**	**2,395**
Mortgages	**158,387**	**29,571**	**2,558**	**190,516**	**14,554**	**3**	**51**	**319**	**635**	**1,005**
Credit cards	**2,411**	**1,375**	**109**	**3,895**	**14,262**	**—**	**53**	**225**	**76**	**354**
Other personal	**5,750**	**3,406**	**621**	**9,777**	**10,144**	**42**	**67**	**452**	**517**	**1,036**
Wholesale	**120,576**	**44,565**	**3,070**	**168,211**	**89,845**	**4,785**	**348**	**2,085**	**1,358**	**3,791**
Property	**23,733**	**13,021**	**1,322**	**38,076**	**16,829**	**568**	**123**	**507**	**545**	**1,175**
Financial institutions	**44,002**	**3,624**	**17**	**47,643**	**15,935**	**1,076**	**23**	**90**	**8**	**121**
Sovereign	**4,751**	**204**	**4**	**4,959**	**1,585**	**2**	**14**	**1**	**2**	**17**
Corporate	**48,090**	**27,716**	**1,727**	**77,533**	**55,496**	**3,139**	**188**	**1,487**	**803**	**2,478**
Of which:										
Airlines and aerospace	***753***	***1,213***	***41***	***2,007***	***1,888***	***215***	***2***	***42***	***25***	***69***
Automotive	***4,383***	***1,759***	***161***	***6,303***	***4,205***	***102***	***17***	***63***	***17***	***97***
Education	***821***	***754***	***63***	***1,638***	***1,016***	***16***	***2***	***41***	***17***	***60***
Health	***2,694***	***2,984***	***131***	***5,809***	***616***	***14***	***13***	***164***	***48***	***225***
Land transport and logistics	***2,868***	***1,823***	***111***	***4,802***	***3,782***	***197***	***8***	***98***	***32***	***138***
Leisure	***3,299***	***6,135***	***385***	***9,819***	***2,199***	***125***	***22***	***439***	***204***	***665***
Oil and gas	***1,178***	***300***	***83***	***1,561***	***2,225***	***346***	***4***	***20***	***59***	***83***
Retail	***6,702***	***2,282***	***187***	***9,171***	***5,888***	***512***	***18***	***112***	***101***	***231***
Total	**287,124**	**78,917**	**6,358**	**372,399**	**128,805**	**4,830**	**519**	**3,081**	**2,586**	**6,186**
2019*										
Personal	169,800	15,034	4,036	188,870	43,316	50	130	503	1,449	2,082
Mortgages	159,261	11,465	3,277	174,003	14,345	3	25	118	821	964
Credit cards	3,103	1,259	116	4,478	16,686	—	40	132	89	261
Other personal	7,436	2,310	643	10,389	12,285	47	65	253	539	857
Wholesale	132,567	12,834	2,562	147,963	79,060	5,477	192	249	1,269	1,710
Property	32,896	2,580	895	36,371	14,739	644	45	47	402	494
Financial institutions	35,707	546	13	36,266	15,417	1,325	16	4	8	28
Sovereign	4,275	4	5	4,284	1,021	1	7	—	—	7
Corporate	59,689	9,704	1,649	71,042	47,883	3,507	124	198	859	1,181
Of which:										
Airlines and aerospace (2)	*1,412*	*261*	*40*	*1,713*	*1,716*	*271*	*2*	*3*	*55*	*60*
Automotive	*5,062*	*1,143*	*20*	*6,225*	*3,815*	*98*	*12*	*11*	*15*	*38*
Education	*1,426*	*154*	*12*	*1,592*	*654*	*18*	*2*	*4*	*1*	*7*
Health	*4,695*	*844*	*167*	*5,706*	*534*	*17*	*9*	*16*	*52*	*77*
Land transport and logistics	*3,477*	*316*	*53*	*3,846*	*3,301*	*249*	*6*	*12*	*21*	*39*
Leisure	*6,323*	*1,253*	*377*	*7,953*	*2,876*	*135*	*25*	*27*	*175*	*227*
Oil and gas	*1,923*	*140*	*86*	*2,149*	*2,400*	*358*	*5*	*3*	*55*	*63*
Retail	*6,397*	*1,279*	*215*	*7,891*	*5,383*	*560*	*13*	*16*	*180*	*209*
Total	302,367	27,868	6,598	336,833	122,376	5,527	322	752	2,718	3,792

*2019 data has been restated for the accounting policy change for balances held with central banks. Refer to Accounting policy changes effective 1 January 2020 for further details.

Notes:
(1) Includes £3.7 billion of commercial cards related balances which were brought into the scope of ECL calculations during 2020.
(2) Airlines and aerospace Stage 3 ECL at 31 December 2019 included £27 million of ECL related to contingent liabilities.

Wholesale forbearance

The table below shows Wholesale forbearance, Heightened Monitoring and Risk of Credit Loss by sector. Personal forbearance is disclosed in the Personal portfolio section.

2020	**Property £m**	**FI £m**	**Other corporate £m**	**Total £m**
Forbearance (flow)	**1,597**	**68**	**4,201**	**5,866**
Forbearance (stock)	**1,744**	**92**	**4,983**	**6,819**
Heightened Monitoring and Risk of Credit Loss	**1,600**	**155**	**5,771**	**7,526**
2019				
Forbearance (flow)	546	35	2,254	2,835
Forbearance (stock)	675	35	3,223	3,933
Heightened Monitoring and Risk of Credit Loss	1,209	107	4,207	5,523

Credit risk – Banking activities continued

Portfolio summary – sector analysis

Key points

- Loans by geography – In the Personal portfolio, exposures continued to be concentrated in the UK and heavily weighted to mortgages; the vast majority of exposures in the Republic of Ireland remained in mortgages. Balance sheet growth was within mortgages including the acquisition by Retail Banking of the owner-occupied portfolio detailed earlier; unsecured lending balances reduced also as described earlier. In the Wholesale portfolio, exposures remained heavily weighted to the UK. Balance sheet growth was driven by additional drawings on existing facilities and new lending under the various government supported lending schemes which are primarily to UK customers.
- Loans by asset quality (based on Basel II PD) – In the Personal portfolio, the asset quality distribution deteriorated slightly in credit cards, with balance reductions in higher asset quality bands. In the Wholesale portfolio, Basel II PDs were based on a through-the-cycle approach. The asset quality distribution demonstrated some deterioration across the portfolio consistent with the wider impacts of COVID-19. Lending under government-backed COVID-19 related support schemes was mostly in the AQ8 band. Increased exposure in the AQ2 band in financial institutions is related to Treasury activities as customer deposit levels have increased. In addition, some AQ migration within financial institutions occurred as a result of the downgrade of the UK sovereign. For further details refer to the Asset quality section.
- Loans by stage – In both the Personal and Wholesale portfolios, the deteriorated economic outlook resulted in increased account level IFRS 9 PDs. Consequently, compared to 2019, a larger proportion of accounts exhibited a SICR with an associated migration of exposures from Stage 1 to Stage 2, the vast majority of which were up-to-date with payments. In the absence of any other forbearance or SICR triggers, customers granted COVID-19 related payment holidays were not considered forborne and did not result in an automatic trigger to Stage 2. However, a subset of personal customers who had accessed payment holiday support, and where their risk profile was identified as relatively high risk, were collectively migrated to Stage 2.
- Loans – Past due analysis and Stage 2 – The various COVID-19 related customer support mechanisms (capital repayment holidays, government job retention scheme, government supported lending schemes) are mitigating actual portfolio deterioration in the short term, although there have been some increases in past due exposures in the Wholesale portfolio.
- Weighted average 12 months PDs – In Personal, the Basel II point-in-time PDs have yet to be materially affected by COVID-19. The forward-looking IFRS 9 PDs increased reflecting the deteriorated economics. The IFRS 9 PDs for both unsecured loans (reported within other personal) and mortgages were under-predicting and the ECL was adjusted upwards pending the model parameters being systematically updated. In the Wholesale portfolio, the Basel II PDs were based on a through-the-cycle approach and increased less than the forward looking IFRS 9 PDs which increased, reflecting the deteriorated economic outlook.
- ECL provision by geography – In line with loans by geography, the vast majority of ECL related to exposures in the UK and the Republic of Ireland.
- ECL provisions by stage – Stage 1 and Stage 2 provisions increased reflecting the deteriorated economic outlook. As outlined above, Stage 3 provisions have yet to be materially impacted by COVID-19, being mitigated by the various customer support mechanisms detailed earlier. In mortgages, the Stage 3 ECL reduction was primarily a result of a debt sale in Ulster Bank RoI, where the exposure value also reduced.
- ECL provisions coverage – Overall provisions coverage increased. In Stage 2 alone, at a total Personal level, coverage reduced, due to a proportionately higher share of mortgage exposures where coverage levels were lower reflecting the secured nature of the borrowing. In Wholesale, overall provisions coverage increased, primarily due to the effect of the deteriorated economic conditions. Stage 1 and Stage 2 coverage increased, particularly in those sectors suffering the most disruption as a result of COVID-19. The decrease in Stage 3 coverage was due to a small number of individual cases with low ECL.
- The ECL charge and loss rate – Reflecting the deteriorated economic outlook, the impairment charge was elevated, with the loss rate significantly higher than the prior year.
- Loans by residual maturity – In mortgages, the vast majority of exposures remained greater than five years. In unsecured lending – credit cards and other – exposures were concentrated in less than five years. In Wholesale, with the exception of financial institutions where new lending was concentrated in less than 1 year, the majority of new lending was for residual maturity of one-five years, with some greater than five years in line with lending under the government support schemes.
- Other financial assets by asset quality – Consisting almost entirely of cash and balances at central banks and debt securities, held in the course of treasury related management activities, these assets were mainly within the AQ1-AQ4 category.
- Off-balance sheet exposures by asset quality – In Personal, undrawn exposures were reflective of available credit lines in credit cards and current accounts and reduced reflecting an initiative to right-size customer unutilised borrowing limits. Additionally, the mortgage portfolio had undrawn exposure, where a formal offer had been made to a customer but had not yet been drawn down. There was also a legacy portfolio of flexible mortgages where a customer had the right and ability to draw down further funds. 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, undrawn exposures increased reflecting the effect of COVID-19 and the utilisation of the various government support schemes. The vast majority of new corporate loan commitments were in the AQ5-AQ8 asset quality bands.
- Wholesale forbearance – The value of Wholesale forbearance increased significantly during the year. Customers seeking COVID-19 related support, including payment holidays, who were not subject to any wider SICR triggers and who were assessed as having the ability in the medium term post-COVID-19 to be viable and meet credit appetite metrics, were not considered to have been granted forbearance. The leisure, CRE and automotive sectors represented the largest share of forbearance flow in the Wholesale portfolio by value, with the increase in automotive resulting from forbearance completed on individually significant exposures. In addition, within the retail sector, there was a high volume of lower value forbearance. Payment holidays and covenant waivers were the most common forms of forbearance granted.
- Heightened Monitoring and Risk of Credit Loss – Consistent with the effects of COVID-19, increased flows into Heightened Monitoring and Risk of Credit Loss were noted across a number of sectors. The most material increases in both volumes and value were seen within other corporate and particularly in leisure, land transport & logistics and automotive sectors. In the CRE sector, inflows by value increased, but by volume remained largely stable.

Credit risk – Banking activities continued

Credit risk enhancement and mitigation

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

	Gross		Maximum credit risk		CREM by type			CREM coverage		Exposure post CREM	
2020	exposure £bn	ECL £bn	Total £bn	Stage 3 £bn	Financial (1) £bn	Property £bn	Other (2) £bn	Total £bn	Stage 3 £bn	Total £bn	Stage 3 £bn
Financial assets											
Cash and balances at central banks	**122.7**	**—**	**122.7**	**—**	**—**	**—**	**—**	**—**	**—**	**122.7**	**—**
Loans - amortised cost (3)	**372.4**	**6.0**	**366.4**	**3.8**	**38.6**	**232.7**	**23.7**	**295.0**	**3.3**	**71.4**	**0.5**
Personal (4)	***204.2***	***2.4***	***201.8***	***2.1***	***0.3***	***189.5***	***—***	***189.8***	***1.9***	***12.0***	***0.2***
Wholesale (5)	***168.2***	***3.6***	***164.6***	***1.7***	***38.3***	***43.2***	***23.7***	***105.2***	***1.4***	***59.4***	***0.3***
Debt securities	**53.8**	**—**	**53.8**	**—**	**—**	**—**	**—**	**—**	**—**	**53.8**	**—**
Total financial assets	**548.9**	**6.0**	**542.9**	**3.8**	**38.6**	**232.7**	**23.7**	**295.0**	**3.3**	**247.9**	**0.5**
Contingent liabilities and commitments											
Personal (6,7)	**39.0**	**—**	**39.0**	**0.3**	**—**	**4.1**	**—**	**4.1**	**—**	**34.9**	**0.3**
Wholesale	**94.6**	**0.2**	**94.4**	**0.6**	**3.3**	**7.6**	**4.6**	**15.5**	**0.1**	**78.9**	**0.5**
Total off-balance sheet	**133.6**	**0.2**	**133.4**	**0.9**	**3.3**	**11.7**	**4.6**	**19.6**	**0.1**	**113.8**	**0.8**
Total exposure	**682.5**	**6.2**	**676.3**	**4.7**	**41.9**	**244.4**	**28.3**	**314.6**	**3.4**	**361.7**	**1.3**
2019*											
Financial assets											
Cash and balances at central banks	79.2	—	79.2	—	—	—	—	—	—	79.2	—
Loans - amortised cost (3)	336.9	3.8	333.1	3.9	11.5	212.1	28.3	251.9	3.4	81.2	0.5
Personal (4)	*188.9*	*2.1*	*186.8*	*2.6*	*0.1*	*172.7*	—	*172.8*	*2.4*	*14.0*	*0.2*
Wholesale (5)	*148.0*	*1.7*	*146.3*	*1.3*	*11.4*	*39.4*	*28.3*	*79.1*	*1.0*	*67.2*	*0.3*
Debt securities	59.4	—	59.4	—	—	—	—	—	—	59.4	—
Total financial assets	475.5	3.8	471.7	3.9	11.5	212.1	28.3	251.9	3.4	219.8	0.5
Contingent liabilities and commitments											
Personal (6,7)	43.4	—	43.4	0.3	—	4.4	—	4.4	—	39.0	0.3
Wholesale	84.5	—	84.5	0.3	0.6	6.3	6.3	13.2	—	71.3	0.3
Total off-balance sheet	127.9	—	127.9	0.6	0.6	10.7	6.3	17.6	—	110.3	0.6
Total exposure	603.4	3.8	599.6	4.5	12.1	222.8	34.6	269.5	3.4	330.1	1.1

*2019 data has been restated for the accounting policy change for balances held with central banks. Refer to Accounting policy changes effective 1 January 2020 for further details.

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 NatWest Group a legal right to set off the financial asset against a financial liability due to the same counterparty.
(3) NatWest 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. NatWest 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 mortgage 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 on going 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) £0.3 billion (2019 – £0.3 billion) Personal Stage 3 balances primarily relate to loan commitments, the draw down of which is effectively prohibited.
(7) The Personal gross exposure value includes £10.0 billion (2019 – £9.6 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 drawn down, the exposure would be covered by a security over the borrower's property.

Credit risk – Banking activities continued

Personal portfolio

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

Personal lending	2020 Retail Banking £m	2020 Ulster Bank RoI £m	2020 Private Banking £m	2020 RBS International £m	2020 Total £m	2019 Retail Banking £m	2019 Ulster Bank RoI £m	2019 Private Banking £m	2019 RBS International £m	2019 Total £m
Mortgages	163,107	13,678	10,910	2,517	190,212	147,489	13,598	9,955	2,620	173,662
Of which:										
Owner occupied	148,614	12,781	9,601	1,676	172,672	132,698	12,593	8,714	1,747	155,752
Buy-to-let	14,493	897	1,309	841	17,540	14,791	1,005	1,241	874	17,911
Interest only - variable	5,135	159	4,375	347	10,016	6,279	165	3,646	371	10,461
Interest only - fixed	13,776	10	4,758	233	18,777	12,891	9	4,604	241	17,745
Mixed (1)	7,321	56	1	20	7,398	6,288	61	1	20	6,370
Impairment provisions (2)	483	499	5	9	996	309	622	13	11	955
Other personal lending (3)	11,116	276	1,613	279	13,284	12,778	308	1,767	280	15,133
Impairment provisions (2)	1,348	15	20	1	1,384	1,087	13	16	1	1,117
Total personal lending	174,223	13,954	12,523	2,796	203,496	160,267	13,906	11,722	2,900	188,795
Mortgage LTV ratios										
- Total portfolio	56%	59%	58%	57%	57%	57%	60%	57%	58%	57%
- Stage 1	55%	57%	58%	57%	55%	57%	57%	57%	57%	57%
- Stage 2	66%	65%	61%	64%	66%	58%	67%	60%	64%	59%
- Stage 3	53%	67%	64%	75%	60%	55%	73%	70%	80%	66%
- Buy-to-let	52%	59%	56%	53%	53%	53%	61%	54%	53%	54%
- Stage 1	51%	55%	56%	53%	52%	52%	57%	54%	53%	52%
- Stage 2	60%	69%	59%	53%	61%	57%	69%	57%	51%	59%
- Stage 3	56%	74%	54%	61%	62%	59%	75%	58%	66%	67%
Gross new mortgage lending (4)	30,551	910	2,148	249	33,858	31,857	1,184	2,112	355	35,508
Of which:										
Owner occupied	29,608	908	1,922	167	32,605	30,779	1,175	1,889	248	34,091
Weighted average LTV	69%	74%	66%	66%	69%	70%	75%	65%	71%	69%
Buy-to-let	943	2	227	82	1,254	1,078	10	222	107	1,417
Weighted average LTV	62%	54%	62%	63%	62%	61%	58%	60%	63%	60%
Interest only - variable rate	81	—	1,082	7	1,170	56	—	688	4	748
Interest only - fixed rate	1,501	—	695	35	2,231	1,275	—	993	51	2,319
Mixed (1)	1,630	—	—	2	1,632	1,074	1	—	4	1,079
Mortgage forbearance										
Forbearance flow	550	127	50	10	737	450	177	4	5	636
Forbearance stock	1,293	1,627	18	10	2,948	1,212	2,229	2	11	3,454
Current	648	1,070	13	9	1,740	623	1,149	1	9	1,782
1-3 months in arrears	360	105	3	—	468	338	157	—	1	496
> 3 months in arrears	285	452	2	1	740	251	923	1	1	1,176

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) Retail Banking 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) Retail Banking excludes additional lending to existing customers.

Key points

- Although the economic outlook deteriorated, reflected in the IFRS 9 stage migrations and ECL described earlier, the overall credit risk profile and underlying performance of the Personal portfolio remained stable during 2020.
- Personal lending increased during 2020 primarily due to mortgage growth and, in Retail Banking the acquisition of a £3 billion portfolio of owner occupied mortgages from Metro Bank. Unsecured lending reduced due to lower credit cards and overdraft usage during COVID-19.
- New mortgage lending was slightly lower than in 2019. COVID-19 restrictions affected volumes in the second and third quarters of the year. The existing mortgage stock and new business were closely monitored against agreed risk appetite parameters. These included loan-to-value ratios, buy-to-let concentrations, new-build concentrations and credit quality. These criteria were appropriately amended during the year to manage the effects of COVID-19 on the credit risk profile and underwriting standards were maintained.
- As at 31 December 2020, £2 billion (1%) of the UK Retail Banking mortgage portfolio had active COVID-19 payment holidays. This compared with £37 billion (22%) which had requested a payment holiday during 2020.
- Mortgage growth was driven by the owner occupied portfolio.
- By value, the proportion of mortgages on interest only and mixed terms (capital and interest only) reduced. This was mainly due to low proportions of buy-to-let and owner occupier interest only new business.
- 37% of the stock of lending was in Greater London and the South East (2019 – 35%). The average weighted loan-to-value for these regions was 54% (2019 – 52%) compared to all regions 56%.
- In the Retail Banking mortgage portfolio, 83% of customer balances were on fixed rates (61% of these on five-year deals). In addition, 99% of all new mortgage completions were fixed rate deals (45% of these on five-year deals).
- Unsecured balances declined, with the decrease primarily a result of reductions in overdrafts and credit card utilisation in Retail Banking, following the COVID-19 lockdown. NatWest Group also responded to COVID-19 with a more cautious approach to new lending, to protect NatWest Group and customers from potentially unaffordable borrowing.
- As detailed previously, the deteriorated economic outlook, including forecast increases in unemployment and declines in house prices, resulted in an increased ECL requirement.

Credit risk – Banking activities continued

Personal portfolio

Mortgage LTV distribution by stage

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

	Mortgages						ECL provisions				ECL provisions coverage (2)			
Retail Banking	Stage 1	Stage 2	Stage 3	Not within IFRS 9 ECL scope	Total	Of which; gross new lending	Stage 1	Stage 2	Stage 3	Total (1)	Stage 1	Stage 2	Stage 3	Total
2020	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	%	%	%	%
≤50%	**50,170**	**5,009**	**554**	**124**	**55,857**	**4,207**	**4**	**43**	**107**	**154**	**0.0**	**0.8**	**19.4**	**0.3**
>50% and ≤70%	**55,263**	**7,416**	**488**	**35**	**63,202**	**9,083**	**7**	**66**	**81**	**154**	**0.0**	**0.9**	**16.5**	**0.2**
>70% and ≤80%	**19,994**	**9,555**	**141**	**8**	**29,698**	**11,060**	**7**	**56**	**26**	**89**	**0.0**	**0.6**	**18.5**	**0.3**
>80% and ≤90%	**8,029**	**5,552**	**52**	**6**	**13,639**	**5,175**	**3**	**52**	**11**	**66**	**0.0**	**0.9**	**20.3**	**0.5**
>90% and ≤100%	**368**	**137**	**13**	**2**	**520**	**865**	**—**	**5**	**3**	**8**	**0.1**	**3.4**	**26.8**	**1.6**
>100% and ≤110%	**19**	**31**	**6**	**1**	**57**	**—**	**—**	**2**	**1**	**3**	**0.1**	**6.2**	**22.1**	**5.6**
>110% and ≤130%	**23**	**45**	**6**	**1**	**75**	**—**	**—**	**3**	**2**	**5**	**0.3**	**7.6**	**31.1**	**7.3**
>130% and ≤150%	**5**	**20**	**5**	**—**	**30**	**—**	**—**	**1**	**1**	**2**	**0.0**	**7.2**	**23.0**	**8.5**
>150%	**1**	**3**	**3**	**—**	**7**	**—**	**—**	**—**	**1**	**1**	**0.1**	**9.4**	**44.4**	**22.6**
Total with LTVs	**133,872**	**27,768**	**1,268**	**177**	**163,085**	**30,390**	**21**	**228**	**233**	**482**	**0.0**	**0.8**	**18.5**	**0.3**
Other	**17**	**4**	**1**	**—**	**22**	**161**	**—**	**—**	**1**	**1**	**0.1**	**3.6**	**71.9**	**3.3**
Total	**133,889**	**27,772**	**1,269**	**177**	**163,107**	**30,551**	**21**	**228**	**234**	**483**	**0.0**	**0.8**	**18.5**	**0.3**
2019														
≤50%	47,746	3,375	511	159	51,791	4,661	2	19	90	111	—	0.6	17.6	0.2
>50% and ≤70%	47,224	3,804	463	91	51,582	8,723	3	29	68	100	—	0.8	14.7	0.2
>70% and ≤80%	23,235	1,568	150	39	24,992	8,366	2	14	26	42	—	0.9	17.1	0.2
>80% and ≤90%	14,030	1,111	85	25	15,251	8,675	2	12	18	32	—	1.1	20.5	0.2
>90% and ≤100%	3,401	174	20	15	3,610	1,208	1	4	5	10	—	2.5	25.4	0.3
>100% and ≤110%	42	34	8	1	85	—	—	2	2	4	0.1	5.1	25.3	4.4
>110% and ≤130%	47	38	7	1	93	—	—	2	2	4	0.1	6.1	33.5	5.0
>130% and ≤150%	19	22	6	1.0	48	—	—	1	2	3	0.1	6.3	27.7	6.5
>150%	3	6	3	—	12	—	—	—	2	2	0.1	6.5	45.7	15.2
Total with LTVs	135,747	10,132	1,253	332	147,464	31,633	10	83	215	308	—	0.8	17.0	0.2
Other	21	3	1	—	25	224	—	—	1	1	0.1	4.2	81.2	3.2
Total	135,768	10,135	1,254	332	147,489	31,857	10	83	216	309	—	0.8	17.1	0.2
Ulster Bank RoI														
2020														
≤50%	**4,156**	**504**	**354**	**—**	**5,014**	**78**	**10**	**24**	**105**	**139**	**0.2**	**4.8**	**29.7**	**2.8**
>50% and ≤70%	**3,453**	**453**	**230**	**—**	**4,136**	**194**	**8**	**23**	**66**	**97**	**0.2**	**5.1**	**28.7**	**2.3**
>70% and ≤80%	**1,569**	**232**	**114**	**—**	**1,915**	**346**	**4**	**12**	**40**	**56**	**0.3**	**5.2**	**35.1**	**2.9**
>80% and ≤90%	**1,214**	**190**	**105**	**—**	**1,509**	**286**	**3**	**11**	**40**	**54**	**0.2**	**5.8**	**38.1**	**3.6**
>90% and ≤100%	**372**	**145**	**88**	**—**	**605**	**1**	**1**	**9**	**40**	**50**	**0.3**	**6.2**	**45.5**	**8.3**
>100% and ≤110%	**119**	**76**	**74**	**—**	**269**	**4**	**1**	**5**	**37**	**43**	**0.8**	**6.6**	**50.0**	**16.0**
>110% and ≤130%	**53**	**63**	**64**	**—**	**180**	**1**	**—**	**5**	**35**	**40**	**—**	**7.9**	**54.7**	**22.2**
>130% and ≤150%	**6**	**8**	**17**	**—**	**31**	**—**	**—**	**1**	**10**	**11**	**—**	**12.5**	**58.8**	**35.5**
>150%	**5**	**4**	**10**	**—**	**19**	**—**	**—**	**1**	**8**	**9**	**—**	**25.0**	**80.0**	**47.4**
Total with LTVs	**10,947**	**1,675**	**1,056**	**—**	**13,678**	**910**	**27**	**91**	**381**	**499**	**0.2**	**5.4**	**36.1**	**3.6**
2019														
≤50%	4,107	308	475	—	4,890	107	4	7	97	108	0.1	2.3	20.5	2.2
>50% and ≤70%	3,382	274	409	—	4,065	231	3	7	90	100	0.1	2.6	22.0	2.5
>70% and ≤80%	1,381	151	219	—	1,751	356	2	4	60	66	0.1	3.0	27.5	3.8
>80% and ≤90%	1,132	145	217	—	1,494	484	1	5	76	82	0.1	3.0	35.1	5.5
>90% and ≤100%	381	102	188	—	671	3	1	3	72	76	0.2	2.9	38.6	11.3
>100% and ≤110%	167	57	151	—	375	2	—	2	67	69	0.3	3.5	44.0	18.4
>110% and ≤130%	82	36	152	—	270	1	—	2	78	80	0.3	4.9	51.3	29.7
>130% and ≤150%	8	3	46	—	57	—	—	—	30	30	0.6	4.1	64.7	51.9
>150%	7	3	15	—	25	—	—	—	11	11	0.3	8.2	71.4	44.6
Total with LTVs	10,647	1,079	1,872	—	13,598	1,184	11	30	581	622	0.1	2.8	31.0	4.6

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 points

- ECL coverage rates increased through the LTV bands with both Retail Banking and Ulster Bank RoI having only limited exposures in the highest LTV bands. The relatively high coverage level in the lowest LTV band for Retail Banking 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 were not subject to formal repossession activity.
- The deteriorated economic outlook resulted in increased account level IFRS 9 PDs. Consequently, compared to the 2019 year-end, a larger proportion of accounts exhibited a SICR with an associated migration of exposures from Stage 1 to Stage 2.

Credit risk – Banking activities continued

Personal portfolio

Retail Banking mortgage LTV distribution by region

The table below shows gross mortgage lending by LTV band for Retail Banking, by geographical region.

2020	≤50% £m	50% ≤80% £m	80% ≤100% £m	100% ≤150% £m	>150% £m	Total £m	Weighted average LTV %	Other £m	Total £m	Total %
South East	**10,980**	**17,217**	**2,365**	**4**	**—**	**30,566**	**56**	**5**	**30,571**	**19**
Greater London	**13,044**	**14,505**	**1,638**	**2**	**—**	**29,189**	**52**	**5**	**29,194**	**18**
Scotland	**3,594**	**6,636**	**1,148**	**1**	**—**	**11,379**	**58**	**1**	**11,380**	**7**
North West	**4,849**	**9,745**	**1,402**	**3**	**—**	**15,999**	**58**	**3**	**16,002**	**10**
South West	**5,086**	**8,551**	**882**	**3**	**—**	**14,522**	**55**	**2**	**14,524**	**9**
West Midlands	**3,366**	**7,080**	**1,265**	**4**	**—**	**11,715**	**59**	**1**	**11,716**	**7**
East of England	**6,487**	**10,294**	**1,588**	**2**	**—**	**18,371**	**56**	**2**	**18,373**	**11**
Rest of the UK	**8,451**	**18,869**	**3,873**	**143**	**8**	**31,344**	**60**	**3**	**31,347**	**19**
Total	**55,857**	**92,897**	**14,161**	**162**	**8**	**163,085**	**56**	**22**	**163,107**	**100**
2019										
South East	10,155	13,676	2,705	6	—	26,542	55	5	26,547	18
Greater London	13,199	10,496	1,504	4	—	25,203	49	4	25,207	17
Scotland	3,395	5,946	1,726	3	—	11,070	60	1	11,071	8
North West	4,618	8,788	1,733	6	—	15,145	59	3	15,148	10
South West	4,482	7,374	1,391	5	—	13,252	57	2	13,254	9
West Midlands	3,086	6,109	1,520	5	—	10,720	60	1	10,721	7
East of England	5,841	8,716	1,948	3	—	16,508	57	3	16,511	11
Rest of the UK	7,014	15,469	6,334	194	13	29,024	64	6	29,030	20
Total	51,790	76,574	18,861	226	13	147,464	57	25	147,489	100

Note:
(1) 2020 regional data was based on the Office for National Statistics mapping (previously Halifax), therefore 2019 data has been represented on the same basis.

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.

	2020				2019			
By geography and sub-sector (1)	UK £m	RoI £m	Other £m	Total £m	UK £m	RoI £m	Other £m	Total £m
Investment								
Residential (2)	**4,507**	**360**	**14**	**4,881**	4,507	462	27	4,996
Office (3)	**3,386**	**226**	**28**	**3,640**	2,916	183	83	3,182
Retail (4)	**5,423**	**68**	**118**	**5,609**	5,277	63	62	5,402
Industrial (5)	**2,773**	**18**	**202**	**2,993**	2,457	18	115	2,590
Mixed/other (6)	**2,688**	**154**	**74**	**2,916**	3,672	187	56	3,915
	18,777	**826**	**436**	**20,039**	18,829	913	343	20,085
Development								
Residential (2)	**2,685**	**200**	**3**	**2,888**	2,464	165	5	2,634
Office (3)	**123**	**30**	**—**	**153**	78	17	—	95
Retail (4)	**126**	**—**	**—**	**126**	134	2	1	137
Industrial (5)	**125**	**2**	**—**	**127**	85	2	—	87
Mixed/other (6)	**24**	**2**	**—**	**26**	16	2	—	18
	3,083	**234**	**3**	**3,320**	2,777	188	6	2,971
Total	**21,860**	**1,060**	**439**	**23,359**	21,606	1,101	349	23,056

Notes:
(1) Geographical splits are based on country of collateral risk.
(2) Properties including houses, flats and student accommodation.
(3) Properties including offices in central business districts, regional headquarters and business parks.
(4) Properties including high street retail, shopping centres, restaurants, bars and gyms.
(5) Properties including distribution centres, manufacturing and warehouses.
(6) Properties that do not fall within the other categories above. Mixed generally relates to a mixture of retail/office with residential.

Credit risk – Banking activities continued

Commercial real estate (CRE)

CRE LTV distribution by stage

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)			
2020	Stage 1 £m	Stage 2 £m	Stage 3 £m	Not within IFRS 9 ECL scope (3) £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total (1) £m	Stage 1 %	Stage 2 %	Stage 3 %	Total %
≤50%	**4,918**	**4,538**	**138**	**—**	**9,594**	**46**	**145**	**24**	**215**	**0.9**	**3.2**	**17.4**	**2.2**
>50% and ≤70%	**2,815**	**3,266**	**226**	**—**	**6,307**	**32**	**112**	**63**	**207**	**1.1**	**3.4**	**27.9**	**3.3**
>70% and ≤80%	**39**	**222**	**23**	**—**	**284**	**1**	**17**	**7**	**25**	**2.6**	**7.7**	**30.4**	**8.8**
>80% and ≤90%	**84**	**35**	**36**	**—**	**155**	**2**	**4**	**11**	**17**	**2.4**	**11.4**	**30.6**	**11.0**
>90% and ≤100%	**46**	**26**	**65**	**—**	**137**	**—**	**2**	**33**	**35**	**—**	**7.7**	**50.8**	**25.5**
>100% and ≤110%	**6**	**6**	**63**	**—**	**75**	**—**	**1**	**10**	**11**	**—**	**16.7**	**15.9**	**14.7**
>110% and ≤130%	**9**	**22**	**117**	**—**	**148**	**—**	**2**	**45**	**47**	**—**	**9.1**	**38.5**	**31.8**
>130% and ≤150%	**12**	**12**	**10**	**—**	**34**	**—**	**1**	**5**	**6**	**—**	**8.3**	**50.0**	**17.6**
>150%	**23**	**24**	**105**	**—**	**152**	**—**	**2**	**53**	**55**	**—**	**8.3**	**50.5**	**36.2**
Total with LTVs	**7,952**	**8,151**	**783**	**—**	**16,886**	**81**	**286**	**251**	**618**	**1.0**	**3.5**	**32.1**	**3.7**
Total portfolio average LTV%	**45%**	**47%**	**93%**	**—**	**48%**								
Other (5)	**1,776**	**511**	**159**	**707**	**3,153**	**6**	**40**	**93**	**139**	**0.3**	**7.8**	**58.5**	**5.7**
Development (6)	**1,362**	**1,767**	**161**	**30**	**3,320**	**15**	**58**	**70**	**143**	**1.1**	**3.3**	**43.5**	**4.3**
Total	**11,090**	**10,429**	**1,103**	**737**	**23,359**	**102**	**384**	**414**	**900**	**0.9**	**3.7**	**37.5**	**4.0**
2019													
≤50%	8,787	468	40	837	10,132	8	8	11	27	0.1	1.7	27.5	0.3
>50% and ≤70%	4,945	252	148	846	6,191	7	6	33	46	0.1	2.4	22.3	0.9
>70% and ≤80%	269	38	51	9	367	1	1	19	21	0.4	2.6	37.3	5.9
>80% and ≤90%	61	19	15	2	97	—	1	3	4	—	5.3	20.0	4.2
>90% and ≤100%	50	81	22	1	154	—	2	15	17	—	2.5	68.2	11.1
>100% and ≤110%	18	13	52	—	83	—	—	5	5	—	—	9.6	6.0
>110% and ≤130%	20	26	46	1	93	—	1	16	17	—	3.8	34.8	18.5
>130% and ≤150%	3	6	18	—	27	—	—	7	7	—	—	38.9	25.9
>150%	63	6	37	—	106	—	1	24	25	—	16.7	64.9	23.6
Total with LTVs	14,216	909	429	1,696	17,250	16	20	133	169	0.1	2.2	31.0	1.1
Total portfolio average LTV%	46%	55%	101%	48%	48%								
Other (5)	658	149	123	1,905	2,835	5	4	54	63	0.8	2.7	43.9	6.8
Development (6)	2,377	272	144	178	2,971	8	4	73	85	0.3	1.5	50.7	3.0
Total	17,251	1,330	696	3,779	23,056	29	28	260	317	0.2	2.1	37.4	1.6

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. The low Stage 3 ECL provisions coverage was driven by a single large exposure, which was written down to the expected recoverable amount.
(6) Relates to the development of commercial and residential properties. LTV is not a meaningful measure for this type of lending activity.

Key points

- Overall – The majority of the CRE portfolio was located and managed in the UK. Business appetite and strategy remained aligned across the segments.
- 2020 trends – The portfolio remained broadly unchanged in composition although a migration of some assets from the mixed/other sub-sector was noted, following a reclassification carried out during the year. While new activity in 2020 was subdued due to COVID-19, NatWest Group supported existing customers with capital repayment holidays, interest roll-ups and extensions using CRE specific criteria and government backed COVID-19 support schemes. Demand for scheme support reduced in the latter part of the year.
- The retail and leisure sectors were heavily affected by the lockdown, resulting in low rental payments, and these sectors remained under stress. The office sector was more resilient overall, albeit the smaller serviced-office sub-sector came under some stress given the short-term nature of income and site closures. Demand for office space in the medium-term was expected to decline, with flexible working trends continuing post COVID-19. Market sentiment remained negative for most retail assets, but there were tentative signs of improvement for retail warehousing (accounting for approximately 15% of the retail sub-sector) where investment in industrial assets was demonstrating increased demand. The residential development sector continued to attract institutional capital and was generally performing well.
- Credit quality – Despite significant challenges across the CRE sector, with customers utilising COVID-19 related government support measures, Heightened Monitoring inflows by volume were stable. By value however, Heightened Monitoring and Risk of Credit Loss exposures increased, with a rise of migration into AQ10. This increase was largely due to individually significant names, particularly in the retail sub-sector.
- Risk appetite – Appetite in CRE remained cautious. Pre-COVID-19 conservative lending criteria remained in place, including lower leverage required for new London office originations and parts of the retail sector. From January 2021, new minimum standards were introduced for CRE lending appetite for residential new build lending, which requires properties to achieve a minimum Energy Performance Certificate rating of B. In addition, standard lending terms for CRE now include NatWest Group's preference for green leases to be used by commercial landlords. Green leases are a mechanism for landlords and tenants to work together to improve the sustainability of a building.

Credit risk – Banking activities continued

Flow statements

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, 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 any 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.
- The effect of any change in PMAs during the year is typically reported under changes in risk parameters, as are any impacts arising from changes to the underlying models. Refer to the section on Governance and post model adjustments for further details.
- All movements are captured monthly and aggregated. Interest suspended post default is included within Stage 3 ECL with the movement in the value of suspended interest during the year reported under currency translation and other adjustments.

	Stage 1		Stage 2		Stage 3		Total	
NatWest Group total	Financial assets £m	ECL £m	Financial assets £m	ECL £m	Financial assets £m	ECL £m	Financial assets £m	ECL £m
At 1 January 2020	**428,604**	**322**	**28,630**	**752**	**7,135**	**2,718**	**464,369**	**3,792**
Currency translation and other adjustments	**3,334**	**2**	**(304)**	**5**	**142**	**11**	**3,172**	**18**
Transfers from Stage 1 to Stage 2	**(117,545)**	**(581)**	**117,545**	**581**	**—**	**—**	**—**	**—**
Transfers from Stage 2 to Stage 1	**48,342**	**865**	**(48,342)**	**(865)**	**—**	**—**	**—**	**—**
Transfers to Stage 3	**(574)**	**(3)**	**(3,327)**	**(303)**	**3,901**	**306**	**—**	**—**
Transfers from Stage 3	**325**	**35**	**1,728**	**165**	**(2,053)**	**(200)**	**—**	**—**
Net re-measurement of ECL on stage transfer		**(689)**		**2,204**		**493**		**2,008**
Changes in risk parameters (model inputs)		**366**		**815**		**328**		**1,509**
Other changes in net exposure	**84,180**	**202**	**(14,261)**	**(271)**	**(1,666)**	**(44)**	**68,253**	**(113)**
Other (P&L only items)		**—**		**(1)**		**(161)**		**(162)**
Income statement (releases)/charges		**(121)**		**2,747**		**616**		**3,242**
Amounts written-off	**—**	**—**	**(2)**	**(2)**	**(935)**	**(935)**	**(937)**	**(937)**
Unwinding of discount		**—**		**—**		**(91)**		**(91)**
At 31 December 2020	**446,666**	**519**	**81,667**	**3,081**	**6,524**	**2,586**	**534,857**	**6,186**
Net carrying amount	**446,147**		**78,586**		**3,938**		**528,671**	
At 1 January 2019	422,541	297	27,360	772	8,251	2,782	458,152	3,851
2019 movements	6,063	25	1,270	(20)	(1,116)	(64)	6,217	(59)
At 31 December 2019	428,604	322	28,630	752	7,135	2,718	464,369	3,792
Net carrying amount	428,282		27,878		4,417		460,577	

Risk and capital management

Credit risk – Banking activities continued

Flow statements

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
Retail Banking - mortgages	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2020	135,625	12	10,283	86	1,289	215	147,197	313
Currency translation and other adjustments	—	—	—	—	19	19	19	19
Transfers from Stage 1 to Stage 2	(28,812)	(8)	28,812	8	—	—	—	—
Transfers from Stage 2 to Stage 1	8,899	18	(8,899)	(18)	—	—	—	—
Transfers to Stage 3	(16)	—	(566)	(22)	582	22	—	—
Transfers from Stage 3	9	1	360	23	(369)	(24)	—	—
Net re-measurement of ECL on stage transfer		(16)		165		5		154
Changes in risk parameters (model inputs)		8		(2)		57		63
Other changes in net exposure	16,685	8	(1,911)	(13)	(219)	(13)	14,555	(18)
Other (P&L only items)		—		—		(25)		(25)
Income statement (releases)/charges		—		150		24		174
Amounts written-off	—	—	—	—	(11)	(11)	(11)	(11)
Unwinding of discount		—		—		(34)		(34)
At 31 December 2020	132,390	23	28,079	227	1,291	236	161,760	486
Net carrying amount	132,367		27,852		1,055		161,274	
At 1 January 2019	127,671	10	10,241	74	1,286	202	139,198	286
2019 movements	7,954	2	42	12	3	13	7,999	27
At 31 December 2019	135,625	12	10,283	86	1,289	215	147,197	313
Net carrying amount	135,613		10,197		1,074		146,884	

Key points

- The increase in ECL in Stage 2 was primarily due to the deterioration in the economic outlook, causing both PDs and LGDs to increase. Stage 1 ECL increased reflecting the economic environment, and also approximately £9 million of ECL resulted from the acquisition of the owner-occupied mortgage portfolio from Metro Bank.
- The updated economics also resulted in a net migration of assets from Stage 1 to Stage 2 with a consequent increase from a 12 month ECL to a lifetime ECL. While the granting of a COVID-19 related payment holiday did not automatically trigger a migration to Stage 2, a subset of customers who had accessed payment holiday support, and where their risk profile was identified as relatively high risk, were collectively migrated to Stage 2 and their ECL uplifted, refer to the Governance and post model adjustments section for further details.
- In Stage 3, reflecting the various customer support mechanisms available, ECL was less affected than in Stage 2. The relatively small ECL cost for net re-measurement on stage transfer included the effect of risk targeted ECL adjustments when previously in Stage 2. Refer to the Governance and post model adjustments section for further details.
- In Stage 3, the ECL cost within changes in risk parameters included 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

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
Retail Banking - credit cards	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2020	**2,804**	**38**	**1,246**	**131**	**127**	**88**	**4,177**	**257**
Transfers from Stage 1 to Stage 2	**(1,485)**	**(56)**	**1,485**	**56**	**—**	**—**	**—**	**—**
Transfers from Stage 2 to Stage 1	**1,059**	**105**	**(1,059)**	**(105)**	**—**	**—**	**—**	**—**
Transfers to Stage 3	**(18)**	**(1)**	**(110)**	**(40)**	**128**	**41**	**—**	**—**
Transfers from Stage 3	**—**	**—**	**12**	**7**	**(12)**	**(7)**	**—**	**—**
Net re-measurement of ECL on stage transfer		**(71)**		**261**		**44**		**234**
Changes in risk parameters (model inputs)		**10**		**(63)**		**10**		**(43)**
Other changes in net exposure	**(110)**	**27**	**(190)**	**(27)**	**(36)**	**(2)**	**(336)**	**(2)**
Other (P&L only items)		**—**		**—**		**(3)**		**(3)**
Income statement (releases)/charges		**(34)**		**171**		**49**		**186**
Amounts written-off	**—**	**—**	**—**	**—**	**(93)**	**(93)**	**(93)**	**(93)**
Unwinding of discount		**—**		**—**		**(6)**		**(6)**
At 31 December 2020	**2,250**	**52**	**1,384**	**220**	**114**	**75**	**3,748**	**347**
Net carrying amount	**2,198**		**1,164**		**39**		**3,401**	
At 1 January 2019	2,632	36	1,226	118	108	73	3,966	227
2019 movements	172	2	20	13	19	15	211	30
At 31 December 2019	2,804	38	1,246	131	127	88	4,177	257
Net carrying amount	2,766		1,115		39		3,920	

Key points
- The increase in ECL in Stage 1 and Stage 2 was primarily due to the deterioration in the economic outlook, causing PDs to increase.
- The updated economics also resulted in a net migration of assets from Stage 1 to Stage 2 with a consequent increase from a 12 month ECL to a lifetime ECL.
- In Stage 3, reflecting the various customer support mechanisms available, new flows to default were suppressed and consequently the ECL requirement reduced.
- Charge-off (analogous to partial write-off) typically occurs after 12 missed payments.

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
Retail Banking - other personal unsecured	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2020	**5,417**	**63**	**2,250**	**252**	**608**	**518**	**8,275**	**833**
Currency translation and other adjustments	**—**	**—**	**—**	**—**	**3**	**3**	**3**	**3**
Transfers from Stage 1 to Stage 2	**(3,953)**	**(99)**	**3,953**	**99**	**—**	**—**	**—**	**—**
Transfers from Stage 2 to Stage 1	**1,350**	**96**	**(1,350)**	**(96)**	**—**	**—**	**—**	**—**
Transfers to Stage 3	**(16)**	**(1)**	**(363)**	**(124)**	**379**	**125**	**—**	**—**
Transfers from Stage 3	**3**	**2**	**61**	**20**	**(64)**	**(22)**	**—**	**—**
Net re-measurement of ECL on stage transfer		**(64)**		**343**		**108**		**387**
Changes in risk parameters (model inputs)		**47**		**26**		**67**		**140**
Other changes in net exposure	**584**	**15**	**(1,063)**	**(69)**	**(57)**	**(13)**	**(536)**	**(67)**
Other (P&L only items)		**—**		**(2)**		**(26)**		**(28)**
Income statement (releases)/charges		**(2)**		**298**		**136**		**432**
Amounts written-off	**—**	**—**	**(1)**	**(1)**	**(273)**	**(273)**	**(274)**	**(274)**
Unwinding of discount		**—**		**—**		**(18)**		**(18)**
At 31 December 2020	**3,385**	**59**	**3,487**	**450**	**596**	**495**	**7,468**	**1,004**
Net carrying amount	**3,326**		**3,037**		**101**		**6,464**	
At 1 January 2019	5,073	54	1,970	239	503	402	7,546	695
2019 movements	344	9	280	13	105	116	729	138
At 31 December 2019	5,417	63	2,250	252	608	518	8,275	833
Net carrying amount	5,354		1,998		90		7,442	

Key points
- The increase in ECL in Stage 2 was primarily due to the deterioration in the economic outlook, causing PDs to increase.
- The updated economics also resulted in a net migration of assets from Stage 1 to Stage 2 with a consequent increase from a 12 month ECL to a lifetime ECL. While the granting of a COVID-19 related payment holiday did not automatically trigger a migration to Stage 2, a subset of customers who had accessed payment holiday support, and where their risk profile was identified as relatively high risk, were collectively migrated to Stage 2 and their ECL uplifted, refer to the Governance and post model adjustments section for further details.
- In Stage 3, reflecting the various customer support mechanisms available that mitigated against defaults, ECL was affected relatively less. In addition, debt sales also contributed to a slight ECL reduction year-on-year.
- Write-off occurs once recovery activity with the customer has been concluded or there are no further recoveries expected, but no later than six years after default.

Credit risk – Banking activities continued

Flow statements

Ulster Bank RoI - mortgages	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 2020	**10,603**	**11**	**1,084**	**30**	**1,875**	**581**	**13,562**	**622**
Currency translation and other adjustments	**589**	**1**	**66**	**2**	**95**	**(32)**	**750**	**(29)**
Transfers from Stage 1 to Stage 2	**(2,010)**	**(7)**	**2,010**	**7**	**—**	**—**	**—**	**—**
Transfers from Stage 2 to Stage 1	**1,665**	**47**	**(1,665)**	**(47)**	**—**	**—**	**—**	**—**
Transfers to Stage 3	**(7)**	**—**	**(65)**	**(6)**	**72**	**6**	**—**	**—**
Transfers from Stage 3	**29**	**2**	**334**	**34**	**(363)**	**(36)**	**—**	**—**
Net re-measurement of ECL on stage transfer		**(44)**		**46**		**10**		**12**
Changes in risk parameters (model inputs)		**16**		**28**		**73**		**117**
Other changes in net exposure	**50**	**1**	**(81)**	**(2)**	**(413)**	**(1)**	**(444)**	**(2)**
Other (P&L only items)		**—**		**—**		**(24)**		**(24)**
Income statement (releases)/charges		**(27)**		**72**		**58**		**103**
Amounts written-off	**—**	**—**	**(1)**	**(1)**	**(205)**	**(205)**	**(206)**	**(206)**
Unwinding of discount		**—**		**—**		**(15)**		**(15)**
At 31 December 2020	**10,919**	**27**	**1,682**	**91**	**1,061**	**381**	**13,662**	**499**
Net carrying amount	**10,892**		**1,591**		**680**		**13,163**	
At 1 January 2019	10,782	11	1,394	75	2,278	657	14,454	743
2019 movements	(179)	—	(310)	(45)	(403)	(76)	(892)	(121)
At 31 December 2019	10,603	11	1,084	30	1,875	581	13,562	622
Net carrying amount	10,592		1,054		1,294		12,940	

Key points

- The increase in ECL in Stage 1 and Stage 2 was primarily due to the deterioration in the economic outlook.
- The updated economics also resulted in a net migration of assets from Stage 1 to Stage 2 with a consequent increase from a 12-month ECL to a lifetime ECL.
- The reduction in ECL in Stage 3 reflected ongoing deleveraging of the Ulster Bank RoI mortgage non-performing portfolio through the execution of a portfolio sale agreed in 2019.
- In Stage 3, the ECL cost within changes in risk parameters included the forward-looking effect of forecast reductions in house prices and the application of post-model adjustments.
- Write-off generally occurs once the repossessed property has been sold and there is a residual shortfall balance remaining outstanding or when the loan is sold to a third party.

Commercial Banking - commercial real estate	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 2020	**25,556**	**31**	**2,218**	**28**	**895**	**306**	**28,669**	**365**
Currency translation and other adjustments	**40**	**(2)**	**(441)**	**—**	**(4)**	**—**	**(405)**	**(2)**
Inter-group transfers	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Transfers from Stage 1 to Stage 2	**(14,605)**	**(99)**	**14,605**	**99**	**—**	**—**	**—**	**—**
Transfers from Stage 2 to Stage 1	**3,842**	**59**	**(3,842)**	**(59)**	**—**	**—**	**—**	**—**
Transfers to Stage 3	**(120)**	**—**	**(696)**	**(18)**	**816**	**18**	**—**	**—**
Transfers from Stage 3	**82**	**7**	**292**	**20**	**(374)**	**(27)**	**—**	**—**
Net re-measurement of ECL on stage transfer		**(45)**		**242**		**102**		**299**
Changes in risk parameters (model inputs)		**106**		**77**		**69**		**252**
Other changes in net exposure	**2,474**	**33**	**(1,756)**	**(25)**	**(174)**	**6**	**544**	**14**
Other (P&L only items)		**—**		**—**		**—**		**—**
Income statement (releases)/charges		**94**		**294**		**177**		**565**
Amounts written-off	**—**	**—**	**—**	**—**	**(41)**	**(41)**	**(41)**	**(41)**
Unwinding of discount		**—**		**—**		**(5)**		**(5)**
At 31 December 2020	**17,269**	**90**	**10,380**	**364**	**1,118**	**428**	**28,767**	**882**
Net carrying amount	**17,179**		**10,016**		**690**		**27,885**	
At 1 January 2019	29,180	37	1,500	24	1,631	459	32,311	520
2019 movements	(3,624)	(6)	718	4	(736)	(153)	(3,642)	(155)
At 31 December 2019	25,556	31	2,218	28	895	306	28,669	365
Net carrying amount	25,525		2,190		589		28,304	

Key points

- The increase in ECL in Stage 1 and Stage 2 was primarily due to the deterioration in the economic outlook, causing both PDs and LGDs to increase.
- The updated economics also resulted in a migration of assets from Stage 1 to Stage 2 with a consequential increase from a 12 month ECL to a lifetime ECL.
- Flows into Stage 3 were mainly due to a relatively small number of individual cases. Government support mechanisms continued to suppress a higher level of flows into Stage 3.
- Stage 3 recovery values started to show evidence of being negatively affected by deteriorated market conditions, leading to higher ECL charges.
- Other changes in net exposures increased in Stage 1 as customers drew down on existing facilities and undertook new lending supported by government schemes.

Credit risk – Banking activities continued

Flow statements

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
Commercial Banking - business banking	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2020	**6,338**	**28**	**767**	**45**	**257**	**200**	**7,362**	**273**
Currency translation and other adjustments	**—**	**—**	**—**	**(1)**	**1**	**(2)**	**1**	**(3)**
Transfers from Stage 1 to Stage 2	**(2,545)**	**(18)**	**2,545**	**18**	**—**	**—**	**—**	**—**
Transfers from Stage 2 to Stage 1	**790**	**58**	**(790)**	**(58)**	**—**	**—**	**—**	**—**
Transfers to Stage 3	**(30)**	**—**	**(138)**	**(32)**	**168**	**32**	**—**	**—**
Transfers from Stage 3	**11**	**5**	**45**	**17**	**(56)**	**(22)**	**—**	**—**
Net re-measurement of ECL on stage transfer		**(56)**		**147**		**45**		**136**
Changes in risk parameters (model inputs)		**15**		**29**		**12**		**56**
Other changes in net exposure	**7,558**	**9**	**(245)**	**(20)**	**(42)**	**(11)**	**7,271**	**(22)**
Other (P&L only items)		**—**		**(2)**		**(48)**		**(50)**
Income statement (releases)/charges		**(32)**		**154**		**(2)**		**120**
Amounts written-off	**—**	**—**	**—**	**—**	**(78)**	**(78)**	**(78)**	**(78)**
Unwinding of discount		**—**		**—**		**(3)**		**(3)**
At 31 December 2020	**12,122**	**41**	**2,184**	**145**	**250**	**173**	**14,556**	**359**
Net carrying amount	**12,081**		**2,039**		**77**		**14,197**	
At 1 January 2019	6,303	22	897	43	245	163	7,445	228
2019 movements	35	6	(130)	2	12	37	(83)	45
At 31 December 2019	6,338	28	767	45	257	200	7,362	273
Net carrying amount	6,310		722		57		7,089	

Key points

- The increase in ECL in Stage 1 and Stage 2 was primarily due to the deterioration in the economic outlook, causing both PDs and LGDs to increase.
- The updated economics also resulted in a migration of assets from Stage 1 to Stage 2 with a consequential increase from a 12 month ECL to a lifetime ECL.
- Flows of defaulted exposure into Stage 3 were suppressed reflecting the various government customer support mechanisms available, with ECL reducing during the year including the effect of a debt sale.
- Other changes in net exposures increased in Stage 1 as customers drew down on existing facilities and undertook new lending supported by government schemes.
- 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 or there are no further recoveries expected, but no later than five years after default.

Credit risk – Banking activities continued

Flow statements

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
Commercial Banking - other	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2020	**53,722**	**94**	**8,788**	**143**	**1,386**	**516**	**63,896**	**753**
Currency translation and other adjustments	**311**	**—**	**147**	**—**	**15**	**5**	**473**	**5**
Inter-group transfers	**464**	**—**	**—**	**1**	**(9)**	**(2)**	**455**	**(1)**
Transfers from Stage 1 to Stage 2	**(49,620)**	**(227)**	**49,620**	**227**	**—**	**—**	**—**	**—**
Transfers from Stage 2 to Stage 1	**24,151**	**376**	**(24,151)**	**(376)**	**—**	**—**	**—**	**—**
Transfers to Stage 3	**(155)**	**(1)**	**(1,073)**	**(45)**	**1,228**	**46**	**—**	**—**
Transfers from Stage 3	**119**	**16**	**460**	**34**	**(579)**	**(50)**	**—**	**—**
Net re-measurement of ECL on stage transfer		**(304)**		**731**		**150**		**577**
Changes in risk parameters (model inputs)		**88**		**592**		**24**		**704**
Other changes in net exposure	**10,287**	**97**	**(7,810)**	**(103)**	**(590)**	**(13)**	**1,887**	**(19)**
Other (P&L only items)		**(1)**		**(1)**		**(18)**		**(20)**
Income statement (releases)/charges		**(120)**		**1,219**		**143**		**1,242**
Amounts written-off	**—**	**—**	**—**	**—**	**(202)**	**(202)**	**(202)**	**(202)**
Unwinding of discount		**—**		**—**		**(6)**		**(6)**
At 31 December 2020	**39,279**	**139**	**25,981**	**1,204**	**1,249**	**468**	**66,509**	**1,811**
Net carrying amount	**39,140**		**24,777**		**781**		**64,698**	
At 1 January 2019	52,312	71	7,893	131	730	329	60,935	531
2019 movements	1,410	23	895	12	656	187	2,961	222
At 31 December 2019	53,722	94	8,788	143	1,386	516	63,896	753
Net carrying amount	53,628		8,645		870		63,143	

Key points

- The increase in ECL in Stage 1 and Stage 2 was primarily due to the deterioration in the economic outlook, causing both PDs and LGDs to increase.
- The updated economics also resulted in the migration of assets from Stage 1 to Stage 2 with a consequential increase from a 12 month ECL to a lifetime ECL.
- The migration of exposures from Stage 2 to Stage 1 included the effect of the slight reduction in PDs arising from the relative improvement in the multiple economic scenarios in the second half of the year compared to the mid-year point, partially reversing some migrations into Stage 2 in the first half of 2020.
- For flows into Stage 3, defaults were suppressed reflecting the various government customer support mechanisms available.
- Other changes in net exposures increased in Stage 1 as customers drew down on existing facilities and undertook new borrowings supported by the government schemes.

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
NatWest Markets (1)	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2020	**32,892**	**10**	**188**	**5**	**183**	**131**	**33,263**	**146**
Currency translation and other adjustments	**564**	**—**	**(84)**	**—**	**2**	**7**	**482**	**7**
Inter-group transfers	**(1,230)**	**—**	**—**	**—**	**—**	**2**	**(1,230)**	**2**
Transfers from Stage 1 to Stage 2	**(2,757)**	**(7)**	**2,757**	**7**	**—**	**—**	**—**	**—**
Transfers from Stage 2 to Stage 1	**936**	**11**	**(936)**	**(11)**	**—**	**—**	**—**	**—**
Transfers to Stage 3	**—**	**—**	**(9)**	**(3)**	**9**	**3**	**—**	**—**
Net re-measurement of ECL on stage transfer		**(9)**		**43**		**4**		**38**
Changes in risk parameters (model inputs)		**6**		**18**		**(9)**		**15**
Other changes in net exposure	**2,922**	**1**	**(245)**	**(10)**	**(15)**	**5**	**2,662**	**(4)**
Other (P&L only items)		**—**		**3**		**(12)**		**(9)**
Income statement (releases)/charges		**(2)**		**54**		**(12)**		**40**
Amounts written-off	**—**	**—**	**—**	**—**	**(11)**	**(11)**	**(11)**	**(11)**
At 31 December 2020	**33,327**	**12**	**1,671**	**49**	**168**	**132**	**35,166**	**193**
Net carrying amount	**33,315**		**1,622**		**36**		**34,973**	
At 1 January 2019	32,758	7	732	14	775	179	34,265	200
2019 movements	134	3	(544)	(9)	(592)	(48)	(1,002)	(54)
At 31 December 2019	32,892	10	188	5	183	131	33,263	146
Net carrying amount	32,882		183		52		33,117	

Note:
(1) Reflects the NatWest Markets segment and includes NWM N.V..

Key point

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

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.

2020	UK mortgages Loans £m	UK mortgages ECL £m	RoI mortgages Loans £m	RoI mortgages ECL £m	Credit cards Loans £m	Credit cards ECL £m	Other Loans £m	Other ECL £m	Total Loans £m	Total ECL £m
Personal										
Currently >30 DPD	426	19	109	11	10	6	75	25	620	61
Currently <=30 DPD	27,477	209	1,559	80	1,365	219	3,331	427	33,732	935
- PD deterioration	*13,136*	*163*	*664*	*42*	*901*	*167*	*2,242*	*354*	*16,943*	*726*
- PD persistence	*9,977*	*22*	*46*	*2*	*350*	*32*	*966*	*57*	*11,339*	*113*
- Other driver (adverse credit, forbearance etc)	*4,364*	*24*	*849*	*36*	*114*	*20*	*123*	*16*	*5,450*	*96*
Total Stage 2	27,903	228	1,668	91	1,375	225	3,406	452	34,352	996

2019	UK mortgages Loans £m	UK mortgages ECL £m	RoI mortgages Loans £m	RoI mortgages ECL £m	Credit cards Loans £m	Credit cards ECL £m	Other Loans £m	Other ECL £m	Total Loans £m	Total ECL £m
Personal										
Currently >30 DPD	528	14	21	3	16	6	92	19	657	42
Currently <=30 DPD	9,860	73	1,056	28	1,243	126	2,218	234	14,377	461
- PD deterioration	*4,184*	*60*	*208*	*15*	*727*	*92*	*1,482*	*188*	*6,601*	*355*
- PD persistence	*1,812*	*5*	*252*	*4*	*422*	*20*	*540*	*29*	*3,026*	*58*
- Other driver (adverse credit, forbearance etc)	*3,864*	*8*	*596*	*9*	*94*	*14*	*196*	*17*	*4,750*	*48*
Total Stage 2	10,388	87	1,077	31	1,259	132	2,310	253	15,034	503

Key points

- The deteriorated economic outlook, including forecast increases in unemployment, resulted in increased account level IFRS 9 PDs. Consequently, compared to 2019, a larger proportion of accounts exhibited a SICR causing Stage 2 exposures to increase significantly.
- In the absence of PD deterioration or other backstop SICR triggers, the granting of a COVID-19 related payment holiday did not automatically result in a migration to Stage 2.
- However, a subset of customers who had accessed payment holiday support, and where their risk profile was identified as relatively high risk, were collectively migrated to Stage 2. For mortgages, in Retail Banking, approximately £1 billion of exposures were collectively migrated from Stage 1 to Stage 2, and approximately £340 million in Ulster Bank RoI. The impact of collective migrations on unsecured lending was much more limited.
- As expected, ECL coverage was higher in accounts that were more than 30 days past due than those in Stage 2 for other reasons.

2020	Property Loans £m	Property ECL £m	Corporate Loans £m	Corporate ECL £m	Financial institutions Loans £m	Financial institutions ECL £m	Other Loans £m	Other ECL £m	Total Loans £m	Total ECL £m
Wholesale										
Currently >30 DPD	136	6	215	28	110	—	—	—	461	34
Currently <=30 DPD	12,885	501	27,501	1,459	3,514	90	204	1	44,104	2,051
- PD deterioration	*11,765*	*450*	*23,268*	*1,229*	*3,182*	*85*	*97*	—	*38,312*	*1,764*
- PD persistence	*162*	*5*	*623*	*20*	*7*	—	—	—	*792*	*25*
- Other driver (forbearance, RoCL etc)	*958*	*46*	*3,610*	*210*	*325*	*5*	*107*	*1*	*5,000*	*262*
Total Stage 2	13,021	507	27,716	1,487	3,624	90	204	1	44,565	2,085

2019	Property Loans £m	Property ECL £m	Corporate Loans £m	Corporate ECL £m	Financial institutions Loans £m	Financial institutions ECL £m	Other Loans £m	Other ECL £m	Total Loans £m	Total ECL £m
Wholesale										
Currently >30 DPD	57	2	219	6	7	—	—	—	283	8
Currently <=30 DPD	2,523	45	9,485	192	539	4	4	—	12,551	241
- PD deterioration	*1,386*	*28*	*6,083*	*144*	*368*	*3*	*3*	—	*7,840*	*175*
- PD persistence	*45*	*1*	*183*	*5*	*2*	—	—	—	*230*	*6*
- Other driver (forbearance, RoCL etc)	*1,092*	*16*	*3,219*	*43*	*169*	*1*	*1*	—	*4,481*	*60*
Total Stage 2	2,580	47	9,704	198	546	4	4	—	12,834	249

Key points

- The deteriorated economic outlook due to COVID-19, including significant reductions in GDP and commercial real estate valuations, resulted in increased IFRS 9 PDs. Consequently, compared to 2019, a larger proportion of the exposures exhibited a SICR causing Stage 2 exposures to increase significantly.
- PD deterioration remained the primary trigger for identifying a SICR and Stage 2 treatment, although there was also an increase in arrears.
- There was an increase in flows on to the Risk of Credit Loss framework. However, these were recorded under PD deterioration if the Stage 2 trigger was also met.
- In Ulster Bank RoI, approximately £400 million of exposures relating to small and medium size enterprises were collectively migrated from Stage 1 to Stage 2 reflective of the elevated risk for this sector.

Credit risk – Banking activities continued

Stage 2 decomposition by a significant increase in credit risk trigger

2020	UK mortgages £m	UK mortgages %	RoI mortgages £m	RoI mortgages %	Credit cards £m	Credit cards %	Other £m	Other %	Total £m	Total %
Personal trigger (1)										
PD movement	**13,520**	**48.4**	**751**	**45.0**	**911**	**66.2**	**2,310**	**67.8**	**17,492**	**51.0**
PD persistence	**9,977**	**35.8**	**46**	**2.8**	**350**	**25.5**	**968**	**28.4**	**11,341**	**33.0**
Adverse credit bureau recorded with credit reference agency	**2,936**	**10.5**	**—**	**—**	**51**	**3.7**	**46**	**1.4**	**3,033**	**8.8**
Forbearance support provided	**138**	**0.5**	**7**	**0.4**	**1**	**0.1**	**9**	**0.3**	**155**	**0.5**
Customers in collections	**131**	**0.5**	**30**	**1.8**	**2**	**0.1**	**14**	**0.4**	**177**	**0.5**
Other reasons	**1,165**	**4.2**	**832**	**49.9**	**60**	**4.4**	**55**	**1.6**	**2,112**	**6.1**
Days past due >30	**36**	**0.1**	**2**	**0.1**	**—**	**—**	**4**	**0.1**	**42**	**0.1**
	27,903	**100**	**1,668**	**100**	**1,375**	**100**	**3,406**	**100**	**34,352**	**100**

2019	UK mortgages £m	UK mortgages %	RoI mortgages £m	RoI mortgages %	Credit cards £m	Credit cards %	Other £m	Other %	Total £m	Total %
Personal trigger (1)										
PD movement	4,583	44.0	223	20.7	742	59.0	1,538	66.6	7,086	47.1
PD persistence	1,815	17.5	252	23.4	422	33.5	542	23.5	3,031	20.2
Adverse credit bureau recorded with credit reference agency	3,236	31.2	—	—	59	4.7	102	4.4	3,397	22.6
Forbearance support provided	163	1.6	3	0.3	—	—	10	0.4	176	1.2
Customers in collections	137	1.3	74	6.9	3	0.2	36	1.6	250	1.7
Other reasons	339	3.3	525	48.7	33	2.6	56	2.4	953	6.3
Days past due >30	115	1.1	—	—	—	—	26	1.1	141	0.9
	10,388	100	1,077	100	1,259	100	2,310	100	15,034	100

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

Key points

- The primary driver of credit deterioration was PD which, including persistence, accounted for the majority of movements into Stage 2. There was also a collective migration of a subset of customers who had accessed payment holiday support, and where their risk profile was identified as relatively high risk.
- The increase in exposures in Stage 2 due to persistence, primarily within UK mortgages, reflected the slight reduction in PDs arising from the relative improvement in the multiple economic scenarios in the second half of the year compared to the mid-year point; exposures cannot migrate back to Stage 1 until their PD has been back within the criteria threshold for three consecutive months.
- High risk back-stops, for example, forbearance and adverse credit bureau, provide additional valuable discrimination. However, with a larger proportion of exposures triggering PD deterioration following the deteriorated economic outlook, the proportion of accounts triggering high risk backstops alone decreased.

Risk and capital management

Credit risk – Banking activities continued

2020	Property £m	Property %	Corporate £m	Corporate %	Financial institutions £m	Financial institutions %	Other £m	Other %	Total £m	Total %
Wholesale trigger (1)										
PD movement	**11,849**	**91.1**	**23,403**	**84.3**	**3,183**	**87.9**	**97**	**47.6**	**38,532**	**86.6**
PD persistence	**162**	**1.2**	**624**	**2.3**	**7**	**0.2**	**—**	**—**	**793**	**1.8**
Risk of Credit Loss	**394**	**3.0**	**2,106**	**7.6**	**66**	**1.8**	**39**	**19.1**	**2,605**	**5.8**
Forbearance support provided	**73**	**0.6**	**133**	**0.5**	**27**	**0.7**	**—**	**—**	**233**	**0.5**
Customers in collections	**30**	**0.2**	**115**	**0.4**	**1**	**—**	**—**	**—**	**146**	**0.3**
Other reasons (2)	**462**	**3.5**	**1,262**	**4.6**	**231**	**6.4**	**68**	**33.3**	**2,023**	**4.5**
Days past due >30	**51**	**0.4**	**73**	**0.3**	**109**	**3.0**	**—**	**—**	**233**	**0.5**
	13,021	**100**	**27,716**	**100**	**3,624**	**100**	**204**	**100**	**44,565**	**100**
2019										
Wholesale trigger (1)										
PD movement	1,416	54.8	6,129	63.1	368	67.4	3	75.0	7,916	61.7
PD persistence	45	1.7	183	1.9	3	0.5	—	—	231	1.8
Risk of Credit Loss	915	35.5	2,394	24.7	69	12.6	—	—	3,378	26.3
Forbearance support provided	31	1.2	140	1.4	29	5.3	—	—	200	1.6
Customers in collections	10	0.4	47	0.5	—	—	—	—	57	0.4
Other reasons (2)	146	5.7	659	6.8	71	13.0	1	25.0	877	6.8
Days past due >30	17	0.7	152	1.6	6	1.1	—	—	175	1.4
	2,580	100	9,704	100	546	100	4	100	12,834	100

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 where a PD assessment cannot be undertaken due to missing PDs.

Key points

- PD deterioration continued to be the primary trigger of migration of exposures from Stage 1 to Stage 2. As the economic outlook deteriorated, it accounted for a higher proportion of the balances migrated to Stage 2.
- Moving exposures on to the Risk of Credit Loss framework remained an important backstop indicator of a SICR. The exposures classified under the Stage 2 Risk of Credit Loss framework trigger decreased over the period as more exposures were captured under the PD deterioration Stage 2 trigger.
- PD persistence relates to the business banking portfolio only, with the reason for the year-on-year increase the same as described above for the Personal portfolio.
- NatWest Group continued to appraise its IFRS 9 SICR rules in the context of effectiveness, volatility and industry consistency. The recent PD driven increase in Stage 2 exposures in the Wholesale portfolio, highlighted the gradual diminished impact on ECL of the threshold for better quality portfolios under stress, suggesting possible conservatism in the SICR rules for these portfolios. As an illustration, an increase of the de minimus PD threshold to 0.75% (from 0.1%) in the SICR rules could decrease the Wholesale portfolio Stage 2 exposure by 11% with only a four basis point reduction on good book ECL coverage.

Credit risk – Banking activities continued

Stage 3 vintage analysis

The table below shows estimated vintage analysis of the material Stage 3 portfolios totalling 83% of the Stage 3 loans of £6.4 billion.

	2020			2019		
	Retail Banking mortgages	Ulster Bank RoI mortgages	Wholesale	Retail Banking mortgages	Ulster Bank RoI mortgages	Wholesale
Stage 3 loans (£bn)	1.3	1.1	2.9	1.3	1.9	2.3
Vintage (time in default):						
<1 year	25%	6%	46%	32%	13%	37%
1-3 years	32%	18%	16%	23%	12%	14%
3-5 years	11%	23%	7%	11%	23%	9%
5-10 years	22%	36%	31%	26%	44%	40%
>10 years	10%	17%	—	8%	8%	—
	100%	100%	100%	100%	100%	100%

Key points

- Retail Banking and Ulster Bank RoI mortgages – The proportion of the Stage 3 defaulted population which have been in default for over five years reflected NatWest Group's support for customers in financial difficulty. When customers continue to engage constructively with NatWest Group, making regular payments, NatWest Group continues to support them. NatWest Group's provisioning approach retains customers in Stage 3 for a life-time loss provisioning calculation, even when their arrears status reverts to below 90 days past due.
- Wholesale – The increase in the proportion of loans in Stage 3 for less than one year was mainly due to individually large exposures within the CRE sector, which were new into Stage 3. Exposures which were in Stage 3 for in excess of five years were mainly related to customers being in a protracted formal insolvency process or subject to litigation or a complaints process.

Asset quality

The table below shows asset quality bands of gross loans and ECL, by stage, for the Personal portfolio.

	Gross loans				ECL provisions				ECL provisions coverage			
2020	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 %	Stage 2 %	Stage 3 %	Total %
UK mortgages												
AQ1-AQ4	108,869	6,634	—	115,503	10	33	—	43	0.01	0.50	—	0.04
AQ5-AQ8	38,347	20,254	—	58,601	14	146	—	160	0.04	0.72	—	0.27
AQ9	240	1,015	—	1,255	—	49	—	49	—	4.83	—	3.90
AQ10	—	—	1,507	1,507	—	—	254	254	—	—	16.85	16.85
	147,456	27,903	1,507	176,866	24	228	254	506	0.02	0.82	16.85	0.29
RoI mortgages												
AQ1-AQ4	8,247	777	—	9,024	20	38	—	58	0.24	4.89	—	0.64
AQ5-AQ8	2,677	560	—	3,237	7	34	—	41	0.26	6.07	—	1.27
AQ9	7	331	—	338	—	19	—	19	—	5.74	—	5.62
AQ10 (1)	—	—	1,051	1,051	—	—	381	381	—	—	36.25	36.25
	10,931	1,668	1,051	13,650	27	91	381	499	0.25	5.46	36.25	3.66
Credit cards												
AQ1-AQ4	23	4	—	27	1	2	—	3	4.35	50.00	—	11.11
AQ5-AQ8	2,384	1,329	—	3,713	52	208	—	260	2.18	15.65	—	7.00
AQ9	4	42	—	46	—	15	—	15	—	35.71	—	32.61
AQ10	—	—	109	109	—	—	76	76	—	—	69.72	69.72
	2,411	1,375	109	3,895	53	225	76	354	2.20	16.36	69.72	9.09
Other personal												
AQ1-AQ4	1,234	59	—	1,293	8	9	—	17	0.65	15.25	—	1.31
AQ5-AQ8	4,461	3,020	—	7,481	58	336	—	394	1.30	11.13	—	5.27
AQ9	55	327	—	382	1	107	—	108	1.82	32.72	—	28.27
AQ10	—	—	621	621	—	—	517	517	—	—	83.25	83.25
	5,750	3,406	621	9,777	67	452	517	1,036	1.17	13.27	83.25	10.60
Total personal												
AQ1-AQ4	118,373	7,474	—	125,847	39	82	—	121	0.03	1.10	—	0.10
AQ5-AQ8	47,869	25,163	—	73,032	131	724	—	855	0.27	2.88	—	1.17
AQ9	306	1,715	—	2,021	1	190	—	191	0.33	11.08	—	9.45
AQ10	—	—	3,288	3,288	—	—	1,228	1,228	—	—	37.35	37.35
	166,548	34,352	3,288	204,188	171	996	1,228	2,395	0.10	2.90	37.35	1.17

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

Credit risk – Banking activities continued

Asset quality

	Gross loans				ECL provisions				ECL provisions coverage			
2019	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 %	Stage 2 %	Stage 3 %	Total %
UK mortgages												
AQ1-AQ4	90,494	2,579	—	93,073	6	7	—	13	0.01	0.27	—	0.01
AQ5-AQ8	58,039	6,939	—	64,978	8	55	—	63	0.01	0.79	—	0.10
AQ9	96	870	—	966	—	25	—	25	—	2.87	—	2.59
AQ10	—	—	1,414	1,414	—	—	240	240	—	—	16.97	16.97
	148,629	10,388	1,414	160,431	14	87	240	341	0.01	0.84	16.97	0.21
RoI mortgages												
AQ1-AQ4	6,215	212	—	6,427	4	4	—	8	0.06	1.89	—	0.12
AQ5-AQ8	4,416	615	—	5,031	7	19	—	26	0.16	3.09	—	0.52
AQ9	1	250	—	251	—	8	—	8	—	3.20	—	3.19
AQ10 (1)	—	—	1,863	1,863	—	—	581	581	—	—	31.19	31.19
	10,632	1,077	1,863	13,572	11	31	581	623	0.10	2.88	31.19	4.59
Credit cards												
AQ1-AQ4	364	11	—	375	1	1	—	2	0.27	9.09	—	0.53
AQ5-AQ8	2,734	1,187	—	3,921	39	112	—	151	1.43	9.44	—	3.85
AQ9	5	61	—	66	—	19	—	19	—	31.15	—	28.79
AQ10	—	—	116	116	—	—	89	89	—	—	76.72	76.72
	3,103	1,259	116	4,478	40	132	89	261	1.29	10.48	76.72	5.83
Other personal												
AQ1-AQ4	1,231	59	—	1,290	4	5	—	9	0.32	8.47	—	0.70
AQ5-AQ8	6,127	2,045	—	8,172	59	195	—	254	0.96	9.54	—	3.11
AQ9	78	206	—	284	2	53	—	55	2.56	25.73	—	19.37
AQ10	—	—	643	643	—	—	539	539	—	—	83.83	83.83
	7,436	2,310	643	10,389	65	253	539	857	0.87	10.95	83.83	8.25
Total personal												
AQ1-AQ4	98,304	2,861	—	101,165	15	17	—	32	0.02	0.59	—	0.03
AQ5-AQ8	71,316	10,786	—	82,102	113	381	—	494	0.16	3.53	—	0.60
AQ9	180	1,387	—	1,567	2	105	—	107	1.11	7.57	—	6.83
AQ10	—	—	4,036	4,036	—	—	1,449	1,449	—	—	35.90	35.90
	169,800	15,034	4,036	188,870	130	503	1,449	2,082	0.08	3.35	35.90	1.10

Note:
(1) AQ10 includes £0.4 billion (2019 – £0.6 billion) of RoI mortgages which are not currently considered defaulted for capital calculation purposes for RoI but are included in Stage 3.

Key points

- In the Personal portfolio, the asset quality distribution overall was broadly stable with the Basel II point-in-time PDs yet to reflect the expected credit deterioration.
- The majority of exposures were in AQ1-AQ4, with a significant proportion in AQ5-AQ8. As expected, mortgage exposures had a higher proportion in AQ1-AQ4 than unsecured borrowing.
- The high level of Stage 3 impaired assets (AQ10) in RoI mortgages, reflected the legacy mortgage portfolio and the residual effects from the global financial crisis. The reduction in the year was a result of deleveraging through the execution of a portfolio sale agreed in 2019 and improvements in the portfolio.
- In other personal, the relatively high level of exposures in AQ10 reflected that impaired assets can be held on the balance sheet, with commensurate ECL provision, for up to six years after default.
- ECL provisions coverage showed the expected trend with increased coverage in the poorer asset quality bands, and also by stage.

Credit risk – Banking activities continued

Asset quality

The table below shows asset quality bands of gross loans and ECL, by stage, for the Wholesale portfolio.

	Gross loans				ECL provisions				ECL provisions coverage			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
2020	£m	£m	£m	£m	£m	£m	£m	£m	%	%	%	%
Property												
AQ1-AQ4	**12,694**	**2,079**	**—**	**14,773**	**20**	**40**	**—**	**60**	**0.16**	**1.92**	**—**	**0.41**
AQ5-AQ8	**10,785**	**10,780**	**—**	**21,565**	**103**	**450**	**—**	**553**	**0.96**	**4.17**	**—**	**2.56**
AQ9	**254**	**162**	**—**	**416**	**—**	**17**	**—**	**17**	**—**	**10.49**	**—**	**4.09**
AQ10	**—**	**—**	**1,322**	**1,322**	**—**	**—**	**545**	**545**	**—**	**—**	**41.23**	**41.23**
	23,733	**13,021**	**1,322**	**38,076**	**123**	**507**	**545**	**1,175**	**0.52**	**3.89**	**41.23**	**3.09**
Corporate												
AQ1-AQ4	**17,757**	**2,726**	**—**	**20,483**	**20**	**51**	**—**	**71**	**0.11**	**1.87**	**—**	**0.35**
AQ5-AQ8	**29,405**	**24,430**	**—**	**53,835**	**167**	**1,374**	**—**	**1,541**	**0.57**	**5.62**	**—**	**2.86**
AQ9	**928**	**560**	**—**	**1,488**	**1**	**62**	**—**	**63**	**0.11**	**11.07**	**—**	**4.23**
AQ10	**—**	**—**	**1,727**	**1,727**	**—**	**—**	**803**	**803**	**—**	**—**	**46.50**	**46.50**
	48,090	**27,716**	**1,727**	**77,533**	**188**	**1,487**	**803**	**2,478**	**0.39**	**5.37**	**46.50**	**3.20**
Financial institutions												
AQ1-AQ4	**42,222**	**1,985**	**—**	**44,207**	**13**	**13**	**—**	**26**	**0.03**	**0.65**	**—**	**0.06**
AQ5-AQ8	**1,776**	**1,453**	**—**	**3,229**	**10**	**39**	**—**	**49**	**0.56**	**2.68**	**—**	**1.52**
AQ9	**4**	**186**	**—**	**190**	**—**	**38**	**—**	**38**	**—**	**20.43**	**—**	**20.00**
AQ10	**—**	**—**	**17**	**17**	**—**	**—**	**8**	**8**	**—**	**—**	**47.06**	**47.06**
	44,002	**3,624**	**17**	**47,643**	**23**	**90**	**8**	**121**	**0.05**	**2.48**	**47.06**	**0.25**
Sovereign												
AQ1-AQ4	**4,731**	**106**	**—**	**4,837**	**14**	**1**	**—**	**15**	**0.30**	**0.94**	**—**	**0.31**
AQ5-AQ8	**17**	**98**	**—**	**115**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
AQ9	**3**	**—**	**—**	**3**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
AQ10	**—**	**—**	**4**	**4**	**—**	**—**	**2**	**2**	**—**	**—**	**50.00**	**50.00**
	4,751	**204**	**4**	**4,959**	**14**	**1**	**2**	**17**	**0.29**	**0.49**	**50.00**	**0.34**
Total												
AQ1-AQ4	**77,404**	**6,896**	**—**	**84,300**	**67**	**105**	**—**	**172**	**0.09**	**1.52**	**—**	**0.20**
AQ5-AQ8	**41,983**	**36,761**	**—**	**78,744**	**280**	**1,863**	**—**	**2,143**	**0.67**	**5.07**	**—**	**2.72**
AQ9	**1,189**	**908**	**—**	**2,097**	**1**	**117**	**—**	**118**	**0.08**	**12.89**	**—**	**5.63**
AQ10	**—**	**—**	**3,070**	**3,070**	**—**	**—**	**1,358**	**1,358**	**—**	**—**	**44.23**	**44.23**
	120,576	**44,565**	**3,070**	**168,211**	**348**	**2,085**	**1,358**	**3,791**	**0.29**	**4.68**	**44.23**	**2.25**
2019												
Property												
AQ1-AQ4	15,590	413	—	16,003	7	6	—	13	0.04	1.45	—	0.08
AQ5-AQ8	17,268	2,115	—	19,383	38	36	—	74	0.22	1.70	—	0.38
AQ9	38	52	—	90	—	5	—	5	—	9.62	—	5.56
AQ10	—	—	895	895	—	—	402	402	—	—	44.92	44.92
	32,896	2,580	895	36,371	45	47	402	494	0.14	1.82	44.92	1.36
Corporate												
AQ1-AQ4	22,373	616	—	22,989	12	11	—	23	0.05	1.79	—	0.10
AQ5-AQ8	37,133	8,803	—	45,936	111	169	—	280	0.30	1.92	—	0.61
AQ9	183	285	—	468	1	18	—	19	0.55	6.32	—	4.06
AQ10	—	—	1,649	1,649	—	—	859	859	—	—	52.09	52.09
	59,689	9,704	1,649	71,042	124	198	859	1,181	0.21	2.04	52.09	1.66
Financial institutions												
AQ1-AQ4	32,297	225	—	32,522	7	1	—	8	0.02	0.44	—	0.02
AQ5-AQ8	3,406	319	—	3,725	9	2	—	11	0.26	0.63	—	0.30
AQ9	4	2	—	6	—	1	—	1	—	50.00	—	16.67
AQ10	—	—	13	13	—	—	8	8	—	—	61.54	61.54
	35,707	546	13	36,266	16	4	8	28	0.04	0.73	61.54	0.08
Sovereign												
AQ1-AQ4	4,133	4	—	4,137	7	—	—	7	0.17	—	—	0.17
AQ5-AQ8	142	—	—	142	—	—	—	—	—	—	—	—
AQ9	—	—	—	—	—	—	—	—	—	—	—	—
AQ10	—	—	5	5	—	—	—	—	—	—	—	—
	4,275	4	5	4,284	7	—	—	7	0.16	—	—	0.16
Total												
AQ1-AQ4	74,393	1,258	—	75,651	33	18	—	51	0.04	1.43	—	0.07
AQ5-AQ8	57,949	11,237	—	69,186	158	207	—	365	0.27	1.84	—	0.53
AQ9	225	339	—	564	1	24	—	25	0.44	7.08	—	4.43
AQ10	—	—	2,562	2,562	—	—	1,269	1,269	—	—	49.53	49.53
	132,567	12,834	2,562	147,963	192	249	1,269	1,710	0.14	1.94	49.53	1.16

Credit risk – Banking activities continued

Key points

- Across the Wholesale portfolio, the asset quality band distribution differed, reflecting the diverse nature of the sectors.
- Asset quality deterioration, however, was observed across most sectors as the impacts of COVID-19 affected customers' operations and markets.
- The level of asset quality deterioration was mitigated by government support schemes in relation to COVID-19.
- The increase in AQ10 exposure in property was largely due to individually significant commercial real estate customers, particularly in the retail sub-sector.
- Within the Wholesale portfolio, customer credit grades were reassessed as and when a request for financing was made, a scheduled customer credit review was undertaken or a material event specific to that customer occurred.
- As previously noted, a request for support using one of the government-backed COVID-19 support schemes would prompt credit grades to be reassessed but was not, in itself, a reason for a customer's credit grade to be amended. For further details, refer to the Impact of COVID-19 section.
- ECL provisions coverage showed the expected trend with increased coverage in the poorer asset quality bands, and also by stage.
- The relatively low provision coverage for Stage 3 loans in the property sector reflected the secured nature of the exposures.

Credit risk – Trading activities

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

Securities financing transactions and collateral

The table below shows securities funding transactions in NatWest Markets and Treasury. Balance sheet captions include balances held at all classifications under IFRS 9.

	Reverse repos			Repos		
2020	Total £m	Of which: can be offset £m	Outside netting arrangements £m	Total £m	Of which: can be offset £m	Outside netting arrangements £m
Gross	**80,388**	**80,025**	**363**	**66,493**	**64,793**	**1,700**
IFRS offset	**(35,820)**	**(35,820)**	**—**	**(35,820)**	**(35,820)**	**—**
Carrying value	**44,568**	**44,205**	**363**	**30,673**	**28,973**	**1,700**
Master netting arrangements	**(929)**	**(929)**	**—**	**(929)**	**(929)**	**—**
Securities collateral	**(43,204)**	**(43,204)**	**—**	**(28,044)**	**(28,044)**	**—**
Potential for offset not recognised under IFRS	**(44,133)**	**(44,133)**	**—**	**(28,973)**	**(28,973)**	**—**
Net	**435**	**72**	**363**	**1,700**	**—**	**1,700**
2019						
Gross	74,156	73,348	808	71,494	69,020	2,474
IFRS offset	(39,247)	(39,247)	—	(39,247)	(39,247)	—
Carrying value	34,909	34,101	808	32,247	29,773	2,474
Master netting arrangements	(562)	(562)	—	(562)	(562)	—
Securities collateral	(33,178)	(33,178)	—	(29,211)	(29,211)	—
Potential for offset not recognised under IFRS	(33,740)	(33,740)	—	(29,773)	(29,773)	—
Net	1,169	361	808	2,474	—	2,474

Credit risk – Trading activities continued

Derivatives

The table below shows derivatives by type of contract. The master netting agreements and collateral shown do not result in a net presentation on the balance sheet under IFRS 9. A significant proportion (more than 90%) of the derivatives relate to trading activities in NatWest Markets. The table also includes hedging derivatives in Treasury.

	2020							2019		
	Notional									
	GBP £bn	USD £bn	EUR £bn	Other £bn	Total £bn	Assets £m	Liabilities £m	Notional £bn	Assets £m	Liabilities £m
Gross exposure						177,330	172,245		160,942	158,603
IFRS offset						(10,807)	(11,540)		(10,913)	(11,724)
Carrying value	3,970	3,588	4,941	1,548	14,047	166,523	160,705	15,063	150,029	146,879
Of which:										
Interest rate (1)										
Interest rate swaps						93,587	85,022		89,646	86,123
Options purchased						20,527	—		15,300	—
Options written						—	20,190		—	13,198
Futures and forwards						1	2		11	10
Total	3,609	2,115	4,380	599	10,703	114,115	105,214	11,293	104,957	99,331
Exchange rate										
Spot, forwards and futures						34,924	35,309		30,348	30,728
Currency swaps						10,038	12,136		8,795	10,296
Options purchased						7,277	—		5,649	—
Options written						—	7,662		—	6,117
Total	359	1,468	552	949	3,328	52,239	55,107	3,750	44,792	47,141
Credit	2	4	9	—	15	161	376	17	280	359
Equity and commodity	—	1	—	—	1	8	8	3	—	48
Carrying value					14,047	166,523	160,705	15,063	150,029	146,879
Counterparty mark-to-market netting						(137,086)	(137,086)		(122,697)	(122,697)
Cash collateral						(19,608)	(15,034)		(18,685)	(17,296)
Securities collateral						(5,053)	(4,921)		(4,292)	(1,276)
Net exposure						4,776	3,664		4,355	5,610
Of which outside netting arrangements						*905*	*631*		*2,092*	*4,207*
Banks (2)						206	557		621	857
Other financial institutions (3)						1,436	1,931		1,020	4,088
Corporate (4)						2,985	1,082		2,452	639
Government (5)						149	94		262	26
Net exposure						4,776	3,664		4,355	5,610
UK						2,914	1,627		2,052	3,153
Europe						1,091	1,118		1,393	1,898
US						470	644		428	331
RoW						301	275		482	228
Net exposure						4,776	3,664		4,355	5,610
Asset quality of uncollateralised derivative assets										
AQ1-AQ4						3,464			3,361	
AQ5-AQ8						1,283			972	
AQ9-AQ10						29			22	
Net exposure						4,776			4,355	

Notes:
(1) The notional amount of interest rate derivatives includes £7,390 billion (2019 – £7,090 billion) in respect of contracts cleared through central clearing counterparties.
(2) Transactions with certain counterparties with whom NatWest Group has netting arrangements but collateral is not posted on a daily basis; certain transactions with specific terms that may not fall within netting and collateral arrangements; derivative positions in certain jurisdictions for example China where the collateral agreements are not deemed to be legally enforceable.
(3) Transactions with securitisation vehicles and funds where collateral posting is contingent on NatWest Group's external rating.
(4) Mainly large corporates with whom NatWest Group may have netting arrangements in place, but operational capability does not support collateral posting.
(5) Sovereigns and supranational entities with one-way collateral agreements in their favour.

Credit risk – Trading activities continued

Derivatives: settlement basis and central counterparties

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

	Notional				Asset		Liability	
		Traded over the counter						
2020	Traded on recognised exchanges £bn	Settled by central counterparties £bn	Not settled by central counterparties £bn	Total £bn	Traded on recognised exchanges £m	Traded over the counter £m	Traded on recognised exchanges £m	Traded over the counter £m
Interest rate	**1,032**	**7,390**	**2,281**	**10,703**	**—**	**114,115**	**—**	**105,214**
Exchange rate	**2**	**—**	**3,326**	**3,328**	**—**	**52,239**	**—**	**55,107**
Credit	**—**	**—**	**15**	**15**	**—**	**161**	**—**	**376**
Equity and commodity	**—**	**—**	**1**	**1**	**—**	**8**	**—**	**8**
Total	**1,034**	**7,390**	**5,623**	**14,047**	**—**	**166,523**	**—**	**160,705**
2019								
Interest rate	1,593	7,090	2,610	11,293	—	104,957	—	99,331
Exchange rate	3	—	3,747	3,750	—	44,792	—	47,141
Credit	—	—	17	17	—	280	—	359
Equity and commodity	1	—	2	3	—	—	—	48
Total	1,597	7,090	6,376	15,063	—	150,029	—	146,879

Debt securities

The table below shows debt securities held at mandatory fair value through profit or loss by issuer as well as ratings based on the lowest of Standard & Poor's, Moody's and Fitch. A significant proportion (more than 95%) of these positions are trading securities in NatWest Markets.

	Central and local government					
2020	UK £m	US £m	Other £m	Financial institutions £m	Corporate £m	Total £m
AAA	**—**	**—**	**3,114**	**1,113**	**—**	**4,227**
AA to AA+	**—**	**5,149**	**3,651**	**576**	**49**	**9,425**
A to AA-	**4,184**	**—**	**1,358**	**272**	**81**	**5,895**
BBB- to A-	**—**	**—**	**8,277**	**444**	**656**	**9,377**
Non-investment grade	**—**	**—**	**36**	**127**	**53**	**216**
Unrated	**—**	**—**	**—**	**150**	**5**	**155**
Total	**4,184**	**5,149**	**16,436**	**2,682**	**844**	**29,295**
Short positions	**(5,704)**	**(1,123)**	**(18,135)**	**(1,761)**	**(56)**	**(26,779)**
2019						
AAA	—	—	2,197	1,188	5	3,390
AA to AA+	4,897	5,458	2,824	333	87	13,599
A to AA-	—	—	3,297	755	109	4,161
BBB- to A-	—	—	6,508	872	895	8,275
Non-investment grade	—	—	76	298	150	524
Unrated	—	—	—	420	48	468
Total	4,897	5,458	14,902	3,866	1,294	30,417
Short positions	(4,340)	(1,392)	(13,749)	(1,620)	(86)	(21,187)

Note:
(1) The UK's credit rating declined from AA to AA- as rated by Fitch during 2020. Moody's and Standard & Poor's ratings remain unchanged.

Risk and capital management

Credit risk – Cross border exposure

Cross border exposures comprise both banking and trading activities, including reverse repurchase agreements. Exposures comprise loans and advances, including finance leases and instalment credit receivables, and other monetary assets, such as debt securities. The geographical breakdown is based on the country of domicile of the borrower or guarantor of ultimate risk. Cross border exposures include non-local currency claims of overseas offices on local residents but exclude exposures to local residents in local currencies. The table shows cross border exposures greater than 0.5% of NatWest Group's total assets.

2020	Government £m	Banks £m	Other £m	Total £m	Short positions £m	Net of short positions £m
Western Europe	**23,651**	**9,232**	**21,091**	**53,974**	**18,756**	**35,218**
Of which: France	**5,098**	**1,574**	**6,270**	**12,942**	**2,465**	**10,477**
Germany	**4,913**	**4,020**	**2,343**	**11,276**	**3,833**	**7,443**
Italy	**4,985**	**319**	**791**	**6,095**	**3,583**	**2,512**
Spain	**2,980**	**731**	**1,120**	**4,831**	**3,773**	**1,058**
United States	**12,430**	**4,316**	**7,186**	**23,932**	**1,239**	**22,693**
2019						
Western Europe	21,646	8,989	23,490	54,125	14,370	39,755
Of which: France	*3,097*	*1,943*	*4,365*	*9,405*	*2,497*	*6,908*
Germany	*6,597*	*3,903*	*1,270*	*11,770*	*2,371*	*9,399*
Italy	*3,757*	*532*	*880*	*5,169*	*3,642*	*1,527*
Luxembourg	*4*	*38*	*4,592*	*4,634*	*2*	*4,632*
Netherlands	*971*	*626*	*5,692*	*7,289*	*541*	*6,748*
Spain	*2,410*	*260*	*1,410*	*4,080*	*2,493*	*1,587*
United States	14,441	5,754	7,974	28,169	1,483	26,686
Japan	2,722	2,685	302	5,709	12	5,697

Risk and capital management

Capital, liquidity and funding risk

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

Definitions

Regulatory capital consists of reserves and instruments issued, 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.

Sources of risk

Capital

The eligibility of instruments and financial resources as regulatory capital is laid down by applicable regulation. Capital is categorised under two tiers (Tier 1 and Tier 2) according to the ability to absorb losses, degree of permanency and the ranking of absorbing losses on either a going or gone concern basis. 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 NatWest Group's 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 NatWest Group, may be used to cover certain gone concern capital requirements which, 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 NatWest Group has failed or is likely to fail.

Liquidity

NatWest Group maintains a prudent approach to the definition of liquidity resources. NatWest Group manages its liquidity to ensure it is always available when and where required, taking into account regulatory, legal and other constraints. Following ring-fencing legislation, liquidity is no longer considered fungible across NatWest Group. Principal liquidity portfolios are maintained in the UK Domestic Liquidity Sub-Group (UK DoLSub) (primarily in NatWest Bank Plc), UBI DAC, NatWest Markets Plc, RBS International Limited and NWM N.V.. Some disclosures in this section where relevant are presented, on a consolidated basis, for NatWest Group, the UK DoLSub and on a solo basis for NatWest Markets Plc.

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 supranational securities.
- 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

NatWest Group maintains a diversified set of funding sources, including customer deposits, wholesale deposits and term debt issuance. NatWest Group 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 NatWest Group Pillar 3 Report 2020 Capital, liquidity and funding section.

Capital, liquidity and funding risk continued

Capital management

Capital management ensures that there is sufficient capital and other loss-absorbing instruments to operate effectively including meeting minimum regulatory requirements, operating within Board-approved risk appetite, maintaining its credit rating and supporting its strategic goals.

Capital management is critical in supporting the businesses and is enacted through an end-to-end framework across businesses and the legal entities. Capital is managed within the organisation at the following levels; NatWest Group consolidated, NWH Group sub consolidated, NatWest Markets Plc, NatWest Markets N.V. and RBS International Limited. The subsidiaries within NWH Group are governed by the same principles, processes and management as NatWest Group. Note that although the aforementioned entities are regulated in line with Basel III principles, local implementation of the framework differs across geographies.

Capital planning is integrated into NatWest Group's wider annual budgeting process and is assessed and updated at least monthly. Regular returns are submitted to the PRA which include a two-year rolling forecast view. Other elements of capital management, including risk appetite and stress testing, are set out on pages 160 and 161.

Produce capital plans	• Capital plans are produced for NatWest 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 NatWest Group's business, its 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 NatWest 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, NatWest Group will monitor its portfolio of external capital securities and assess the optimal blend and most cost effective means of financing.

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

Liquidity risk management

NatWest 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 principal levels at which liquidity risk is managed are:

- NatWest Group
- NatWest Holdings Group
- UK DoLSub
- UBI DAC
- NatWest Markets Plc
- NatWest Markets Securities Inc.
- RBS International Limited
- NWM N.V.

The UK DoLSub is PRA regulated and comprises NatWest Group's four licensed deposit-taking UK banks: National Westminster Bank Plc (NWB Plc), The Royal Bank of Scotland plc (RBS plc), Coutts & Company and Ulster Bank Limited.

NatWest Group categorises its liquidity portfolio, including its locally managed liquidity portfolios, into primary and secondary liquid assets. The size of the liquidity portfolios are determined by referencing NatWest Group's liquidity risk appetite. NatWest Group retains a prudent approach to setting the composition of the liquidity portfolios, which is subject to internal policies applicable to all entities and limits over quality of counterparty, maturity mix and currency mix.

RBS International Limited, NWM N.V. and UBI DAC hold locally managed portfolios that comply with local regulations that may differ from PRA rules.

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

Funding risk management

NatWest Group manages funding risk through a comprehensive framework which measures and monitors the funding risk on the balance sheet including quantitative and qualitative analysis of the behavioural aspects of its assets and liabilities as well as the funding concentration.

Capital, liquidity and funding risk continued

Relief measures

The economic impact of COVID-19 during the year was significant. While liquidity, capital and funding were closely monitored throughout, NatWest Group benefited from its strong positions – particularly in relation to CET1 – going into the crisis. Prudent risk management continues to be important as the full economic effects of the global pandemic unfold.

In response to COVID-19, a number of relief measures to alleviate the financial stability impact have been announced and recommended by regulatory and supervisory bodies. One significant announcement in the year was on 26 June when the European Parliament passed an amended regulation to the CRR in response to the COVID-19 pandemic ("the CRR COVID-19 amendment"); NatWest Group has applied a number of the CRR amendments for FY 2020 reporting. The impact on capital and leverage of the CRR amendment and other relief measures are set out below.

- IFRS 9 Transition – NatWest Group has elected to take advantage of the transitional regulatory capital rules in respect of expected credit losses following the adoption of IFRS 9; it had previously had a negligible impact up to Q4 2019. The CRR COVID-19 amendment now requires a full CET1 addback for the movement in stage 1 and stage 2 ECL from 1 January 2020 for the next two years. The IFRS 9 transitional arrangement impact on NatWest Group CET1 regulatory capital at 31 December 2020 is £1.7 billion.
- UK Leverage exposure – The Prudential Regulation Authority (PRA) announced the ability for firms to apply for a modification by consent to permit the netting of regular-way purchase and sales settlement balances. The PRA also offered a further modification that gave an exclusion from the UK Leverage Exposure for Bounce Back Loans (BBL) and other 100% guaranteed government COVID-19 lending schemes. NatWest Group has received permission to apply these and it has reduced the UK leverage exposure by c.£2.3 billion and £8.3 billion respectively.
- CRR Leverage exposure – The CRR COVID-19 amendment accelerated a change in CRR2 to allow the netting of regular-way purchase and sales settlement balances. NatWest Group has applied this, and it has reduced the CRR leverage exposure by c.£2.3 billion.
- Infrastructure and SME RWA supporting factors – The CRR COVID-19 amendment allowed an acceleration of the planned changes to the SME supporting factor and the introduction of an Infrastructure supporting factor. NatWest Group has implemented these beneficial changes to supporting factors which have reduced RWAs by c.£1 billion for SMEs and c.£0.9 billion for Infrastructure.
- Prudential Valuation Adjustment (PVA) – The European Commission amended the prudent valuation Regulatory Technical Standard such that, due to the exceptional levels of market volatility, the aggregation factor was increased from 50% to 66% until 31 December 2020 inclusive. This has reduced NatWest Group's PVA deduction by c.£120 million.
- Market Risk Value-at-risk (VaR) model capital multiplier – the CRR COVID-19 amendment allowed for back-testing exceptions due to the exceptional levels of market volatility caused by COVID-19 to be excluded from the capital multiplier. This approach resulted in c.£1.4 billion benefit.
- Capital buffers – Many countries announced reductions in their countercyclical capital buffer rates in response to COVID-19. Most notably for NatWest Group, the Financial Policy Committee reduced the UK rate from 1% to 0% effective from 11 March 2020. The CBI also announced a reduction of the Republic of Ireland rate from 1% to 0% effective from 1 April 2020.
- Software Assets – The CRR COVID-19 amendment accelerated the change to the regulatory treatment of software assets so this revision came in prior to the year end. The change introduces the concept of prudential amortisation for software assets so that unamortised software is no longer deducted from CET1. By applying this amendment the impact to NatWest Group is an increase of 23 bps to CET1 and an 8 bps increase to the UK leverage ratio.

Risk and capital management

Capital, liquidity and funding risk continued

Key points

Metric	2020	2019	Commentary
CET1 Ratio	18.5%	16.2%	Increase of 230 bps, of which 140 bps is due to an increase in CET1 capital and 90 bps due to a decrease in Risk Weighted Assets. Key drivers in the CET1 capital increase; cancellation of 2019 dividends and associated pension contribution offset by the inclusion of the 2020 foreseeable dividends and charges (40 bps), reduction in the regulatory intangibles deduction due to implementation of CRR2 amended Article 36 for the prudential treatment of software assets (23 bps), and adoption of IFRS 9 transitional arrangements on expected credit losses (100 bps) offsetting associated impairment charges through the attributable loss of £753 million (-40 bps).
LAC	£63.9bn	£59.7bn	Loss absorbing capital increased by £4.2 billion to £63.9 billion primarily due to an increase in CET1 (explained above), new issuance of $1.6 billion Senior debt, AT1 issuances of $1.5 billion and £1.0 billion, and Tier 2 issuances of £1.0 billion and $0.85 billion. These were partially offset by the redemption of a $2.0 billion AT1 instrument and a $0.5 billion partial redemption of a Tier 2 instrument, FX movements and Tier 2 regulatory amortisation.
RWA	£170.3bn	£179.2bn	RWAs reduced by £8.9 billion in 2020, reflecting reductions in market risk (£3.6 billion), counterparty credit risk (£3.5 billion) and credit risk RWAs (£1.1 billion) mainly in NatWest Markets as the business seeks to reduce RWAs through capital optimisation and exit activity. RWAs also decreased by c.£1.9 billion due to the CRR COVID-19 amendment for the SME & Infrastructure supporting factors, and NPL de-recognitions in Ulster Bank ROI. The acquisition of prime UK mortgages from Metro Bank resulted in a £1.2 billion increase in credit risk RWAs.
Leverage	5.2%	5.1%	CRR leverage ratio increased by c.10 basis points driven by a £3.3 billion increase in Tier 1 capital which is partially offset by a £59.2 billion increase in the leverage exposure driven by balance sheet exposures.
UK Leverage	6.4%	5.8%	The UK leverage ratio has increased by c.60 basis points driven by a £3.3 billion increase in Tier 1 capital.
Liquidity portfolio	£262.3bn	£199.4bn	The liquidity portfolio increased by £63 billion in 2020 to £262 billion, with primary liquidity increasing by £45 billion to £170 billion. The increase in primary liquidity is driven primarily by an increased customer surplus in NatWest Holdings with smaller increases in other Group entities. The increase in secondary liquidity is driven by collateral pool top-ups along with unencumbrance of assets following Term Funding Scheme (TFS) repayments during the year.
Liquidity Coverage Ratio	165%	152%	The Liquidity Coverage Ratio (LCR) increased by 13% during the year to 165% driven by an increase in the liquidity portfolio offset with a lower level of increased net outflows. The increased liquidity portfolio was primarily driven by significant growth in customer deposits in NatWest Holdings which outstripped growth in customer lending during the year.
NSFR	151%	141%	The net stable funding ratio (NSFR) for FY 2020 was 151% compared to 141% in prior year. The increase is mainly due to deposits growth.

Capital, liquidity and funding risk continued

Minimum requirements

Maximum Distributable Amount (MDA) and Minimum Capital Requirements

NatWest Group is subject to minimum capital requirements relative to RWAs. The table below summarises the minimum capital requirements (the sum of Pillar 1 and Pillar 2A), and the additional capital buffers which are held in excess of the regulatory minimum requirements and are usable in stress.

Where the CET1 ratio falls below the sum of the minimum capital and the combined buffer requirement, there is a subsequent automatic restriction on the amount available to service discretionary payments, known as the MDA. Note that different capital requirements apply to individual legal entities or sub-groups and that the table shown does not reflect any incremental PRA buffer requirements, which are not disclosable.

The current capital position provides significant headroom above both our minimum requirements and our MDA threshold requirements.

Type	CET1	Total Tier 1	Total capital
Pillar 1 requirements	4.5%	6.0%	8.0%
Pillar 2A requirements	1.9%	2.6%	3.4%
Minimum Capital Requirements	6.4%	8.6%	11.4%
Capital conservation buffer	2.5%	2.5%	2.5%
Countercyclical capital buffer (1)	—	—	—
G-SIB buffer (2)	—	—	—
MDA Threshold (3)	8.9%	n/a	n/a
Subtotal	8.9%	11.1%	13.9%
Capital ratios at 31 December 2020	18.5%	21.4%	24.5%
Headroom (4)	9.6%	10.3%	10.6%

Notes:
(1) Many countries announced reductions in their countercyclical capital buffer rates in response to COVID-19. Most notably for NatWest Group, the Financial Policy Committee reduced the UK rate from 1% to 0% effective from 11 March 2020. The CBI also announced a reduction of the Republic of Ireland rate from 1% to 0% effective from 1 April 2020.
(2) In November 2018, the Financial Stability Board announced that NatWest Group is no longer a G-SIB. From 1 January 2020, NatWest Group was released from this global buffer requirement.
(3) Pillar 2A requirements for NatWest Group are set on a nominal capital basis which result in an implied 8.9% MDA.
(4) The headroom does not reflect excess distributable capital and may vary over time.

Leverage ratios

The table below summarises the minimum ratios of capital to leverage exposure under the binding PRA UK leverage framework applicable for NatWest Group.

Type	CET1	Total Tier 1
Minimum ratio	2.4375%	3.2500%
Countercyclical leverage ratio buffer (1)	—	—
Total	2.4375%	3.2500%

Notes:
(1) The countercyclical leverage ratio buffer is set at 35% of NatWest Group's CCyB. As noted above the UK CCyB decreased from 1% to 0% on 11 March 2020 in response to COVID-19. Foreign exposures may be subject to different CCyB rates depending on the rate set in those jurisdictions.
(2) Following the joint announcement of UK Treasury, PRA and FCA on 16 November 2020, we expect the PRA to consult on the application of leverage ratios to individual legal entities and Groups during 2021.

Liquidity and funding ratios

The table below summarises the minimum requirements for key liquidity and funding metrics, under the relevant legislative framework.

Type	
Liquidity coverage ratio (LCR)	100%
Net stable funding ratio (NSFR) (1)	—

Note:
(1) NSFR reported in line with CRR2 regulations finalised in June 2019. Following the joint announcement of UK Treasury, PRA and FCA on 16 November 2020 to postpone the future EU CRR2 element of the Basel 3 package, we understand the PRA is due to consult on a binding Net Stable Funding ratio (NSFR) requirement to be introduced from January 2022.

Risk and capital management

Capital, liquidity and funding risk continued

Measurement

Capital, risk-weighted assets and leverage: Key metrics

The table below sets out the key capital and leverage ratios. Refer to Note 25 to the consolidated financial statements for a more detailed breakdown of regulatory capital.

	2020		2019	
	End point CRR basis (1)	**PRA transitional basis**	End point CRR basis (1)	PRA transitional basis
	£m	**£m**	£m	£m
CET1	**31,447**	**31,447**	29,054	29,054
Tier1	**36,430**	**37,260**	33,105	34,611
Total	**41,685**	**43,733**	38,005	40,823
RWAs	**£m**	**£m**	£m	£m
Credit risk	**129,914**	**129,914**	131,012	131,012
Counterparty credit risk	**9,104**	**9,104**	12,631	12,631
Market risk	**9,362**	**9,362**	12,930	12,930
Operational risk	**21,930**	**21,930**	22,599	22,599
Total RWAs	**170,310**	**170,310**	179,172	179,172
Capital adequacy ratios	**%**	**%**	%	%
CET1	**18.5**	**18.5**	16.2	16.2
Tier 1	**21.4**	**21.9**	18.5	19.3
Total	**24.5**	**25.7**	21.2	22.8
Leverage ratios	**£m**	**£m**	£m	£m
Tier 1 capital	**36,430**	**37,260**	33,105	34,611
CRR leverage exposure	**703,093**	**703,093**	643,874	643,874
CRR leverage ratio (%)	**5.2%**	**5.3%**	5.1%	5.4%
UK Average Tier 1 capital (2)	**36,397**	**37,231**	33,832	35,350
UK Average leverage exposure (2)	**576,906**	**576,906**	611,588	611,588
UK Average leverage ratio (%) (2)	**6.3%**	**6.5%**	5.5%	5.8%
UK leverage ratio (%) (3)	**6.4%**	**6.5%**	5.8%	6.1%

Notes:
(1) CRR as implemented by the Prudential Regulation Authority in the UK. End point CRR basis includes the IFRS 9 transitional uplift to capital of £1.7 billion and £0.2 billion uplift to RWAs. Excluding this adjustment, the CET1 ratio would be 17.5% and CRR leverage ratio would be 4.9%.
(2) Based on the daily average of on-balance sheet items and three month-end average of off-balance sheet items.
(3) Presented on CRR end point Tier 1 capital (including IFRS 9 transitional adjustment). The UK leverage ratio excludes central bank claims from the leverage exposure where deposits held are denominated in the same currency and of contractual maturity that is equal or longer than that of the central bank claims. Excluding the IFRS 9 transitional adjustment, the UK leverage ratio would be 6.1%.

Capital flow statement

The table below analyses the movement in CRR CET1, AT1 and Tier 2 capital for the year.

	CET1 £m	AT1 £m	Tier 2 £m	Total £m
At 1 January 2020	**29,054**	**4,051**	**4,900**	**38,005**
Attributable loss for the period	**(753)**			**(753)**
Own credit	**117**			**117**
Share capital and reserve movements in respect of employee share schemes	**63**			**63**
Foreign exchange reserve	**265**			**265**
FVOCI reserve	**222**			**222**
Goodwill and intangibles deduction	**440**			**440**
Deferred tax assets	**(3)**			**(3)**
Prudential valuation adjustments	**145**			**145**
Expected loss less impairment	**167**			**167**
New issues of capital instruments		**2,209**	**1,617**	**3,826**
Redemption of capital instruments		**(1,277)**	**(751)**	**(2,028)**
Net dated subordinated debt instruments			**(688)**	**(688)**
Foreign exchange movements	**(355)**		**(223)**	**(578)**
Foreseeable ordinary and special dividends	**604**			**604**
Foreseeable charges	**99**			**99**
Adjustment under IFRS 9 transitional arrangements	**1,747**			**1,747**
Other movements	**(365)**		**400**	**35**
At 31 December 2020	**31,447**	**4,983**	**5,255**	**41,685**

Key points

- NatWest Group has elected to take advantage of the transitional regulatory capital rules in respect of expected credit losses following the adoption of IFRS 9, it had previously had a negligible impact up to Q4 2019. The CRR COVID-19 amendment now requires a full CET1 addback for the movement in stage 1 and stage 2 ECL from 1 January 2020 for the next two years. The IFRS 9 transitional arrangement impact on NatWest Group CET1 regulatory capital at 31 December 2020 is £1.7 billion.
- Cancellation of 2019 dividends and associated pension contribution offset by the inclusion of the 2020 foreseeable dividends and charges resulted in an increase in CET1 of £0.7 billion.
- The implementation of CRR2 amended Article 36 for the prudential treatment of software assets has resulted in an increase to CET1 of £0.5 billion.
- Foreign exchange movements include a £0.4 billion charge, in relation to a $2 billion AT1 redemption announcement on 28 June 2020.

Capital, liquidity and funding risk continued

Risk-weighted assets

The table below analyses the movement in RWAs during the year, by key drivers.

	Credit risk £bn	Counterparty credit risk £bn	Market risk £bn	Operational risk £bn	Total £bn
At 1 January 2020	131.0	12.6	13.0	22.6	179.2
Foreign exchange movement	1.0	0.1	—	—	1.1
Business movements	(3.6)	(2.6)	(3.4)	(0.7)	(10.3)
Risk parameter changes (1)	(0.2)	0.2	—	—	—
Methodology changes (2)	(1.0)	(0.1)	—	—	(1.1)
Model updates	1.5	—	(0.2)	—	1.3
Other movements (3)	—	(1.1)	—	—	(1.1)
Acquisitions and disposals (4)	1.2	—	—	—	1.2
At 31 December 2020	129.9	9.1	9.4	21.9	170.3

The table below analyses the movement in RWAs by segment during the year.

Total RWAs	Retail Banking £bn	Ulster Bank RoI £bn	Commercial Banking £bn	Private Banking £bn	RBS International £bn	NatWest Markets £bn	Central items & other £bn	Total £bn
At 1 January 2020	37.8	13.0	72.5	10.1	6.5	37.9	1.4	179.2
Foreign exchange movement	—	0.6	0.2	—	—	0.3	—	1.1
Business movements	(0.1)	(1.1)	0.1	0.9	0.8	(10.1)	(0.8)	(10.3)
Risk parameter changes (1)	(2.2)	(0.8)	2.4	—	0.2	0.4	—	—
Methodology changes (2)	—	(0.1)	(1.9)	(0.1)	—	0.2	0.8	(1.1)
Model updates	—	0.2	1.3	—	—	(0.2)	—	1.3
Other movements (3)	—	—	0.5	—	—	(1.6)	—	(1.1)
Acquisitions and disposals (4)	1.2	—	—	—	—	—	—	1.2
At 31 December 2020	36.7	11.8	75.1	10.9	7.5	26.9	1.4	170.3
Credit risk	29.2	10.7	66.3	9.6	6.5	6.2	1.4	129.9
Counterparty credit risk	0.1	—	0.2	0.1	—	8.7	—	9.1
Market risk	—	0.1	0.1	—	—	9.2	—	9.4
Operational risk	7.4	1.0	8.5	1.2	1.0	2.8	—	21.9
Total RWAs	36.7	11.8	75.1	10.9	7.5	26.9	1.4	170.3

Notes:
(1) Risk parameter changes relate to changes in credit quality metrics of customers and counterparties (such as probability of default and loss given default) as well as internal ratings based model changes relating to counterparty credit risk in line with European Banking Authority Pillar 3 Guidelines.
(2) Methodology changes reflect the impact of the following:
(a) The implementation of the new securitisations framework from 1 January 2020; all positions have moved to the new framework.
(b) The RWA reductions due to the CRR COVID-19 amendment which allowed an acceleration of the planned changes to the SME supporting factor and the introduction of an Infrastructure supporting factor.
(c) Increases in RWAs of £0.5 billion in Q4 2020 due to the implementation of the CRR2 amended Article 36 for the prudential treatment of software assets.
(3) Other movements include:
(a) Hedging activity on counterparty credit risk in NatWest Markets.
(b) A transfer of assets from NatWest Markets to Commercial Banking.
(4) Acquisitions & Disposals - reflects the increase in credit risk RWAs following the acquisition of prime UK mortgages from Metro Bank.

Key point
- Total RWAs decreased by £8.9 billion during the period:
  - The £3.6 billion decrease in market risk RWAs was mainly driven by a decrease in RNIV based RWAs due to risk reduction activity.
  - Counterparty credit risk RWAs reduced by £3.5 billion mainly reflecting trade novations and hedging activity in NatWest Markets.
  - The decrease in credit risk RWAs of £1.1 billion reflected a reduction in exposures within NatWest Markets and Ulster Bank ROI franchises, which was partly offset by increases in Commercial Banking due to deterioration of risk parameters and model updates.
  - Operational risk RWAs decreased by £0.7 billion following the annual recalculation.

Capital, liquidity and funding risk continued

Credit risk exposure at default (EAD) and risk-weighted assets (RWAs)

The table below analyses credit risk RWAs and EADs, by on and off balance sheet.

31 December 2020		Retail Banking £bn	Ulster Bank RoI £bn	Commercial Banking £bn	Private Banking £bn	RBS International £bn	NatWest Markets £bn	Central items & other £bn	Total £bn
EAD	On balance sheet	**254.7**	**27.4**	**151.4**	**23.7**	**34.0**	**33.4**	**0.9**	**525.5**
	Off balance sheet	**28.3**	**2.2**	**29.3**	**0.3**	**5.1**	**5.5**	**0.1**	**70.8**
	Total	**283.0**	**29.6**	**180.7**	**24.0**	**39.1**	**38.9**	**1.0**	**596.3**
RWAs	On balance sheet	**26.7**	**9.6**	**52.5**	**9.4**	**5.1**	**4.1**	**1.4**	**108.8**
	Off balance sheet	**2.5**	**1.1**	**13.8**	**0.2**	**1.4**	**2.1**	**—**	**21.1**
	Total	**29.2**	**10.7**	**66.3**	**9.6**	**6.5**	**6.2**	**1.4**	**129.9**
31 December 2019									
EAD	On balance sheet	221.8	26.0	131.4	20.3	31.7	35.4	0.7	467.3
	Off balance sheet	30.2	2.2	27.2	0.3	3.3	7.5	0.4	71.1
	Total	252.0	28.2	158.6	20.6	35.0	42.9	1.1	538.4
RWAs	On balance sheet	27.1	10.8	50.8	8.7	4.7	6.4	1.3	109.8
	Off balance sheet	3.1	1.1	12.5	0.2	1.0	3.2	0.1	21.2
	Total	30.2	11.9	63.3	8.9	5.7	9.6	1.4	131.0

Leverage exposure

	End-point basis (1) 2020 £m	2019 £m
Cash and balances at central banks*	**124,489**	80,993
Trading assets	**68,990**	76,745
Derivatives	**166,523**	150,029
Other financial assets*	**422,647**	395,953
Other assets	**16,842**	19,319
Total assets	**799,491**	723,039
Derivatives		
- netting and variation margin	**(172,658)**	(157,778)
- potential future exposures	**38,171**	43,004
Securities financing transactions gross up	**1,179**	2,224
Undrawn commitments (analysis below)	**45,853**	42,363
Regulatory deductions and other adjustments	**(8,943)**	(8,978)
CRR Leverage exposure	**703,093**	643,874
Claims on central banks	**(122,252)**	(73,544)
Exclusion of bounce back loans	**(8,283)**	—
UK leverage exposure (2)	**572,558**	570,330

*2019 data has been restated for the accounting policy change for balances held with central banks. Refer to Accounting policy changes effective 1 January 2020 for further details.

Notes:
(1) Based on end point CRR Tier 1 leverage exposure under the CRR Delegated Act.
(2) The UK leverage ratio excludes central bank claims from the leverage exposure where deposits held are denominated in the same currency and of contractual maturity that is equal or longer than that of the central bank claims.

Liquidity key metrics

The table below sets out the key liquidity and related metrics monitored by NatWest Group.

	2020 NatWest Group	2020 UK DoLSub	2019 NatWest Group	2019 UK DoLSub
Liquidity coverage ratio (1)	**165%**	**152%**	152%	145%
Stressed outflow coverage (2)	**183%**	**168%**	149%	134%
Net stable funding ratio (3)	**151%**	**144%**	141%	137%

Notes:
(1) The published LCR excludes Pillar 2 add-ons. NatWest 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) NatWest 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.
(3) Following the joint announcement of UK Treasury, PRA and FCA on 16 November 2020 to postpone the future EU CRR2 element of the Basel 3 package, we understand the PRA is due to consult on a binding Net Stable Funding ratio (NSFR) requirement to be introduced from January 2022.

Capital, liquidity and funding risk continued

Weighted undrawn commitments

The table below provides a breakdown of weighted undrawn commitments.

	2020 £bn	2019 £bn
Unconditionally cancellable credit cards	**1.8**	2.0
Other unconditionally cancellable items	**3.2**	3.5
Unconditionally cancellable items (1)	**5.0**	5.5
Undrawn commitments <1 year which may not be cancelled	**1.9**	1.7
Other off-balance sheet items with 20% credit conversion factor (CCF)	**0.4**	0.4
Items with a 20% CCF	**2.3**	2.1
Revolving credit risk facilities	**28.4**	25.8
Term loans	**3.6**	3.1
Mortgages	**—**	0.1
Other undrawn commitments >1 year which may not be cancelled & off-balance sheet	**1.2**	1.5
Items with a 50% CCF	**33.2**	30.5
Items with a 100% CCF	**5.4**	4.4
Total	**45.9**	42.5

Note:
(1) Based on a 10% CCF.

Risk and capital management

Capital, liquidity and funding risk continued

Loss-absorbing capital

The following table illustrates the components of estimated loss-absorbing capital (LAC) in NatWest Group plc and operating subsidiaries and includes external issuances only. The table is prepared on a transitional basis, including the benefit of regulatory capital instruments issued from operating companies, to the extent they meet MREL criteria.

The roll-off profile relating to senior debt and subordinated debt instruments is set out on the next page.

	2020				2019			
	Par value (1) £bn	Balance sheet value £bn	Regulatory value (2) £bn	LAC value (3) £bn	Par value (1) £bn	Balance sheet value £bn	Regulatory value (2) £bn	LAC value (3) £bn
CET1 capital (4)	**31.4**	**31.4**	**31.4**	**31.4**	29.1	29.1	29.1	29.1
Tier 1 capital: end point CRR compliant AT1								
of which: NatWest Group plc (holdco)	**5.0**	**5.0**	**5.0**	**5.0**	4.0	4.0	4.0	4.0
of which: NatWest Group plc operating operating subsidiaries (opcos)	**—**	**—**	**—**	**—**	—	—	—	—
	5.0	**5.0**	**5.0**	**5.0**	4.0	4.0	4.0	4.0
Tier 1 capital: end point CRR non compliant								
of which: holdco	**0.7**	**0.7**	**0.7**	**0.5**	1.4	1.6	1.4	0.5
of which: opcos	**0.1**	**0.1**	**0.1**	**0.1**	0.1	0.1	0.1	0.1
	0.8	**0.8**	**0.8**	**0.6**	1.5	1.7	1.5	0.6
Tier 2 capital: end point CRR compliant								
of which: holdco	**6.9**	**7.2**	**4.8**	**5.7**	6.2	6.4	4.8	4.7
of which: opcos	**0.4**	**0.4**	**0.1**	**0.1**	0.5	0.5	0.1	0.4
	7.3	**7.6**	**4.9**	**5.8**	6.7	6.9	4.9	5.1
Tier 2 capital: end point CRR non compliant								
of which: holdco	**0.1**	**0.1**	**0.1**	**0.1**	0.1	0.1	0.1	0.1
of which: opcos	**1.6**	**1.9**	**1.1**	**1.0**	1.6	1.8	1.2	1.6
	1.7	**2.0**	**1.2**	**1.1**	1.7	1.9	1.3	1.7
Senior unsecured debt securities issued by:								
NatWest Group plc holdco (7)	**19.6**	**20.9**	**—**	**19.6**	18.6	19.2	—	19.2
NatWest Group plc opcos	**20.9**	**21.5**	**—**	**—**	21.1	20.7	—	—
	40.5	**42.4**	**—**	**19.6**	39.7	39.9	—	19.2
Tier 2 capital:								
Other regulatory adjustments	**—**	**—**	**0.4**	**0.4**	—	—	—	—
	—	**—**	**0.4**	**0.4**	—	—	—	—
Total	**86.7**	**89.2**	**43.7**	**63.9**	82.7	83.5	40.8	59.7
RWAs				**170.3**				179.2
UK leverage exposure				**572.6**				570.3
LAC as a ratio of RWAs				**37.5%**				33.3%
LAC as a ratio of UK leverage exposure				**11.2%**				10.5%

Notes:
(1) Par value reflects the nominal value of securities issued.
(2) Regulatory capital instruments issued from operating companies are included in the transitional LAC calculation; to the extent they meet the current MREL criteria.
(3) LAC value reflects NatWest Group's interpretation of the Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL), published in June 2018. MREL policy and requirements remain subject to further potential development, as such NatWest Group's estimated position remains subject to potential change. Liabilities excluded from LAC include instruments with less than one year remaining to maturity, structured debt, operating company senior debt, and other instruments that do not meet the MREL criteria. The LAC calculation includes Tier 1 and Tier 2 securities before the application of any regulatory caps or adjustments.
(4) Corresponding shareholders' equity was £43.9 billion (2019 - £43.5 billion).
(5) Regulatory amounts reported for AT1, Tier 1 and Tier 2 instruments are before grandfathering restrictions imposed by CRR.
(6) NatWest Group is no longer recognised as a G-SII effective from 1 January 2020 and is therefore not subject to the CRR MREL requirement as of this date, which references CRR 2 leverage exposure. To aid comparison, the leverage exposure, and resulting ratio is disclosed according to the BoE leverage framework for all time periods.
(7) LAC value of senior unsecured debt securities issued by NatWest Group plc reflects par value for 31 December 2020 vs balance sheet value for 31 December 2019.

Capital, liquidity and funding risk continued

Loss-absorbing capital

The following table illustrates the components of the stock of outstanding issuance in NatWest Group and its operating subsidiaries including external and Internal issuances.

		NatWest Group plc £bn	NatWest Holdings Limited £bn	NWB Plc £bn	RBS plc £bn	UBI DAC £bn	NWM Plc £bn	NatWest Markets N.V. £bn	NWM Securities Inc. £bn	RBS International Limited £bn
Tier 1 (inclusive of AT1)	Externally issued	5.7	—	0.1	—	—	—	—	—	—
Tier 1 (inclusive of AT1)	Internally issued	—	3.7	2.4	1.0	—	1.1	0.2	—	0.3
		5.7	3.7	2.5	1.0	—	1.1	0.2	—	0.3
Tier 2	Externally issued	7.3	—	1.1	—	0.1	0.5	0.6	—	—
Tier 2	Internally issued	—	4.9	3.3	1.5	0.5	1.5	0.1	0.3	—
		7.3	4.9	4.4	1.5	0.6	2.0	0.7	0.3	—
Senior unsecured	Externally issued	20.9	—	—	—	—	—	—	—	—
Senior unsecured	Internally issued	—	9.0	3.9	0.4	0.5	5.2	—	—	—
		20.9	9.0	3.9	0.4	0.5	5.2	—	—	—
Total outstanding issuance		33.9	17.6	10.8	2.9	1.1	8.3	0.9	0.3	0.3

Notes:
(1) The balances are the IFRS balance sheet carrying amounts, which may differ from the amount which the instrument contributes to regulatory capital. Regulatory balances exclude, for example, issuance costs and fair value movements, while dated capital is required to be amortised on a straight-line basis over the final five years of maturity.
(2) Balance sheet amounts reported for AT1, Tier 1 and Tier 2 instruments are before grandfathering restrictions imposed by CRR.
(3) Internal issuance for NWB Plc, RBS plc and UBI DAC represents AT1, Tier 2 or Senior unsecured issuance to NatWest Holdings Limited and for NWM N.V. and NWM SI to NWM Plc.
(4) Senior unsecured debt category does not include CP, CD and short term/medium term notes issued from NatWest Group operating subsidiaries.
(5) Tier 1 (inclusive of AT1) category does not include CET1 numbers.

Roll-off profile

The following table illustrates the roll-off profile and weighted average spreads of NatWest Group's major wholesale funding programmes.

	As at and for year ended	Roll-off profile					
Senior debt roll-off profile (1)	31 December 2020	H1 2021	H2 2021	2022	2023	2024 & 2025	2026 & later
NatWest Group plc							
- amount (£m)	20,881	—	—	7	7,011	4,932	8,931
- weighted average rate spread (bps)	183	—	—	224	225	134	175
NWM Plc							
- amount (£m)	16,260	3,953	2,292	3,013	1,761	4,310	930
- weighted average rate spread (bps)	100	68	65	87	139	146	117
NatWest Bank Plc							
- amount (£m)	3,292	2,667	625	—	—	—	—
- weighted average rate spread (bps)	17	15	25	—	—	—	—
NWM N.V.							
- amount (£m)	1,180	581	599	—	—	—	—
- weighted average rate spread (bps)	66	70	62	—	—	—	—
NWM S.I.							
- amount (£m)	232	—	—	4	—	83	146
- weighted average rate spread (bps)	130	—	—	64	—	98	151
RBSI							
- amount (£m)	540	409	131	—	—	—	—
- weighted average rate spread (bps)	11	7	23	—	—	—	—
Securitisation							
- amount (£m)	1,017	—	—	—	—	296	721
- weighted average rate spread (bps)	12	—	—	—	—	5	15
Covered bonds							
- amount (£m)	3,020	—	—	—	750	2,270	—
- weighted average rate spread (bps)	127	—	—	—	44	156	—
Total notes issued - amount (£m)	46,422	7,610	3,647	3,024	9,522	11,891	10,728
Weighted average rate spread (bps)	128	47	56	87	195	138	158
Subordinated debt instruments roll-off profile (2)							
NatWest Group plc (£m)	7,283	78	—	1,221	2,002	3,374	607
NWM Plc (£m)	517	—	—	292	152	—	73
NatWest Bank Plc (£m)	1,097	689	318	90	—	—	—
NWM N.V. (£m)	588	—	—	—	105	—	484
UBI DAC (£m)	77	—	—	—	—	—	77
Total (£m)	9,562	767	318	1,603	2,259	3,374	1,241

Notes:
(1) Based on final contractual instrument maturity.
(2) Based on first call date of instrument, however this does not indicate NatWest Group's strategy on capital and funding management. The table above does not include debt accounted Tier 1 instruments although those instruments form part of the total subordinated debt balance.
(3) The weighted average spread reflects the average net funding cost to NatWest Group and is calculated on an indicative basis.
(4) The roll-off table is based on sterling-equivalent balance sheet values.

Capital, **liquidity and funding risk** continued

Liquidity portfolio

The table below shows the liquidity portfolio by product, with primary liquidity aligned to internal stressed outflow coverage and regulatory LCR categorisation. Secondary liquidity comprises assets eligible for discount at central banks, which do not form part of the liquid asset portfolio for LCR or stressed outflow purposes.

	Liquidity value					
	2020			2019		
	NatWest Group (1)	NWH Group (2)	UK DoL Sub (3)	NatWest Group (1)	NWH Group (2)	UK DoL Sub (3)
	£m	£m	£m	£m	£m	£m
Cash and balances at central banks	115,820	86,575	86,575	74,289	51,080	51,080
AAA to AA- rated governments	50,901	37,086	35,875	46,622	35,960	34,585
A+ and lower rated governments	79	—	—	1,277	—	—
Government guaranteed issuers, public sector entities and government sponsored entities	272	272	141	251	251	90
International organisations and multilateral development banks	3,140	2,579	2,154	2,393	2,149	1,717
LCR level 1 bonds	54,392	39,937	38,170	50,543	38,360	36,392
LCR level 1 assets	170,212	126,512	124,745	124,832	89,440	87,472
LCR level 2 assets	124	—	—	—	—	—
Non-LCR eligible assets	—	—	—	88	—	—
Primary liquidity	170,336	126,512	124,745	124,920	89,440	87,472
Secondary liquidity (4)	91,985	91,761	88,774	74,431	74,187	73,332
Total liquidity value	262,321	218,273	213,519	199,351	163,627	160,804

Notes:
(1) NatWest Group includes the UK Domestic Liquidity Sub-Group (UK DoLSub), NatWest Markets Plc and other significant operating subsidiaries that hold liquidity portfolios. These include RBS International Limited, NWM N.V. and Ulster Bank Ireland DAC who hold managed portfolios that comply with local regulations that may differ from PRA rules.
(2) NWH Group comprises UK DoLSub & Ulster Bank Ireland DAC who hold managed portfolios that comply with local regulations that may differ from PRA rules.
(3) UK DoLSub comprises NatWest Group's four licensed deposit-taking UK banks within the ring-fenced bank: NWB Plc, RBS plc, Coutts & Company and Ulster Bank Limited.
(4) Comprises assets eligible for discounting at the Bank of England and other central banks.
(5) Liquidity portfolio table approach has been aligned to the ILAAP methodology with effect from December 2019.
(6) NatWest Markets Plc liquidity portfolio is reported in the NatWest Markets Plc Annual Report and Accounts.

Risk and capital management

Capital, liquidity and funding risk continued

Funding sources

The table below shows the carrying values of the principal funding sources based on contractual maturity. Balance sheet captions include balances held at all classifications under IFRS 9.

	2020			2019		
	Short-term less than 1 year £m	**Long-term more than 1 year £m**	**Total £m**	Short-term less than 1 year £m	Long-term more than 1 year £m	Total £m
Bank deposits						
Repos	**6,470**	**—**	**6,470**	2,598	—	2,598
Other bank deposits (1) (2)	**5,845**	**8,291**	**14,136**	6,688	11,207	17,895
	12,315	**8,291**	**20,606**	9,286	11,207	20,493
Customer deposits						
Repos	**5,167**	**—**	**5,167**	1,765	—	1,765
Non-bank financial institutions	**53,475**	**147**	**53,622**	48,759	352	49,111
Personal	**208,046**	**1,183**	**209,229**	183,124	1,210	184,334
Corporate	**163,595**	**126**	**163,721**	133,450	587	134,037
	430,283	**1,456**	**431,739**	367,098	2,149	369,247
Trading liabilities (3)						
Repos (4)	**19,036**	**—**	**19,036**	27,885	—	27,885
Derivative collateral	**23,229**	**—**	**23,229**	21,509	—	21,509
Other bank and customer deposits	**819**	**985**	**1,804**	710	896	1,606
Debt securities in issue - Medium term notes	**527**	**881**	**1,408**	659	1,103	1,762
	43,611	**1,866**	**45,477**	50,763	1,999	52,762
Other financial liabilities						
Customer deposits	**616**	**180**	**796**	—	—	—
Debt securities in issue:						
Commercial papers and certificates of deposit	**7,086**	**168**	**7,254**	4,272	6	4,278
Medium term notes	**4,648**	**29,078**	**33,726**	4,592	29,262	33,854
Covered bonds	**53**	**2,967**	**3,020**	3,051	2,897	5,948
Securitisations	**—**	**1,015**	**1,015**	—	1,140	1,140
	12,403	**33,408**	**45,811**	11,915	33,305	45,220
Subordinated liabilities	**365**	**9,597**	**9,962**	160	9,819	9,979
Total funding	**498,977**	**54,618**	**553,595**	439,222	58,479	497,701
Of which: available in resolution (5)	***—***	***28,823***	***28,823***	*—*	*26,168*	*26,168*

Notes:
(1) Long-term more than 1 year includes £5.0 billion of Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises participation which has been repaid early in January 2021.
(2) Includes nil (2019 – £10.0 billion) relating to Term Funding Scheme participation, £5.0 billion (2019 – nil) relating to Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises participation and £2.8 billion (2019 – £1.7 billion) relating to NatWest Group's participation in central bank financing operations under the European Central Bank's targeted long-term financing operations.
(3) Excludes short positions of £26.8 billion (2019 – £21.2 billion).
(4) Comprises central & other bank repos of £1.0 billion (2019 – £6.6 billion), other financial institution repos of £16.0 billion (2019 – £19.0 billion) and other corporate repos of £2.0 billion (2019 – £2.3 billion).
(5) Eligible liabilities (as defined in the Banking Act 2009 as amended from time to time) that meet the eligibility criteria set out in the regulations, rules, policies, guidelines, or statements of the Bank of England including the Statement of Policy published by the Bank of England in June 2018. The balance consists of £20.9 billion (2019 – £19.2 billion) under debt securities in issue (senior MREL) and £7.9 billion (2019 – £6.9 billion) under subordinated liabilities.

Capital, liquidity and funding risk continued

Contractual maturity

This table shows the residual maturity of financial instruments, based on contractual date of maturity of NatWest Group's banking activities, including 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										
2020	Less than 1 month £m	1-3 months £m	3-6 months £m	6 months - 1 year £m	Subtotal £m	1-3 years £m	3-5 years £m	More than 5 years £m	Total £m	Trading activities £m	Total £m
Cash and balances at central banks	124,489	—	—	—	124,489	—	—	—	124,489	—	124,489
Trading assets	—	—	—	—	—	—	—	—	—	68,990	68,990
Derivatives	9	—	—	11	20	61	—	12	93	166,430	166,523
Settlement balances	2,297	—	—	—	2,297	—	—	—	2,297	—	2,297
Loans to banks - amortised cost	5,129	450	1,240	16	6,835	8	2	110	6,955	—	6,955
Loans to customers - amortised cost (1)	33,292	18,458	18,682	23,083	93,515	62,170	42,171	168,672	366,528	—	366,528
Personal	5,536	2,700	3,768	6,999	19,003	24,066	21,061	139,788	203,918	—	203,918
Corporate	22,498	4,928	4,874	8,738	41,038	31,255	19,830	27,539	119,662	—	119,662
NBFI	5,258	10,830	10,040	7,346	33,474	6,849	1,280	1,345	42,948	—	42,948
Other financial assets	2,155	1,329	1,556	3,797	8,837	12,027	10,207	23,637	54,708	440	55,148
Total financial assets	167,371	20,237	21,478	26,907	235,993	74,266	52,380	192,431	555,070	235,860	790,930
2019											
Total financial assets	129,976	17,129	14,948	22,430	184,483	74,283	52,159	173,579	484,504	227,287	711,791
2020											
Bank deposits excluding repos (2)	4,532	476	431	406	5,845	3,254	5,037	—	14,136	—	14,136
Bank repos	4,845	1,365	260	—	6,470	—	—	—	6,470	—	6,470
Customer repos	5,167	—	—	—	5,167	—	—	—	5,167	—	5,167
Customer deposits excluding repos	407,497	9,100	5,889	2,630	425,116	1,403	21	32	426,572	—	426,572
Personal	201,876	1,789	2,481	1,900	208,046	1,183	—	—	209,229	—	209,229
Corporate	157,579	3,237	2,244	535	163,595	91	4	31	163,721	—	163,721
NBFI	48,042	4,074	1,164	195	53,475	129	17	1	53,622	—	53,622
Settlement balances	2,414	3,131	—	—	5,545	—	—	—	5,545	—	5,545
Trading liabilities	—	—	—	—	—	—	—	—	—	72,256	72,256
Derivatives	—	26	(12)	—	14	67	2	47	130	160,575	160,705
Other financial liabilities	1,496	3,151	4,093	3,663	12,403	14,445	11,054	7,909	45,811	—	45,811
CPs and CDs	1,206	2,047	1,685	2,148	7,086	165	3	—	7,254	—	7,254
Medium-term notes	241	1,104	1,788	1,515	4,648	13,350	8,538	7,190	33,726	—	33,726
Covered bonds	49	—	4	—	53	750	2,217	—	3,020	—	3,020
Securitisations	—	—	—	—	—	—	296	719	1,015	—	1,015
Customer deposits DFV	—	—	616	—	616	180	—	—	796	—	796
Subordinated liabilities	8	16	23	318	365	3,855	3,349	2,393	9,962	—	9,962
Notes in circulation	2,655	—	—	—	2,655	—	—	—	2,655	—	2,655
Lease liabilities	18	32	46	89	185	295	245	973	1,698	—	1,698
Total financial liabilities	428,632	17,297	10,730	7,106	463,765	23,319	19,708	11,354	518,146	232,831	750,977
2019											
Total financial liabilities	361,384	15,085	9,373	8,992	394,834	26,435	18,352	13,341	452,962	220,806	673,768

Notes:

(1) Loans to customers excludes £6.0 billion (2019 – £3.7 billion) of impairment provisions.

(2) 3-5 years includes £5.0 billion of Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises participation which has been repaid early in January 2021.

Capital, liquidity and funding risk continued

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

The table below shows NatWest Group's debt securities in issue and subordinated liabilities by residual maturity.

	Trading liabilities	Other financial liabilities						
		Debt securities in issue						
2020	Debt securities in issue MTNs £m	Commercial paper and CDs £m	MTNs £m	Covered bonds £m	Securitisation £m	Subordinated liabilities £m	Total £m	Total notes in issue £m
Less than 1 year	**527**	**7,086**	**4,648**	**53**	**—**	**365**	**12,152**	**12,679**
1-3 years	**169**	**165**	**13,349**	**749**	**—**	**3,854**	**18,117**	**18,286**
3-5 years	**240**	**3**	**8,538**	**2,218**	**296**	**3,349**	**14,404**	**14,644**
More than 5 years	**472**	**—**	**7,191**	**—**	**719**	**2,394**	**10,304**	**10,776**
Total	**1,408**	**7,254**	**33,726**	**3,020**	**1,015**	**9,962**	**54,977**	**56,385**
2019								
Less than 1 year	659	4,272	4,592	3,051	—	160	12,075	12,734
1-3 years	321	3	10,452	—	—	2,393	12,848	13,169
3-5 years	217	3	10,212	2,897	—	4,931	18,043	18,260
More than 5 years	565	—	8,598	—	1,140	2,495	12,233	12,798
Total	1,762	4,278	33,854	5,948	1,140	9,979	55,199	56,961

The table below shows the currency breakdown.

2020	GBP £m	USD £m	EUR £m	Other £m	Total £m
Commercial paper and CDs	**2,923**	**976**	**3,355**	**—**	**7,254**
MTNs	**1,678**	**16,822**	**14,150**	**2,484**	**35,134**
Covered bonds	**1,863**	**—**	**1,157**	**—**	**3,020**
Securitisation	**772**	**—**	**243**	**—**	**1,015**
Subordinated liabilities	**1,697**	**7,253**	**1,012**	**—**	**9,962**
Total	**8,933**	**25,051**	**19,917**	**2,484**	**56,385**
2019 total	8,313	24,041	22,257	2,350	56,961

Funding gap: maturity and segment analysis

The contractual maturity of balance sheet assets and liabilities reflects the maturity transformation role banks perform, lending long-term but mainly obtaining funding through short-term liabilities such as customer deposits. In practice, the behavioural profiles of many liabilities show greater stability and longer maturity than the contractual maturity. This is particularly true of many types of retail and corporate deposits which, despite being repayable on demand or at short notice, have demonstrated very stable characteristics even in periods of acute stress.

In its analysis to assess and manage asset and liability maturity gaps, NatWest Group determines the expected customer behaviour through qualitative and quantitative techniques. These incorporate observed customer behaviours over long periods of time. This analysis is subject to governance through NatWest Group ALCo Technical committee down to a segment level.

The net behavioural funding surplus/(gap) and contractual maturity analysis is set out below.

	Contractual maturity (1)												Behavioural maturity			
	Loans to customers				Customer accounts				Net funding surplus/(gap)				Net surplus/(gap)			
2020	Less than 1 year £bn	1-5 years £bn	Greater than 5 years £bn	Total £bn	Less than 1 year £bn	1-5 years £bn	Greater than 5 years £bn	Total £bn	Less than 1 year £bn	1-5 years £bn	Greater than 5 years £bn	Total £bn	Less than 1 year £bn	1-5 years £bn	Greater than 5 years £bn	Total £bn
Retail Banking	**12**	**37**	**123**	**172**	**171**	**1**	**—**	**172**	**159**	**(36)**	**(123)**	**—**	**(2)**	**6**	**(4)**	**—**
Ulster Bank RoI	**2**	**6**	**10**	**18**	**20**	**—**	**—**	**20**	**18**	**(6)**	**(10)**	**2**	**2**	**—**	**—**	**2**
Commercial Banking	**36**	**45**	**27**	**108**	**168**	**—**	**—**	**168**	**132**	**(45)**	**(27)**	**60**	**15**	**45**	**—**	**60**
Private Banking	**5**	**7**	**5**	**17**	**32**	**—**	**—**	**32**	**27**	**(7)**	**(5)**	**15**	**1**	**5**	**9**	**15**
RBS International	**5**	**6**	**3**	**14**	**31**	**—**	**—**	**31**	**26**	**(6)**	**(3)**	**17**	**5**	**4**	**8**	**17**
NatWest Markets	**15**	**3**	**1**	**19**	**15**	**1**	**—**	**16**	**—**	**(2)**	**(1)**	**(3)**	**—**	**(2)**	**(1)**	**(3)**
Central items & other	**—**	**—**	**—**	**—**	**1**	**—**	**—**	**1**	**1**	**—**	**—**	**1**	**1**	**—**	**—**	**1**
Total	**75**	**104**	**169**	**348**	**438**	**2**	**—**	**440**	**363**	**(102)**	**(169)**	**92**	**22**	**58**	**12**	**92**
2019																
Total	81	103	147	331	376	3	—	379	295	(100)	(147)	48	1	36	11	48

Note:
(1) Loans to customers and customer accounts include trading assets and trading liabilities respectively and excludes reverse repos and repos.

Key points

- The net customer funding surplus has increased by £44 billion during 2020 to £92 billion driven by £61 billion deposit growth and £17 billion loan growth.
- Customer deposits and customer loans are broadly matched from a behavioural perspective.
- The net funding surplus in 2020 is mainly concentrated in the longer dated buckets, reflecting stable characteristics of customer deposits.

Encumbrance

NatWest 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, credit card receivables and personal loans display many of these features.

NatWest Group categorises its assets into four 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 NatWest 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, NatWest 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.

Programmes to manage the use of assets to actively support funding are established within UK DoLSub, UBI DAC and NatWest Markets Plc.

Balance sheet encumbrance

The table shows the retained encumbrance assets of NatWest Group.

2020	Encumbered as a result of transactions with counterparties other than central banks: Covered debts & securitisations (1) (2) £bn	SFT, derivatives and similar (3) (4) £bn	Total (5) £bn	Pre-positioned & encumbered assets held at central banks (6) £bn	Collateral ring - fenced to meet reg requirement (7) £bn	Unencumbered assets not pre-positioned with central banks: Readily available (8) £bn	Other available (9) £bn	Cannot be used (10) £bn	Total £bn	Total £bn
Cash and balances at central banks	—	4.9	4.9	—	—	119.6	—	—	119.6	124.5
Trading assets	—	49.3	49.3	—	—	—	0.3	19.4	19.7	69.0
Derivatives	—	—	—	—	—	—	—	166.5	166.5	166.5
Settlement balances	—	—	—	—	—	—	—	2.3	2.3	2.3
Loans to banks - amortised cost	0.1	0.1	0.2	—	—	6.2	0.3	0.3	6.8	7.0
Loans to customers - amortised cost	14.7	—	14.7	134.0	—	42.4	120.5	48.9	211.8	360.5
- residential mortgages										
- UK	10.0	—	10.0	125.7	—	26.8	13.1	—	39.9	175.6
- RoI	1.9	—	1.9	6.3	—	5.0	—	—	5.0	13.2
- credit cards	—	—	—	—	—	3.4	0.4	—	3.8	3.8
- personal loans	—	—	—	—	—	4.9	2.5	1.6	9.0	9.0
- other	2.8	—	2.8	2.0	—	2.3	104.5	47.3	154.1	158.9
Other financial assets	—	16.5	16.5	—	2.2	35.5	0.2	0.7	36.4	55.1
Intangible assets	—	—	—	—	—	—	—	6.7	6.7	6.7
Other assets	—	—	—	—	—	—	1.8	6.1	7.9	7.9
Total assets	14.8	70.8	85.6	134.0	2.2	203.7	123.1	250.9	577.7	799.5
2019										
Total assets	12.3	65.0	77.3	115.6	2.4	186.7	111.9	229.1	527.7	723.0

Notes:
(1) Covered debts and securitisations include securitisations, conduits, covered bonds and secured notes.
(2) Excludes £1.7 billion of loans and advances to customers in 2019 providing security for retained own issued securities. There were £14 billion encumbered assets resulting from covered debts and securitisations in 2019 including those assets.
(3) 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.
(4) Derivative cash collateral of £18.8 billion (2019 - £20.6 billion) has been included in the encumbered assets basis the regulatory requirement.
(5) 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.
(6) Assets pre-positioned at the central banks include loans provided as security as part of funding schemes and those encumbered under such schemes.
(7) Ring-fenced to meet regulatory requirement includes assets ring fenced to meet operational continuity in resolution (OCIR) investment mandate.
(8) 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 Group's liquidity portfolio and unencumbered debt securities.
(9) 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.
(10) 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.
(11) In accordance with market practice, NatWest Group employs securities recognised on the balance sheet, and securities received under reverse repo transactions as collateral for repos.

Market risk

NatWest Group is exposed to non-traded market risk through its banking activities and to traded market risk through its trading activities. Non-traded and traded market risk exposures are managed and discussed separately. The non-traded market risk section begins below. The traded market risk section begins on page 236. Pension-related activities also give rise to market risk. Refer to page 240 for more information on risk related to pensions.

Non-traded market risk

Definition

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

Sources of risk

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

Key developments in 2020

- The outbreak of COVID-19 triggered exceptional volatility in non-traded market risk factors in March 2020 and a global sell-off across all asset classes. This notably affected credit spreads (the spread between bond yield and swap rates) arising from the liquidity portfolios held by Treasury and resulted in a sharp increase in total non-traded VaR for 2020.
- During 2020, the Bank of England signalled a negative UK base rate as a possibility. This could have an adverse impact on NatWest Group's earnings, primarily because it could result in: (i) a lower yield on the structural hedge; and (ii) a narrower margin between loan and deposit rates. The impact on earnings of a downward shift resulting in a negative base rate is discussed on page 232.
- The five-year sterling interest rate swap rate fell to 0.08% at 31 December 2020 from 0.81% at 31 December 2019. The corresponding ten-year rate fell to 0.26% from 0.93%. The structural hedge provides some protection against volatility in interest rates. As a result, the move in the structural hedge yield over the same period was less material, falling to 1.06% from 1.20%.
- NatWest Group continued to make progress on the transition from LIBOR to alternative risk-free rates. An increasing proportion of structural hedges and hedges of other portfolios are written against swaps linked to SONIA, instead of LIBOR.
- Sterling strengthened against the US dollar and weakened against the euro over the period. Against the dollar, sterling was 1.37 at 31 December 2020 compared to 1.32 at 31 December 2019. Against the euro, it was 1.11 at 31 December 2020 compared to 1.18 at 31 December 2019. Structural foreign currency exposures increased, in sterling equivalent terms, by £49 million over the period.

Governance

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

Risk appetite

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

Its quantitative appetite is expressed in terms of value-at-risk (VaR), stressed value-at-risk (SVaR), sensitivity and stress limits, 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 NatWest Group remains within its risk appetite, triggers at NatWest Group and lower levels have been set and are actively managed. For further information on risk appetite and risk controls, refer to page 160.

Risk measurement

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

The following table shows one-day internal banking book value-at-risk (VaR) at a 99% confidence level, split by risk type. NatWest Group's VaR metrics are explained on page 231. Each of the key risk types are discussed in greater detail in their individual sub-sections following this table.

	2020				2019			
	Average £m	Maximum £m	Minimum £m	Period end £m	Average £m	Maximum £m	Minimum £m	Period end £m
Interest rate	14.1	17.7	8.0	12.3	11.0	14.0	8.0	8.2
Euro	1.9	4.6	1.1	4.6	1.3	2.3	0.7	1.3
Sterling	13.3	20.1	6.6	14.1	10.8	14.1	8.0	8.0
US dollar	10.7	16.5	5.9	8.7	4.6	6.0	3.4	5.2
Other	0.6	0.9	0.3	0.3	0.4	0.7	0.2	0.7
Credit spread	103.2	121.1	63.7	111.5	55.6	59.7	49.2	59.7
Structural foreign exchange rate	10.8	14.7	9.1	8.9	15.2	23.8	7.2	8.6
Equity	28.5	35.4	24.9	11.6	34.5	38.6	31.6	33.5
Pipeline risk (1)	0.5	0.7	0.3	0.3	0.4	0.9	0.2	0.2
Diversification (2)	(18.9)			4.2	(57.1)			(45.6)
Total	138.2	159.9	70.8	148.8	59.6	64.6	48.1	64.6

Notes:
(1) Pipeline risk is the risk of loss arising from personal customers owning an option to draw down a loan – typically a mortgage – at a committed rate, where interest rate changes may result in greater or fewer customers than anticipated taking up the committed offer.
(2) NatWest Group benefits from diversification across various financial instrument types, currencies and markets. The extent of the diversification benefit depends on the correlation between the assets and risk factors in the portfolio at a particular time. The diversification factor is the sum of the VaR on individual risk types less the total portfolio VaR.

Key points

- The increase in credit spread and total VaR reflects the impact of the outbreak of COVID-19, as explained in 'Key developments in 2020' above.
- The decrease in equity VaR reflects the disposal of SABB in Q4 2020.

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 NatWest 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, NatWest Group aggregates 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 NatWest Group measures NTIRR from both an economic value-based and an earnings-based perspective.

Structural hedging

NatWest Group has a significant pool of stable, non and low interest-bearing liabilities, principally comprising equity and money transmission accounts. These balances are usually hedged, either by investing directly in longer-term fixed-rate assets (such as fixed-rate mortgages or UK government gilts) or by using interest rate swaps, which are generally booked as cash flow hedges of floating-rate assets, in order to provide a consistent and predictable revenue stream.

After hedging the net interest rate exposure externally, NatWest Group allocates income to equity or products in structural hedges by reference to the relevant interest rate swap curve. Over time, this approach has provided a basis for stable income attribution to products and interest rate returns. The programme aims to track a time series of medium-term swap rates, but the yield will be affected by changes in product volumes and NatWest Group's capital composition.

The table below shows the incremental income allocation above three-month LIBOR, total income allocation including three-month LIBOR, the period end and average notional balances, and the total yield including three-month LIBOR associated with the structural hedges managed by NatWest Group.

	2020					2019				
	Incremental income £m	Total income £m	Period end notional £bn	Average notional £bn	Total yield %	Incremental income £m	Total income £m	Period end notional £bn	Average notional £bn	Total yield %
Equity structural hedging	478	580	23	24	2.43	399	644	25	27	2.36
Product structural hedging	543	958	125	115	0.83	183	1,094	111	111	0.99
Other structural hedges	119	150	21	20	0.73	61	166	21	21	0.79
Total	1,140	1,688	169	159	1.06	643	1,904	157	159	1.20

Equity structural hedges refer to income allocated primarily to equity and reserves. At 31 December 2020, the equity structural hedge notional was allocated between NWH Group and NWM Plc in a ratio of approximately 80/20 respectively. Rates on new equity structural hedges continued to fall, but the reduction in the hedge notional has resulted in a higher overall yield.

Product structural hedges refer to income allocated to customer products by NWH Treasury, mainly current accounts and customer deposits in Commercial Banking and Retail Banking (excluding Ulster Bank Limited). Other structural hedges refer to hedges managed by UBI DAC, Private Banking, Ulster Bank Limited and RBS International.

At 31 December 2020, approximately 92% by notional of total structural hedges were sterling-denominated.

The following table presents the incremental income associated with product structural hedges at segment level.

	2020 £m	2019 £m
Retail Banking	251	85
Commercial Banking	292	98
Total	543	183

Key points

- The five-year sterling swap rate fell to 0.08% at the end of December 2020 from 0.81% at the end of December 2019. The ten-year sterling swap rate also fell, to 0.26% from 0.93%.
- The yield of the structural hedge fell as new product hedges and maturing hedges across the portfolio are reinvested at lower market rates. At 1.06%, the overall yield was still higher than market swap rates at 31 December 2020.
- The increase in hedge notional, on a period-end basis, mainly resulted from increased hedging of Personal and Commercial deposits. This reflected the increase in underlying customer deposit balances in 2020.
- Incremental income in excess of three-month LIBOR increased in 2020. This was primarily due to lower three-month LIBOR fixings, resulting in increased income benefit from the hedge.

Non-traded market risk continued

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.

NatWest 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 NatWest 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.

NatWest 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 NatWest Group's retail and commercial banking activities are included in the banking book VaR table presented earlier in this section. 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 NatWest Group's target maturity profile for the hedge.

Non-traded market risk continued

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 always match changes in market rates of interest or central bank policy rates.

Earnings sensitivity is derived from a market-implied forward rate curve. A simple scenario is shown that projects forward earnings based on the 31 December 2020 balance sheet, which is assumed to remain constant. A base-case earnings forecast is derived from the market-implied 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.

Reported sensitivities should not be considered a forecast of future performance in these rate scenarios. 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.

Three-year 25-basis-point sensitivity table

The table below shows the sensitivity of net interest earnings – for both structural hedges and managed rate accounts – on a one, two and three-year forward-looking basis to an upward or downward interest rate shift of 25 basis points.

In the upward rate scenario, yield curves were assumed to move in parallel, at both year-ends.

The downward rate scenario at 31 December 2020 allows interest rates to fall to negative rates. The downward rate scenario at 31 December 2019 assumed that interest rates would floor at 0%, or the then negative rate. This assumption affected only euro, not sterling or US dollar, interest rates.

	+25 basis points upward shift			-25 basis points downward shift		
	Year 1	Year 2 (1)	Year 3 (1)	Year 1	Year 2 (1)	Year 3 (1)
2020	£m	£m	£m	£m	£m	£m
Structural hedges	**37**	**118**	**199**	**(37)**	**(118)**	**(199)**
Managed margin	**319**	**380**	**387**	**(258)**	**(285)**	**(292)**
Other	**15**			**(20)**		
Total	**371**	**498**	**586**	**(315)**	**(403)**	**(491)**
2019						
Structural hedges	31	97	168	(27)	(90)	(154)
Managed margin	195	195	196	(158)	(127)	(128)
Other	(14)			15		
Total	212	292	364	(170)	(217)	(282)

Note:
(1) The projections for Year 2 and Year 3 consider only the main drivers of earnings sensitivity, namely structural hedging and margin management.

Key points

- The increased favourable sensitivity to the 25-basis-point upward shifts in yield curves over 2020 was mainly driven by: (i) significantly increased volumes of savings and current accounts; and (ii) changes to estimates of the extent to which NatWest Group passes through the impact of changes in interest rates to these products.
- The estimated impact on managed margin portfolios of the downward shift into negative interest rates is affected by assumptions regarding the extent to which negative rates are passed through to both deposits and loans.

One-year 25 and 100-basis-point sensitivity table

The following table analyses the one-year scenarios by currency and, in addition, shows the impact over one year of a 100-basis-point upward shift in all interest rates.

	2020			2019		
	Shifts in yield curve			Shifts in yield curve		
	+25 basis points £m	-25 basis points £m	+100 basis points £m	+25 basis points £m	-25 basis points £m	+100 basis points £m
Euro	**7**	**(6)**	**99**	25	(2)	129
Sterling	**336**	**(287)**	**1,109**	172	(158)	716
US dollar	**26**	**(22)**	**102**	16	(11)	66
Other	**2**	**—**	**7**	(1)	1	(3)
Total	**371**	**(315)**	**1,317**	212	(170)	908

Risk and capital management

Non-traded market risk continued

Sensitivity of fair value through other comprehensive income (FVOCI) and cash flow hedging reserves to interest rate movements

NatWest 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 also hedging of some personal and commercial lending portfolios, primarily fixed-rate mortgages. Generally, these swaps are booked in hedge accounting relationships. 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.

	2020				2019			
	+25 basis points	-25 basis points	+100 basis points	-100 basis points	+25 basis points	-25 basis points	+100 basis points	-100 basis points
	£m	£m	£m	£m	£m	£m	£m	£m
FVOCI reserves	**(50)**	**48**	**(207)**	**181**	(56)	55	(227)	210
Cash flow hedge reserves	**(108)**	**109**	**(421)**	**447**	(153)	155	(597)	638
Total	**(158)**	**157**	**(628)**	**628**	(209)	210	(824)	848

Key points

- The main driver of NatWest Group's cash flow hedge reserve sensitivity is the interest rate swaps that form part of the structural hedge.
- Cash flow hedge reserve sensitivity fell in 2020, mainly driven by increased hedging of mortgage funding.

Risk and capital management

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 fair value through equity.

NatWest 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 – NatWest Group assesses its potential exposure to forecast foreign currency income and expenses. NatWest Group hedges forward some forecast expenses.

The most material non-traded open currency positions are the structural foreign exchange exposures arising from investments in foreign subsidiaries, branches and associates and their related currency funding. These exposures are assessed and managed to predefined risk appetite levels under delegated authority from the Asset & Liability Management Committee. NatWest 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 this 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 NatWest Group policy.

Foreign exchange risk

The table below shows structural foreign currency exposures.

2020	Net investments in foreign operations £m	Net investment hedges £m	Structural foreign currency exposures pre-economic hedges £m	Economic hedges (1) £m	Residual Structural foreign currency exposures £m
US dollar	**1,299**	**(3)**	**1,296**	**(1,296)**	**—**
Euro	**6,485**	**(829)**	**5,656**	**—**	**5,656**
Other non-sterling	**1,077**	**(350)**	**727**		**727**
Total	**8,861**	**(1,182)**	**7,679**	**(1,296)**	**6,383**
2019					
US dollar	1,519	—	1,519	(1,519)	—
Euro	5,914	(650)	5,264	—	5,264
Other non-sterling	1,498	(651)	847	—	847
Total	8,931	(1,301)	7,630	(1,519)	6,111

Note:
(1) Economic hedges of US dollar net investments in foreign operations represent US dollar equity securities that do not qualify as net investment hedges for accounting purposes. They provide an offset to structural foreign exchange exposures to the extent that there are net assets in overseas operations available. Economic hedges of other currency net investments in foreign operations represent monetary liabilities that are not booked as net investment hedges.

Key points

- Over the period, sterling strengthened against the US dollar while it weakened against the euro.
- Hedging of other non-sterling businesses decreased following the receipt of a distribution from Coutts & Co. Ltd as part of the wind down of this company's operations.
- Changes in foreign currency exchange rates affect equity in proportion to structural foreign currency exposure. For example, a 5% strengthening or weakening in foreign currencies against sterling would result in a gain or loss of £0.4 billion in equity respectively.

Non-traded market risk continued

Equity risk

Non-traded equity risk is the potential variation in income and reserves arising from changes in equity valuations. Equity exposures may arise through strategic acquisitions, venture capital investments and restructuring arrangements.

Investments, acquisitions or disposals of a strategic nature are referred to the Acquisitions & Disposals Committee. Once approved by the Acquisitions & Disposals Committee for execution, such transactions are referred for approval to the Board, the Executive Committee, the Chief Executive, the Chief Financial Officer or as otherwise required. Decisions to acquire or hold equity positions in the non-trading book that are not of a strategic nature, such as customer restructurings, are taken by authorised persons with delegated authority.

Equity positions are carried at fair value on the balance sheet based on market prices where available. If market prices are not available, fair value is based on appropriate valuation techniques or management estimates.

The table below shows the balance sheet carrying value of equity positions in the banking book.

	2020 £m	2019 £m
Exchange-traded equity	**14**	627
Private equity	**160**	249
Other	**78**	76
	252	952

The exposures may take the form of (i) equity shares listed on a recognised exchange, (ii) private equity shares defined as unlisted equity shares with no observable market parameters or (iii) other unlisted equity shares.

	2020 £m	2019 £m
Net realised gains arising from disposals	**(248)**	114
Unrealised gains included in Tier 1 or Tier 2 capital	**82**	(40)

Note:
(1) Includes gains or losses on FVOCI instruments only.

Key point

- The decrease in equity investment and losses on disposals mainly reflect the disposal of SABB.

Accounting volatility risk

Accounting volatility risk arises when an exposure is accounted for at amortised cost but economically hedged by a derivative that is accounted for at fair value. Although this is not an economic risk, the difference in accounting between the exposure and the hedge creates volatility in the income statement.

Accounting volatility can be mitigated through hedge accounting. However, residual volatility will remain in cases where accounting rules mean that hedge accounting is not an option, or where there is some hedge ineffectiveness. Accounting volatility risk is reported to the Asset & Liability Management Committee monthly and capitalised as part of the Internal Capital Adequacy Assessment Process.

Traded market risk

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

Sources of risk
Traded market risk mainly arises from NatWest Group's trading activities. These activities provide a range of financing, risk management and investment services to clients − including corporations and financial institutions − around the world. From a market risk perspective, activities are focused on rates; currencies; and traded credit. NatWest Group undertakes transactions in financial instruments including debt securities, as well as securities financing and derivatives.

All material traded market risk resides in NatWest Markets. The key categories are interest rate risk, credit spread risk and foreign currency price risk.

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

Key developments in 2020
- COVID-19 initially resulted in periods of exceptional market volatility as well as increased illiquidity.
- Traded VaR remained broadly consistent on an average basis with 2019 levels despite this increased market volatility. This was due to ongoing business de-risking as part of the overall RWA reduction strategy.

Governance
Market risk policy statements set out the governance and risk management framework. Responsibility for identifying, measuring, monitoring and controlling market risk arising from trading activities lies with the relevant trading business. The Market Risk function independently advises on, monitors and challenges the risk-taking activities undertaken by the trading business ensuring these are within the constraints of the market risk framework, policies, and risk appetite statements and measures.

Risk appetite
NatWest Group's qualitative appetite for traded market risk is set out in the traded market risk appetite statement. Quantitative appetite is expressed in terms of exposure limits. The limits at NatWest Group level comprise value-at-risk (VaR) and stressed value-at-risk (SVaR). More details on these are provided on the following pages.

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

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

To ensure approved limits are not breached and that NatWest Group remains within its risk appetite, triggers at NatWest Group and lower levels have been set such that if exposures exceed a specified level, action plans are developed by the relevant business and the Market Risk function and implemented. For more detail on risk appetite and risk controls, refer to page 160.

Monitoring and mitigation
Traded market risk is identified and assessed by gathering, analysing, monitoring and reporting market risk information at desk, business, franchise and NatWest Group-wide levels. Industry expertise, continued system developments and techniques such as stress testing are also used to enhance the effectiveness of the identification and assessment of all material market risks.

Traded market risk exposures are monitored against limits and analysed daily. A daily report summarising the position of exposures against limits at desk, business, franchise and NatWest Group levels is provided to senior management and market risk managers across the function. Limit reporting is supplemented with regulatory capital and stress testing information as well as ad hoc reporting.

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

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

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

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

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

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

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

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

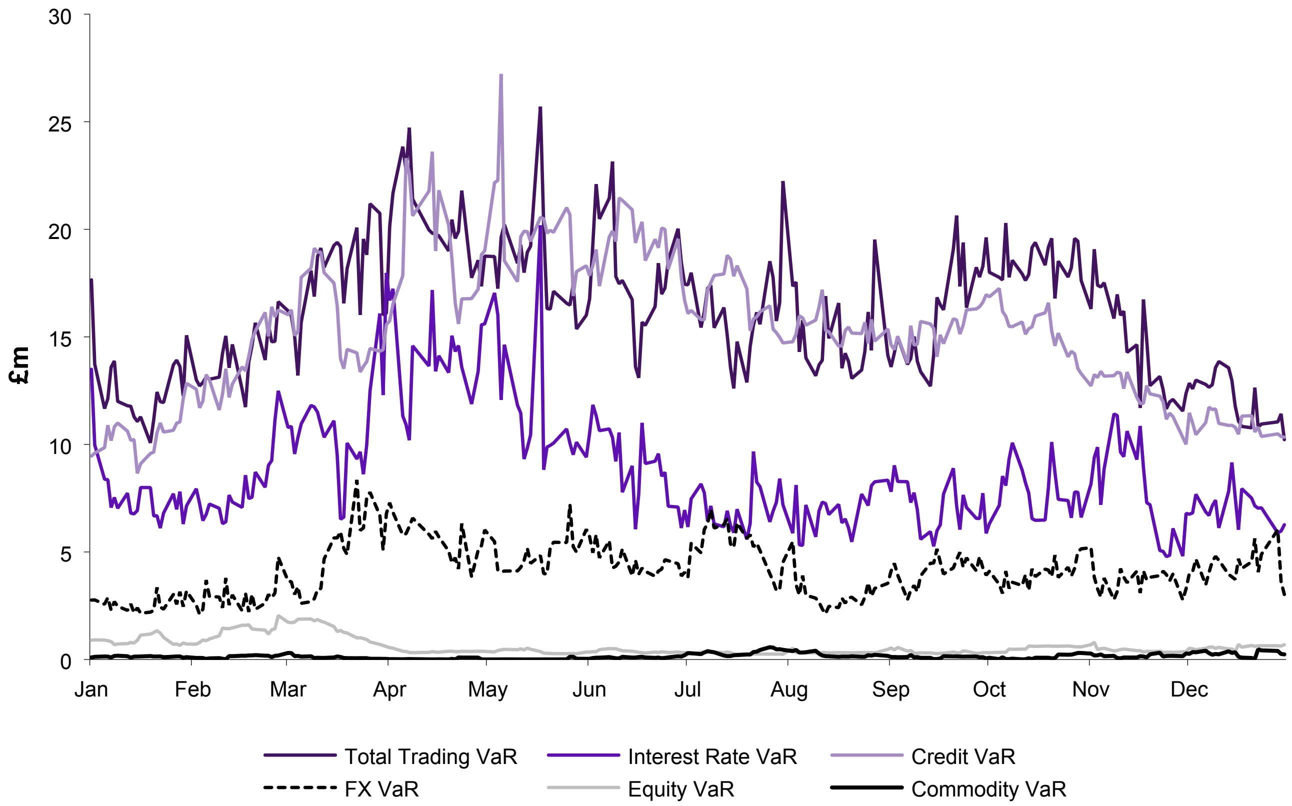
When simulating potential movements in such risk factors, a combination of absolute, relative and rescaled returns is used.

The performance and adequacy of the VaR model are tested regularly through the following processes:
- Back-testing – Internal and regulatory back-testing is conducted on a daily basis. (Information on internal back-testing is provided in this section. Information on regulatory back-testing appears in the Pillar 3 report).
- Ongoing model validation – VaR model performance is assessed both regularly, and on an ad-hoc basis, if market conditions or portfolio profile change significantly.
- Model Risk Management review – As part of the model lifecycle, all risk models (including the VaR model) are independently reviewed to ensure the model is still fit for purpose given current market conditions and portfolio profile. For further detail on the independent model validation carried out by Model Risk Management refer to page 244. More information relating to pricing and market risk models is presented in the Pillar 3 report.

Risk and capital management

Traded market risk continued

One-day 99% traded internal VaR



Traded VaR (1-day 99%)

The table below shows one-day 99% internal VaR for NatWest Group's trading portfolios, split by exposure type.

	2020				2019			
	Average £m	**Maximum £m**	**Minimum £m**	**Period end £m**	Average £m	Maximum £m	Minimum £m	Period end £m
Interest rate	**8.7**	**20.2**	**4.8**	**6.3**	9.7	16.9	6.3	10.6
Credit spread	**15.3**	**27.2**	**8.7**	**10.3**	10.5	14.5	7.0	10.6
Currency	**4.2**	**8.4**	**2.1**	**3.0**	4.0	10.5	1.6	3.2
Equity	**0.6**	**2.0**	**0.2**	**0.7**	0.7	2.2	0.3	0.9
Commodity	**0.1**	**0.6**	**—**	**0.2**	0.2	0.5	0.0	0.1
Diversification (1)	**(12.8)**			**(10.3)**	(10.3)			(11.3)
Total	**16.1**	**25.7**	**10.1**	**10.2**	14.8	21.5	10.1	14.1

Note:

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

Key points

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

Risk and capital management

Traded market risk continued

VaR back-testing

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

Two types of profit and loss (P&L) are used in back-testing comparisons: Actual P&L and Hypothetical (Hypo) P&L. For more details on the back-testing approach, refer to the Pillar 3 report.

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

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

Key points

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

Stressed VaR (SVaR)

As with VaR, the SVaR methodology produces estimates of the potential change in the market value of a portfolio, over a specified time horizon, at a given confidence level. SVaR is a VaR-based measure using historical data from a one-year period of stressed market conditions.

A simulation of 99% VaR is run on the current portfolio for each 250-day period from 2005 to the current VaR date, moving forward one day at a time. The SVaR is the worst VaR outcome of the simulated results.

This is in contrast with VaR, which is based on a rolling 500-day historical data set. A time horizon of ten trading days is assumed with a confidence level of 99%.

The internal traded SVaR model captures all trading book positions.

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

Key point

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

Risks Not In VaR (RNIVs)

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

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

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

Stress testing

For information on stress testing, refer to page 161.

Incremental risk charge (IRC)

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

Market risk – linkage to balance sheet

The table below analyses NatWest Group's balance sheet by non-trading and trading business.

	2020			2019			
	Total £bn	Non-trading business £bn	Trading business £bn	Total £bn	Non-trading business £bn	Trading business £bn	Primary market risk factor
Assets							
Cash and balances at central banks*	124.5	124.5	—	81.0	80.9	0.1	Interest rate
Trading assets	69.0	0.3	68.7	76.7	0.2	76.5	
Reverse repos	19.4	—	19.4	24.1	—	24.1	Interest rate
Securities	29.2	—	29.2	30.1	—	30.1	interest rate, credit spreads, equity
Other	20.4	0.3	20.1	22.5	0.2	22.3	Interest rate
Derivatives	166.5	2.3	164.2	150.0	2.4	147.6	Interest rate, credit spreads, equity
Settlement balances	2.3	0.1	2.2	4.4	0.6	3.8	Settlement
Loans to banks*	7.0	6.9	0.1	7.6	7.4	0.2	Interest rate
Loans to customers	360.5	360.4	0.1	326.9	326.7	0.2	Interest rate
Other financial assets	55.1	55.1	—	61.5	61.5	—	Interest rate, credit spreads, equity
Intangible assets	6.7	6.7	—	6.6	6.6	—	Interest rate, credit spreads, equity
Other assets	7.9	7.9	—	8.3	8.3	—	
Total assets	799.5	564.2	235.3	723.0	494.6	228.4	
Liabilities							
Bank deposits	20.6	20.6	—	20.5	20.5	—	Interest rate
Customer deposits	431.7	431.7	—	369.2	369.0	0.2	Interest rate
Settlement balances	5.5	3.3	2.2	4.1	0.6	3.5	Settlement
Trading liabilities	72.3	—	72.3	73.9	0.1	73.8	
Repos	19.0	—	19.0	27.9	—	27.9	Interest rate
Short positions	26.8	—	26.8	21.2	—	21.2	Interest rate, credit spreads
Other	26.5	—	26.5	24.8	0.1	24.7	Interest rate
Derivatives	160.7	5.2	155.5	146.9	4.1	142.8	Interest rate, credit spreads
Other financial liabilities	45.8	45.1	0.7	45.2	44.2	1.0	Interest rate
Subordinated liabilities	10.0	10.0	—	10.0	10.0	—	Interest rate
Notes in circulation	2.7	2.7	—	2.1	2.1	—	Interest rate
Other liabilities	6.4	6.4	—	7.6	7.6	—	
Total liabilities	755.7	525.0	230.7	679.5	458.2	221.3	

*2019 data has been restated for the accounting policy change for balances held with central banks. Refer to Accounting policy changes effective 1 January 2020 for further details.

Notes:
(1) Non-trading businesses are entities that primarily have exposures that are not classified as trading book. For these exposures, with the exception of pension-related activities, the main measurement methods are sensitivity analysis of net interest income, internal non-traded VaR and fair value calculations. For more information refer to the non-traded market risk section above.
(2) Trading businesses are entities that primarily have exposures that are classified as trading book under regulatory rules. For these exposures, the main methods used by NatWest Group to measure market risk are detailed in the traded market risk section above.
(3) Foreign exchange risk affects all non-sterling denominated exposures on the balance sheet across trading and non-trading businesses, and therefore has not been listed in the above tables.

Risk and capital management

Pension risk

Definition

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

Sources of risk

NatWest Group has exposure to pension risk through its defined benefit schemes worldwide. The Main section of The NatWest Group Pension Fund (the Main section) is the largest source of pension risk with £51.3 billion of assets and £43.9 billion of liabilities at 31 December 2020 (2019 – £46.6 billion of assets and £39.7 billion of liabilities). Refer to Note 5 to the consolidated financial statements, for further details on NatWest Group's pension obligations, including sensitivities to the main risk factors.

Pension scheme liabilities vary with changes in long-term interest rates and inflation as well as with pensionable salaries, the longevity of scheme members and legislation. Pension scheme assets vary with changes in interest rates, inflation expectations, credit spreads, exchange rates, and equity and property prices. NatWest 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, NatWest Group could be obliged (or might choose) to make additional contributions to the schemes or be required to hold additional capital to mitigate this risk.

Key developments in 2020

- There have been no material changes to NatWest Group's exposure to pension risk during the year. In particular, the interest rate and inflation hedging, along with limited exposure to equities, has meant that the positions of the main defined benefit schemes that NatWest Group sponsors have remained resilient despite the market shocks caused by COVID-19. More details on the assets held by the schemes are set out in Note 5 to the consolidated financial statements.
- During 2020, the Group Pension Committee, a key component of NatWest Group's approach to managing pension risk, was subsumed into the Group Asset & Liability Management Committee, including taking on the responsibilities previously held by the Group Pension Committee. This change was made to increase efficiency, reflecting the steps NatWest Group has taken to reduce the level of pension risk within NatWest Group in recent years, but to ensure that pension risk still receives appropriate executive attention.
- The Royal Bank of Scotland Group Pension Fund formally changed its name to the NatWest Group Pension Fund on 1 August 2020, to align with the name of NatWest Group's parent company.
- The next triennial actuarial valuation for the Main section will have an effective date of 31 December 2020. Under current legislation, agreement with the Trustee would need to be reached no later than 31 March 2022.

Governance

The Group Asset & Liability Management Committee is chaired by the Chief Financial Officer. Having replaced the Group Pension Committee during 2020, the Group Asset & Liability Management Committee is a key component of NatWest Group's approach to managing pension risk and it considers the pension impact of the capital plan for NatWest Group and reviews performance of NatWest Group's material pension funds and other issues material to NatWest Group's pension strategy on behalf of NatWest Group. It also considers investment strategy proposals from the Trustee of the Main section.

For further information on governance, refer to page 158.

Risk appetite

NatWest Group maintains an independent view of the risk inherent in its pension funds. NatWest Group has an annually reviewed pension risk appetite statement incorporating defined metrics against which risk is measured.

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

Monitoring and measurement

Pension risk is monitored by the Executive Risk Committee and the Board Risk Committee by way of the monthly Risk Management Report.

NatWest 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 NatWest Group's balance sheet, income statement and capital position are incorporated into the overall NatWest Group stress test results.

NatWest Bank Plc (a subsidiary of NatWest Group) is the principal employer of the Main section and could be required to fund any deficit that arises.

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. The Trustee has reported in line with the Task Force on Climate-related Financial Disclosures in its Annual Report and Accounts.

Compliance & conduct risk

Definition

Compliance risk is the risk that the behaviour of NatWest 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 NatWest 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 NatWest Group's relationships with its customers and arise from a variety of activities including product design, marketing and sales, complaint handling, staff training, and handling of confidential insider information. As set out in Note 26 to the consolidated financial statements, NatWest 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.

Compliance & conduct risk continued

Key developments in 2020

- A customer-focused COVID-19 response was mobilised, which included prioritised resource and operational capacity, forbearance and participation in government schemes.
- In-life monitoring of customer outcomes was extended to ensure treatment strategies remained timely, relevant and consistent, as a result of the continued economic uncertainty arising from COVID-19 and Brexit.
- Specialist training was delivered to support the continuous oversight of ring-fencing embeddedness.
- Work to develop a Digitised Rules Mapping platform was a significant management focus. The platform aims to facilitate risk-based rules mapping to regulatory obligations. This will enable more efficient risk management of regulatory compliance matters as well as intelligent risk taking.
- The roll-out of the Banking My Way service – which enables vulnerable customers to record their support needs – was also a focus, helping to drive tailored solutions and outcomes.
- A review of historic investment advice remediation was conducted in order to ensure the appropriate customer outcomes were achieved.

Governance

NatWest 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.

A range of controls is operated to ensure the business delivers good customer outcomes and is conducted in accordance with legal and regulatory requirements. A suite of policies addressing compliance and conduct risks set appropriate standards across NatWest 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.

Monitoring and measurement

Compliance and conduct risks are measured and managed through continuous assessment and reporting to NatWest 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 NatWest Group's strategic planning cycle.

Mitigation

Activity to mitigate the most-material compliance and conduct risks is carried out across NatWest Group with specific areas of focus in the customer- facing businesses and legal entities. Examples of mitigation include consideration of customer needs in business and product planning, targeted training, complaints management, as well as independent monitoring activity. Internal policies help support a strong customer focus across NatWest Group. Independent assessments of compliance with applicable regulations are also carried out at a legal entity level.

Financial crime risk

Definition

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

Sources of risk

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

Key developments in 2020

- In view of the challenges presented by COVID-19, financial crime policies were reviewed and, where appropriate, updated to reflect the evolving environment as well as industry best practice.
- A new enterprise-wide Financial Crime Hub was established in the first line to detect and prevent financial crime. The Hub will facilitate a common, consistent approach to managing financial crime.
- A multi-year transformation plan was developed to ensure that, as the financial crime threat evolves with changes in technology, the economy and wider society, risks relating to money-laundering, terrorist-financing, tax evasion, bribery and corruption and financial sanctions are managed, mitigated and controlled as effectively as possible.
- A new Financial Crime executive steering committee was established to provide oversight of the transformation plan and its implementation.

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 NatWest 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. The NatWest 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.

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

Monitoring and measurement

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

Mitigation

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

Risk and capital management

Climate-related risk

Definition

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

Sources of risk

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

Transition risks may arise from the process of adjustment towards a low-carbon economy. Changes in policy, technology and sentiment could prompt reassessment of customers' financial risk and may lead to falls in the value of a large range of assets. NatWest Group could be exposed to transition risks directly through the costs of adaptation within economic sectors and markets as well as supply chain disruption leading to financial impacts on it and its customers. Potential indirect effects include the erosion of NatWest Group's competitiveness, profitability, or reputation damage.

Within these broad categories specific climate risk factors have been identified, which give rise to climate-related risks over the short, medium and long-term.

Key developments in 2020

- Climate-related risk was elevated to a principal risk. In line with NatWest Group's risk management framework, the elevation will see the implementation of a dedicated risk policy, risk appetite statement and risk appetite measures, which are reportable to the Board Risk Committee.
- To support alignment with the 2015 Paris Agreement, NatWest Group developed the capability to estimate financed emissions and emissions intensities for the following: residential mortgages, agriculture (primary farming), automotive manufacturers and oil & gas extractors. The residential mortgage portfolio and these three sectors were deemed the most material in terms of their proportion of NatWest Group's total loans and investments and susceptibility to disruption resulting from climate change.
- In preparation for the Bank of England's 2021 Climate Biennial Exploratory Scenario, NatWest Group developed and tested a scenario analysis methodology to quantify a range of climate-related risks to support business decision making and the development of management actions. Dry runs were conducted on a cross section of NatWest Group's wholesale and retail counterparties.
- Climate-related risk was included as a factor in setting sector oversight classifications, which drive the frequency and level at which sector credit risk appetite is reviewed.
- Guidance was issued to ensure appropriate consideration of climate-related risk in internal risk and control assessments.
- Within operational risk, a scenario analysis pilot was performed on NatWest Group's operations in India to assess the potential effects of climate driven events including disruption to business services, damage to physical assets and health & safety.
- Enhancements have been made to the Environmental, Social & Ethical risk management framework to mitigate reputational risk from carbon intensive sectors and support the transition to a lower carbon economy.

Governance

The Board is responsible for monitoring and overseeing climate-related risk within NatWest Group's overall business strategy and risk appetite. The potential impact, likelihood and preparedness of climate-related risk is reported periodically to the Board Risk Committee.

The Board approved the allocation of Senior Management Function responsibility for identifying and managing financial risks from climate change jointly to the Group Chief Executive Officer (CEO) and the Group Chief Risk Officer. This updated accountability supports the CEO's ownership of NatWest Group's strategic climate purpose. This responsibility includes ensuring that the financial risks from climate change are adequately reflected in risk management frameworks, and that NatWest Group can identify, measure, monitor, manage, and report on its exposure to these risks.

A Group-wide Climate Change Programme (GCCP) supports the delivery of climate-related objectives. The GCCP is overseen by an Executive Steering Group (ESG) which is responsible for coordinating NatWest Group's response across climate-related regulations, risks and opportunities. The ESG is co-chaired by the Group CEO and Group Chief Risk Officer.

Risk appetite

NatWest Group's ambition is to be a leading bank in the UK and the Republic of Ireland in helping to address climate change. NatWest Group's stated purpose is to reduce the climate impact of its financing activity by at least 50% by 2030 and to do what is necessary to achieve alignment with the 2015 Paris Agreement.

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

Monitoring and measurement

Plans have been developed to ensure climate-related risks are considered in the tools made available to risk disciplines for risk monitoring and measurement purposes.

In 2020, NatWest Group became the first major UK bank to join the Partnership for Carbon Accounting (PCAF), underlining its commitment to measuring and reducing its climate impact in accordance with the 2015 Paris Agreement. Furthermore, in 2020, NatWest Group also joined the Science Based Targets initiative (SBTi), following its launch of guidance to support financial institutions in aligning lending and investment activities with the 2015 Paris Agreement.

To align NatWest Group's financing activity with the goals of the 2015 Paris Agreement, work focused on formulating estimated emissions intensities that are consistent with limiting global warming to well-below 2°C. Using a sector-based approach, NatWest Group adopted the Global Greenhouse Gas Accounting & Reporting Standard for the Financial Industry established by PCAF. In 2020, the residential mortgage portfolio and three sectors – agriculture (primary farming), automotive (manufacturers) and oil & gas (extractors) – were assessed with preliminary emissions intensities estimated for each. Work is underway to use this early analysis of the three sectors and NatWest Group's residential mortgage portfolio to develop actions to support the transition to a low carbon economy.

Additional activity in 2020 focused on preparation for the Bank of England's 2021 Climate Biennial Exploratory Scenario. Scenario analysis allows NatWest Group to test a range of possible future climate pathways and understand the nature and magnitude of the risks they present. The purpose of scenario analysis is not to forecast the future but to understand and prepare to manage risks that could arise. During 2020, NatWest Group developed and tested a methodology to use scenario analysis to quantify the size of a range of climate-related risks and tested this on a cross section of our commercial and retail counterparties.

Climate-related financial risk continued

Three scenarios developed by the Network of Central Banks and Supervisors for Greening the Financial System (NGFS), were used as the starting point for analysing physical and transition-related climate-related risk over the period 2020-2050. The impacts of these scenarios were applied to a sample of the balance sheet comprising wholesale and retail counterparties. The scenarios were: Hot House World – no new policy action takes place to reduce greenhouse gas emissions. This leads to more than 3°C of warming and severe physical risks.

- Orderly – immediate and global action to reduce emissions in a measured way, at a rate that is fast enough to keep climate change within 2°C with 67% probability; leading to net zero emissions before 2070.
- Disorderly – ambitious new climate policies are introduced, but only in 2030. Like the Orderly scenario, emissions are sufficiently limited to keep global warming below 2°C, but the transition is faster as a result of delayed action.

NatWest Group continues to participate in several industry-wide initiatives to develop consistent risk measurement methodologies.

NatWest 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. In 2020, NatWest Group also took part in Phase II of the UNEP FI pilot alongside other peer banks. As part of this, an exploratory climate scenario analysis on future flooding impacts on our mortgage portfolio was conducted. NatWest Group 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.

Operational risk

Definition

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

Sources of risk

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

Key developments in 2020

- The impact of COVID-19 led to significant disruption and heightened the operational risk profile as NatWest Group adapted to new ways of working as a result of the lockdown protocols. The control environment was continually monitored to ensure the resulting challenges were safely addressed.
- A NatWest Group-wide response was mobilised – supported by additional reporting on customer needs, people, processes and systems – to ensure the Board and senior management were regularly updated and to facilitate decision-making as COVID-19 evolved.
- The transformation agenda was impacted by COVID-19, with some activities being re-prioritised. A full risk assessment on the impact of the reprioritised activity was completed to ensure the potential impacts were understood and mitigated.
- Operational resilience remained a key focus. A series of scenarios – setting out the crystallisation of severe but plausible combinations of significant risks – were developed in order to support planning and appropriate forward-looking risk management strategies.
- The security threat and the potential for cyber attacks on NatWest Group's supply chain remains an area for close monitoring. Significant enhancements in managing such incidents and the broader security control environment were made. This included completion of work in response to the outcome of the 2019 CBEST test.
- NatWest Group's preparations for Brexit and the end of the transition period enabled NatWest Group to ensure that its processes and systems would ensure continuity of service for customers.
- The number of critical customer-impacting incidents continued to reduce year-on-year. There were eight Criticality 1 incidents (including COVID-19) in 2020 compared to 14 in 2019.

Governance

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

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

Risk appetite

Operational risk appetite supports effective management of material operational risks. It expresses the level and types of operational risk NatWest Group is willing to accept to achieve its strategic objectives and business plans. NatWest Group's operational risk appetite statement encompasses the full range of operational risks faced by its legal entities, businesses and functions.

Mitigation

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

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

The CEC process helps to ensure compliance with the NatWest Group Policy Framework, Sarbanes-Oxley 404 requirements concerning internal control over financial reporting (as referenced in the compliance report on page 152), and certain requirements of the UK Corporate Governance Code.

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

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

Monitoring and measurement

Risk and control assessments are used across all business areas and support functions to identify and assess material operational and conduct risks and key controls. All risks and controls are mapped to NatWest 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.

Operational risk continued

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.

NatWest 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 NatWest Group's Pillar 2A capital requirement.

Scenario analysis is used to assess how severe but plausible operational risks will affect NatWest Group. It provides a forward-looking basis for evaluating and managing operational risk exposures.

Refer to the Capital, liquidity and funding risk section for operational risk capital requirement figures.

Operational resilience

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

Event and loss data management

The operational risk event and loss data management process ensures NatWest 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 NatWest 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 2020 may relate to events that occurred, or were identified in, prior years. NatWest Group purchases insurance against specific losses and to comply with statutory or contractual requirements.

Percentage and value of events

Historically, events aligned to the Clients, products and business practices event category have accounted for the majority of NatWest Group's operational risk losses. However, during 2020 several large provision releases were recorded (that is, previously recorded provisions were released as they were no longer required). The value of these outweighed the provisions taken for other conduct-related matters, hence a negative movement was recorded in this category.

COVID-19 associated operational risk costs impacted upon the trend of increased losses recorded against the Business Disruption and System Failures event category. The increase in fraud continues to be primarily the result of NatWest Group having an increased liability for reimbursing customers impacted by authorised push payment scams.

	Value of events				Volume of events (1)	
	£m		Proportion		Proportion	
	2020	2019 (2)	2020	2019	2020	2019
Fraud	**88**	57	**72%**	6%	**94%**	91%
Clients, products and business practices	**(48)**	867	**(40%)**	92%	**1%**	4%
Execution, delivery and process management	**11**	20	**9%**	2%	**3%**	4%
Employment practices and workplace safety	**2**	2	**2%**	—	**1%**	1%
Business disruption and system failures	**69**	—	**57%**	—	**1%**	—
	122	946	**100%**	100%	**100%**	100%

Notes:
(1) Based on the volume and value of events (the proportion and cost of operational risk events to NatWest Group) where the associated loss is more than or equal to £10,000.
(2) The 2019 Clients, products and business practices figure has been restated to reflect the receipt of a reimbursement under indemnification agreements relating to US residential mortgage-backed securities.

Model risk

Definition

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

Sources of risk

NatWest Group uses a variety of models in the course of its business activities. Examples include the use of model outputs to support customer decisioning, measuring and assessing risk exposures (including credit, market, and climate risk), as well as calculating regulatory capital and liquidity requirements. Model applications may give rise to different risks depending on the franchise in which they are used. Model risk is therefore assessed separately for each franchise in addition to the overall assessment made for NatWest Group.

Key developments in 2020

- Progress was made in embedding the model risk framework across NatWest Group to ensure all models are identified and managed as per requirements.
- Enhanced model risk appetite measures were approved and monitored throughout 2020, with remediation plans under close management.
- All NatWest Group models are now recorded within a single model inventory, providing increased transparency.
- As a result of COVID-19, there was an increased reliance on model performance monitoring to identify model limitations and qualitative overlays to ensure model outputs were used appropriately.
- Initial validations of climate impacting models were conducted to help the bank better understand the risks associated with the use of models for this purpose.

Model risk continued

Governance

A governance framework is in place to ensure policies and processes relating to models are appropriate and effective. Two roles are key to this – Model Risk Owners and Model Risk Officers. Model Risk Owners, in the first line, are responsible for model approval and ongoing performance monitoring. Model Risk Officers, in the second line, are responsible for oversight, including ensuring that models are independently validated prior to use and on an ongoing basis aligned to the model's risk rating. Model risk matters are escalated to senior management in several ways. These include model risk oversight committees, as well as the relevant business and function model management committees. The Group Model Risk Oversight Committee provides a direct escalation route to the Group Executive Risk Committee and, where applicable, onwards to the Group Board Risk Committee.

Risk appetite

Model risk appetite is set in order to limit the level of model risk that NatWest Group is willing to accept in the course of its business activities. It is approved by relevant Executive Risk Committees. Business areas are responsible for monitoring performance against appetite and remediating models outside appetite.

Risk controls

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

Risk monitoring and measurement

The level of risk relating to an individual model is assessed through a model risk rating. A quantitative approach is used to determine the risk rating of each model, based on the model's materiality and validation rating. This approach provides the basis for model risk appetite measures and enables model risk to be robustly monitored and managed across the NatWest Group.

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

Risk mitigation

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

Reputational risk

Definition

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

Sources of risk

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

Key developments in 2020

- Reputational risks arising from COVID-19 remained a key focus from Q1 onwards.
- A review of the reputational risk framework and policy began in 2020. This was required to reflect the purpose, capture a more complete view of reputation at a strategic level and align with more progressive industry leaders.
- The correlation between reputational risk and climate change issues remained a significant area of focus, supported by work to enhance the consideration of such issues within the reputational risk framework. As part of this work, enhancements were made to the Environmental, Social & Ethical risk management framework to mitigate reputational risk from carbon intensive sectors and support the transition to a lower carbon economy.

Governance

A reputational risk policy supports reputational risk management across NatWest Group. Reputational risk committees review relevant issues at an individual business or entity level, while the 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. The Board Risk Committee oversees the identification and reporting of reputational risk. The Sustainable Banking Committee has a specific focus on environmental, social and ethical issues.

Risk appetite

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

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

Monitoring and measurement

Relevant internal and external factors are monitored through regular reporting to the reputational risk committees at business or entity level and escalated, where appropriate, to the Reputational Risk Committee, Board Risk Committee or the Sustainable Banking Committee.

Mitigation

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