Financial statements

Independent auditors' report to the members of NatWest Group plc

Opinion

In our opinion:

- the financial statements of NatWest Group plc (the 'Parent Company') and its subsidiaries (together, the 'Group') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2020 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union;
- the Parent Company financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 as applied in accordance with section 408 of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements (see table below) of the Parent Company and the Group for the year ended 31 December 2020 which comprise:

Group	Parent Company
• Consolidated balance sheet as at 31 December 2020; • Consolidated income statement for the year then ended; • Consolidated statement of comprehensive income for the year then ended; • Consolidated statement of changes in equity for the year then ended; • Consolidated cash flow statement for the year then ended; • Accounting policies; • Related Notes 1 to 33 to the financial statements; • Annual report on remuneration indicated by a bracket in the margins; • Risk and capital management section of the Business review indicated by a bracket in the margins. • The Capital Requirements (Country-by-Country Reporting) Regulations report identified as 'audited'.	• Balance sheet as at 31 December 2020; • Statement of changes in equity for the year then ended; • Cash flow statement for the year then ended; and • Related notes 1 to 12 to the financial statements including a summary of critical accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006 and, as regards to the group financial statements, International Financial Reporting Standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union and as regards the Parent Company financial statements, as applied in accordance with section 408 of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Group and Parent Company's ability to continue to adopt the going concern basis of accounting included:

- In conjunction with our walkthrough of the Group's financial close process, we confirmed our understanding of management's Going Concern assessment process and also engaged with management early to ensure all key factors were considered in their assessment;
- We evaluated management's going concern assessment which included reviewing their evaluation of long-term business and strategic plans, capital adequacy, liquidity and funding positions. It also assessed these positions considering internal stress tests which included consideration of principal and emerging risks. The Group's risk profile and risk management practices were considered including credit risk, market risk, compliance and conduct risk, and operational risk;
- We evaluated management's assessment by considering viability under different scenarios including the impact of the Group's strategic plans and the economic impact of COVID-19. We used economic specialists in assessing the macroeconomic assumptions in the forecast through benchmarking to institutional forecasts, HMT consensus and peer comparative economic forecasts. We also considered other commitments of the Group including those in respect of its subsidiaries;
- We considered the Group's operational resilience and their response to the impact COVID-19 had on its business operations, including the operations of its third party providers; and
- We reviewed the Group's going concern disclosures included in the annual report in order to assess that the disclosures were appropriate and in conformity with the reporting standards.

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Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group and parent company’s ability to continue as a going concern for a period up to 19 February 2022 being not less than twelve months from when the financial statements are authorised for issue.

In relation to the group and parent company’s reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors’ statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group’s ability to continue as a going concern.

An overview of the scope of the Parent Company and Group audits

Tailoring the scope

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

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the five reporting components of the Group, we selected four components based on size and risk, which represent the principal reporting legal entities within the Group.

The scoping for the current year is as follows:

Component	Scope	Key locations
NatWest Holdings (NWH)	Full	United Kingdom
NatWest Markets (NWM)	Full	United Kingdom, United States, and Netherlands
RBS International	Specific	Channel Islands
RBS AA Holdings	Specific	United Kingdom

The table below illustrates the coverage obtained from the work performed by our audit teams. We considered total assets, total equity and total income to verify we had appropriate overall coverage.

	Full scope (1)	Specific scope (2)	Other procedures (3)	Total
Total assets	95%	5%	-	100%
Total equity	92%	8%	-	100%
Total income	92%	3%	5%	100%

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

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

As a result of the COVID-19 outbreak and resulting lockdown restrictions in all of the countries where full or specific scope audit procedures have been performed, we have modified our audit strategy to allow for the audit to be performed remotely at both the Group and component locations. This approach was supported through remote user access to the Group’s financial systems and the use of EY software collaboration platforms for the secure and timely delivery of requested audit evidence.

Involvement with component teams

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

The primary audit engagement team interacted regularly with the component audit teams where appropriate throughout the course of the audit, which included holding planning meetings, maintaining regular communications on the status of the audits, reviewing key working papers and taking responsibility for the scope and direction of the audit process. The primary audit team continued to follow a programme of oversight visits that has been designed to ensure that the Senior Statutory Auditor, or another Group audit partner, visits all full scope and specific scope locations. During the current year’s audit cycle, due to COVID-19, the visits undertaken by the primary audit team were necessarily virtual visits. These visits involved video call meetings with local management, and discussions on the audit approach with the component team and any issues arising from their work. The primary team interacted regularly with the component teams and maintained a continuous and open dialogue with component teams, as well as holding formal closing meetings quarterly, to ensure that the primary team were fully aware of their progress and results of their procedures. The primary team also reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures at Group level, gave us appropriate evidence for our opinion on the Group financial statements

Key audit matters

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

Risk	Our response to the risk
Expected Credit Loss Provisions	
At 31 December 2020 the Group reported total gross loans of £372.4 billion (2019: £336.8 billion) and £6.2 billion of expected credit losses (ECL) (2019: £3.8 billion). Management's judgements and estimates are especially subjective due to significant uncertainty associated with the assumptions used. Uncertainty associated with COVID-19 and its consequent implications including lockdowns and recovery assumptions as well as government intervention, increased the level of judgement in ECL. Assumptions with increased complexity in respect of the timing and measurement of ECL include: • Staging - Allocation of assets to stage 1, 2, or 3 on a timely basis using criteria in accordance with IFRS 9 considering the impact of COVID-19 and related government support measures, such as payment deferrals, on customer behaviours and the identification of underlying significant deterioration in credit risk; • Model estimations - Accounting interpretations, modelling assumptions and data used to build and run the models that calculate the ECL considering the impact of COVID-19 on model performance and any additional data to be considered in the ECL calculation; • Economic scenarios - Inputs, assumptions and weightings used to estimate the impact of multiple economic scenarios particularly those influenced by COVID-19 and Brexit including any changes to scenarios required through 31 December 2020; • Adjustments - Appropriateness, completeness and valuation of model adjustments including any COVID-19 specific adjustments due to the increased uncertainty and less reliance on modelled outputs which increases the risk of management override; • Individual provisions - Measurement of individual provisions including the assessment of multiple scenarios considering the impact of COVID-19 on exit strategies, collateral valuations and time to collect; and • Disclosure - The completeness and preparation of disclosures considering the key judgments, sources of data and the design of the disclosures.	Controls testing**:** We evaluated the design and operating effectiveness of controls across the processes relevant to ECL, including the judgements and estimates noted. These controls, among others, included • the allocation of assets into stages including management's monitoring of stage effectiveness; • recording and approval of payment deferrals and government supported lending such as bounce back loans and Coronavirus Business Interruption Loan Schemes (CBILs); • model governance including monitoring, the governance and review of both in-model adjustments and post model adjustments and model validation; • data accuracy and completeness; • credit monitoring; • multiple economic scenarios; • individual provisions and • production of journal entries and disclosures. In evaluating the governance process, we observed the executive finance and risk committee meetings where the inputs, assumptions and adjustments to the ECL were discussed and approved, among other procedures. We performed an overall assessment of the ECL provision levels by stage to assess if they were reasonable by considering the overall credit quality of the Group's portfolios, risk profile, impact of the COVID-19 including geographic considerations and high risk industries, the impact government support measures, such as payment deferrals, may have had on delaying expected defaults, credit risk management practices and the macroeconomic environment by considering trends in the economy and industries to which the Group is exposed. We also considered the appropriateness of provisions applied to government supported lending such as bounce back loans and CBILs which included assessing the respective eligibility criteria. We performed peer benchmarking where available to assess overall staging and provision coverage levels. For a sample of industries, we also assessed the ECL against an independently developed methodology estimating unsustainable debt levels. Based on our assessment of the key judgements we used specialists to support the audit team in the areas of economics, modelling and, collateral and business valuations. Staging**:** We evaluated the criteria used to allocate a financial asset to stage 1, 2 or 3 in accordance with IFRS 9; this included peer benchmarking to assess staging levels. We recalculated the assets in stage 1, 2 and 3 to assess if they were allocated to the appropriate stage and performed sensitivity analysis to assess the impact of different criteria on the ECL and also considered the impact of performing collective staging downgrades to industries and geographic regions particularly impacted by COVID-19. To test credit monitoring which drives the probability of default estimates used in the staging calculation, we recalculated the risk ratings for a sample of performing loans and focused our testing on high risk industries impacted by COVID-19. We also assessed the timing of the annual review performed by management on each wholesale loan exposure to evaluate whether it appropriately considered COVID-19 risk factors by considering independent publicly available information. Model estimations - We performed a risk assessment on all models involved in the ECL calculation to select a sample of models to test. We involved modelling specialists to assist us to test this sample of ECL models by testing the assumptions, inputs and formulae used. This included a combination of assessing the appropriateness of model design and formulae used, alternative modelling techniques, recalculating the Probability of Default, Loss Given Default and Exposure at Default, and model implementation. We also considered the results of internal model validation results. To evaluate data quality, we agreed a sample of ECL calculation data points to source systems, including balance sheet data used to run the models and historic loss data to monitor models. We also tested the ECL data points from the calculation engine through to the general ledger and disclosures. We included COVID-19 specific data points in this testing. Economic scenarios - We involved economic specialists to assist us to evaluate the base case and alternative economic scenarios, including evaluating probability weights and comparing these to other scenarios from a variety of external sources. This assessment included the latest developments related to COVID-19 and Brexit at 31 December 2020, including the announcement of planned vaccines. We assessed whether forecasted macroeconomic variables were complete and appropriate, such as GDP, unemployment rate, interest rates and the House Price Index. With the support of our modelling specialists we evaluated the correlation and translation of the macroeconomic factors to the ECL.

Financial statements

Risk	Our response to the risk
Expected Credit Loss Provisions continued	
	Adjustments - We tested material in-model and post-model adjustments including those which were applied as a result of COVID-19. With our modelling specialists, we assessed the completeness of these adjustments and their appropriateness by considering the data, judgments, methodology, sensitivities, and governance of these adjustments as well as considering model shortcomings. Individual provisions - We involved valuation specialists to recalculate a sample of individual provisions including the alternative scenarios and evaluating probability weights assigned. The sample was based on a number of factors, including higher risk sectors such as commercial real estate, retail, leisure and aviation, and materiality. We considered the impact COVID-19 had on collateral valuations and time to collect as well as whether planned exit strategies remained viable. Disclosure - We tested the data flows used to populate the disclosures and assessed the adequacy of disclosures for compliance with the accounting standards and regulatory considerations including expectations of COVID-19 specific disclosures.

Key observations communicated to the Group Audit Committee

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

- Overall provision levels were reasonable which also considered available peer information and our understanding of the credit environment;
- Our testing of models and model assumptions identified some instances of under estimation. We aggregated these differences and were satisfied that the overall estimate recorded was reasonable;
- The in-model and post-model adjustments applied were reasonable and addressed model shortcomings identified;
- We recalculated the staging of all retail and wholesale exposures in material portfolios and noted no material differences. We also performed sensitivity analysis on the staging criteria and noted that substantial changes would be needed to the criteria to result in a material difference;
- For individually assessed impairments, in a few instances we reported judgemental differences in respect of the extent of the impairment identified, however, none of these differences were considered material; and

We noted improvements to the governance framework throughout the year to respond to the challenges posed by COVID-19. Control deficiencies were identified, particularly in data processes and models where compensating controls were identified and operated effectively.

Relevant references in the Annual Report and Accounts

Report of the Group Audit Committee
Credit Risk section of the Risk and capital management section
Accounting policies
Note 14 on the financial statements

Risk	Our response to the risk
Impairment of goodwill and deferred tax assets and, in the parent company accounts, investments in group undertakings.	
At 31 December 2020, the Group had reported goodwill of £5.6 billion (2019: £5.6 billion) and deferred tax assets of £0.6 billion (2019: £0.7 billion). The parent company has reported investments in group undertakings of £46.2 billion (2019: £55.8 billion). The recognition and carrying value of deferred tax assets, goodwill and, in the parent company accounts, investments in group undertakings are based on estimates of future profitability, which require significant management judgement and include the risk of management bias. The recognition of deferred tax assets considers the future profit forecasts of the legal entities as well as interpretation of recent changes to tax rates and laws. Judgements and especially challenging, complex and subjective assumptions that are difficult to audit due to the forward-looking nature and inherent uncertainties associated with such assumptions include: • Revenue forecasts which are also impacted by delivery of the Group's Strategy • Cost forecasts in particular given the intention to significantly reduce costs over time; • Macroeconomic and model assumptions used in the recoverability and valuation assessments (discount rates, growth rates, macroeconomic assumptions) including assumptions regarding the economic consequences of COVID -19, Brexit and other political developments over an extended period. • Disclosure adequacy including key assumptions, the sensitivity of changes to these assumptions as well as an explanation of the impairment testing performed.	Controls testing: We evaluated the design and operating effectiveness of controls over the preparation and review of the forecasts, the significant assumptions (such as discount rate and long-term growth rate) used in the value in use model, inputs, calculations, methodologies and judgements. This included testing controls over the selection of macroeconomic assumptions in addition to revenue and cost projections, as well as the precision applied to these. In evaluating the governance processes we reviewed the Board meeting materials and minutes where forecasts were discussed and approved, and we observed the committee meetings where the value in use model and outcomes were discussed and approved. Macroeconomic and model assumptions: With the support of our internal economic specialists, we tested whether macroeconomic assumptions, including the impact of COVID-19, the outcome of Brexit and other geopolitical considerations at 31 December 2020, used in the Group's forecasts were reasonable by comparing these to other scenarios from a variety of external sources. We evaluated how the discount rates and long-term growth rates used by management compared to our ranges which were assessed using peer practice, external market data and calculations performed by our valuation specialists. Revenue forecasts: We evaluated the underlying business strategies, comparing to expected market trends and considering anticipated balance sheet growth. We obtained an understanding of the Group's strategy and considered its expected impact on the forecasts and the extent to which decisions had been factored into the forecasts, where appropriate, in accordance with the relevant accounting standards. We also inspected the findings from the review performed by management including their own sensitivity analysis of the forecasts. Cost forecasts: We tested how previous management forecasts, including the impact of cost reduction programmes, compared to actual results to evaluate the accuracy of the forecasting process. We involved our cost transformation specialists to assist us in assessing the achievability of future cost reduction plans by evaluating the details of the underlying initiatives and how cost ratios compared to peer banks and commentaries from external analysts. Sensitivity analysis: We evaluated how management considered alternative assumptions and performed our own sensitivity and scenario analyses on certain assumptions such as cost and revenue forecasts, discount rate and long-term growth rate on both the detailed forecasts and on a stand back basis. Disclosure: We evaluated the adequacy of disclosures in the financial statements including the appropriateness assumptions and sensitivities disclosed. We tested the data and calculations included in the disclosures.

Key observations communicated to the Group Audit Committee

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

- There is inherent uncertainty in predicting revenue and costs over the five-year forecast period, particularly with respect to the impact of COVID-19 and a continuing low interest rate environment, the achievement of new strategic objectives, execution risk in the planned cost reductions, the impact of regulatory and climate change developments, and the impact of competition and disruption in banking business models over an extended period.
- Our stress testing on Commercial goodwill indicated that it is the most at risk of impairment based on the level of headroom and the various scenario analyses performed. We are, however, satisfied that management's conclusion that the goodwill is recoverable as at 31 December 2020 is appropriate and that they have adequately disclosed reasonably possible alternative scenarios relating to the key assumptions that could result in an impairment.
- The directors' impaired NatWest Group's investment in NWH and NWM, with there being no further headroom available. The sensitivity analyses we reviewed and our independent procedures supported these assessments.

We are satisfied that the disclosures appropriately reflect the sensitivity of the carrying value of investments in group undertakings and goodwill to certain reasonable alternative outcomes. As there are a number of other possible outcomes and it would be impracticable to estimate the effect of all of them, the directors have disclosed the uncertainty that other possible outcomes within the next financial year could require an adjustment to the carrying amount of investments in group undertakings and goodwill.

Relevant references in the Annual Report and Accounts

Accounting policies
Note 7 and Note 16 on the Group financial statements and Note 9 on the Parent company financial statements

Independent auditors' report to the members of NatWest Group plc

Risk	Our response to the risk
Provisions for conduct and litigation claims	
At 31 December 2020, the Group has reported £1.9 billion (2019: £2.7 billion) of provisions for liabilities and charges, including £1.1 billion (2019: £1.9 billion) for conduct and litigation claims, including Payment Protection Insurance (PPI) as detailed in Note 20 of the financial statements. Regulatory scrutiny and the continued litigious environment give rise to a high level of management judgement in determining appropriate provisions and disclosures. Management judgement is needed to determine whether a present obligation exists, and a provision should be recorded at 31 December 2020 in accordance with the accounting criteria set out under IAS 37. The most significant areas of judgement are: • Judgement and risk of management bias - Auditing the adequacy of these provisions is complex because judgement is involved in the selection and use of assumptions (such as expected claim rates, legal costs, and the timing of settlement) in the estimation of material provisions and there is a risk of management bias in the determination of whether an outflow in respect of identified material conduct or legal matters is probable and can be estimated reliably; and • Disclosure - Judgement is required to assess the adequacy of disclosures of provision for contingent liabilities given the underlying estimation uncertainty in the provisions.	Controls testing: We evaluated the design and operating effectiveness of controls over the identification, estimation, monitoring and disclosure of provisions related to legal and conduct matters considering the potential for management override of controls. The controls tested, among others, included those to identify and monitor claims, determine when a provision is required and to ensure the completeness and accuracy of data used to estimate provisions. Examination of regulatory correspondence: Among other procedures, we examined the relevant regulatory and legal correspondence to assess developments in certain cases. We also considered regulatory developments to identify actual or possible non-compliance with laws and regulations that might have a material effect on the financial statements. For cases which were settled during the period, we compared the actual outflows with the provision that had been recorded, considered whether further risk existed, and evaluated the level of disclosures provided. Inquiry of legal counsel: For significant legal matters, we received confirmations from the Group's external legal counsel for significant matters to evaluate the existence of the obligation and management's estimate of the outflow at year-end. We also conducted inquiries with internal legal counsel over the existence of the legal obligations and related provision. We performed a test for unrecorded provisions to assess if there were cases not considered in the provision estimate by assessing against external legal confirmations and discussing with internal counsel. Testing of assumptions: Where appropriate, we involved our conduct risk specialists to assist us in evaluating the provision. We tested the underlying data and assumptions used in the determination of the provisions recorded, including expected claim rates, legal costs, and the timing of settlement. We considered the accuracy of management's historical estimates and peer bank settlement in similar cases by comparing the actual settlement to the provision. We assessed the reasonableness of the assumptions used by management by comparing to the results of our independently performed benchmarking and sensitivity analysis. We also developed our own range of reasonable alternative estimates and compared them to management's provision. We tested utilisations of the PPI provision during the year and assessed the sufficiency of the remaining provision for PPI customer redress yet to be paid. Disclosure: We evaluated the disclosures provided on conduct, litigation, regulatory, customer remediation and claims provisions to assess whether they complied with accounting standards.

Key observations communicated to the Group Audit Committee

We are satisfied that provisions for conduct, litigation and regulatory matters, customer remediation and claims are reasonable and recognised in accordance with IFRS. We concurred with the recognition, measurement and level of disclosures of other conduct and litigation provisions. We did not identify any material unrecorded provisions. We communicated the following matters to the Group Audit Committee:

- The level of provisions by their nature incorporate significant judgements to be made and may change as a result of future developments.
- Continued vigilance in assessing conduct risks from the impact of COVID-19, which may not manifest until well after the pandemic has passed.

Relevant references in the Annual Report and Accounts

Report of the Group Audit Committee
Accounting policies
Note 20 and 26 on the financial statements

Risk	Our response to the risk
Valuation of financial instruments with higher risk characteristics including related income from trading activities	
As reported in note 12 to the financial statements, as at 31 December 2020 the company held financial instruments that did not trade in active markets. This included reported level 3 assets of £1.7 billion (2019: £2.5 billion) and level 3 liabilities of £0.9 billion (2019: £1.3 billion) whose value is dependent upon unobservable inputs. The valuation of those financial instruments with higher risk characteristics involves both significant judgement and the risk of inappropriate revenue recognition through incorrect pricing as outlined below. The judgement in estimating fair value of these instruments can involve complex valuation models and significant fair value adjustments, both of which may be reliant on data inputs where there is limited market observability. Management's estimates which required significant judgement include: • Complex models - Complex model-dependent valuations, which include interest rate swaps linked to pre-payment behaviour and interest rate and foreign exchange options with exotic features; such as those having multiple call dates and variable notional amounts; • Illiquid inputs - Pricing inputs and calibrations for illiquid instruments, including rarely traded debt securities. Additionally, derivative instruments whose valuation is dependent upon discount rates associated with complex collateral arrangements; and • Fair value adjustments - The appropriateness and completeness of fair value adjustments made to derivatives including Funding Valuation Adjustments (FVA) and Credit Valuation Adjustments (CVA) relating to derivative counterparties whose credit spread is not directly market observable, and material product and deal specific adjustments on long dated derivative portfolios. • The impact of COVID-19 on the valuation of different financial instrument portfolios	Controls testing: We evaluated the design and operating effectiveness of controls relating to financial instrument valuation and related income statement measurement including independent price verification, model review and approval, collateral management, and income statement analysis. We also observed the NatWest Group Executive Valuation and NWM Valuation Committees where valuation inputs, assumptions and adjustments were discussed and approved. Substantive testing: Among other procedures, we involved our financial instrument valuation and modelling specialists to assist us in performing procedures including the following: • Testing complex model-dependent valuations by performing independent calculations to assess the appropriateness of models and the adequacy of assumptions and inputs used by the Group; • Independently re-pricing instruments that had been valued using illiquid pricing inputs, using alternative pricing sources to evaluate management's valuation; • Comparing fair value adjustment methodologies to current market practice and assessing the appropriateness and adequacy of the valuation adjustment framework in light of emerging market practice; and • Revaluing a sample of counterparty level FVA and CVAs, comparing funding spreads to third party data and independently challenging illiquid CVA inputs. We also assessed whether there were any indicators of aggregate bias in financial instrument marking Throughout the year we considered the impact of COVID-19 on the valuation of the different financial instrument portfolios, particularly where markets were affected by heightened volatility. Wherever this resulted in changes in management's marking approach we assessed the reasonableness of these changes as well as the design and operating effectiveness of associated key controls. Comparing against historic and forecast activity: We performed back-testing analysis of recent trade activity to evaluate the drivers of significant differences between book value and trade value and to assess the impact on the fair value of similar instruments within the portfolio. We also obtained and assessed the appropriateness of management's estimate of 2021 budgeted losses in respect of asset disposals and risk reduction transactions and considered any impact on fair values at year-end and relevant disclosures. The assessment included back-testing 2020 budgeted losses against realised asset disposals and risk reduction transactions. We performed an analysis of significant disagreements with counterparty collateral calls to assess the potential impact on the fair value of the underlying (and similar) financial instruments.

Key observations communicated to the Group Audit Committee

We are satisfied that the assumptions used by management to reflect the fair value of financial instruments with higher risk characteristics and the recognition of related income is reasonable and in accordance with IFRS. We highlighted the following matters to the Group Audit Committee:

- Complex-model dependent valuations were appropriate based on the output of our independent re-valuations, analysis of trade activity and peer benchmarking;
- The fair value estimates of hard-to-price portfolios appropriately reflected pricing information available at 31 December 2020; and

Valuation adjustments applied on derivative portfolios for credit, funding and other risks were appropriate and complete based on our assessment of trade activity for positions with common risk characteristics, analysis of market data and peer benchmarking.

Relevant references in the Annual Report and Accounts

Report of the Group Audit Committee
Accounting policies
Note 12 on the financial statements

Risk	Our response to the risk
Pension valuation and net pension asset	
The Group operates a number of defined benefit schemes which in aggregate are significant in the context of the overall balance sheet. At 31 December 2020, the Group reported a net pension asset of £602 million (2019: £495 million) comprising £723 million of schemes in surplus and £121 million of schemes in deficit (2019: £614 million and £119 million respectively). The net pension asset is sensitive to changes in the key judgements and estimates, which include: • **Assumptions** -Actuarial assumptions and inputs including discount rate, inflation, pension payment and longevity to determine the valuation of retirement benefit liabilities; • **Valuations** - Pricing inputs and calibrations for illiquid or complex model-dependent valuations of certain investments held by the schemes; • **Augmentation cap** - Quantification of trustee's rights to unilaterally augment benefits (Augmentation cap) to determine the recognition of surplus; • **Equalisation adjustments** - due to court rulings in respect of Guaranteed Minimum Pensions (GMP).	**Controls testing** - We evaluated the design and operating effectiveness of controls over the actuarial assumptions setting process, the data inputs used in the actuarial calculation and the measurement of the fair value of the schemes' assets. **Assumptions** - We involved actuarial specialists to evaluate the actuarial assumptions (including the impact from the recent government announcement of RPI/CPIH transition) by comparing them to independently obtained third party sources and market practice. We assessed the impact on pension liabilities due to changes in financial, demographic and longevity assumptions over the year, including the effects of COVID-19, and whether these were supported by objective external evidence and rationales. **Valuations** - We involved valuation specialists to assess the appropriateness of management's valuation methodology including the judgements made in determining significant assumptions, including their consideration of the impact of COVID-19, used in the valuation of complex and illiquid pension assets. We tested the fair value of scheme assets by independently calculating fair value for a sample of the assets held. Our sample included cash, equity and debt instruments, derivative financial instruments and illiquid assets. **Augmentation cap and equalisation adjustments** - We involved actuarial specialists to test the estimation of the augmentation cap and GMP equalisation adjustments including the inputs used in the calculation. We also assessed the methodology and judgements made in calculating these estimates and the associated accounting treatment in accordance with IAS 19 and IFRIC 14. **Disclosure** - We assessed the adequacy of the disclosures made in the financial statements, including the appropriateness of the assumptions and sensitivities disclosed.

Key observations communicated to the Group Audit Committee

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

- Our benchmarking of key actuarial assumptions including the discount rate, inflation, longevity and pension payments concluded that assumptions were within a reasonable range;
- No material differences were identified through our independent valuation testing for a sample of pension assets; and

Management's estimate of the impact of the GMP liability and augmentation cap was materially consistent with our independent estimate using our own model.

Relevant references in the Annual Report and Accounts

Accounting policies
Note 5 on the financial statements

Risk	Our response to the risk
IT access management	
The IT environment is complex and pervasive to the operations of the Group due to the large volume of transactions processed in numerous locations daily and the reliance on automated and IT dependent manual controls. Appropriate IT controls are required to ensure that applications process data as expected and that changes are made in an appropriate manner. This risk is also impacted by the greater dependency on third-parties, increasing use of cloud platforms, decommissioning of legacy systems, and migration to new systems. Such controls contribute to mitigating the risk of potential fraud or errors as a result of changes to applications and data. Controls • User access management across application, database and operating systems. We have identified user access deficiencies in the past and while the number of deficiencies has reduced year over year, there remains a risk of inappropriate access.	We evaluated the design and operating effectiveness of IT general controls over the applications, operating systems and databases that are relevant to financial reporting. During our planning and test of design phases, we performed procedures to determine whether the ongoing global COVID-19 pandemic had caused material changes in IT processes or controls and noted no such changes that would result in an increased IT risk. Controls testing We tested user access by assessing the controls in place for in-scope applications and verifying the addition and periodic recertification of users' access. During 2020, the Group consolidated their access management tools and moved further in-scope application onto a strategic platform (SLX) which will facilitate most of the Group's Manage Access IT General Controls across applications and infrastructure platforms. We performed procedures around the transition process between IT tools, focusing on the completeness of user data and the adequacy of the control environment. A number of systems are outsourced to third party service providers. For these systems, we tested IT general controls through evaluating the relevant Service Organisation Controls reports (where available). This included assessing the timing of the reporting, the controls tested by the service auditor and whether they address relevant IT risks and the impact COVID-19 had on the overall control environment. We also tested required complementary user entity controls performed by management. Where a SOC report was not available we identified and reviewed compensating business controls to address this risk. Where control deficiencies were identified, we tested remediation activities performed by management and compensating controls in place and assessed what additional testing procedures were necessary to mitigate any residual risk.

Key observations communicated to the Group Audit Committee

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

- We have seen an overall reduction in the number of discrete IT control deficiencies identified compared to prior year.
- Improvements were made to standardise access management processes and controls across the Group. However, particular attention should continue to be paid to controls over user access management including ensuring the completeness and accuracy of the data used to perform access controls. Where issues were noted in relation to access management these were remediated by year end or mitigated by compensating controls. We also performed additional testing in response to deficiencies identified, where required.
- For a robust control environment, the Group should seek to build and end-to-end view of controls across both infrastructure and application layers, including documentation of automated business controls, and IT general controls at the application layer.
- A high volume of control deficiencies had been remediated prior to year end, and the remaining compensated for, however, we have seen examples where further diligence could be applied to ensure consistent and continued effective control operation.

In the prior year, our auditor's report included a key audit matter in relation to Recycling of foreign exchange reserve triggered by Alawwal bank merger and liquidation of RFS Holding BV during 2019. We did not consider this to be a key audit matter in the current year as the materiality of foreign exchange reserves decreased significantly. .

Our application of materiality

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

Materiality

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

We determined materiality for the Group to be £160 million (2019: £160 million), which is 5% (2019: 5%) of the loss before tax of the Group of £351 million (2019: profit before tax of the Group of £4,232 million) adjusted for certain loan impairment charges arising from COVID-19, loss on redemption of own debt, non-recurring conduct expenses and strategic costs. The largest impact was an adjustment of £2.5 billion to reflect pre-COVID-19 loan impairment charges, using 2019 as a basis. We believe removing items that would otherwise have a disproportionate impact on materiality reflects the most useful measure for users of the financial statements and is consistent with the prior year. The 5% basis used for Group materiality is consistent with the wider industry, and is the standard for listed and regulated entities.

We determined materiality for the Parent Company to be £160 million (2019: £160 million) which is 0.4% (2019: 0.3%) of equity of the Parent Company and is consistent with the prior year. We believe this reflects the most useful measure for users of the financial statements as the Parent Company's primary purpose is to act as a holding company with investments in the Group's subsidiaries, not to generate operating profits and therefore a profit based measure is not relevant.

Independent auditors' report to the members of NatWest Group plc

Performance materiality

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

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% (2019: 50%) of our planning materiality, namely £80 million (2019: £80 million). We have set performance materiality at this percentage (which is at the lowest end of the range of our audit methodology) based on various considerations including the past history of misstatements, the effectiveness of the control environment and other factors affecting the entity and its financial reporting. Audit work at component teams for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £30 million to £72 million (2019: £30 million to £80 million).

Reporting threshold

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

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £8 million (2019: £8 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

Other information

The other information comprises the information included in the Annual Report and Accounts including the Strategic Report, Business Review, Corporate Governance, Report of the Group Nominations and Governance Committee, Report of the Group Audit Committee, Report of the Group Board Risk Committee, Report of the Group Sustainable Banking Committee, Report of the Technology and Innovation Committee, Report of the Directors, Risk and capital Management, Non-IFRS financial measures, Risk Factors, Material Contracts, Shareholder Information, and Forward Looking Statements, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

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

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

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the group and company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified;
- Directors' explanation as to its assessment of the company's prospects, the period this assessment covers and why the period is appropriate;
- Directors' statement on fair, balanced and understandable;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems; and;
- The section describing the work of the audit committee.

Independent auditors' report to the members of NatWest Group plc

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

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

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined below, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.
However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are the regulations, licence conditions and supervisory requirements of the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA); Companies Act 2006; and the Sarbanes Oxley Act (SOX).
- We understood how the Group is complying with those frameworks by making inquiries of management, internal audit and those responsible for legal and compliance matters. We also reviewed correspondence between the Group and regulatory bodies; reviewed minutes of the Board and Risk Committees; and gained an understanding of the Group's governance framework.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by considering the controls established to address risks identified to prevent or detect fraud. We also identified the risks of fraud in our key audit matters as described above and identified areas that we considered when performing our fraud procedures, such as cybersecurity, the impact of remote working, implementation of new government supported lending products, and the appropriateness of sources used when performing confirmation testing on accounts such as cash, loans and securities.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiries of legal counsel, executive management, and internal audit. We also tested controls and performed procedures to respond to the fraud risks as identified in our key audit matters. These procedures were performed by both the primary team and component teams with oversight from the primary team.
- The Group operates in the banking industry which is a highly regulated environment. As such, the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, involving specialists where appropriate.

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

Other matters we are required to address
- Following the recommendation from the Group Audit Committee, we were appointed by the Group at its annual general meeting on 4 May 2016 to audit the financial statements for the year ending 31 December 2016 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is 5 years, covering periods from our appointment through 31 December 2020.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent Company in conducting the audit.
- The audit opinion is consistent with the additional report to the Group Audit Committee.

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

Jonathan Bourne (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London, United Kingdom
19 February 2021

Consolidated income statement for the year ended 31 December 2020

	Note	2020 £m	2019 £m	2018 £m
Interest receivable		**10,071**	11,375	11,049
Interest payable		**(2,322)**	(3,328)	(2,393)
Net interest income	1	**7,749**	8,047	8,656
Fees and commissions receivable		**2,734**	3,359	3,218
Fees and commissions payable		**(722)**	(848)	(861)
Income from trading activities		**1,125**	932	1,507
Other operating income		**(90)**	2,763	882
Non-interest income	2	**3,047**	6,206	4,746
Total income		**10,796**	14,253	13,402
Staff costs		**(3,923)**	(4,018)	(4,122)
Premises and equipment		**(1,223)**	(1,259)	(1,383)
Other administrative expenses		**(1,845)**	(2,828)	(3,372)
Depreciation and amortisation		**(905)**	(1,176)	(731)
Impairment of other intangible assets		**(9)**	(44)	(37)
Operating expenses	3	**(7,905)**	(9,325)	(9,645)
Profit before impairment losses		**2,891**	4,928	3,757
Impairment losses	14	**(3,242)**	(696)	(398)
Operating (loss)/profit before tax		**(351)**	4,232	3,359
Tax charge	7	**(83)**	(432)	(1,208)
(Loss)/profit for the year		**(434)**	3,800	2,151
Attributable to:				
Ordinary shareholders		**(753)**	3,133	1,622
Preference shareholders		**26**	39	182
Paid-in equity holders		**355**	367	355
Non-controlling interests		**(62)**	261	(8)
		(434)	3,800	2,151
Earnings per ordinary share	8	**(6.2p)**	26.0p	13.5p
Earnings per ordinary share - fully diluted	8	**(6.2p)**	25.9p	13.4p

The accompanying notes on pages 269 to 322, the accounting policies on pages 264 to 268 and the audited sections of the Business review and Risk and capital management sections on pages 84 to 96 and 157 to 246 form an integral part of these financial statements.

Consolidated statement of comprehensive income for the year ended 31 December 2020

	2020 £m	2019 £m	2018 £m
(Loss)/profit for the year	**(434)**	3,800	2,151
Items that do not qualify for reclassification			
Remeasurement of retirement benefit schemes			
- contributions in preparation for ring-fencing (1)	**—**	—	(2,053)
- other movements	**4**	(142)	86
(Loss)/profit on fair value of credit in financial liabilities designated at FVTPL due to own credit risk	**(52)**	(189)	200
FVOCI financial assets	**(64)**	(71)	48
Tax	**42**	28	502
	(70)	(374)	(1,217)
Items that do qualify for reclassification			
FVOCI financial assets	**44**	(14)	7
Cash flow hedges	**271**	294	(581)
Currency translation	**276**	(1,836)	310
Tax	**(89)**	(170)	189
	502	(1,726)	(75)
Other comprehensive income/(loss) after tax	**432**	(2,100)	(1,292)
Total comprehensive (loss)/income for the year	**(2)**	1,700	859
Attributable to:			
Ordinary shareholders	**(338)**	1,044	305
Preference shareholders	**26**	39	182
Paid-in equity holders	**355**	367	355
Non-controlling interests	**(45)**	250	17
	(2)	1,700	859

Note:
(1) On 17 April 2018 NatWest Group agreed a Memorandum of Understanding (MoU) with the Trustees of the NatWest Group Pension Fund in connection with the requirements of ring-fencing. NWM Plc could not continue to be a participant in the Main section and separate arrangements were required for its employees. Under the MoU, NWB Plc made a contribution of £2 billion on 9 October 2018 to strengthen funding of the Main section in recognition of the changes in covenant. Also under the MoU, NWM Plc made a £53 million contribution to the NWM section in Q1 2019.

The accompanying notes on pages 269 to 322, the accounting policies on pages 264 to 268 and the audited sections of the Business review and Risk and capital management on pages 84 to 96 and 157 to 246 form an integral part of these financial statements.

Consolidated balance sheet as at 31 December 2020

	Note	2020 £m	2019 £m
Assets			
Cash and balances at central banks*	11	**124,489**	80,993
Trading assets	9	**68,990**	76,745
Derivatives	10	**166,523**	150,029
Settlement balances		**2,297**	4,387
Loans to banks - amortised cost*	11	**6,955**	7,554
Loans to customers - amortised cost	11	**360,544**	326,947
Securities subject to repurchase agreements		**11,542**	4,269
Other financial assets excluding securities subject to repurchase agreements		**43,606**	57,183
Other financial assets	15	**55,148**	61,452
Intangible assets	16	**6,655**	6,622
Other assets	17	**7,890**	8,310
Total assets		**799,491**	723,039
Liabilities			
Bank deposits	11	**20,606**	20,493
Customer deposits	11	**431,739**	369,247
Settlement balances		**5,545**	4,069
Trading liabilities	9	**72,256**	73,949
Derivatives	10	**160,705**	146,879
Other financial liabilities	18	**45,811**	45,220
Subordinated liabilities	19	**9,962**	9,979
Notes in circulation		**2,655**	2,109
Other liabilities	20	**6,388**	7,538
Total liabilities		**755,667**	679,483
Ordinary shareholders' interests		**38,367**	38,993
Other owners' interests		**5,493**	4,554
Owners' equity	21	**43,860**	43,547
Non-controlling interests		**(36)**	9
Total equity		**43,824**	43,556
Total liabilities and equity		**799,491**	723,039

*2019 data has been restated for the accounting policy change for balances held with central banks. Refer to Accounting policies Note 1.

The accompanying notes on pages 269 to 322, the accounting policies on pages 264 to 268 and the audited sections of the Business review and Risk and capital management on pages 84 to 96 and 157 to 246 form an integral part of these financial statements.

The accounts were approved by the Board of directors on 19 February 2021 and signed on its behalf by:

Howard Davies	Alison Rose-Slade	Katie Murray	NatWest Group plc
Chairman	Group Chief Executive Officer	Group Chief Financial Officer	Registered No. SC45551

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

	2020 £m	2019 £m	2018 £m
Called-up share capital - at 1 January	**12,094**	12,049	11,965
Ordinary shares issued	**35**	45	84
At 31 December	**12,129**	12,094	12,049
Paid-in equity - at 1 January	**4,058**	4,058	4,058
Redeemed/reclassified (1)	**(1,277)**	—	—
Securities issued during the period (2)	**2,218**	—	—
At 31 December	**4,999**	4,058	4,058
Share premium account - at 1 January	**1,094**	1,027	887
Ordinary shares issued	**17**	67	140
At 31 December	**1,111**	1,094	1,027
Merger reserve - at 1 January and 31 December	**10,881**	10,881	10,881
FVOCI reserve - at 1 January	**138**	343	255
Implementation of IFRS 9 on 1 January 2018	**—**	—	34
Unrealised gains/(losses)	**76**	(107)	97
Realised losses/(gains) (3)	**152**	(90)	(42)
Tax	**(6)**	(8)	(1)
At 31 December	**360**	138	343
Cash flow hedging reserve - at 1 January	**35**	(191)	227
Amount recognised in equity	**321**	573	(63)
Amount transferred from equity to earnings	**(50)**	(279)	(518)
Tax	**(77)**	(68)	163
At 31 December	**229**	35	(191)
Foreign exchange reserve - at 1 January	**1,343**	3,278	2,970
Retranslation of net assets	**297**	(428)	195
Foreign currency (losses)/gains on hedges of net assets	**(55)**	83	(33)
Tax	**6**	(110)	23
Recycled to profit or loss on disposal of businesses (4)	**17**	(1,480)	123
At 31 December	**1,608**	1,343	3,278
Retained earnings - at 1 January	**13,946**	14,312	17,130
Implementation of IFRS 9 on 1 January 2018	**—**	—	(105)
Implementation of IFRS 16 on 1 January 2019 (5)	**—**	(187)	—
(Loss)/profit attributable to ordinary shareholders and other equity owners	**(372)**	3,539	2,159
Equity preference dividends paid	**(26)**	(39)	(182)
Paid-in equity dividends paid	**(355)**	(367)	(355)
Ordinary dividends paid	**—**	(3,018)	(241)
Unclaimed dividend	**2**	—	—
Redemption of equity preference shares (6)	**—**	—	(2,805)
Redemption/reclassification of paid-in equity (1)	**(355)**	—	—
Realised (losses)/gains in period on FVOCI equity shares			
- gross	**(248)**	112	6
- tax	**—**	—	—
Remeasurement of the retirement benefit schemes			
- contributions in preparation for ring-fencing (7)	**—**	—	(2,053)
- other movements	**4**	(142)	86
- tax	**22**	24	539
Changes in fair value of credit in financial liabilities designated at FVTPL			
- gross	**(52)**	(189)	200
- tax	**8**	20	(33)
Shares issued under employee share schemes	**(11)**	(6)	(2)
Share-based payments	**4**	(113)	(32)
At 31 December	**12,567**	13,946	14,312

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

	2020 £m	2019 £m	2018 £m
Own shares held - at 1 January	**(42)**	(21)	(43)
Shares issued under employee share schemes	**95**	39	87
Own shares acquired	**(77)**	(60)	(65)
At 31 December	**(24)**	(42)	(21)
Owners' equity at 31 December	**43,860**	43,547	45,736
Non-controlling interests - at 1 January	**9**	754	763
Currency translation adjustments and other movements	**17**	(11)	25
(Loss)/profit attributable to non-controlling interests	**(62)**	261	(8)
Dividends paid	**—**	(5)	(5)
Equity raised (8)	**—**	45	—
Equity withdrawn and disposals (9)	**—**	(1,035)	(21)
At 31 December	**(36)**	9	754
Total equity at 31 December	**43,824**	43,556	46,490
Attributable to:			
Ordinary shareholders	**38,367**	38,993	41,182
Preference shareholders	**494**	496	496
Paid-in equity holders	**4,999**	4,058	4,058
Non-controlling interests	**(36)**	9	754
	43,824	43,556	46,490

Notes:
(1) Paid-in equity reclassified to liabilities as the result of a call of US$2 billion AT1 notes in June 2020, redeemed in August 2020.
(2) AT1 capital notes totalling US$1.5 billion less fees issued in June 2020. In November 2020 AT1 capital notes totalling £1.0 billion less fees were issued.
(3) During the year NWM Plc sold its entire equity holding in Saudi British Bank (SABB) leading to a realised loss of £337 million after tax which was recognised through other comprehensive income and reclassified to retained earnings. Also, following a conversion of Visa B and C preference shares to Visa Class A shares a gain of £125 million has been realised. There has been a corresponding adjustment to the conversion ratio of the Visa B and C preference shares.
(4) Includes £290 million recycled on completion of the Alawwal bank merger in June 2019 (with a further £48m shown in Tax), £1,102 million recycled on the subsequent liquidation of RFS Holdings B.V. (with a further £65m shown in Tax), and £67m attributable to the capital repayment by UBI DAC in 2019. The Alawwal bank merger resulted in the derecognition of the associate investment in Alawwal bank and recognition of a new investment in SABB held at FVOCI. The recycling gains arising from the liquidation of RFS Holdings B.V. and capital repayment by UBI DAC, have been calculated using the step-by-step method in IFRIC 16 'Hedges of a Net Investment in a Foreign Operation' and by reference to the absolute reduction in ownership interest respectively. Amount recycled also includes £2,661 million related to historical hedge relationship taken to non interest income.
(5) Years ended 31 December 2020 and 31 December 2019 prepared under IFRS 16 Leases. Year ended 31 December 2018 prepared under IAS 17 Leases.
(6) During 2018, non-cumulative US dollar, Euro and Sterling preference shares were redeemed.
(7) On 17 April 2018 NatWest Group agreed a Memorandum of Understanding (MoU) with the Trustees of the NatWest Group Pension Fund in connection with the requirements of ring-fencing. NWM Plc could not continue to be a participant in the Main section and separate arrangements were required for its employees. Under the MoU, NWB Plc made a contribution of £2 billion on 9 October 2018 to strengthen funding of the Main section in recognition of the changes in covenant. Also under the MoU, NWM Plc made a £53 million contribution to the NWM section in Q1 2019.
(8) Capital injection from RFS Holdings B.V. consortium members.
(9) Distribution to RFS Holdings B.V. consortium members on completion of the Alawwal bank merger.

The accompanying notes on pages 269 to 322, the accounting policies on pages 264 to 268 and the audited sections of the Business review and Risk and capital management on pages 84 to 96 and 157 to 246 form an integral part of these financial statements.

Consolidated cash flow statement for the year ended 31 December 2020

	Note	2020 £m	2019 £m	2018 £m
Cash flows from operating activities				
Operating (loss)/profit before tax		**(351)**	4,232	3,359
Adjustments for:				
Impairment losses		**3,242**	696	398
Amortisation of discounts and premiums of other financial assets		**267**	255	169
Depreciation, amortisation and impairment of other assets		**914**	1,220	768
Change in fair value taken to profit or loss of other financial assets		**(1,474)**	(280)	416
Change in fair value taken to profit or loss on other financial liabilities and subordinated liabilities		**962**	856	(302)
Elimination of foreign exchange differences		**(2,497)**	949	427
Other non-cash items		**28**	(258)	2,553
Income receivable on other financial assets		**(518)**	(854)	(534)
(Profit)/loss on sale of other financial assets		**(96)**	22	(34)
Loss/(profit) on sale of subsidiaries and associates		**16**	(2,224)	—
Loss on sale of other assets and net assets/liabiltiies		**(16)**	(58)	(50)
Interest payable on MRELs and subordinated liabilities		**1,182**	1,151	876
Loss on sale of MRELs and subordinated liabilities		**324**	—	—
Charges and releases on provisions		**296**	1,243	1,333
Defined benefit pension schemes		**215**	188	308
Net cash flows from trading activities		**2,494**	7,138	9,687
Decrease/(increase) in trading assets		**4,147**	(659)	7,543
(Increase)/decrease in derivative assets		**(16,173)**	(16,680)	27,494
Decrease/(increase) in settlement balance assets		**2,090**	(1,459)	(411)
(Increase)/decrease in loans to banks		**(554)**	3,563	(1,923)
(Increase)/decrease in loans to customers		**(33,748)**	(22,642)	3,080
Decrease in other financial assets		**221**	924	518
Decrease in other assets		**8**	707	541
Increase/(decrease) in banks deposits		**113**	(2,804)	(7,099)
Increase/(decrease) in customer deposits		**62,492**	8,333	(1,064)
(Decrease)/increase in settlement balance liabilities		**(1,652)**	1,003	222
(Decrease)/increase in trading liabilities		**(1,693)**	1,599	(9,630)
Increase/(decrease) in derivative liabilities		**13,826**	17,982	(25,609)
(Decrease)/increase in other financial liabilities		**(1,085)**	2,871	2,449
Increase/(decrease) in notes in circulation		**546**	(43)	(34)
Decrease in other liabilities		**(1,723)**	(2,634)	(12,046)
Changes in operating assets and liabilities		**26,815**	(9,939)	(15,969)
Income taxes paid		**(214)**	(278)	(466)
Net cash flows from operating activities (1)		**29,095**	(3,079)	(6,748)
Cash flows from investing activities				
Sale and maturity of other financial assets		**25,952**	19,990	11,832
Purchase of other financial assets		**(18,825)**	(21,345)	(19,516)
Income received on other financial assets		**518**	854	534
Net movement in business interests and intangible assets	27	**(70)**	(84)	(481)
Sale of property, plant and equipment		**348**	428	264
Purchase of property, plant and equipment		**(376)**	(559)	(619)
Net cash flows from investing activities		**7,547**	(716)	(7,986)
Cash flows from financing activities				
Movement in MRELs		**636**	1,927	6,676
Movement in subordinated liabilities		**(2,381)**	(1,064)	(2,824)
Issue of ordinary shares		**—**	17	144
Own shares (acquired)/disposed		**(2)**	(21)	22
Dividends paid		**(381)**	(3,429)	(803)
Issue of other equity instruments		**2,218**	—	—
Redemption of other equity instruments		**—**	—	(2,826)
Net cash flows from financing activities		**90**	(2,570)	389
Effects of exchange rate changes on cash and cash equivalents		**1,879**	(1,983)	676
Net increase/(decrease) in cash and cash equivalents		**38,611**	(8,348)	(13,669)
Cash and cash equivalents at 1 January		**100,588**	108,936	122,605
Cash and cash equivalents at 31 December	29	**139,199**	100,588	108,936

Note:
(1) Includes interest received of £10,007 million (2019 - £11,245 million, 2018 - £10,927 million) and interest paid of £2,414 million (2019 - £3,318 million, 2018 - £2,511 million).

The accompanying notes on pages 269 to 322, the accounting policies on pages 264 to 268 and the audited sections of the Business review and Risk and capital management on pages 84 to 96 and 157 to 246 form an integral part of these financial statements.

Accounting policies

1. Presentation of accounts

The accounts, set out on pages 258 to 338, including these accounting policies on pages 264 to 268, and the audited sections of the Business review: Risk and capital management on pages 157 to 245, are prepared on a going concern basis (see the Report of the directors, page 153) and in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The significant accounting policies and related judgments are set out below.

NatWest Group plc is incorporated in the UK and registered in Scotland. Its accounts are presented in accordance with the Companies Act 2006.

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

With the exception of certain financial instruments as described in Accounting policies 12 and 20 and investment property, the accounts are presented on a historical cost basis.

Accounting policy changes effective 1 January 2020

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

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

Definition of material – Amendments to IAS 1 – Presentation of Financial Statements (IAS 1) and IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors (IAS 8)

The IASB clarified the definition of 'material' and aligned the definition of material used in the Conceptual Framework and in other IFRS standards. The amendments clarify that materiality will depend on the nature or magnitude of information. Under the amended definition of materiality, an entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the accounts. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. NatWest Group's definition and application of materiality is in line with the definition in the amendments.

Interest Rate Benchmark Reform (IBOR reform) Phase 1 amendments to IFRS 9 and IAS 39

The IASB issued 'Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)' as a first reaction to the potential effects the IBOR reform could have on financial reporting. The amendments focused on hedge accounting and allow hedge relationships affected by the IBOR reform to be accounted for as continuing hedges. Amendments are effective for annual reporting periods beginning on or after 1 January 2020 with early application permitted. NatWest Group early adopted these amendments for the annual period ending on 31 December 2019.

Interest Rate Benchmark Reform (IBOR reform) Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

Phase 2 of the IASB's IBOR project (published in August 2020) addresses the wider accounting issues arising from the IBOR reform. The amendments are effective for annual reporting periods beginning on or after 1 January 2021 with early application permitted. As NatWest Group early adopted these amendments for the annual period ending on 31 December 2020, which have been endorsed by the EU and UK in January 2021, NatWest Group has applied International Accounting Standards, which have been adopted for use within the UK. NatWest Group's IBOR transition program remains on-track and key milestones have been met. Conversion from rates subject to reform to alternative risk-free rates (RFRs) is expected to increase as RFR-based products become more widely available and key market-driven conversion events occur.

Accounting policy change - balances held with central banks

The definitions of central banks and the classification of amounts that are held in cash and balances at central banks and loans to banks - amortised cost have been refined. Amounts not subject to mandatory or term deposit restrictions that are held with central banks are now classified as Cash and balances with central banks, irrespective of jurisdiction. Amounts that are subject to mandatory restrictions or time deposit restrictions of more than 24 hours are classified as Loans to banks - amortised cost. Previously, this also included amounts subject to restrictions of less than 24 hours. This change in accounting policy resulted in a £5.0 billion increase in Cash and balances at central banks and a corresponding reduction in Loans to banks - amortised cost at 31 December 2020, and a balance sheet reclassification from Loans to banks - amortised cost to Cash and balances at central banks of £3.1 billion at 31 December 2019 (1 January 2019 - £2.5 billion). These did not impact the consolidated cash flow statement.

2. Basis of consolidation

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

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

3. Revenue recognition

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

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

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

4. Assets held for sale

A non-current asset (or disposal group) is classified as held for sale if NatWest Group will recover its carrying amount principally through a sale transaction rather than through continuing use and is measured at the lower of its carrying amount or fair value less cost to sell.

5. Employee benefits

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

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

Contributions to defined contribution pension schemes are recognised in profit or loss as employee service costs accrue.

For defined benefit pension schemes, the net of the recognisable scheme assets and obligations is reported in the balance sheet. The defined benefit obligation is measured on an actuarial basis. The charge to profit or loss for pension costs (mainly the service cost and the net interest on the net defined benefit asset or liability) is recognised in operating expenses.

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

6. Intangible assets and goodwill

Intangible assets acquired by NatWest Group are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to profit or loss over the assets' estimated useful economic lives using methods that best reflect the pattern of economic benefits and is included in Depreciation and amortisation. These estimated useful economic lives are:

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

Expenditure on internally generated goodwill and brands is written-off as incurred. Direct costs relating to the development of internal-use computer software are capitalised once technical feasibility and economic viability have been established. These costs include payroll, the costs of materials and services, and directly attributable overheads. Capitalisation of costs ceases when the software is capable of operating as intended. During and after development, accumulated costs are reviewed for impairment against the benefits that the software is expected to generate. Costs incurred prior to the establishment of technical feasibility and economic viability are expensed as incurred, as are all training costs and general overheads. The costs of licences to use computer software that are expected to generate economic benefits beyond one year are also capitalised.

Goodwill on the acquisition of a subsidiary is the excess of the fair value of the consideration transferred, the fair value of any existing interest in the subsidiary and the amount of any non-controlling interest measured either at fair value or at its share of the subsidiary's net assets over the net fair value of the subsidiary's identifiable assets, liabilities and contingent liabilities.

Goodwill is measured at initial cost less any subsequent impairment losses. The gain or loss on the disposal of a subsidiary includes the carrying value of any related goodwill.

7. Impairment of non-financial assets

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

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

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

8. Foreign currencies

Transactions in foreign currencies are recorded in the functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the relevant functional currency at the foreign exchange rates ruling at the balance sheet date. Foreign exchange differences arising on the settlement of foreign currency transactions and from the translation of monetary assets and liabilities are reported in income from trading activities except for differences arising on cash flow hedges and hedges of net investments in foreign operations (see Accounting policy 20).

Non-monetary items denominated in foreign currencies that are stated at fair value are translated into the relevant functional currency at the foreign exchange rates ruling at the dates the values are determined. Translation differences arising on non-monetary items measured at fair value are recognised in profit or loss except for differences arising on non-monetary financial assets classified as fair value through OCI, for example equity shares, which are recognised in other comprehensive income unless the asset is the hedged item in a fair value hedge.

Assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into sterling at foreign exchange rates ruling at the balance sheet date. Income and expenses of foreign operations are translated into sterling at average exchange rates unless these do not approximate to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on the translation of a foreign operation are recognised in other comprehensive income. The amount accumulated in equity is reclassified from equity to profit or loss on disposal of a foreign operation.

9. Leases

As lessor

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

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

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

As lessee

On entering a new lease contract, NatWest Group recognises a right of use asset and a lease liability to pay future rentals. The liability is measured at the present value of future lease payments discounted at the applicable incremental borrowing rate. The right of use asset is depreciated over the shorter of the term of the lease and the useful economic life, subject to review for impairment.

Short term and low value leased assets are expensed on a systematic basis.

10. Provisions and contingent liabilities

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

Provision is made for restructuring costs, including the costs of redundancy, when

Accounting policies

NatWest Group has a constructive obligation to restructure. An obligation exists when NatWest Group has a detailed formal plan for the restructuring and has raised a valid expectation in those affected by starting to implement the plan or by announcing its main features.

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

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

11. Tax

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

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

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

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

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

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

12. Financial instruments

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

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

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

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

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

Financial assets which are managed under a 'held to collect' business model, and have contractual cash flows that comprise solely payments of principal and interest are measured at amortised cost.

Other financial assets which are managed under a business model of both 'held to collect and sell' and have contractual cash flows comprising solely of payments of principal and interest are measured at fair value through other comprehensive income ('FVOCI').

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

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

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

13. Impairment: expected credit losses (ECL)

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

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

Judgement is exercised as follows:

- Models – in certain low default portfolios, Basel parameter estimates are also applied for IFRS 9.
- Non-modelled portfolios, mainly in Private Banking, RBSI and Lombard, use a standardised capital requirement under Basel II. Under IFRS 9, they have bespoke treatments for the identification of significant increase in credit risk. Benchmark PDs, EADs and LGDs are reviewed annually for appropriateness. The ECL calculation is based on expected future cash flows, which is typically applied at a portfolio level.
- Multiple economic scenarios (MES) – the central, or base, scenario is most critical to the ECL calculation, independent of the

method used to generate a range of alternative outcomes and their probabilities.

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

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

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

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

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

- Retail mortgages: write-off usually occurs within five years, or earlier, when an account is closed, but can be longer where the customer engages constructively,
- Credit cards: the irrecoverable amount is typically written off after twelve arrears cycles or at four years post default any remaining amounts outstanding are written off,
- Overdrafts and other unsecured loans: write-off occurs within six years,
- Commercial loans: write-offs are determined in the light of individual circumstances; and Business loans are generally written off within five years.

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

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

16. Derecognition
A financial asset is derecognised when the contractual right to receive cash flows from the asset has expired or when it has been transferred and the transfer qualifies for derecognition. Conversely, an asset is not derecognised by a contract under which NatWest Group retains substantially all the risks and rewards of ownership. If substantially all the risks and rewards have been neither retained nor transferred, NatWest Group does not derecognise an asset over which it has retained control but limits its recognition to the extent of its continuing involvement.

A financial liability is removed from the balance sheet when the obligation is discharged, or is cancelled, or expires.

17. Sale and repurchase transactions
Securities subject to a sale and repurchase agreement under which substantially all the risks and rewards of ownership are retained by NatWest Group continue to be shown on the balance sheet and the sale proceeds recorded as a financial liability. Securities acquired in a reverse sale and repurchase transaction under which NatWest Group is not exposed to substantially all the risks and rewards of ownership are not recognised on the balance sheet and the consideration paid is recorded as a financial asset. Sale and repurchase transactions that are not accounted for at fair value through profit or loss are measured at amortised cost. The difference between the consideration paid or received and the repurchase or resale price is treated as interest and recognised in interest income or interest expense over the life of the transaction.

18. Netting
Financial assets and financial liabilities are offset and the net amount presented in the balance sheet when, and only when, NatWest Group currently has a legally enforceable right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. NatWest Group is party to a number of arrangements, including master netting agreements, that give it the right to offset financial assets and financial liabilities, but where it does not intend to settle the amounts net or simultaneously, the assets and liabilities concerned are presented gross.

19. Capital instruments
NatWest Group classifies a financial instrument that it issues as a liability if it is a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities on potentially unfavourable terms and as equity if it evidences a residual interest in the assets of NatWest Group after the deduction of liabilities. The components of a compound financial instrument issued by NatWest Group are classified and accounted for separately as financial assets, financial liabilities or equity as appropriate. Incremental costs and related tax that are directly attributable to an equity transaction are deducted from equity.

The consideration for any ordinary shares of NatWest Group plc purchased by NatWest Group (treasury shares) is deducted from equity. On the cancellation of treasury shares their nominal value is removed from equity and any excess of consideration over nominal value is treated in accordance with the capital maintenance provisions of the Companies Act 2006.

On the sale or re-issue of treasury shares the consideration received and related tax are credited to equity, net of any directly attributable incremental costs.

20. Derivatives and hedging
Derivative financial instruments are initially recognised, and subsequently measured, at fair value. NatWest Group's approach to determining the fair value of financial instruments is set out in the Critical accounting policies section and key sources of estimation uncertainty entitled Fair value - financial instruments; further details are given in Notes 10 and 12 to the accounts.

A derivative embedded in a financial liability contract is accounted for as a stand-alone derivative if its economic characteristics are not closely related to the economic characteristics of the host contract; unless the entire contract is measured at fair value with changes in fair value recognised in profit or loss.

Gains and losses arising from changes in the fair value of derivatives that are not the hedging instrument in a qualifying hedge are recognised as they arise in profit or loss. Gains and losses are recorded in Income from trading activities except for gains and losses on those derivatives that are managed together with financial instruments designated at fair value; these gains and losses are included in Other operating income. NatWest Group enters into three types of hedge relationship: hedges of changes in the fair value of a recognised asset or liability or unrecognised firm commitment (fair value hedges); hedges of the variability in cash flows from a recognised asset or liability or a highly probable forecast transaction (cash flow hedges); and hedges of the net investment in a foreign operation (net investment hedges).

Hedge relationships are formally designated and documented at inception in line with the requirements of IAS 39 *Financial instruments – Recognition and measurement*. The documentation identifies the hedged item, the hedging instrument and details of the risk that is being hedged and the way in which effectiveness will be assessed at inception and during the period of the hedge. If the hedge is not highly effective in offsetting changes in fair values or cash flows attributable to the hedged risk, consistent with the documented risk management strategy, hedge accounting is discontinued. Hedge accounting is also discontinued if NatWest Group revokes the designation of a hedge relationship.

Fair value hedge - in a fair value hedge, the gain or loss on the hedging instrument is recognised in profit or loss. The gain or loss on the hedged item attributable to the hedged risk is recognised in profit or loss and, where the hedged item is measured at amortised cost, adjusts the carrying amount of the hedged item. Hedge accounting is discontinued if the hedge no longer meets the criteria for hedge accounting; or if the hedging instrument expires or is sold, terminated or exercised; or if hedge designation is revoked. If the hedged item is one for which the effective interest rate method is used, any cumulative adjustment is amortised to profit or loss over the life of the hedged item using a recalculated effective interest rate.

Cash flow hedge - in a cash flow hedge, the effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income and the ineffective portion in profit or loss. When the forecast transaction results in the recognition of a financial asset or financial liability, the cumulative gain or loss is reclassified from equity to profit or loss in the same periods in which the hedged forecast cash flows affect profit or loss. Otherwise the cumulative gain or loss is removed from equity and recognised in profit or loss at the same time as the hedged transaction. Hedge accounting is discontinued if the hedge no longer meets the criteria for hedge accounting; if the hedging instrument expires or is sold, terminated or exercised; if the forecast transaction is no longer expected to occur; or if hedge designation is revoked. On the discontinuation of hedge accounting (except where a forecast transaction is no longer expected to occur), the cumulative unrealised gain or loss is reclassified from equity to profit or loss when the hedged cash flows occur or, if the forecast transaction results in the recognition of a financial asset or financial liability, when the hedged forecast cash flows affect profit or loss. Where a forecast transaction is no longer expected to occur, the cumulative unrealised gain or loss is reclassified from equity to profit or loss immediately.

Hedge of net investment in a foreign operation - In the hedge of a net investment in a foreign operation, the portion of foreign exchange differences arising on the hedging instrument determined to be an effective hedge is recognised in other comprehensive income. Any ineffective portion is recognised in profit or loss. Non-derivative financial liabilities as well as derivatives may be the hedging instrument in a net investment hedge. On disposal or partial disposal of a foreign operation, the amount accumulated in equity is reclassified from equity to profit or loss.

21. Associates and joint ventures
An associate is an entity over which NatWest Group has significant influence. A joint venture is one which it controls jointly with other parties. Investments in associates and interests in joint ventures are recognised using the equity method. They are stated initially at cost, including attributable goodwill, and subsequently adjusted for post-acquisition changes in NatWest Group's share of net assets.

22. Cash and cash equivalents
In the cash flow statement, cash and cash equivalents comprises cash and deposits with banks with an original maturity of less than three months together with short-term highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value.

23. Shares in Group entities
NatWest Group plc's investments in its subsidiaries are stated at cost less any impairment.

Critical accounting policies and key sources of estimation uncertainty
The reported results of NatWest Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its accounts. UK company law and IFRS require the directors, in preparing NatWest Group's accounts, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent. In the absence of an applicable standard or interpretation, IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', requires management to develop and apply an accounting policy that results in relevant and reliable information in the light of the requirements and guidance in IFRS dealing with similar and related issues and the IASB's 'Conceptual Framework for Financial Reporting'. The judgements and assumptions involved in NatWest Group's accounting policies that are considered by the Board to be the most important to the portrayal of its financial condition are discussed below. The use of estimates, assumptions or models that differ from those adopted by NatWest Group would affect its reported results. During 2020, estimation uncertainty has been affected by the COVID-19 pandemic. The COVID-19 pandemic has continued to cause significant economic and social disruption during 2020. Key financial estimates are based on management's latest five-year revenue and cost forecasts. Measurement of goodwill, deferred tax and expected credit losses are highly sensitive to reasonably possible changes in those anticipated conditions. Other reasonably possible assumptions about the future include a prolonged financial effect of the COVID-19 pandemic on the economy of the UK and other countries. Changes in judgements and assumptions could result in a material adjustment to those estimates in the next reporting periods. Consideration of this source of estimation uncertainty has been set out in the notes below (as applicable).

Critical accounting policy	Note
Deferred tax	7
Fair value - financial instruments	12
Loan impairment provisions	14
Goodwill	16
Provisions for liabilities and charges	20

Future accounting developments International Financial Reporting Standards

COVID-19 amendments on lease modifications – Amendments to IFRS 16 – Leases (IFRS 16)
The IASB published 'amendments to IFRS 16 covering COVID-19-Related Rent Concessions'. These provide lessees with an exemption from assessing whether a COVID-19 related rent concession is a lease modification. The amendment is effective for annual reporting periods beginning on or after 1 June 2020. The effect of the amendment on NatWest Group's accounts is immaterial and will be adopted from 1 January 2021.

Other new standards and amendments that are effective for annual periods beginning after 1 January 2022, with earlier application permitted, are set out below.

Effective 1 January 2022
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37).
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).
- Reference to Conceptual Framework (Amendments to IFRS 3).
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1).
- Fees in the "10 per cent" test for Derecognition of Financial Liabilities (Amendments to IFRS 9).

Effective 1 January 2023
- IFRS 17 Insurance Contracts (Amendments to IFRS 17 Insurance Contracts).

NatWest Group is assessing the effect of adopting these standards and amendments on its financial statements but do not expect the effect to be material.

Notes to the consolidated financial statements

1 Net interest income

	2020 £m	2019 £m	2018 £m
Balances at central banks	**90**	321	358
Loans to banks - amortised cost	**246**	405	164
Loans to customers - amortised cost	**9,252**	9,795	9,993
Other financial assets	**483**	854	534
Interest receivable	**10,071**	11,375	11,049
Balances with banks	**144**	319	250
Customer deposits	**911**	1,256	849
Other financial liabilities	**846**	1,102	791
Subordinated liabilities	**402**	483	461
Internal funding of trading businesses	**19**	168	42
Interest payable	**2,322**	3,328	2,393
Net interest income	**7,749**	8,047	8,656

Interest income on financial instruments measured at amortised cost and debt instruments classified as FVOCI is measured using the effective interest rate which allocates the interest income or interest expense over the expected life of the asset or liability at the rate that exactly discounts all estimated future cash flows to equal the instrument's initial carrying amount. Calculation of the effective interest rate takes into account fees payable or receivable that are an integral part of the instrument's yield, premiums or discounts on acquisition or issue, early redemption fees and transaction costs. All contractual terms of a financial instrument are considered when estimating future cash flows. Included in interest receivable is finance lease income which is recognised at a constant periodic rate of return before tax on the net investment.

2 Non-interest income

	2020 £m	2019 £m	2018 £m
Net fees and commissions (1)	**2,012**	2,511	2,357
Income from trading activities			
Foreign exchange	**569**	448	643
Interest rate	**541**	532	695
Credit	**3**	32	45
Changes in fair value of own debt and derivative liabilities attributable to own credit risk			
- debt securities in issue	**(24)**	(60)	72
- derivative liabilities	**—**	(20)	20
Equities, commodities and other	**36**	—	32
	1,125	932	1,507
Other operating income			
Loss on redemption of own debt	**(324)**	—	—
Operating lease and other rental income	**232**	250	256
Changes in the fair value of financial assets and liabilities designated at fair value through profit or loss (2)	**(54)**	(17)	(26)
Changes in fair value of other financial assets at fair value through profit or loss (3)	**2**	58	18
Hedge ineffectiveness	**24**	48	(65)
(Loss)/profit on disposal of amortised cost assets	**(18)**	42	44
Profit/(loss) on disposal of fair value through other comprehensive income assets	**96**	(22)	34
Profit on sale of property, plant and equipment	**13**	58	50
Share of (losses)/profits of associated entities	**(30)**	(14)	83
(Loss)/profit on disposal of subsidiaries and associates (4)	**(16)**	2,224	(72)
Other income (5, 6)	**(15)**	136	560
	(90)	2,763	882
	3,047	6,206	4,746

Notes:
(1) Refer to Note 4 for further analysis.
(2) Including related derivatives.
(3) Includes instruments that have failed SPPI testing under IFRS 9.
(4) 2019 includes a gain of £444 million (€523 million), a legacy liability release of £256 million and an FX recycling gain of £290 million on completion of the Alawwal bank merger in June 2019; In 2019, £1,102 million of FX recycling gains arising on the liquidation of RFS Holdings BV and £67 million in relation to a capital repayment by UBI DAC. The recycling gains and capital repayment have been calculated using the step-by-step method in IFRIC 16 and by reference to the proportion of equity applied to the FX translation reserve.
(5) Includes income from activities other than banking. 2018 includes insurance recoveries of £357 million.
(6) 2020 includes £58 million loss on acquisition of a £3.0 billion prime UK mortgages portfolio from Metro Bank plc.

Notes to the consolidated financial statements

3 Operating expenses

	2020 £m	2019 £m	2018 £m
Salaries	**2,533**	2,513	2,560
Bonus awards	**232**	299	225
Temporary and contract costs	**258**	401	442
Social security costs	**320**	300	307
Pension costs	**342**	303	401
- defined benefit schemes (see Note 5)	**215**	188	307
- defined contribution schemes	**127**	115	94
Other	**238**	202	187
Staff costs	**3,923**	4,018	4,122
Premises and equipment (1)	**1,223**	1,259	1,383
UK bank levy (2)	**167**	134	179
Depreciation and amortisation (3)	**905**	1,176	731
Other administrative expenses (4)	**1,678**	2,694	3,193
Administrative expenses	**3,973**	5,263	5,486
Impairment of other intangible assets	**9**	44	37
	7,905	9,325	9,645

Notes:
(1) 2020 includes cost of £144 million including accelerated depreciation of £71 million (2019 - £161 million including £40 million accelerated depreciation) in relation to the planned reduction of the property portfolio (2020 – freehold £1 million; leasehold £143 million; 2019 - freehold £4million; leasehold £157 million).
(2) 2019 includes a rebate of £31 million relating to prior periods.
(3) 2020 includes a £107 million charge relating to the reduction in property portfolio, leasehold £86 million and freehold £21 million (2019 - £287 million charge, leasehold £37 million and freehold £250 million).
(4) Includes litigation and conduct costs, net of amounts recovered. Refer to Notes 20 and 26 for further details.

The average number of persons employed, rounded to the nearest hundred, during the year, excluding temporary staff, was 61,400 (2019 - 64,200; 2018 - 67,600). The average number of temporary employees during 2020 was 3,200 (2019 - 4,100; 2018 - 4,000). The number of persons employed at 31 December, excluding temporary staff, by reportable segment, was as follows:

	2020	2019	2018
Retail Banking	**17,200**	19,600	21,300
Ulster Bank RoI	**2,600**	2,700	2,900
Commercial Banking	**9,700**	9,700	9,800
Private Banking	**2,200**	1,900	1,900
RBS International	**1,500**	1,600	1,600
NatWest Markets	**2,100**	5,000	4,500
Central items & other	**24,600**	22,400	23,400
Total	**59,900**	62,900	65,400
UK	**42,500**	44,600	46,600
USA	**300**	400	500
Europe	**3,800**	4,100	4,100
Rest of the World	**13,300**	13,800	14,200
Total	**59,900**	62,900	65,400

During the year a number of roles transferred from Retail Banking and Commercial Banking into centralised functions. Comparatives have been re-stated.

Share-based payments

As described in the Remuneration report, NatWest Group grants share-based awards to employees principally on the following bases:

Award plan	Eligible employees	Nature of award	Vesting conditions (1)	Settlement
Sharesave	UK, Republic of Ireland, Channel Islands, Gibraltar and Isle of Man	Option to buy shares under employee savings plan	Continuing employment or leavers in certain circumstances	2021 to 2024
Deferred performance awards	All	Awards of ordinary shares	Continuing employment or leavers in certain circumstances	2021 to 2027
Long-term incentives (2)	Senior employees	Awards of ordinary shares and conditional shares	Continuing employment or leavers in certain circumstances and/or satisfaction of the pre-vest assessment and underpins	2021 to 2027

Notes:
(1) All awards have vesting conditions and therefore some may not vest.
(2) Long-term incentives include the Executive Share Option Plan, the Long-Term Incentive Plan and the Employee Share Plan.

3 Operating expenses continued

The fair value of options granted in 2020 was determined using a pricing model that included: expected volatility of shares determined at the grant date based on historical volatility over a period of up to five years; expected option lives that equal the vesting period; expected dividends on equity shares; and risk-free interest rates determined from UK gilts with terms matching the expected lives of the options.

The strike price of options and the fair value on granting awards of fully paid shares is the average market price over the five trading days (three trading days for Sharesave) preceding grant date.

Sharesave

	2020		2019		2018	
	Average exercise price £	**Shares under option (million)**	Average exercise price £	Shares under option (million)	Average exercise price £	Shares under option (million)
At 1 January	**2.01**	**84**	2.18	75	2.38	60
Granted	**1.12**	**35**	1.78	25	1.89	28
Exercised	**1.83**	**—**	2.83	(4)	2.44	(4)
Cancelled	**2.20**	**(23)**	2.25	(12)	2.46	(9)
At 31 December	**1.64**	**96**	2.01	84	2.18	75

Options are exercisable within six months of vesting; 6.3 million options were exercisable at 31 December 2020 (2019 – 3.2 million; 2018 – 4.9 million). The weighted average share price at the date of exercise of options was £1.57 (2019 - £2.49; 2018 - £2.13). At 31 December 2020, exercise prices ranged from £1.12 to £2.27 (2019 - £1.68 to £2.91; 2018 - £1.68 to £3.43) and the remaining average contractual life was 2.3 years (2019 - 2.7 years; 2018 – 2.9 years). The fair value of options granted in 2020 was £8 million (2019 - £11 million; 2018 - £21 million).

Deferred performance awards

	2020		2019		2018	
	Value at grant £m	**Shares awarded (million)**	Value at grant £m	Shares awarded (million)	Value at grant £m	Shares awarded (million)
At 1 January	**196**	**76**	233	92	264	101
Granted	**109**	**67**	110	42	156	59
Forfeited	**(5)**	**(2)**	(10)	(4)	(21)	(8)
Vested	**(131)**	**(64)**	(137)	(54)	(166)	(60)
At 31 December	**169**	**77**	196	76	233	92

The awards granted in 2020 vest in equal tranches on their anniversaries, predominantly over three years.

Long-term incentives

	2020			2019			2018		
	Value at grant £m	**Shares awarded (million)**	**Options over shares (million)**	Value at grant £m	Shares awarded (million)	Options over shares (million)	Value at grant £m	Shares awarded (million)	Options over shares (million)
At 1 January	**63**	**25**	**—**	85	32	2	102	37	2
Granted	**14**	**10**	**—**	15	6	—	12	5	—
Vested/exercised	**(17)**	**(7)**	**—**	(12)	(4)	—	(5)	(2)	—
Lapsed	**(10)**	**(4)**	**—**	(25)	(9)	(2)	(24)	(8)	—
At 31 December	**50**	**24**	**—**	63	25	—	85	32	2

The market value of awards vested/exercised in 2020 was £13 million (2019 - £10 million; 2018 - £5 million). There are no vested options of shares exercisable up to 2021 (2019 - nil; 2018 - 2 million).

Bonus awards

The following tables analyse NatWest Group's bonus awards for 2020.

	2020 £m	2019 £m	Change %
Non-deferred cash awards (1)	**35**	40	(13)
Total non-deferred bonus awards	**35**	40	(13)
Deferred bond awards	**111**	184	(40)
Deferred share awards	**60**	83	(28)
Total deferred bonus awards	**171**	267	(36)
Total bonus awards (2)	**206**	307	(33)
Bonus awards as a % of operating profit before tax (3)	**(173%)**	7%	
Proportion of bonus awards that are deferred	**83%**	87%	
of which			
- deferred bond awards	**65%**	69%	
- deferred share awards	**35%**	31%	

Financial statements

Notes to the consolidated financial statements

3 Operating expenses continued

Reconciliation of bonus awards to income statement charge	2020 £m	2019 £m	2018 £m
Bonus awarded	**206**	307	335
Less: deferral of charge for amounts awarded for current year	**(77)**	(110)	(130)
Income statement charge for amounts awarded in current year	**129**	197	205
Add: current year charge for amounts deferred from prior years	**114**	127	86
Less: forfeiture of amounts deferred from prior years	**(11)**	(25)	(66)
Income statement charge for amounts deferred from prior years	**103**	102	20
Income statement charge for bonus awards (2)	**232**	299	225

Notes:
(1) Cash awards are limited to £2,000 for all employees.
(2) Excludes other performance related compensation.
(3) Operating profit before tax and bonus expense.

Year in which income statement charge is expected to be taken for deferred bonus awards	Actual			Expected	
	2018 £m	2019 £m	2020 £m	2021 £m	2022 and beyond £m
Bonus awards deferred from 2018 and earlier	86	127	**30**	**13**	**7**
Bonus awards deferred from 2019	—	—	**84**	**12**	**10**
Less: forfeiture of amounts deferred from prior years	(66)	(25)	**(11)**	**—**	**—**
Bonus awards for 2020 deferred	—	—	**—**	**58**	**19**
	20	102	**103**	**83**	**36**

4 Segmental analysis

The directors manage NatWest Group primarily by class of business and present the segmental analysis on that basis. This includes the review of net interest income for each class of business. Interest receivable and payable for all reportable segments is therefore presented net. Segments charge market prices for services rendered between each other; funding charges between segments are determined by NatWest Group Treasury, having regard to commercial demands. The segment performance measure is operating profit/(loss).

Reportable operating segments: The reportable operating segments are as follows:

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

Ulster Bank RoI serves individuals and businesses in the Republic of Ireland (RoI).

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

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

RBS International (RBSI) serves retail, commercial, and corporate customers in the Channel Islands, Isle of Man and Gibraltar, and financial institution customers in those same locations in addition to the UK and Luxembourg.

NatWest Markets (NWM) helps NatWest Group's corporate and institutional customers manage their financial risks safely and achieve their short-term and long-term sustainable financial goals.

Central items & other includes corporate functions, such as NatWest Group Treasury, finance, risk management, compliance, legal, communications and human resources. Central functions manages NatWest Group capital resources and NatWest Group-wide regulatory projects and provides services to the reportable segments. Balances in relation to legacy litigation issues and the international private banking business are included in Central items in the relevant periods.

Allocation of central balance sheet items

NatWest Group allocates all central costs relating to Services and Functions to the business using appropriate drivers; these are reported as indirect costs in the segmental income statements. Assets and risk-weighted assets held centrally, mainly relating to NatWest Group Treasury, are allocated to the business using appropriate drivers.

2020	Retail Banking £m	Ulster Bank RoI £m	Commercial Banking £m	Private Banking £m	RBSI £m	NWM £m	Central items & other (1) £m	Total £m
Net interest income	3,868	395	2,740	489	371	(57)	(57)	7,749
Net fees and commissions	379	89	1,110	257	94	99	(16)	2,012
Other non-interest income	(66)	26	108	17	32	1,081	(163)	1,035
Total income	4,181	510	3,958	763	497	1,123	(236)	10,796
Operating expenses	(2,540)	(486)	(2,281)	(447)	(274)	(1,294)	322	(7,000)
Depreciation and amortisation	—	—	(149)	(8)	(17)	(16)	(715)	(905)
Impairment losses	(792)	(250)	(1,927)	(100)	(107)	(40)	(26)	(3,242)
Operating profit/(loss)	849	(226)	(399)	208	99	(227)	(655)	(351)

4 Segmental analysis continued

2019	Retail Banking £m	Ulster Bank RoI £m	Commercial Banking £m	Private Banking £m	RBSI £m	NWM £m	Central items & other (1) £m	Total £m
Net interest income	4,130	400	2,842	521	478	(188)	(136)	8,047
Net fees and commissions	696	109	1,312	226	106	85	(23)	2,511
Other non-interest income	40	58	164	30	26	1,445	1,932	3,695
Total income	4,866	567	4,318	777	610	1,342	1,773	14,253
Operating expenses	(3,618)	(552)	(2,458)	(482)	(254)	(1,406)	621	(8,149)
Depreciation and amortisation	—	—	(142)	(4)	(10)	(12)	(1,008)	(1,176)
Impairment losses	(393)	34	(391)	6	(2)	51	(1)	(696)
Operating profit/(loss)	855	49	1,327	297	344	(25)	1,385	4,232

2018	Retail Banking £m	Ulster Bank RoI £m	Commercial Banking £m	Private Banking £m	RBSI £m	NWM £m	Central items & other (1) £m	Total £m
Net interest income	4,283	444	2,855	518	466	112	(22)	8,656
Net fees and commissions	692	91	1,283	228	101	(33)	(5)	2,357
Other non-interest income	79	75	464	29	27	1,363	352	2,389
Total income	5,054	610	4,602	775	594	1,442	325	13,402
Operating expenses	(2,867)	(583)	(2,362)	(476)	(254)	(1,589)	(783)	(8,914)
Depreciation and amortisation	—	—	(125)	(2)	(6)	(15)	(583)	(731)
Impairment losses	(339)	(15)	(147)	6	2	92	3	(398)
Operating profit/(loss)	1,848	12	1,968	303	336	(70)	(1,038)	3,359

Note:
(1) 2020 predominantly relates to interest receivable in Treasury; 2019 predominantly related to interest receivable in Treasury and strategic disposals in Functions and 2018 predominately related to interest receivable in Treasury.

	2020			2019			2018		
Total revenue (1)	**External £m**	**Inter segment £m**	**Total £m**	External £m	Inter segment £m	Total £m	External £m	Inter segment £m	Total £m
Retail Banking	**5,386**	**39**	**5,425**	6,161	62	6,223	6,188	63	6,251
Ulster Bank RoI	**568**	**2**	**570**	616	6	622	668	—	668
Commercial Banking	**3,734**	**64**	**3,798**	4,347	139	4,486	4,576	89	4,665
Private Banking	**702**	**163**	**865**	703	241	944	681	195	876
RBS International	**505**	**3**	**508**	639	19	658	506	148	654
NatWest Markets	**1,984**	**13**	**1,997**	2,516	558	3,074	1,882	916	2,798
Central items & other	**961**	**(284)**	**677**	3,447	(1,025)	2,422	2,155	(1,411)	744
Total	**13,840**	**—**	**13,840**	18,429	—	18,429	16,656	—	16,656

Note:
(1) Total revenue comprises interest receivable, fees and commissions receivable, income from trading activities and other operating income.

	2020			2019			2018		
Total income	**External £m**	**Inter segment £m**	**Total £m**	External £m	Inter segment £m	Total £m	External £m	Inter segment £m	Total £m
Retail Banking	**4,157**	**24**	**4,181**	4,834	32	4,866	5,021	33	5,054
Ulster Bank RoI	**516**	**(6)**	**510**	562	5	567	613	(3)	610
Commercial Banking	**4,065**	**(107)**	**3,958**	4,814	(496)	4,318	5,079	(477)	4,602
Private Banking	**700**	**63**	**763**	631	146	777	655	120	775
RBS International	**500**	**(3)**	**497**	603	7	610	469	125	594
NatWest Markets	**1,395**	**(272)**	**1,123**	1,664	(322)	1,342	1,510	(68)	1,442
Central items & other	**(537)**	**301**	**(236)**	1,145	628	1,773	55	270	325
Total	**10,796**	**—**	**10,796**	14,253	—	14,253	13,402	—	13,402

4 Segmental analysis continued

Analysis of net fees and commissions 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
Fees and commissions receivable								
- Payment services	**264**	**57**	**507**	**28**	**18**	**18**	**—**	**892**
- Credit and debit card fees	**299**	**21**	**129**	**9**	**2**	**—**	**—**	**460**
- Lending and financing	**42**	**16**	**505**	**7**	**34**	**86**	**—**	**690**
- Brokerage	**54**	**1**	**—**	**6**	**1**	**93**	**—**	**155**
- Investment management, trustee and fiduciary services (1)	**3**	**2**	**1**	**225**	**38**	**2**	**—**	**271**
- Underwriting fees	**—**	**—**	**—**	**—**	**—**	**183**	**—**	**183**
- Other	**1**	**—**	**82**	**26**	**3**	**4**	**(33)**	**83**
Total	**663**	**97**	**1,224**	**301**	**96**	**386**	**(33)**	**2,734**
Fees and commissions payable	**(284)**	**(8)**	**(114)**	**(44)**	**(2)**	**(287)**	**17**	**(722)**
Net fees and commissions	**379**	**89**	**1,110**	**257**	**94**	**99**	**(16)**	**2,012**
2019								
Fees and commissions receivable								
- Payment services	292	61	659	33	27	24	—	1,096
- Credit and debit card fees	427	28	154	12	2	—	—	623
- Lending and financing	356	16	510	3	36	85	—	1,006
- Brokerage	55	8	—	5	—	96	—	164
- Investment management, trustee and fiduciary services	44	3	3	186	41	1	—	278
- Underwriting fees	—	—	—	—	—	170	—	170
- Other	2	5	90	27	2	69	(173)	22
Total	1,176	121	1,416	266	108	445	(173)	3,359
Fees and commissions payable	(480)	(12)	(104)	(40)	(2)	(360)	150	(848)
Net fees and commissions	696	109	1,312	226	106	85	(23)	2,511
2018								
Fees and commissions receivable								
- Payment services	227	34	556	33	25	3	—	878
- Credit and debit card fees	402	22	175	13	—	—	—	612
- Lending and financing	408	31	537	3	33	91	—	1,103
- Brokerage	62	6	—	5	—	85	—	158
- Investment management, trustee and fiduciary services	49	4	—	191	42	—	—	286
- Underwriting fees	13	—	17	—	—	144	—	174
- Other	2	1	60	16	2	67	(141)	7
Total	1,163	98	1,345	261	102	390	(141)	3,218
Fees and commissions payable	(471)	(7)	(62)	(33)	(1)	(423)	136	(861)
Net fees and commissions	692	91	1,283	228	101	(33)	(5)	2,357

Note:
(1) Comparisons with prior periods are impacted by the transfer of the Private Client Advice business to Private Banking from 1 January 2020.

	2020		2019		2018	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Retail Banking	**197,618**	**178,617**	182,305	153,999	171,011	148,792
Ulster Bank RoI	**26,620**	**22,993**	25,385	21,012	25,193	21,189
Commercial Banking	**187,413**	**174,251**	165,399	140,863	166,478	139,804
Private Banking	**26,206**	**32,457**	23,304	28,610	21,983	28,554
RBS International	**33,984**	**31,989**	31,738	30,330	28,398	27,663
NatWest Markets	**270,147**	**254,098**	263,885	246,907	244,531	227,399
Central items & other	**57,503**	**61,262**	31,023	57,762	36,641	54,344
Total	**799,491**	**755,667**	723,039	679,483	694,235	647,745

4 Segmental analysis continued

Segmental analysis of goodwill

There was no movement in the goodwill held by segments for the period 1 January 2019 to 31 December 2020. The total carrying value was £5,607 million, comprised of Retail Banking £2,692 million; Commercial Banking £2,606 million; Private Banking £9 million; and RBS International £300 million.

Geographical segments

The geographical analysis in the tables below has been compiled on the basis of location of office where the transactions are recorded.

2020	UK £m	USA £m	Europe £m	RoW £m	Total £m
Total revenue	12,511	211	944	174	13,840
Interest receivable	9,479	—	570	22	10,071
Interest payable	(2,163)	—	(158)	(1)	(2,322)
Net fees and commissions	1,637	33	245	97	2,012
Income from trading activities	911	170	33	11	1,125
Other operating income	(117)	(22)	45	4	(90)
Total income	9,747	181	735	133	10,796
Operating (loss)/profit before tax	(193)	(85)	(161)	88	(351)
Total assets	704,725	25,439	66,884	2,443	799,491
Total liabilities	686,500	26,932	41,018	1,217	755,667
Contingent liabilities and commitments	118,654	—	10,068	10	128,732
2019					
Total revenue	16,925	228	1,148	128	18,429
Interest receivable	10,923	—	417	35	11,375
Interest payable	(3,255)	—	(70)	(3)	(3,328)
Net fees and commissions	2,191	37	211	72	2,511
Income from trading activities	727	148	49	8	932
Other operating income	2,305	13	436	9	2,763
Total income	12,891	198	1,043	121	14,253
Operating profit before tax	3,543	186	421	82	4,232
Total assets*	634,642	27,396	57,534	3,467	723,039
Total liabilities	613,151	31,715	33,539	1,078	679,483
Contingent liabilities and commitments	114,422	—	10,571	2	124,995
2018					
Total revenue	15,351	300	838	167	16,656
Interest receivable	10,589	—	430	30	11,049
Interest payable	(2,366)	—	(26)	(1)	(2,393)
Net fees and commissions	2,183	12	102	60	2,357
Income from trading activities	1,308	124	68	7	1,507
Other operating income	467	119	229	67	882
Total income	12,181	255	803	163	13,402
Operating profit/(loss) before tax	3,805	(718)	150	122	3,359
Total assets	615,933	25,487	47,211	5,604	694,235
Total liabilities	588,185	31,329	27,183	1,048	647,745
Contingent liabilities and commitments	121,267	—	5,408	208	126,883

*2019 re-presented.

5 Pensions

Defined contribution schemes

NatWest Group sponsors a number of defined contribution pension schemes in different territories, which new employees are offered the opportunity to join.

Defined benefit schemes

NatWest Group sponsors a number of pension schemes in the UK and overseas, including the Main section of the NatWest Group Pension Fund (the "Main section") which operates under UK trust law and is managed and administered on behalf of its members in accordance with the terms of the trust deed, the scheme rules and UK legislation.

Pension fund trustees are appointed to operate each fund and ensure benefits are paid in accordance with the scheme rules and national law. The trustees are the legal owner of a scheme's assets, and have a duty to act in the best interests of all scheme members.

The schemes generally provide a pension of one-sixtieth of final pensionable salary for each year of service prior to retirement up to a maximum of 40 years and are contributory for current members. These have been closed to new entrants for over ten years, although current members continue to build up additional pension benefits, currently subject to 2% maximum annual salary inflation, while they remain employed by NatWest Group.

The Main section corporate trustee is NatWest Pension Trustee Limited (the Trustee), a wholly owned subsidiary of NWB Plc, Principal Employer of the Main section. The Board of the Trustee comprises four member trustee directors selected from eligible active staff, deferred and pensioner members who apply and six appointed by NatWest Group. Under UK legislation, a defined benefit pension scheme is required to meet the statutory funding objective of having sufficient and appropriate assets to cover its liabilities (the pensions that have been promised to members).

Similar governance principles apply to NatWest Group's other pension schemes.

Investment strategy

The assets of the Main section, which is typical of other group schemes, represent 90% of plan assets at 31 December 2020 (2019 - 90%) and are invested as shown below.

The Main section employs derivative instruments to achieve a desired asset class exposure and to reduce the section's interest rate, inflation and currency risk. This means that the net funding position is considerably less sensitive to changes in market conditions than the value of the assets or liabilities in isolation.

Major classes of plan assets as a percentage of total plan assets of the Main section	2020 Quoted %	2020 Unquoted %	2020 Total %	2019 Quoted %	2019 Unquoted %	2019 Total %
Equities	**3.9**	**4.6**	**8.5**	3.9	4.8	8.7
Index linked bonds	**49.4**	**—**	**49.4**	47.8	—	47.8
Government bonds	**6.2**	**—**	**6.2**	9.3	—	9.3
Corporate and other bonds	**11.8**	**5.0**	**16.8**	11.6	5.0	16.6
Real estate	**—**	**4.2**	**4.2**	—	4.8	4.8
Derivatives	**—**	**10.0**	**10.0**	—	7.8	7.8
Cash and other assets	**—**	**4.9**	**4.9**	—	5.0	5.0
	71.3	**28.7**	**100.0**	72.6	27.4	100.0

The Main section's holdings of derivative instruments are summarised in the table below:

	2020			2019		
		Fair value			Fair value	
	Notional amounts £bn	Assets £m	Liabilities £m	Notional amounts £bn	Assets £m	Liabilities £m
Inflation rate swaps	**18**	**1,390**	**1,716**	16	909	1,094
Interest rate swaps	**68**	**11,197**	**6,215**	57	6,407	2,992
Currency forwards	**11**	**334**	**38**	9	215	42
Equity and bond call options	**1**	**169**	**1**	1	122	—
Equity and bond put options	**3**	**1**	**19**	5	3	1
Other	**2**	**63**	**17**	3	124	13

Swaps have been executed at prevailing market rates and within standard market bid/offer spreads with a number of counterparty banks, including NWB Plc.

At 31 December 2020, the gross notional value of the swaps was £88 billion (2019 - £75 billion) and had a net positive fair value of £4,706 million (2019 - £3,340 million) against which the banks had posted approximately 104% collateral.

The schemes do not invest directly in NatWest Group but can have exposure to NatWest Group. The trustees of the respective UK schemes are responsible for ensuring that indirect investments in NatWest Group do not exceed the 5% regulatory limit.

5 Pensions continued

Changes in value of net pension (asset)/liability	Main section Fair value of plan assets £m	Main section Present value of defined benefit obligation (1) £m	Main section Asset ceiling/ minimum funding (2) £m	Main section Net pension (asset)/ liability £m	All schemes Fair value of plan assets £m	All schemes Present value of defined benefit obligation (1) £m	All schemes Asset ceiling/ minimum funding (2) £m	All schemes Net pension (asset)/ liability £m
At 1 January 2019	43,806	35,466	8,340	—	48,752	39,607	8,790	(355)
Currency translation and other adjustments	—	—	—	—	(85)	(76)	—	9
Income statement	1,245	1,156	242	153	1,374	1,307	255	188
Statement of comprehensive income	3,021	4,825	(1,696)	108	3,556	5,428	(1,730)	142
Contributions by employer	261	—	—	(261)	473	—	—	(473)
Contributions by plan participants and other scheme members	10	10	—	—	15	15	—	—
Liabilities extinguished upon settlement	—	—	—	—	(188)	(194)	—	(6)
Benefits paid	(1,788)	(1,788)	—	—	(1,972)	(1,972)	—	—
At 1 January 2020	**46,555**	**39,669**	**6,886**	**—**	**51,925**	**44,115**	**7,315**	**(495)**
Currency translation and other adjustments	**—**	**4**	**—**	**4**	**92**	**71**	**—**	**(21)**
Income statement								
Net interest expense	**936**	**795**	**141**	**—**	**1,037**	**890**	**149**	**2**
Current service cost	**—**	**156**	**—**	**156**	**—**	**208**	**—**	**208**
Past service cost	**—**	**3**	**—**	**3**	**—**	**5**	**—**	**5**
	936	**954**	**141**	**159**	**1,037**	**1,103**	**149**	**215**
Statement of comprehensive income								
Return on plan assets excluding recognised interest income	**5,486**	**—**	**—**	**(5,486)**	**6,027**	**—**	**—**	**(6,027)**
Experience gains and losses	**—**	**(427)**	**—**	**(427)**	**—**	**(455)**	**—**	**(455)**
Effect of changes in actuarial financial assumptions	**—**	**5,419**	**—**	**5,419**	**—**	**5,974**	**—**	**5,974**
Effect of changes in actuarial demographic assumptions	**—**	**138**	**—**	**138**	**—**	**185**	**—**	**185**
Asset ceiling adjustments	**—**	**—**	**426**	**426**	**—**	**—**	**319**	**319**
	5,486	**5,130**	**426**	**70**	**6,027**	**5,704**	**319**	**(4)**
Contributions by employer	**233**	**—**	**—**	**(233)**	**296**	**—**	**—**	**(296)**
Contributions by plan participants and other scheme members	**9**	**9**	**—**	**—**	**14**	**14**	**—**	**—**
Liabilities extinguished upon settlement	**—**	**—**	**—**	**—**	**(2)**	**(3)**	**—**	**(1)**
Benefits paid	**(1,896)**	**(1,896)**	**—**	**—**	**(2,140)**	**(2,140)**	**—**	**—**
At 31 December 2020	**51,323**	**43,870**	**7,453**	**—**	**57,249**	**48,864**	**7,783**	**(602)**

Notes:
(1) Defined benefit obligations are subject to annual valuation by independent actuaries.
(2) NatWest Group recognises the net pension scheme surplus or deficit as a net asset or liability. In doing so, the funded status is adjusted to reflect any schemes with a surplus that NatWest Group may not be able to access, as well as any minimum funding requirement to pay in additional contributions. This is most relevant to the Main section, where the surplus is not recognised. Other NatWest Group schemes that this applies to include the Ulster Bank Limited scheme and the NatWest Markets section.
(3) NatWest Group expects to make contributions to the Main section of £215 million in 2021. Additional contributions of up to £500 million will be paid to the Main section, should NatWest Group make distributions in 2021, in line with the ring-fencing agreement with the Trustee.

Amounts recognised on the balance sheet	All schemes 2020 £m	All schemes 2019 £m
Fund assets at fair value	**57,249**	51,925
Present value of fund liabilities	**48,864**	44,115
Funded status	**8,385**	7,810
Asset ceiling/minimum funding	**7,783**	7,315
	602	495

Net pension asset/(liability) comprises	2020 £m	2019 £m
Net assets of schemes in surplus (included in Other assets, Note 17)	**723**	614
Net liabilities of schemes in deficit (included in Other liabilities, Note 20)	**(121)**	(119)
	602	495

Notes to the consolidated financial statements

5 Pensions continued

Funding and contributions by NatWest Group

In the UK, the trustees of defined benefit pension schemes are required to perform funding valuations every three years. The trustees and the sponsor, with the support of the Scheme Actuary, agree the assumptions used to value the liabilities and a Schedule of Contributions required to eliminate any funding deficit. The funding assumptions incorporate a margin for prudence over and above the expected cost of providing the benefits promised to members, taking into account the sponsor's covenant and the investment strategy of the scheme. Similar arrangements apply in the other territories where the NatWest Group sponsors defined benefit pension schemes. The last funding valuation of the Main section was at 31 December 2017. The next funding valuation, as at 31 December 2020, is to be agreed by 31 March 2022.

The triennial funding valuation of the Main section as at 31 December 2017 determined the funding level to be 96%, pension liabilities to be £47 billion and the deficit to be £2 billion, which was eliminated by a £2 billion cash payment in October 2018. The average cost of the future service of current members is 44% of salary before administrative expenses and contributions from those members.

In 2018, the Group recognised an updated estimate of the impact of guaranteed minimum pension equalisation (£102m) following the clarity provided by the October 2018 Court ruling. Discussions around implementing changes to benefits are well advanced, and the estimate has been revised to £169m (2019: £141m) to reflect this.

Assumptions

Placing a value on NatWest Group's defined benefit pension schemes' liabilities requires NatWest Group's management to make a number of assumptions, with the support of independent actuaries. The ultimate cost of the defined benefit obligations depends upon actual future events and the assumptions made are unlikely to be exactly borne out in practice, meaning the final cost may be higher or lower than expected.

The most significant assumptions used for the Main section are shown below:

	Principal IAS 19 actuarial assumptions		
	2020	2019	Principal assumptions of Main section
	%	%	2017 triennial valuation
Discount rate	**1.4**	2.1	Fixed interest swap yield curve plus 0.8% per annum
Inflation assumption (RPI)	**2.9**	2.9	RPI swap yield curve
Rate of increase in salaries	**1.8**	1.8	
Rate of increase in deferred pensions	**3.0**	3.0	
Rate of increase in pensions in payment	**2.7**	2.8	Modelled allowance for relevant caps and floors
Lump sum conversion rate at retirement	**20**	20	18%
Longevity at age 60:	**years**	years	
Current pensioners			
Males	**27.1**	26.9	28.1
Females	**29.0**	28.7	29.7
Future pensioners, currently aged 40			
Males	**28.3**	28.2	29.3
Females	**30.4**	30.2	31.5

Discount rate

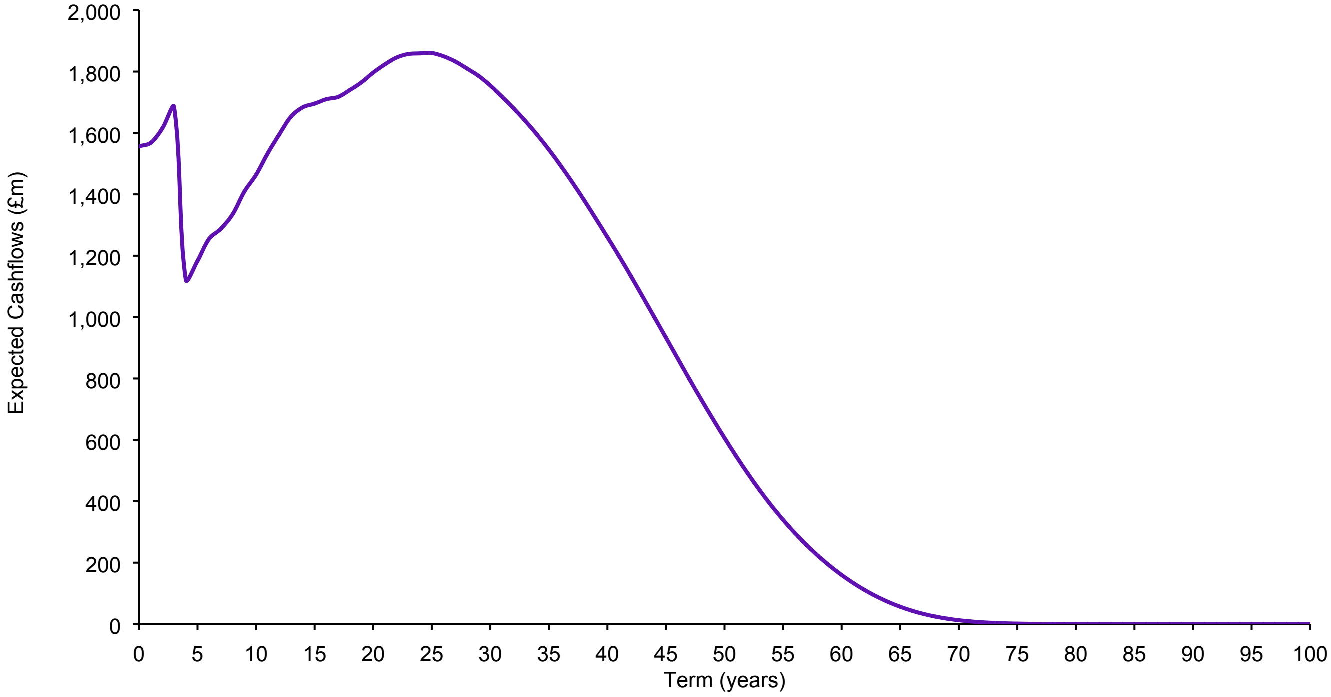
The IAS 19 valuation uses a single discount rate set by reference to the yield on a basket of 'high quality' sterling corporate bonds. For the triennial valuation discounting is by reference to a yield curve.

The weighted average duration of the Main section's defined benefit obligation at 31 December 2020 is 22 years (2019 – 21 years).

Significant judgement is required when setting the criteria for bonds to be included in the basket of bonds that is used to determine the discount rate used in the IAS 19 valuations. The criteria include issue size, quality of pricing and the exclusion of outliers. Judgement is also required in determining the shape of the yield curve at long durations; a constant credit spread relative to gilts is assumed. Sensitivity to the main assumptions is presented below.

5 Pensions continued

The chart below shows the projected benefit payment pattern for the Main section in nominal terms. These cashflows are based on the most recent formal actuarial valuation, effective 31 December 2017.



The larger outflow in the first four years represents the expected level of transfers out to 31 December 2021.

The table below shows how the net pension asset of the Main section would change if the key assumptions used were changed independently. In practice the variables have a degree of correlation and do not move completely in isolation.

2020	(Decrease)/increase in value of assets £m	(Decrease)/ increase in value of liabilities £m	Increase in net pension (obligations)/ assets £m
0.25% increase in interest rates/discount rate	**(2,585)**	**(2,384)**	**(201)**
0.25% increase in inflation	**2,204**	**1,603**	**601**
0.25% increase in credit spreads	**(6)**	**(2,384)**	**2,378**
Longevity increase of one year	**—**	**1,930**	**(1,930)**
0.25% additional rate of increase in pensions in payment	**—**	**1,608**	**(1,608)**
Increase in equity values of 10% (1)	**454**	**—**	**454**
2019			
0.25% increase in interest rates/discount rate	(2,330)	(1,973)	(357)
0.25% increase in inflation	1,923	1,394	529
0.25% increase in credit spreads	(5)	(1,973)	1,968
Longevity increase of one year	—	1,706	(1,706)
0.25% additional rate of increase in pensions in payment	—	1,326	(1,326)
Increase in equity values of 10% (1)	430	—	430

Note:
(1) Includes both quoted and private equity.

The funded status is most sensitive to movements in credit spreads and longevity. The table below shows the combined change in the funded status of the Main section as a result of larger movements in these assumptions, assuming no changes in other assumptions.

		Change in life expectancies				
2020		-2 years £bn	-1 years £bn	No change £bn	+ 1 year £bn	+ 2 years £bn
Change in credit spreads	+50 bps	**7.8**	**6.1**	**4.5**	**2.9**	**1.3**
	No change	**3.9**	**1.9**	**—**	**(1.9)**	**(3.9)**
	-50 bps	**(0.6)**	**(2.8)**	**(5.1)**	**(7.4)**	**(9.7)**
2019						
Change in credit spreads	+50 bps	6.9	5.4	3.9	2.3	0.8
	No change	3.6	1.7	—	(1.7)	(3.6)
	-50 bps	(0.2)	(2.3)	(4.4)	(6.5)	(8.7)

Notes to the consolidated financial statements

5 Pensions continued

The defined benefit obligation of the Main section is attributable to the different classes of scheme members in the following proportions:

Membership category	2020 %	2019 %
Active members	**14.2**	13.6
Deferred members	**50.9**	49.7
Pensioners and dependants	**34.9**	36.7
	100.0	100.0

The experience history of NatWest Group schemes is shown below:

	Main section					All schemes				
History of defined benefit schemes	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Fair value of plan assets	**51,323**	46,555	43,806	44,652	43,824	**57,249**	51,925	48,752	49,746	49,229
Present value of plan obligations	**43,870**	39,669	35,466	37,937	38,851	**48,864**	44,115	39,607	42,378	43,990
Net surplus	**7,453**	6,886	8,340	6,715	4,973	**8,385**	7,810	9,145	7,368	5,239
Experience gains/(losses) on plan liabilities	**427**	275	(122)	(107)	658	**455**	279	(81)	(93)	794
Experience gains/(losses) on plan assets	**5,486**	3,021	(1,891)	1,580	8,562	**6,027**	3,556	(2,090)	1,728	9,254
Actual return on plan assets	**6,422**	4,266	(768)	2,735	9,872	**7,064**	4,930	(848)	3,013	10,708
Actual return on plan assets	**13.8%**	9.7%	(1.7%)	6.2%	32.2%	**13.6%**	10.1%	(1.7%)	6.1%	30.9%

6 Auditor's remuneration

Amounts payable to NatWest Group's auditors for statutory audit and other services are set out below. All audit-related and other services are approved by the Group Audit Committee and are subject to strict controls to ensure the external auditor's independence is unaffected by the provision of other services. The Group Audit Committee recognises that for certain assignments, the auditors are best placed to perform the work economically; for other work, NatWest Group selects the supplier best placed to meet its requirements. NatWest Group's auditors are permitted to tender for such work in competition with other firms where the work is permissible under audit independence rules.

	2020 £m	2019 £m	2018 £m
Fees payable for:			
- the audit of NatWest Group's annual accounts (1)	**4.7**	3.8	3.5
- the audit of NatWest Group plc's subsidiaries (1)	**30.6**	25.7	27.5
- audit-related assurance services (1,2)	**4.7**	3.2	2.9
Total audit and audit-related assurance services fees	**40.0**	32.7	33.9
Other assurance services	**0.6**	1.2	1.3
Corporate finance services (3)	**0.4**	0.6	0.2
Total other services	**1.0**	1.8	1.5

Notes:

(1) The 2020 audit fee was approved by the Group Audit Committee. At 31 December 2020, £23 million has been billed and paid in respect of the 2020 NatWest Group audit fees.

(2) Comprises fees of £1.1 million (2019 - £1.1 million) in relation to reviews of interim financial information, £3.2 million (2019 - £1.4 million) in respect of reports to NatWest Group's regulators in the UK and overseas, and £0.4 million (2019 - £0.7 million) in relation to non-statutory audit opinions.

(3) Comprises fees of £0.4 million (2019 - £0.6 million) in respect of work performed by the auditors as reporting accountants on debt and equity issuances undertaken by NatWest Group.

7 Tax

	2020 £m	2019 £m	2018 £m
Current tax			
Charge for the year	**(191)**	(673)	(1,025)
Over provision in respect of prior years	**86**	122	125
	(105)	(551)	(900)
Deferred tax			
Credit/(charge) for the year	**251**	38	(280)
(Decrease)/increase in the carrying value of deferred tax assets in respect of UK and Ireland losses	**(139)**	62	7
(Under)/over provision in respect of prior years	**(90)**	19	(35)
Tax charge for the year	**(83)**	(432)	(1,208)

The actual tax charge differs from the expected tax charge, computed by applying the standard rate of UK corporation tax of 19% (2019 and 2018 – 19%), as follows:

	2020 £m	2019 £m	2018 £m
Expected tax credt/(charge)	**67**	(804)	(638)
Losses and temporary differences in year where no deferred tax asset recognised	**(27)**	(4)	(55)
Foreign profits taxed at other rates	**(20)**	23	(8)
Items not allowed for tax:			
- losses on disposals and write-downs	**(22)**	(71)	(44)
- UK bank levy	**(32)**	(26)	(38)
- regulatory and legal actions	**14**	(165)	(203)
- other disallowable items	**(70)**	(62)	(63)
Non-taxable items:			
- Alawwal bank merger gain disposal	**—**	215	—
- FX recycling on the liquidation of RFS Holdings	**—**	279	—
- other non-taxable items	**28**	80	47
Taxable foreign exchange movements	**(3)**	(1)	(27)
Losses brought forward and utilised	**16**	27	14
Increase/(decrease) in the carrying value of deferred tax assets in respect of:			
- UK losses	**7**	129	7
- Ireland losses	**(146)**	(67)	—
Banking surcharge	**(27)**	(199)	(357)
Tax on paid-in equity	**61**	73	67
UK tax rate change impact (1)	**75**	—	—
Adjustments in respect of prior years (2)	**(4)**	141	90
Actual tax charge	**(83)**	(432)	(1,208)

Notes:
(1) The Finance Bill 2020 amended the rate of UK corporation tax to 19% for the financial year beginning 1 April 2020. This reverses the rate reduction to 17% for the financial year beginning 1 April 2020 previously enacted. Deferred tax balances previously based on the lower rate have been restated accordingly.
(2) Prior year tax adjustments incorporate refinements to tax computations made on submission and agreement with the tax authorities. Current taxation balances include provisions in respect of uncertain tax positions, in particular in relation to restructuring and other costs where the taxation treatment remains subject to agreement with the relevant tax authorities.

Judgment: tax contingencies

NatWest Group's income tax charge and its provisions for income taxes necessarily involve a degree of estimation and judgement. The tax treatment of some transactions is uncertain and tax computations are yet to be agreed with the tax authorities in a number of jurisdictions. NatWest Group recognises anticipated tax liabilities based on all available evidence and, where appropriate, in the light of external advice. Any difference between the final outcome and the amounts provided will affect current and deferred income tax charges in the period when the matter is resolved.

Deferred tax

	2020 £m	2019 £m
Deferred tax asset	**(901)**	(1,011)
Deferred tax liability	**291**	266
Net deferred tax asset	**(610)**	(745)

7 Tax continued

	Pension £m	Accelerated capital allowances £m	Expense provisions £m	Financial instruments £m	Tax losses carried forward £m	Other £m	Total £m
At 1 January 2019	(528)	220	(159)	349	(936)	96	(958)
Implementation of IFRS16 on 1 January 2019	—	—	—	—	—	(60)	(60)
Acquisitions and disposals of subsidiaries	(1)	(1)	—	18	—	—	16
Charge/(credit) to income statement	28	(43)	41	(81)	(28)	(36)	(119)
Charge/(credit) to other comprehensive income	362	—	—	30	—	(20)	372
Currency translation and other adjustments	—	(4)	—	(1)	13	(4)	4
At 1 January 2020	(139)	172	(118)	315	(951)	(24)	(745)
Charge/(credit) to income statement	**15**	**(234)**	**33**	**114**	**55**	**(5)**	**(22)**
Charge/(credit) to other comprehensive income	**119**	**—**	**—**	**51**	**—**	**(7)**	**163**
Currency translation and other adjustments	**1**	**(2)**	**—**	**—**	**(9)**	**4**	**(6)**
At 31 December 2020	**(4)**	**(64)**	**(85)**	**480**	**(905)**	**(32)**	**(610)**

Deferred tax assets in respect of carried forward tax losses are recognised if the losses can be used to offset probable future taxable profits after taking into account the expected reversal of other temporary differences. Recognised deferred tax assets in respect of tax losses are analysed further below.

	2020 £m	2019 £m
UK tax losses carried forward		
- NWM Plc	**62**	75
- NWB Plc	**592**	530
- RBS plc	**200**	150
- Ulster Bank Limited	**8**	15
Total	**862**	770
Overseas tax losses carried forward		
UBI DAC	**43**	181
	905	951

Critical accounting policy: Deferred Tax

NatWest Group has recognised a deferred tax asset of £901 million (31 December 2019 - £1,011 million) that principally comprises losses that arose in the UK, temporary differences, and a deferred tax liability of £291 million (31 December 2019 - £266 million). This includes amounts recognised in respect of UK trading losses of £862 million (31 December 2019 - £770 million). Deferred tax assets are recognised to the extent that it is probable that there will be future taxable profits to recover them.

Judgment - NatWest Group has considered the carrying value of deferred tax assets and concluded that, based on management's estimates, sufficient taxable profits will be generated in future years to recover recognised deferred tax assets.

Estimate **-** These estimates are partly based on forecast performance beyond the horizon for management's detailed plans. They have regard to inherent uncertainties, such as Brexit, climate change, and the impact of COVID. The deferred tax asset in NWM Group is supported by way of future reversing temporary timing differences on which deferred tax liabilities are recognised at 31 December 2020.

UK tax losses - Under UK tax rules, tax losses can be carried forward indefinitely. As the recognised tax losses in NatWest Group arose prior to 1 April 2015, credit in future periods is given against 25% of profits at the main rate of UK corporation tax, excluding the Banking Surcharge 8% rate introduced by The Finance (No. 2) Act 2015. Deferred tax assets and liabilities at 31 December 2020 take into account the reduced rates in respect of tax losses and temporary differences and where appropriate, the banking surcharge inclusive rate in respect of other banking temporary differences.

NWM Plc – NWM Plc expects that the balance of recognised deferred tax asset at 31 December 2020 of £62 million (2019 - £75 million) in respect of tax losses amounting to approximately £325 million will be recovered by the end of 2027. The movement in the current financial year reflects a £22 million decrease in the carrying value of the deferred tax asset, offset by a £9m increase due to the UK tax rate change impact.

NWB Plc – A deferred tax asset of £592 million has been recognised in respect of total losses of £3,117 million. The losses arose principally as a result of significant impairment and conduct charges between 2009 and 2012 during challenging economic conditions in the UK banking sector. NWB Plc returned to tax profitability during 2015 and expects the deferred tax asset to be utilised against future taxable profits by the end of 2026.

RBS plc – A deferred tax asset of £200 million has been recognised in respect of losses of £1,053 million of total losses of £4,242 million carried forward at 31 December 2020. The losses were transferred from NatWest Markets Plc as a consequence of the ring fencing regulations. RBS plc expects the deferred tax asset to be utilised against future taxable profits by the end of 2026.

7 Tax continued

Overseas tax losses

UBI DAC – The Bank carried forward losses of £9,071 million at 31 December 2020. The losses arose principally as a result of significant impairment charges between 2008 and 2013 during challenging economic conditions in the Republic of Ireland. A deferred tax asset of £43 million has been recognised at 31 December 2020 in respect of £342 million of those total losses. The movement in the current financial year reflects a £146 million reduction in the carrying value of the deferred tax asset based on a revised economic outlook, and £:€ exchange differences. UBIDAC expects the deferred tax asset to be utilised against future taxable profits by the end of 2029.

NatWest Market N.V. (NWM N.V.) – NWM N.V. Group management did not recognise a deferred tax asset in respect of losses carried forward at 31 December 2020 due to the implications from the wider strategic review of the NWM franchise, and the uncertainty around the consequences of Brexit on the volume and pace of transfers of business from NWM Plc and NWB Plc to NWM N.V..

Unrecognised deferred tax

Deferred tax assets of £4,965 million (2019 - £4,653 million; 2018 - £5,118, million) have not been recognised in respect of tax losses and other temporary differences carried forward of £25,091 million (2019 - £23,555 million; 2018 - £25,597 million) in jurisdictions where doubt exists over the availability of future taxable profits. Of these losses and other temporary differences, £714 million expire within five years and £4,496 million thereafter. The balance of tax losses and other temporary differences carried forward has no expiry date.

Deferred tax liabilities of £242 million (2019 - £262 million; 2018 - £257 million) have not been recognised in respect of retained earnings of overseas subsidiaries and held-over gains on the incorporation of certain overseas branches. Retained earnings of overseas subsidiaries are expected to be reinvested indefinitely or remitted to the UK free from further taxation. No taxation is expected to arise in the foreseeable future in respect of held-over gains on which deferred tax is not recognised. Changes to UK tax legislation largely exempts from UK tax, overseas dividends received on or after 1 July 2009.

8 Earnings per share

	2020 £m	2019 £m	2018 £m
Earnings			
(Loss)/Profit attributable to ordinary shareholders	**(753)**	3,133	1,622
Weighted average number of shares (millions)			
Weighted average number of ordinary shares outstanding during the year	**12,095**	12,067	12,009
Effect of dilutive share options and convertible securities	**23**	35	52
Diluted weighted average number of ordinary shares outstanding during the year	**12,118**	12,102	12,061

9 Trading assets and liabilities

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

Assets	2020 £m	2019 £m
Loans		
Reverse repos	**19,404**	24,095
Collateral given	**18,760**	20,579
Other loans	**1,611**	1,947
Total loans	**39,775**	46,621
Securities		
Central and local government		
- UK	**4,184**	4,897
- US	**5,149**	5,458
- Other	**16,436**	14,902
Financial institutions and Corporate	**3,446**	4,867
Total securities	**29,215**	30,124
Total	**68,990**	76,745
Liabilities		
Deposits		
Repos	**19,036**	27,885
Collateral received	**23,229**	21,509
Other deposits	**1,804**	1,606
Total deposits	**44,069**	51,000
Debt securities in issue	**1,408**	1,762
Short positions	**26,779**	21,187
Total	**72,256**	73,949

Notes to the consolidated financial statements

10 Derivatives

Companies within NatWest Group transact derivatives as principal either as a trading activity or to manage balance sheet foreign exchange, interest rate and credit risk.

	2020			2019		
	Notional £bn	**Assets £m**	**Liabilities £m**	Notional £bn	Assets £m	Liabilities £m
Exchange rate contracts	**3,328**	**52,239**	**55,107**	3,750	44,792	47,141
Interest rate contracts	**10,703**	**114,115**	**105,214**	11,293	104,957	99,331
Credit derivatives	**15**	**161**	**376**	17	280	359
Equity and commodity contracts	**1**	**8**	**8**	3	—	48
		166,523	**160,705**		150,029	146,879

NatWest Group applies hedge accounting to manage the following risks: interest rate, foreign exchange and net investment in foreign operations.

NatWest Group's interest rate hedging relate to the management of NatWest Group's non-trading structural interest rate risk, caused by the mismatch between fixed interest rates and floating interest rates. NatWest Group manages this risk within approved limits. Residual risk positions are hedged with derivatives, principally interest rate swaps. Suitable larger financial instruments are fair value hedged; the remaining exposure, where possible, is hedged by derivatives documented as cash flow hedges.

Cash flow hedges of interest rate risk relates to exposures to the variability in future interest payments and receipts due to the movement of benchmark interest rates on forecast transactions and on recognised financial assets and financial liabilities. This variability in cash flows is hedged by interest rate swaps, fixing the hedged cash flows. For these cash flow hedge relationships, the hedged items are actual and forecast variable interest rate cash flows arising from financial assets and financial liabilities with interest rates linked to the relevant benchmark rate LIBOR, EURIBOR, SONIA, the Bank of England Official Bank Rate or the European Central Bank Refinance Rate. The variability in cash flows due to movements in the relevant benchmark rate is hedged; this risk component is identified using the risk management systems of NatWest Group. This risk component comprises the majority of cash flow variability risk.

Fair value hedges of interest rate risk involve interest rate swaps transforming the fixed interest rate risk in recognised financial assets and financial liabilities to floating. The hedged risk is the risk of changes in the hedged item's fair value attributable to changes in the benchmark interest rate embedded in the hedged item. The significant embedded benchmarks are LIBOR, EURIBOR and SONIA. This risk component is identified using the risk management systems of NatWest Group. This risk component comprises the majority of the hedged items fair value risk.

NatWest Group hedges the exchange rate risk of its net investment in foreign currency denominated operations with currency borrowings and forward foreign exchange contracts. NatWest Group reviews the value of the investments' net assets, executing hedges where appropriate to reduce the sensitivity of capital ratios to foreign exchange rate movement. Hedge accounting relationships will be designated where required.

Exchange rate risk also arises in NatWest Group where payments are denominated in different currencies than the functional currency. Residual risk positions are hedged with forward foreign exchange contracts. Exposure to the variability in future payments due to the movement of foreign exchange rates is hedged, fixing the exchange rate the payments will be settled in. The derivatives are documented as cash flow hedges.

For all cash flow hedging and fair value hedge relationships NatWest Group determines that there is an adequate level of offsetting between the hedged item and hedging instrument by assessing the initial and ongoing effectiveness by comparing movements in the fair value of the expected highly probable forecast interest cash flows/fair value of the hedged item attributable to the hedged risk with movements in the fair value of the expected changes in cash flows from the hedging interest rate swap. Hedge effectiveness is measured on a cumulative basis over a time period management determines to be appropriate. NatWest Group uses either the actual ratio between the hedged item and hedging instrument(s) or one that minimises hedge ineffectiveness to establish the hedge ratio for hedge accounting.

A number of the current cash flow and fair value hedges of interest rate risk that mature post 31 December 2021 will be directly affected by interest rate benchmark reform. NatWest Group early adopted the amendments to IAS 39 and IFRS 7 issued in September 2019 for reporting periods beginning 1 January 2019; these amendments are known as Phase 1 relief. The relief allows, where uncertainty arising from benchmark rate reform exists, the following:

- When assessing if affected forecasted cash flows are highly probable or still expected to occur; it is assumed the IBOR based forecasted hedged cash flows are not altered as a result of interest rate benchmark reform.
- For the purpose of the prospective effectiveness assessment; it is assumed the IBOR based hedged cash flows and/ or hedged risk are not altered as a result of interest rate benchmark reform.
- Hedge accounting relationships will not be discontinued if they fall outside the 80 – 125% range when performing a retrospective effectiveness assessment.
- The assessment as to whether a non-contractually specified IBOR risk component is separately identifiable, is done only at the inception of the relationship.

The disclosures made for the notional of hedging instruments and risk exposures affected by interest rate benchmark reform contain information for both the hedging instrument and hedged risks even if only one of these will be directly impacted by the reform.

NatWest Group early adopted the amendments to IAS 39 issued in August 2020 for reporting periods beginning 1 January 2021; these amendments are known as Phase 2 relief and apply at the point where components of a hedge accounting relationships transition to reference an alternative interest rate benchmark. Where relationships have transitioned in the year, the impacted hedge accounting relationships had their designations amended in line with the Phase 2 relief.

The following phase 2 reliefs have been applied:

- Where forecasted cash flows in cash flow hedge relationships have transitioned to an alternative benchmark interest rate, the relevant hedge accounting designations have been amended.
- As a result of the amended designations the balances in other comprehensive income linked to the transitioned forecasted cash flows are now deemed based on the alternative benchmark interest rate.

10 Derivatives continued

Included in the table above are derivatives held for hedging purposes as follows:

	2020				2019			
	Notional £bn	Assets £m	Liabilities £m	Changes in fair value used for hedge ineffectiveness (1) £m	Notional £bn	Assets £m	Liabilities £m	Changes in fair value used for hedge ineffectiveness (1) £m
Fair value hedging								
Interest rate contracts	65.5	1,878	3,844	(875)	65.1	1,186	2,641	(585)
Cash flow hedging								
Interest rate contracts	128.8	2,035	1,210	217	148.4	1,450	833	366
Exchange rate contracts	14.4	37	116	(52)	12.3	66	8	(59)
Net investment hedging								
Exchange rate contracts	0.2	—	9	11	0.4	—	4	8
	208.9	3,950	5,179	(699)	226.2	2,702	3,486	(270)
IFRS netting		(3,857)	(5,049)			(2,500)	(3,464)	
		93	130			202	22	

Note:

(1) The change in fair value used for hedge ineffectiveness includes instruments that were decrecognised in the year.

The notional of hedging instruments affected by interest rate benchmark reform is as follows:

	2020 £bn	2019 £bn
Fair value hedging		
- EURIBOR	13.6	11.1
- GBP LIBOR	11.2	13.6
- USD LIBOR	26.6	26.6
- Other CCY LIBOR	1.1	—
Cash flow hedging		
- EURIBOR	5.2	3.4
- GBP LIBOR	51.7	47.2
- USD LIBOR	2.7	2.1

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10 Derivatives continued

The following table shows the period in which the hedging contract ends:

2020	0-3 months £bn	3-12 months £bn	1-3 years £bn	3-5 years £bn	5-10 years £bn	10-20 years £bn	20+ years £bn	Total £bn
Fair value hedging								
Hedging assets - interest rate risk	**1.2**	**2.3**	**6.3**	**7.4**	**8.9**	**5.1**	**4.2**	**35.4**
Hedging liabilities - interest rate risk	**—**	**0.6**	**10.1**	**11.6**	**7.1**	**0.5**	**0.2**	**30.1**
Cash flow hedging								
Hedging assets								
Interest rate risk	**0.7**	**10.5**	**19.3**	**13.9**	**10.5**	**0.1**	**—**	**55.0**
Average fixed interest rate (%)	**1.28**	**1.22**	**1.51**	**1.06**	**0.92**	**3.12**	**—**	**1.23**
Hedging liabilities								
Interest rate risk	**1.6**	**28.9**	**36.8**	**3.4**	**2.4**	**0.7**	**—**	**73.8**
Average fixed interest rate (%)	**1.14**	**0.78**	**0.37**	**1.25**	**0.65**	**4.55**	**—**	**0.64**
Hedging assets								
Exchange rate risk	**—**	**—**	**1.0**	**0.2**	**—**	**—**	**—**	**1.2**
Average JPY - € rate	**—**	**—**	**120.21**	**—**	**—**	**—**	**—**	**120.21**
Average JPY - £ rate	**—**	**—**	**133.31**	**132.89**	**—**	**—**	**—**	**132.93**
Average JPY - $ rate	**—**	**107.53**	**107.06**	**109.70**	**—**	**—**	**—**	**107.44**
Average USD - £ rate	**—**	**—**	**1.22**	**—**	**—**	**—**	**—**	**1.22**
Hedging liabilities								
Exchange rate risk	**0.1**	**5.5**	**4.4**	**1.5**	**1.7**	**—**	**—**	**13.2**
Average USD - £ rate	**—**	**1.32**	**1.33**	**1.56**	**1.38**	**—**	**—**	**1.36**
Average INR - £ rate	**93.21**	**95.99**	**—**	**—**	**—**	**—**	**—**	**95.29**
Net investment hedging								
Exchange rate risk	**0.1**	**0.1**	**—**	**—**	**—**	**—**	**—**	**0.2**
Principal currency hedges								
Average SEK - £ rate	**11.15**	**12.56**	**—**	**—**	**—**	**—**	**—**	**11.53**
Average DKK - £ rate	**8.28**	**—**	**—**	**—**	**—**	**—**	**—**	**8.28**
Average NOK - £ rate	**12.73**	**—**	**—**	**—**	**—**	**—**	**—**	**12.73**
2019								
Fair value hedging								
Hedging assets - interest rate risk	0.6	1.6	8.1	5.5	12.5	4.4	4.3	37.0
Hedging liabilities - interest rate risk	—	0.5	6.3	12.7	6.6	2.0	—	28.1
Cash flow hedging								
Hedging assets								
Interest rate risk	4.8	11.4	31.7	10.7	12.2	—	—	70.8
Average fixed interest rate (%)	1.10	0.97	1.20	1.78	1.44	3.12	—	1.11
Hedging liabilities								
Interest rate risk	1.9	22.0	45.2	5.3	2.4	0.8	—	77.6
Average fixed interest rate (%)	0.83	1.01	0.87	1.32	1.12	4.31	—	0.98
Exchange rate risk	—	1.9	6.2	3.1	1.1	—	—	12.3
Average USD - £ rate	—	1.56	1.30	1.30	1.44	—	—	1.35
Average INR - £ rate	—	88.64	94.01	—	—	—	—	93.11
Net investment hedging								
Exchange rate risk	0.1	0.3	—	—	—	—	—	0.4
Principal currency hedges								
Average SEK - £ rate	12.27	12.10	—	—	—	—	—	12.21
Average DKK - £ rate	8.78	—	—	—	—	—	—	8.78
Average NOK - £ rate	12.36	—	—	—	—	—	—	12.36

10 Derivatives continued

The table below analyses assets and liabilities, subject to hedging derivatives.

2020	Carrying value of hedged assets and liabilities £m	Impact on hedged items included in carrying value £m	Changes in fair value used as a basis to determine ineffectiveness (1) £m	Impact on hedged items ceased to be adjusted for hedging gains or losses £m
Fair value hedging - interest rate				
Loans to banks and customers - amortised cost	**7,947**	**1,242**	**323**	**77**
Other financial assets - securities	**34,665**	**2,254**	**1,568**	**—**
Total	**42,612**	**3,496**	**1,891**	**77**
Other financial liabilities - debt securities in issue	**29,317**	**1,336**	**(746)**	**—**
Subordinated liabilities	**6,877**	**356**	**(268)**	**10**
Total	**36,194**	**1,692**	**(1,014)**	**10**
Cash flow hedging - interest rate				
Loans to banks and customers - amortised cost	**53,447**		**(601)**	
Other financial assets - securities	**2,616**		**(16)**	
Total	**56,063**		**(617)**	
Cash flow hedging - interest rate				
Bank and customer deposits	**72,880**		**409**	
Other financial liabilities - debt securities in issue	**1,014**		**13**	
Cash flow hedging - exchange rate				
Other financial liabilities - debt securities in issue	**9,582**		**52**	
Total	**83,476**		**474**	
2019				
Fair value hedging - interest rate				
Loans to banks and customers - amortised cost	6,716	1,023	165	86
Other financial assets - securities	35,796	1,274	1,474	—
Total	42,512	2,297	1,639	86
Other financial liabilities - debt securities in issue	26,811	830	(807)	30
Subordinated liabilities	5,398	(275)	(222)	24
Total	32,209	555	(1,029)	54
Cash flow hedging - interest rate				
Loans to banks and customers - amortised cost	69,254		(566)	
Other financial assets - securities	2,275		(16)	
Total	71,529		(582)	
Cash flow hedging - interest rate				
Bank and customer deposits	75,837		225	
Other financial liabilities - debt securities in issue	1,009		14	
Cash flow hedging - exchange rate				
Other financial liabilities - debt securities in issue	12,264		59	
Total	89,110		298	

Note:
(1) The change in fair value used for hedge ineffectiveness instruments derecognised in the year.

Notes to the consolidated financial statements

10 Derivatives continued

The following risk exposures will be affected by interest rate benchmark reform (notional, hedged adjustment):

	2020		2019 (1)	
	Notional £bn	Hedged adjustment £m	Notional £bn	Hedged adjustment £m
Fair value hedging				
- EURIBOR	15.1	27	12.7	93
- GBP LIBOR	11.4	1,178	13.9	1,211
- USD LIBOR	28.1	(427)	27.3	(303)
- Other CCY LIBOR	1.1	1	0.8	—
Cash flow hedging				
- EURIBOR	4.1	(76)	3.3	(46)
- GBP LIBOR	10.5	(473)	9.6	(186)
- USD LIBOR	2.7	(61)	2.0	5
- BOE Base rate (2)	40.7	(156)	37.5	(285)
- ECB REFI rate (2)	1.2	—	0.1	—
- SONIA (2)	0.6	4	0.1	—

Notes:
(1) 2019 has been restated to align the methodology used to identify hedge relationships subject to IBOR reform.
(2) Hedge relationships subject to reform are those where either the hedged item or the hedging instrument is subject to the IBOR reform.

The following table shows an analysis of cash flow hedge reserve and foreign exchange hedge reserve.

	2020		2019	
	Cash flow hedge reserve £m	Foreign exchange hedge reserve £m	Cash flow hedge reserve £m	Foreign exchange hedge reserve £m
Continuing				
Interest rate risk	690	—	460	—
Foreign exchange risk	27	(72)	56	(50)
De-designated				
Interest rate	(424)	—	(494)	—
Foreign exchange risk	(1)	(716)	(2)	(510)
Total	292	(788)	20	(560)

	2020		2019	
	Cash flow hedge reserve £m	Foreign exchange hedge reserve £m	Cash flow hedge reserve £m	Foreign exchange hedge reserve £m
Interest rate risk				
Amount recognised in equity	318	—	585	—
Amount transferred from equity to net interest income	(19)	—	(243)	—
Foreign exchange risk				
Amount recognised in equity	3	(57)	(12)	83
Amount transferred from equity to net interest income	(35)	—	(36)	—
Amount transferred from equity to non interest income	—	2	—	2,752
Amount transferred from equity to operating expenses	4	—	—	—
Total	271	(55)	294	2,835

Hedge ineffectiveness recognised in other operating income comprises:

	2020 £m	2019 £m	2018 £m
Fair value hedging			
Gains on the hedged items attributable to the hedged risk	877	610	54
Losses on the hedging instruments	(875)	(585)	(7)
Fair value hedging ineffectiveness	2	25	47
Cash flow hedging			
- Interest rate risk	22	23	(112)
Cash flow hedging ineffectiveness	22	23	(112)
Total	24	48	(65)

The main sources of ineffectiveness for interest rate risk hedge accounting relationships are:

- The effect of the counterparty credit risk on the fair value of the interest rate swap which is not reflected in the fair value of the hedged item attributable to the change in interest rate (fair value hedge).
- Differences in the repricing basis between the hedging instrument and hedged cash flows (cash flow hedge); and
- Upfront present values on the hedging derivatives where hedge accounting relationships have been designated after the trade date (cash flow hedge and fair value hedge).

Additional information on cash flow hedging and hedging of net assets can be found in the Statement of Changes in Equity.

11 Financial instruments – classification

The following tables analyse financial assets and liabilities in accordance with the categories of financial instruments on an IFRS 9 basis. Assets and liabilities outside the scope of IFRS 9 are shown within other assets and other liabilities.

Assets	MFVTPL £m	FVOCI £m	Amortised cost £m	Other assets £m	Total £m
Cash and balances at central banks			**124,489**		**124,489**
Trading assets	**68,990**				**68,990**
Derivatives (1)	**166,523**				**166,523**
Settlement balances			**2,297**		**2,297**
Loans to banks - amortised cost (2)			**6,955**		**6,955**
Loans to customers - amortised cost (3)			**360,544**		**360,544**
Other financial assets	**440**	**44,902**	**9,806**		**55,148**
Intangible assets				**6,655**	**6,655**
Other assets				**7,890**	**7,890**
31 December 2020	**235,953**	**44,902**	**504,091**	**14,545**	**799,491**
Cash and balances at central banks*			80,993		80,993
Trading assets	76,745				76,745
Derivatives (1)	150,029				150,029
Settlement balances			4,387		4,387
Loans to banks - amortised cost* (2)			7,554		7,554
Loans to customers - amortised cost (3)			326,947		326,947
Other financial assets	715	49,283	11,454		61,452
Intangible assets				6,622	6,622
Other assets				8,310	8,310
31 December 2019	227,489	49,283	431,335	14,932	723,039

Liabilities	Held-for-trading £m	DFV £m	Amortised cost £m	Other liabilities £m	Total £m
Bank deposits (4)			**20,606**		**20,606**
Customer deposits			**431,739**		**431,739**
Settlement balances			**5,545**		**5,545**
Trading liabilities	**72,256**				**72,256**
Derivatives (1)	**160,705**				**160,705**
Other financial liabilities (5)		**2,403**	**43,408**		**45,811**
Subordinated liabilities		**793**	**9,169**		**9,962**
Notes in circulation			**2,655**		**2,655**
Other liabilities (6)			**1,882**	**4,506**	**6,388**
31 December 2020	**232,961**	**3,196**	**515,004**	**4,506**	**755,667**
Bank deposits (4)			20,493		20,493
Customer deposits			369,247		369,247
Settlement balances			4,069		4,069
Trading liabilities	73,949				73,949
Derivatives (1)	146,879				146,879
Other financial liabilities (5)		2,258	42,962		45,220
Subordinated liabilities		724	9,255		9,979
Notes in circulation			2,109		2,109
Other liabilities (6)			1,920	5,618	7,538
31 December 2019	220,828	2,982	450,055	5,618	679,483

*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 net hedging derivatives assets of £93 million (2019 - £202 million) and net hedging derivatives liabilities of £130 million (2019 - £22 million).
(2) Includes items in the course of collection from other banks of £148 million (2019 - £50 million).
(3) Includes finance lease receivables of £9,061 million (2019 - £9,212 million).
(4) Includes items in the course of transmission to other banks of £12 million (2019 - £2 million).
(5) The carrying amount of other customer accounts designated as at fair value through profit or loss is the same as the principal amount for both periods. No amounts have been recognised in the profit or loss for changes in credit risk associated with these liabilities as the changes are immaterial both during the period and cumulatively.
(6) Includes lease liabilities of £1,698 million (2019 - £1,823 million) held at amortised cost.

Judgment: classification of financial assets

Classification of financial assets between amortised cost and fair value through other comprehensive income requires a degree of judgement in respect of business models and contractual cashflows.

- The business model criteria is assessed at a portfolio level to determine whether assets are classified as held to collect or held to collect and sell. Information that is considered in determining the applicable business model includes the portfolio's policies and objectives, how the performance and risks of the portfolio are managed, evaluated and reported to management; and the frequency, volume and timing of sales in prior periods, sales expectation for future periods, and the reasons for sales.
- The contractual cash flow characteristics of financial assets are assessed with reference to whether the cash flows represent SPPI. A level of judgement is made in assessing terms that could change the contractual cash flows so that it would not meet the condition for SPPI are considered, including contingent and leverage features, non-recourse arrangements and features that could modify the time value of money.

11 Financial instruments - classification continued

NatWest Group's financial assets and liabilities include:	2020 £m	2019 £m
Reverse repos		
Trading assets	**19,404**	24,095
Loans to banks - amortised cost	**153**	165
Loans to customers - amortised cost	**25,011**	10,649
Repos		
Bank deposits	**6,470**	2,597
Customer deposits	**5,167**	1,765
Trading liabilities	**19,036**	27,885

The tables below present information on financial assets and financial liabilities that are offset on the balance sheet under IFRS or subject to enforceable master netting agreements together with financial collateral received or given.

	Instruments which can be offset			Potential for offset not recognised by IFRS					
2020	Gross £m	IFRS offset £m	Balance sheet £m	Effect of master netting and similar agreements £m	Cash collateral £m	Securities collateral £m	Net amount after the effect of netting agreements and related collateral £m	Instruments outside netting agreements £m	Balance sheet total £m
Derivative assets	**176,425**	**(10,807)**	**165,618**	**(137,086)**	**(19,608)**	**(5,053)**	**3,871**	**905**	**166,523**
Derivative liabilities	**171,614**	**(11,540)**	**160,074**	**(137,086)**	**(15,034)**	**(4,921)**	**3,033**	**631**	**160,705**
Net position (1)	**4,811**	**733**	**5,544**	**—**	**(4,574)**	**(132)**	**838**	**274**	**5,818**
Trading reverse repos	**43,908**	**(24,867)**	**19,041**	**(929)**	**—**	**(18,040)**	**72**	**363**	**19,404**
Trading repos	**42,203**	**(24,867)**	**17,336**	**(929)**	**—**	**(16,407)**	**—**	**1,700**	**19,036**
Net position	**1,705**	**—**	**1,705**	**—**	**—**	**(1,633)**	**72**	**(1,337)**	**368**
Non trading reverse repos	**36,117**	**(10,953)**	**25,164**	**—**	**—**	**(25,164)**	**—**	**—**	**25,164**
Non trading repos	**22,590**	**(10,953)**	**11,637**	**—**	**—**	**(11,637)**	**—**	**—**	**11,637**
Net position	**13,527**	**—**	**13,527**	**—**	**—**	**(13,527)**	**—**	**—**	**13,527**
2019									
Derivative assets	158,850	(10,913)	147,937	(122,697)	(18,685)	(4,292)	2,263	2,092	150,029
Derivative liabilities	154,396	(11,724)	142,672	(122,697)	(17,296)	(1,276)	1,403	4,207	146,879
Net position (1)	4,454	811	5,265	—	(1,389)	(3,016)	860	(2,115)	3,150
Trading reverse repos	52,007	(28,720)	23,287	(562)	—	(22,364)	361	808	24,095
Trading repos	54,131	(28,720)	25,411	(562)	—	(24,849)	—	2,474	27,885
Net position	(2,124)	—	(2,124)	—	—	2,485	361	(1,666)	(3,790)
Non trading reverse repos	21,341	(10,527)	10,814	—	—	(10,814)	—	—	10,814
Non trading repos	14,889	(10,527)	4,362	—	—	(4,362)	—	—	4,362
Net position	6,452	—	6,452	—	—	(6,452)	—	—	6,452

Note:
(1) The net IFRS offset balance of £733 million (2019 - £811 million) relates to variation margin netting reflected on other balance sheet lines.

Notes to the consolidated financial statements

Interest rate benchmark reform

In 2020 NatWest Group continued to implement its entity-wide LIBOR programme with the view of being ready for the various transition events that are expected to occur prior to the cessation of the vast majority of the IBOR benchmark rates at the end of 2021 and the USD LIBOR in 2023. In the UK, regulators, most notably the Bank of England (BoE) and the Financial Conduct Authority (FCA), have issued guidance on how market participants are expected to approach transition as well as the regulatory expectations in relation to the credit adjustment spread calculation methodologies, conversion strategies amongst, existence of products referencing IBOR benchmark rates amongst other items.

The group-wide programme continued to address the key areas that will be affected by the IBOR reform most notably:

- Client stratification, engagement and education;
- Contract fall-back remediation;
- Transition on an economically equivalent basis;
- Effect of modifications to existing terms beyond those that are attributable to the IBOR reform;
- Funding and liquidity management, planning and forecast;
- Risk management;
- Financial reporting and valuation; and,
- Changes to processes and systems covering front-end, risk and finance systems.

NatWest Group continued to develop new products across its different segments that reference the new alternative risk-free rates and worked with clients to assess their readiness and ability to adopt new products or transition existing products. A comprehensive review of the effect of IBOR reform on funding, liquidity and risk management has also been conducted. This is expected to be fully implemented over the course of 2021. NatWest Group will continue to adapt its key systems, methodologies and processes to meet the requirements of the new risk-free rates. This is expected to be concluded in advance of the LIBOR cessation date at the end of 2021.

NatWest Group also remained engaged with regulators, standard setters and other market participants on key matters related to the IBOR reform and an open dialogue is expected throughout 2021. It is expected that the programme will meet all timelines set by the regulators.

The table below provides an overview of IBOR related exposure by currency and nature of financial instruments. Non-derivative financial instruments are presented on the basis of their carrying amounts excluding expected credit losses while derivative financial instruments are presented on the basis of their notional amount.

	Rates subject to IBOR reform				Balances not subject to IBOR reform	Expected credit losses	Total
	GBP LIBOR £m	USD IBOR (1) £m	EUR IBOR £m	Other IBOR £m	£m	£m	£m
Trading assets	75	60	348	1	68,506	—	68,990
Loans to banks - amortised cost	23	82	101	—	6,751	(2)	6,955
Loans to customers - amortised cost	39,858	5,289	4,950	234	316,200	(5,987)	360,544
Other financial assets	2,847	303	370	71	51,568	(11)	55,148
Bank deposits	—	—	—	—	20,606		20,606
Customer deposits	—	—	—	4	431,735		431,739
Trading liabilities	54	301	269	2	71,630		72,256
Other financial liabilities	1,116	9,792	5,902	146	28,856		45,812
Subordinated liabilities	8	1,286	438	—	8,230		9,962
Loan commitments (2)	25,616	9,228	7,176	682	79,220		121,922
Derivatives notional (£bn)	1,407.5	1,368.8	2,358.8	289.6	8,622.1		14,046.8

Notes:
(1) USD LIBOR is now expected to convert to alternative risk free rates in mid-2023 subject to consultation.
(2) Certain loan commitments are multi-currency facilities. Where these are fully undrawn, they are allocated to the principal currency of the facility. Where the facilities are partly drawn, the remaining loan commitment is allocated to the currency with the largest drawn amount.

Included within the table above for derivatives were currency swaps with corresponding legs also subject to IBOR reform of GBP LIBOR of £5.2 billion with USD IBOR £2.0 billion, EUR IBOR £2.9 billion and Other IBOR £0.3 billion. Currency swaps of USD IBOR of £231.7 billion with GBP LIBOR £98.5 billion, EUR IBOR £85.8 billion and Other IBOR £47.4 billion. Currency swaps of EUR IBOR of £5.1 billion with GBP LIBOR £2.3billion, USD IBOR £1.8 billion and Other IBOR £1.0 billion. Currency swaps of Other IBOR of £2.2 billion with EUR IBOR £0.7 billion, USD IBOR £1.2 billion and Other IBOR £0.3 billion.

Additionally, included above are basis swaps for GBP LIBOR of £97.0 billion, USD IBOR of £ 81.0 billion, EUR IBOR of £49.0 billion and Other IBOR of £10.0 billion.

AT1 issuances

NatWest Group has issued certain capital instruments (AT1), under which reset clauses are linked to IBOR rates subject to reform. Where under the contractual terms of the instrument the coupon resets to a rate which has IBOR as a specified component of its pricing structure, these are subject to IBOR reform and listed below:

	£m
US$ 1.15 billion 8% notes	734
US$ 2.65 billion 8.625% notes	2,046

NatWest Group‘s non-cumulative preference shares of USD$0.01 Series U (£494 million) is also subject to IBOR reform.

12 Financial instruments - valuation

Critical accounting policy: Fair value - financial instruments

In accordance with Accounting policies 12 and 20, financial instruments classified as mandatory fair value through profit or loss, held-for-trading or designated as at fair value through profit or loss and financial assets classified as fair value through other comprehensive income are recognised in the financial statements at fair value. All derivatives are measured at fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. It also uses the assumptions that market participants would use when pricing the asset or liability. In determining fair value, NatWest Group maximises the use of relevant observable inputs and minimises the use of unobservable inputs.

Modelled approaches may be used to measure instruments classed as level 2 or 3. Estimation expertise is required in the selection, implementation and calibration of appropriate models. The resulting modelled valuations are considered for accuracy and reliability. Portfolio level adjustments consistent with IFRS 13 are raised to incorporate counterparty credit risk, funding and margining risks. Expert judgement is used in the initial measurement of modelled products by control teams.

Where NatWest Group manages a group of financial assets and financial liabilities on the basis of its net exposure to either market risks or credit risk, it measures the fair value of a group of financial assets and financial liabilities on the basis of the price that it would receive to sell a net long position (i.e. an asset) for a particular risk exposure or to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction at the measurement date under current market conditions.

Credit valuation adjustments are made when valuing derivative financial assets to incorporate counterparty credit risk. Adjustments are also made when valuing financial liabilities measured at fair value to reflect the NatWest Group's own credit standing.

Where the market for a financial instrument is not active, fair value is established using a valuation technique. These valuation techniques involve a degree of estimation, the extent of which depends on the instrument's complexity and the availability of market-based data. Further details about the valuation methodologies and the sensitivity to reasonably possible alternative assumptions of the fair value of financial instruments valued using techniques where at least one significant input is unobservable are given below.

	2020				2019			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets								
Trading assets								
Loans	—	39,550	225	39,775	—	46,172	449	46,621
Securities	21,535	7,599	81	29,215	20,865	8,704	555	30,124
Derivatives	—	165,441	1,082	166,523	—	148,800	1,229	150,029
Other financial assets								
Loans	—	185	168	353	—	307	58	365
Securities	35,972	8,850	167	44,989	41,044	8,326	263	49,633
Total financial assets held at fair value	57,507	221,625	1,723	280,855	61,909	212,309	2,554	276,772
Liabilities								
Trading liabilities								
Deposits	—	44,062	7	44,069	—	50,944	56	51,000
Debt securities in issue	—	1,408	—	1,408	—	1,703	59	1,762
Short positions	19,045	7,734	—	26,779	15,565	5,622	—	21,187
Derivatives	—	159,818	887	160,705	—	145,818	1,061	146,879
Other financial liabilities								
Debt securities in issue	—	1,607	—	1,607	—	2,117	141	2,258
Other deposits	—	796	—	796	—	—	—	—
Subordinated liabilities	—	793	—	793	—	724	—	724
Total financial liabilities held at fair value	19,045	216,218	894	236,157	15,565	206,928	1,317	223,810

Notes:
(1) Transfers between levels are deemed to have occurred at the beginning of the quarter in which the instrument was transferred. There were no significant transfers between level 1 and level 2.
(2) For an analysis of debt securities held at mandatory fair value through profit or loss by issuer as well as ratings and derivatives, by type and contract, refer to Risk and capital management – Credit risk.
(3) The determination of an instrument's level cannot be made at a global product level as a single product type can be in more than one level. For example, a single name corporate credit default swap could be in level 2 or level 3 depending on whether the reference counterparty's obligations are liquid or illiquid.

12 Financial instruments - valuation continued

Fair value hierarchy

Financial Instruments carried at fair value have been classified under the IFRS fair value hierarchy as follows.

Level 1 – instruments valued using unadjusted quoted prices in active and liquid markets, for identical financial instruments. Examples include government bonds, listed equity shares and certain exchange-traded derivatives.

Level 2 - instruments valued using valuation techniques that have observable inputs. Examples include most government agency securities, investment-grade corporate bonds, certain mortgage products, including CLOs, most bank loans, repos and reverse repos, less liquid listed equities, state and municipal obligations, most notes issued, certain money market securities, loan commitments and most OTC derivatives.

Level 3 - instruments valued using a valuation technique where at least one input which could have a significant effect on the instrument's valuation, is not based on observable market data. Examples include cash instruments which trade infrequently, certain syndicated and commercial mortgage loans, certain emerging markets and derivatives with unobservable model inputs.

Valuation techniques

NatWest Group derives the fair value of its instruments differently depending on whether the instrument is a non-modelled or a modelled product.

Non-modelled products are valued directly from a price input, typically on a position by position basis, and include cash, equities and most debt securities.

Modelled products valued using a pricing model range in complexity from comparatively vanilla products such as interest rate swaps and options (e.g. interest rate caps and floors) through to more complex derivatives. The valuation of modelled products requires an appropriate model and inputs into this model. Sometimes models are also used to derive inputs (e.g. to construct volatility surfaces). NatWest Group uses a number of modelling methodologies.

Inputs to valuation models

Values between and beyond available data points are obtained by interpolation and extrapolation. When utilising valuation techniques, the fair value can be significantly affected by the choice of valuation model and by underlying assumptions concerning factors such as the amounts and timing of cash flows, discount rates and credit risk. The principal inputs to these valuation techniques are as follows:

Bond prices - quoted prices are generally available for government bonds, certain corporate securities and some mortgage-related products.

Credit spreads - where available, these are derived from prices of credit default swaps or other credit based instruments, such as debt securities. For others, credit spreads are obtained from third-party benchmarking services. For counterparty credit spreads, adjustments are made to market prices (or parameters) when the creditworthiness of the counterparty differs from that of the assumed counterparty in the market price (or parameters).

Interest rates - these are principally benchmark interest rates such as the London Interbank Offered Rate (LIBOR), Overnight Index Swaps (OIS) rate and other quoted interest rates in the swap, bond and futures markets.

Foreign currency exchange rates - there are observable prices both for spot and forward contracts and futures in the world's major currencies.

Equity and equity index prices - quoted prices are generally readily available for equity shares listed on the world's major stock exchanges and for major indices on such shares.

Commodity prices - many commodities are actively traded in spot and forward contracts and futures on exchanges in London, New York and other commercial centres.

Price volatilities and correlations - volatility is a measure of the tendency of a price to change with time. Correlation measures the degree which two or more prices or other variables are observed to move together.

Prepayment rates - the fair value of a financial instrument that can be prepaid by the issuer or borrower differs from that of an instrument that cannot be prepaid. In valuing prepayable instruments that are not quoted in active markets, NatWest Group considers the value of the prepayment option.

Recovery rates/loss given default - these are used as an input to valuation models and reserves for asset-backed securities and other credit products as an indicator of severity of losses on default. Recovery rates are primarily sourced from market data providers or inferred from observable credit spreads.

Valuation control

NatWest Group's control environment for the determination of the fair value of financial instruments includes formalised protocols for the review and validation of fair values independent of the businesses entering into the transactions.

Independent price verification (IPV) is a key element of the control environment. Valuations are first performed by the business which entered into the transaction. Such valuations may be directly from available prices, or may be derived using a model and variable model inputs. These valuations are reviewed, and if necessary amended, by a team independent of those trading the financial instruments, in the light of available pricing evidence.

Where measurement differences are identified through the IPV process these are grouped by fair value level and quality of data. If the size of the difference exceeds defined thresholds adjustment to independent levels are made.

IPV takes place at least each monthly, for all fair value positions. The IPV control includes formalised reporting and escalation of any valuation differences in breach of established thresholds.

The Model Oversight Review Committee sets the policy for model documentation, testing and review, and prioritises models with significant exposure being reviewed by the NatWest Group Model Risk team. Valuation Committees are made up of valuation specialists and senior business representatives from various functions and oversees pricing, reserving and valuations issues. These committees meet monthly to review and ratify any methodology changes. The Executive Valuation Committee meets quarterly to address key material and subjective valuation issues, to review items escalated by Valuation Committees and to discuss other relevant matters, including prudential valuation.

Initial classification of a financial instrument is carried out by the Product Control team following the principles in IFRS 13. They base their judgment on information gathered during the IPV process for instruments which include the sourcing of independent prices and model inputs. The quality and completeness of the information gathered in the IPV process gives an indication as to the liquidity and valuation uncertainty of an instrument. These initial classifications are subject to senior management review. Particular attention is paid to instruments crossing from one level to another, new instrument classes or products, instruments that are generating significant profit and loss and instruments where valuation uncertainty is high.

NatWest Group uses consensus prices for the IPV of some instruments. The consensus service encompasses the equity, interest rate, currency, commodity, credit, property, fund and bond markets, providing comprehensive matrices of vanilla prices and a wide selection of exotic products.

12 Financial instruments - valuation continued

NatWest Group contributes to consensus pricing services where there is a significant interest either from a positional point of view or to test models for future business use. Data sourced from consensus pricing services are used for a combination of control processes including direct price testing, evidence of observability and model testing. In practice this means that NatWest Group submits prices for all material positions for which a service is available.

Data from consensus services are subject to the same level of quality review as other inputs used for IPV process. All sources of independent data are reviewed for quality and are applied in the IPV processes using a formalised input quality hierarchy.

In order to determine a reliable fair value, where appropriate, management applies valuation adjustments to the pricing information gathered from the above sources. The sources of independent data are reviewed for quality and are applied in the IPV processes using a formalised input quality hierarchy. These adjustments reflect NatWest Group's assessment of factors that market participants would consider in setting a price.

Where unobservable inputs are used, NatWest Group may determine a range of possible valuations derived from differing stress scenarios to determine the sensitivity associated with the valuation. When establishing the fair value of a financial instrument using a valuation technique, NatWest Group considers adjustments to the modelled price which market participants would make when pricing that instrument. Such adjustments include the credit quality of the counterparty and adjustments to compensate for model limitations.

When valuing financial instruments in the trading book, adjustments are made to mid-market valuations to cover bid-offer spread, funding and credit risk. These adjustments are presented in the table below:

Adjustment	2020 £m	2019 £m
Funding – FVA	**140**	244
Credit – CVA	**390**	386
Bid – Offer	**148**	165
Product and deal specific	**172**	238
	850	1,033

The reduction in valuation reserves was primarily driven by a combination of market moves, trade close-out activity and risk reduction together with a reallocation of product and deal specific reserves that are now included within modelled trade valuations.

Funding valuation adjustment (FVA)

FVA represents an estimate of the adjustment that a market participant would make to incorporate funding costs and benefits that arise in relation to derivative exposures. FVA is calculated as a portfolio level adjustment and can result in either a funding charge or funding benefit.

Funding levels are applied to estimated potential future exposures. For uncollateralised derivatives, the modelling of the exposure is consistent with the approach used in the calculation of CVA, and the counterparty contingent nature of the exposure is reflected in the calculation. For collateralised derivatives, the exposure reflects initial margin posting requirements.

Credit valuation adjustments (CVA)

CVA represents an estimate of the adjustment to fair value that a market participant would make to incorporate the counterparty credit risk inherent in derivative exposures. CVA is actively managed by a credit and market risk hedging process, and therefore movements in CVA are partially offset by trading revenue on the hedges.

The CVA is calculated on a portfolio basis reflecting an estimate of the amount a third party would charge to assume the credit risk.

Collateral held under a credit support agreement is factored into the CVA calculation. In such cases where NatWest Group holds collateral against counterparty exposures, CVA is held to the extent that residual risk remains.

Bid-offer

Fair value positions are adjusted to bid (long positions) or offer (short positions) levels, by marking individual cash positions directly to bid or offer or by taking bid-offer reserves calculated on a portfolio basis for derivatives exposures. The bid-offer approach is based on current market spreads and standard market bucketing of risk.

Bid-offer spreads vary by maturity and risk type to reflect different spreads in the market. For positions where there is no observable quote, the bid-offer spreads are widened in comparison to proxies to reflect reduced liquidity or observability. Bid-offer methodologies may also incorporate liquidity triggers whereby wider spreads are applied to risks above pre-defined thresholds.

As permitted by IFRS 13, netting is applied on a portfolio basis to reflect the value at which NatWest Group believes it could exit the portfolio, rather than the sum of exit costs for each of the portfolio’s individual trades. This is applied where the asset and liability positions are managed as a portfolio for risk and reporting purposes.

The discount rates applied to derivative cash flows in determining fair value reflect any underlying collateral agreements. Collateralised derivatives are generally discounted at the relevant OIS-related rates at an individual trade level. Reserves are held to the extent that the discount rates applied do not reflect all of the terms of the collateral agreements.

Product and deal specific

On initial recognition of financial assets and liabilities valued using valuation techniques incorporating information other than observable market data, any difference between the transaction price and that derived from the valuation technique is deferred. Such amounts are recognised in profit or loss over the life of the transaction; when market data becomes observable; or when the transaction matures or is closed out as appropriate. At 31 December 2020, net gains of £63 million (2019 - £88 million) were carried forward. During the year, net gains of £75 million (2019 - £183 million) were deferred and £100 million (2019 - £154 million) were recognised in the income statement.

Where system generated valuations do not accurately recover market prices, manual valuation adjustments are applied either at a position or portfolio level. Manual adjustments are subject to the scrutiny of independent control teams and are subject to monthly review by senior management.

Own Credit

NatWest Group takes into account the effect of its own credit standing when valuing financial liabilities recorded at fair value in accordance with IFRS. Own credit spread adjustments are made when valuing issued debt held at fair value, including issued structured notes. An own credit adjustment is applied to positions where it is believed that counterparties would consider NWM Group’s creditworthiness when pricing trades.

12 Financial instruments – valuation: Level 3 ranges of unobservable inputs

				2020		2019	
Financial instrument	Valuation technique	Unobservable inputs	Units	Low	High	Low	High
Trading assets and Other financial assets							
Loans	Price-based	Price	%	**—**	**105**	—	101
	Discount cash flow	Credit spreads	bps	**69**	**119**	53	101
	Discount cash flow	Discount margin	bps	**51**	**226**	—	—
Debt securities	Price-based	Price	%	**—**	**232**	—	246
Equity Shares	Price-based	Price	GBP	**—**	**27,737**	—	25,914
	Market comparables	Price	%	**—**	**80**	—	80
	Discount cash flow	Discount margin	%	**7**	**9**	6	9
	Net asset valuation	Net asset value	%	**80**	**120**	80	120
Trading liabilities and Other financial liabilities							
Deposits	Price-based	Price	%	**—**	**100**	—	98
	Yield analysis	Day count	Number	**—**	**—**	65	95
Debt securities in issue	Price-based	Price	CCY	**—**	**—**	44 JPY	146 EUR
Derivative assets and liabilities							
Credit derivatives	Credit derivative pricing	Credit spreads	bps	**2**	**500**	6	500
		Correlation	%	**(50)**	**95**	(50)	80
		Volatility	%	**27**	**80**	27	80
		Upfront points	%	**—**	**100**	—	99
		Recovery rate	%	**10**	**40**	10	40
Interest rate & FX derivatives	Option pricing	Correlation	%	**(50)**	**100**	(50)	99
		Volatility	%	**17**	**60**	19	70
		Constant Prepayment Rate	%	**2**	**18**	2	15
		Mean Reversion	%	**—**	**92**	—	92
		Basis volatility	bps	**15**	**21**	—	—
		Inflation volatility	%	**1**	**2**	1	2
		Inflation rate	%	**1**	**2**	1	2
Equity derivatives	Option pricing	Correlation	%	**(53)**	**87**	(53)	87

Notes:
(1) The table above presents the range of values for significant inputs used in the valuation of level 3 assets and liabilities. The range represents the highest and lowest values of the input parameters and therefore is not a measure of parameter uncertainty. Movements in the underlying input may have a favourable or unfavourable impact on the valuation depending on the particular terms of the contract and the exposure. For example, an increase in the credit spread of a bond would be favourable for the issuer but unfavourable for the note holder. Whilst NatWest Group indicates where it considers that there are significant relationships between the inputs, their inter-relationships will be affected by macro economic factors including interest rates, foreign exchange rates or equity index levels.
(2) Credit spreads and discount margins: credit spreads and margins express the return required over a benchmark rate or index to compensate for the credit risk associated with a cash instrument. A higher credit spread would indicate that the underlying instrument has more credit risk associated with it. Consequently, investors require a higher yield to compensate for the higher risk.
(3) Price and yield: There may be a range of prices used to value an instrument that may be a direct comparison of one instrument or portfolio with another or, movements in a more liquid instrument may be used to indicate the movement in the value of a less liquid instrument. The comparison may also be indirect in that adjustments are made to the price to reflect differences between the pricing source and the instrument being valued.
(4) Recovery rate: reflects market expectations about the return of principal for a debt instrument or other obligations after a credit event or on liquidation. Recovery rates tend to move conversely to credit spreads.
(5) Valuation: for private equity investments, values may be estimated by looking at past prices of similar stocks and from valuation statements where valuations are usually derived from earnings measures such as EBITDA or net asset value (NAV). Similarly for equity or bond fund investments, prices may be estimated from valuation or credit statements using NAV or similar measures.
(6) Correlation: measures the degree by which two prices or other variables are observed to move together. If they move in the same direction there is positive correlation; if they move in opposite directions there is negative correlation. Correlations typically include relationships between: default probabilities of assets in a basket (a group of separate assets), exchange rates, interest rates and other financial variables.
(7) Volatility: a measure of the tendency of a price to change with time.
(8) Interest rate delta: these ranges represent the low/high marks on the relevant discounting curve.
(9) Upfront points: where CDS contracts are standardised, the inherent spread of the trade may exceed the standard premium paid or received under the contract. Upfront points will compensate for the difference between the standard premium and the actual premium at the start of the contract.
(10) Mean reversion: a measure of how much a rate reverts to its mean level.
(11) Constant prepayment rate: the rate is used to reflect how fast a pool of assets pay down.
(12) Day count: yield analysis on deposits are calculated using day count as an input, referring to the maturity of the deposit.
(13) NatWest Group does not have any material liabilities measured at fair value that are issued with an inseparable third party credit enhancement.

12 Financial instruments – valuation: areas of judgment

Whilst the business has simplified, the diverse range of products historically traded by NatWest Group results in a wide range of instruments that are classified into level 3 of the hierarchy. Whilst the majority of these instruments naturally fall into a particular level, for some products an element of judgment is required. The majority of NatWest Group financial instruments carried at fair value are classified as level 2. IFRS requires extra disclosures in respect of level 3 instruments.

Active and inactive markets

A key input in the decision making process for the allocation of assets to a particular level is market activity. In general, the degree of valuation uncertainty depends on the degree of liquidity of an input.

Where markets are liquid, little judgment is required. However, when the information regarding the liquidity in a particular market is not clear, a judgment may need to be made. This can be more difficult as assessing the liquidity of a market is not always straightforward. For an equity traded on an exchange, daily volumes of trading can be seen, but for an over-the-counter (OTC) derivative assessing the liquidity of the market with no central exchange is more difficult.

A key related matter is where a market moves from liquid to illiquid or vice versa. Where this change is considered to be temporary, the classification is not changed. For example, if there is little market trading in a product on a reporting date but at the previous reporting date and during the intervening period the market has been considered to be liquid, the instrument will continue to be classified in the same level in the hierarchy. This is to provide consistency so that transfers between levels are driven by genuine changes in market liquidity and do not reflect short term or seasonal effects. Material movements between levels are reviewed quarterly.

The breadth and depth of the IPV data allows for a rules based quality assessment to be made of market activity, liquidity and pricing uncertainty, which assists with the process of allocation to an appropriate level. Where suitable independent pricing information is not readily available, the quality assessment will result in the instrument being assessed as level 3.

Modelled products

For modelled products the market convention is to quote these trades through the model inputs or parameters as opposed to a cash price equivalent. A mark-to-market is derived from the use of the independent market inputs calculated using NatWest Group's model.

The decision to classify a modelled instrument as level 2 or 3 will be dependent upon the product/model combination, the observability and quality of input parameters and other factors. All these must be assessed to classify the asset. If an input fails the observability or quality tests then the instrument is considered to be in level 3 unless the input can be shown to have an insignificant effect on the overall valuation of the product.

The majority of derivative instruments, for example vanilla interest rate swaps, foreign exchange swaps and liquid single name credit derivatives, are classified as level 2 as they are vanilla products valued using observable inputs. The valuation uncertainty on these is considered to be low and both input and output testing may be available.

Non-modelled products

Non-modelled products are generally quoted on a price basis and can therefore be considered for each of the three levels. This is determined by the market activity, liquidity and valuation uncertainty of the instruments which is in turn measured from the availability of independent data used by the IPV process to allocate positions to IPV quality levels.

The availability and quality of independent pricing information are considered during the classification process. An assessment is made regarding the quality of the independent information. For example, where consensus prices are used for non-modelled products, a key assessment of the quality of a price is the depth of the number of prices used to provide the consensus price. If the depth of contributors falls below a set hurdle rate, the instrument is considered to be level 3. This hurdle rate is that used in the IPV process to determine the IPV quality rating. However, where an instrument is generally considered to be illiquid, but regular quotes from market participants exist, these instruments may be classified as level 2 depending on frequency of quotes, other available pricing and whether the quotes are used as part of the IPV process or not.

For some instruments with a wide number of available price sources, there may be differing quality of available information and there may be a wide range of prices from different sources. In these situations the highest quality source is used to determine the classification of the asset. For example, a tradable quote would be considered a better source than a consensus price.

	2020			2019		
	Level 3	Favourable	Unfavourable	Level 3	Favourable	Unfavourable
	£m	£m	£m	£m	£m	£m
Assets						
Trading assets						
Loans	225	10	—	449	10	(10)
Securities	81	—	—	555	—	—
Derivatives	1,082	80	(80)	1,229	180	(180)
Other financial assets						
Loans	168	20	(10)	58	—	—
Securities	167	30	(20)	263	80	(20)
	1,723	140	(110)	2,554	270	(210)
Liabilities						
Trading liabilities						
Deposits	7	—	—	56	—	—
Debt securities in issue	—	—	—	59	—	—
Derivatives	887	50	(40)	1,061	100	(90)
Other financial liabilities - debt securities in issue	—	—	—	141	10	(10)
	894	50	(40)	1,317	110	(100)

12 Financial instruments – valuation: level 3 sensitivities

The level 3 sensitivities presented above are calculated at a trade or low level portfolio basis. They are not calculated on an overall portfolio basis and therefore do not reflect the likely potential uncertainty on the portfolio as a whole. The figures are aggregated and do not reflect the correlated nature of some of the sensitivities. In particular, for some of the portfolios the sensitivities may be negatively correlated where a downwards movement in one asset would produce an upwards movement in another, but due to the additive presentation of the above figures this correlation cannot be displayed. The actual potential downside sensitivity of the total portfolio may be less than the non-correlated sum of the additive figures as shown in the above table.

Reasonably plausible alternative assumptions of unobservable inputs are determined based on a specified target level of certainty of 90%. The assessments recognise different favourable and unfavourable valuation movements where appropriate. Each unobservable input within a product is considered separately and sensitivity is reported on an additive basis.

Alternative assumptions are determined with reference to all available evidence including consideration of the following: quality of independent pricing information taking into account consistency between different sources, variation over time, perceived tradability or otherwise of available quotes; consensus service dispersion ranges; volume of trading activity and market bias (e.g. one-way inventory); day 1 profit or loss arising on new trades; number and nature of market participants; market conditions; modelling consistency in the market; size and nature of risk; length of holding of position; and market intelligence.

Other considerations

Whilst certain inputs used to calculate CVA, FVA and own credit adjustments are not based on observable market data, the uncertainty of the inputs is not considered to have a significant effect on the net valuation of the related derivative portfolios and issued debt. The classification of the derivative portfolios and issued debt is not determined by the observability of these inputs and any related sensitivity does not form part of the level 3 sensitivities presented.

Level 3

The following table shows the movement in level 3 assets and liabilities in the year.

	2020				2019			
	Trading assets (2) £m	Other financial assets (3) £m	Total assets £m	Total liabilities £m	Trading assets (2) £m	Other financial assets (3) £m	Total assets £m	Total liabilities £m
At 1 January	2,233	321	2,554	1,317	2,657	643	3,300	1,957
Amounts recorded in the income statement (1)	127	(21)	106	(67)	(418)	(1)	(419)	162
Amounts recorded in the statement of comprehensive income	—	63	63	—	—	86	86	—
Level 3 transfers in	165	261	426	188	492	2	494	104
Level 3 transfers out	(139)	—	(139)	(368)	(857)	(59)	(916)	(588)
Issuances	—	—	—	—	—	—	—	46
Purchases	441	164	605	127	1,121	15	1,136	532
Settlements	(293)	(153)	(446)	(59)	(218)	(38)	(256)	(429)
Sales	(1,148)	(301)	(1,449)	(245)	(541)	(326)	(867)	(466)
Foreign exchange and other adjustments	2	1	3	1	(3)	(1)	(4)	(1)
At 31 December	1,388	335	1,723	894	2,233	321	2,554	1,317
Amounts recorded in the income statement in respect of balances held at year end - unrealised	129	(22)	107	(68)	(421)	8	(413)	110

Notes:
(1) There were £194 million net gain on trading assets and liabilities (2019 – £596 million losses) recorded in income from trading activities. Net losses on other instruments of £21 million (2019 – £15 million gain) were recorded in other operating income and interest income as appropriate.
(2) Trading assets comprise assets held at fair value in trading portfolios.
(3) Other financial assets comprise fair value through other comprehensive income, designated as at fair value through profit or loss and other fair value through profit or loss.

Notes to the consolidated financial statements

12 Financial instruments: fair value of financial instruments measured at amortised cost

The following table shows the carrying value and fair value of financial instruments measured at amortised cost on the balance sheet.

2020	Items where fair value approximates carrying value £bn	Carrying value £bn	Fair value £bn	Fair value hierarchy level Level 1 £bn	Level 2 £bn	Level 3 £bn
Financial assets						
Cash and balances at central banks	**124.5**					
Settlement balances	**2.3**					
Loans to banks	**0.1**	**6.9**	**6.9**	**—**	**3.8**	**3.1**
Loans to customers		**360.5**	**359.2**	**—**	**25.2**	**334.0**
Other financial assets - securities		**9.8**	**10.1**	**5.9**	**1.2**	**3.0**
Financial liabilities						
Bank deposits	**4.4**	**16.2**	**16.2**	**—**	**11.3**	**4.9**
Customer deposits	**371.7**	**60.0**	**60.1**	**—**	**10.1**	**50.0**
Settlement balances	**5.5**					
Other financial liabilities - debt securities in issue		**43.4**	**44.6**	**—**	**34.7**	**9.9**
Subordinated liabilities		**9.2**	**9.8**	**—**	**9.7**	**0.1**
Notes in circulation	**2.7**					
2019						
Financial assets						
Cash and balances at central banks*	81.0					
Settlement balances	4.4					
Loans to banks*		7.6	7.6	—	4.3	3.3
Loans to customers		326.9	324.0	—	11.0	313.0
Other financial assets - securities		11.5	11.6	5.9	2.8	2.9
Financial liabilities						
Bank deposits	4.1	16.4	16.5	—	12.2	4.3
Customer deposits	312.4	56.8	56.9	—	7.5	49.4
Settlement balances	4.1					
Other financial liabilities - debt securities in issue		43.0	43.7	—	38.5	5.2
Subordinated liabilities		9.3	10.0	—	9.9	0.1
Notes in circulation	2.1					

*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.

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Quoted market values are used where available; otherwise, fair values have been estimated based on discounted expected future cash flows and other valuation techniques. These techniques involve uncertainties and require assumptions and judgments covering prepayments, credit risk and discount rates. Furthermore there is a wide range of potential valuation techniques. Changes in these assumptions would significantly affect estimated fair values. The fair values reported would not necessarily be realised in an immediate sale or settlement.

The assumptions and methodologies underlying the calculation of fair values of financial instruments at the balance sheet date are as follows:

Short-term financial instruments

For certain short-term financial instruments: cash and balances at central banks, items in the course of collection from other banks, settlement balances, items in the course of transmission to other banks, customer demand deposits and notes in circulation, carrying value is a reasonable approximation of fair value.

Loans to banks and customers

In estimating the fair value of net loans to customers and banks measured at amortised cost, NatWest Group's loans are segregated into appropriate portfolios reflecting the characteristics of the constituent loans. Two principal methods are used to estimate fair value:

(a) Contractual cash flows are discounted using a market discount rate that incorporates the current spread for the borrower or where this is not observable, the spread for borrowers of a similar credit standing. This method is used for portfolios where counterparties have external ratings: institutional and corporate lending in NatWest Markets.

(b) Expected cash flows (unadjusted for credit losses) are discounted at the current offer rate for the same or similar products. The current methodology caps all loan values at par rather than modelling clients' option to repay loans early. This approach is adopted for lending portfolios in Retail Banking, Ulster Bank RoI, Commercial Banking (SME loans) and Private Banking in order to reflect the homogeneous nature of these portfolios.

Debt securities

The majority of debt securities are valued using quoted prices in active markets, or using quoted prices for similar assets in active markets. Fair values of the rest are determined using discounted cash flow valuation techniques.

Deposits by banks and customer accounts

Fair values of deposits are estimated using discounted cash flow valuation techniques.

Debt securities in issue and subordinated liabilities

Fair values are determined using quoted prices for similar liabilities where available or by reference to valuation techniques, adjusting for own credit spreads where appropriate.

13 Financial instruments - maturity analysis

Remaining maturity

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

	2020			2019		
	Less than 12 months £m	More than 12 months £m	Total £m	Less than 12 months £m	More than 12 months £m	Total £m
Assets						
Cash and balances at central banks*	124,489	—	124,489	80,993	—	80,993
Trading assets	42,037	26,953	68,990	51,825	24,920	76,745
Derivatives	46,244	120,279	166,523	40,798	109,231	150,029
Settlement balances	2,297	—	2,297	4,387	—	4,387
Loans to banks - amortised cost*	6,835	120	6,955	7,541	13	7,554
Loans to customers - amortised cost	87,531	273,013	360,544	77,742	249,205	326,947
Other financial assets	8,901	46,247	55,148	10,187	51,265	61,452
Liabilities						
Bank deposits (1)	12,315	8,291	20,606	9,286	11,207	20,493
Customer deposits	430,283	1,456	431,739	367,098	2,149	369,247
Settlement balances	5,545	—	5,545	4,069	—	4,069
Trading liabilities	45,037	27,219	72,256	53,047	20,902	73,949
Derivatives	47,361	113,344	160,705	41,276	105,603	146,879
Other financial liabilities	12,403	33,408	45,811	11,915	33,305	45,220
Subordinated liabilities	365	9,597	9,962	160	9,819	9,979
Notes in circulation	2,655	—	2,655	2,109	—	2,109
Lease liabilities	185	1,513	1,698	194	1,629	1,823

*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.

Note:
(1) More than 12 months 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

Assets and liabilities by contractual cash flow maturity

The tables on the following page, show the contractual undiscounted cash flows receivable and payable, up to a period of 20 years, including future receipts and payments of interest of financial assets and liabilities by contractual maturity. The balances in the following tables do not agree directly with the consolidated balance sheet, as the tables include all cash flows relating to principal and future coupon payments, presented on an undiscounted basis. The tables have been prepared on the following basis:

Financial assets have been reflected in the time band of the latest date on which they could be repaid, unless earlier repayment can be demanded by NatWest Group. Financial liabilities are included at the earliest date on which the counterparty can require repayment, regardless of whether or not such early repayment results in a penalty. If the repayment of a financial instrument is triggered by, or is subject to, specific criteria such as market price hurdles being reached, the asset is included in the time band that contains the latest date on which it can be repaid, regardless of early repayment.

The liability is included in the time band that contains the earliest possible date on which the conditions could be fulfilled, without considering the probability of the conditions being met.

For example, if a structured note is automatically prepaid when an equity index exceeds a certain level, the cash outflow will be included in the less than three months period, whatever the level of the index at the year end. The settlement date of debt securities in issue, issued by certain securitisation vehicles consolidated by NatWest Group, depends on when cash flows are received from the securitised assets. Where these assets are prepayable, the timing of the cash outflow relating to securities assumes that each asset will be prepaid at the earliest possible date. As the repayments of assets and liabilities are linked, the repayment of assets in securitisations is shown on the earliest date that the asset can be prepaid, as this is the basis used for liabilities.

The principal amounts of financial assets and liabilities that are repayable after 20 years or where the counterparty has no right to repayment of the principal are excluded from the table, as are interest payments after 20 years.

The maturity of guarantees and commitments is based on the earliest possible date they would be drawn in order to evaluate NatWest Group's liquidity position.

MFVTPL assets of £235.9 billion (2019 - £227.3 billion) and HFT liabilities of £232.8 billion (2019 - £220.8 billion) have been excluded from the following tables.

Notes to the consolidated financial statements

13 Financial instruments – maturity analysis continued

2020	0-3 months £m	3-12 months £m	1-3 years £m	3-5 years £m	5-10 years £m	10-20 years £m
Assets by contractual maturity						
Cash and balances at central banks	124,489	—	—	—	—	—
Derivatives held for hedging	14	18	96	—	12	6
Settlement balances	2,297	—	—	—	—	—
Loans to banks - amortised cost	5,600	1,245	—	—	1	110
Loans to customers - amortised cost	47,507	46,718	65,138	58,680	81,544	88,155
Other financial assets (1)	4,019	5,919	12,592	10,791	11,855	5,774
Finance lease	48	366	840	671	895	545
	183,974	54,266	78,666	70,142	94,307	94,590
Liabilities by contractual maturity						
Bank deposits (2)	11,217	1,078	3,241	5,038	—	—
Customer deposits	421,763	8,528	1,407	23	26	20
Settlement balance	5,545	—	—	—	—	—
Derivatives held for hedging	36	(17)	94	3	64	(2)
Other financial liabilities	4,716	8,144	15,558	11,470	7,358	254
Subordinated liabilities	73	685	4,387	3,444	923	562
Notes in circulation	2,655	—	—	—	—	—
Lease liabilities	51	135	294	245	429	497
	446,056	18,553	24,981	20,223	8,800	1,331
Guarantees and commitments notional amount						
Guarantees (3)	2,244	—	—	—	—	—
Commitments (4)	121,922	—	—	—	—	—
	124,166	—	—	—	—	—

2019	0-3 months £m	3-12 months £m	1-3 years £m	3-5 years £m	5-10 years £m	10-20 years £m
Assets by contractual maturity						
Cash and balances at central banks*	80,993	—	—	—	—	—
Derivatives held for hedging	33	7	63	103	56	42
Settlement balances	4,387	—	—	—	—	—
Loans to banks - amortised cost*	6,524	1,032	5	—	—	—
Loans to customers - amortised cost	48,793	36,108	70,957	51,667	66,453	79,174
Other financial assets (1)	4,619	6,644	16,287	9,857	15,766	5,081
Finance lease	72	289	920	646	802	653
	145,421	44,080	88,232	62,273	83,077	84,950
Liabilities by contractual maturity						
Bank deposits	7,269	2,017	11,297	38	—	—
Customer deposits	358,359	8,773	2,105	22	23	17
Settlement balances	4,069	—	—	—	—	—
Derivatives held for hedging	9	22	50	40	59	46
Other financial liabilities	4,810	7,602	11,849	13,935	9,426	328
Subordinated liabilities	21	541	3,295	5,270	327	1,700
Notes in circulation	2,109	—	—	—	—	—
Lease liabilities	54	140	313	249	457	571
	376,700	19,095	28,909	19,554	10,292	2,662
Guarantees and commitments notional amount						
Guarantees (3)	2,757	—	—	—	—	—
Commitments (4)	117,228	—	—	—	—	—
	119,985	—	—	—	—	—

*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) Other financial assets excludes equity shares.
(2) 3 to 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.
(3) NatWest Group is only called upon to satisfy a guarantee when the guaranteed party fails to meet its obligations. NatWest Group expects most guarantees it provides to expire unused.
(4) NatWest Group has given commitments to provide funds to customers under undrawn formal facilities, credit lines and other commitments to lend subject to certain conditions being met by the counterparty. NatWest Group does not expect all facilities to be drawn, and some may lapse before drawdown.

14 Loan impairment provisions

Loan exposure and impairment metrics

The table below summarises loans and related credit impairment measures within the scope of ECL framework.

	2020 £m	2019* £m
Loans - amortised cost		
Stage 1	**287,124**	302,367
Stage 2	**78,917**	27,868
Stage 3	**6,358**	6,598
Of which: individual	***2,292***	*2,051*
Of which: collective	***4,066***	*4,547*
	372,399	336,833
ECL provisions (1)		
- Stage 1	**519**	322
- Stage 2	**3,081**	752
- Stage 3	**2,586**	2,718
Of which: individual	***831***	*796*
Of which: collective	***1,755***	*1,922*
	6,186	3,792
ECL provision coverage (2,3)		
- Stage 1 (%)	**0.18**	0.11
- Stage 2 (%)	**3.90**	2.70
- Stage 3 (%)	**40.67**	41.19
	1.66	1.13
Impairment losses		
ECL charge (4)	**3,242**	696
Stage 1	**(121)**	(212)
Stage 2	**2,747**	318
Stage 3	**616**	590
Of which: individual	***194***	*303*
Of which: collective	***422***	*287*
ECL loss rate - annualised (basis points) (3)	**87**	20
Amounts written off	**937**	792
Of which: individual	***191***	*372*
Of which: collective	***746***	*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 page 180 for Financial instruments within the scope of the IFRS 9 ECL framework for further details. Other financial assets within the scope of the IFRS 9 ECL framework were cash and balances at central banks totalling £122.8 billion (2019 – £79.2 billion) and debt securities of £53.8 billion (2019 – £59.4 billion).

14 Loan impairment provisions continued

Credit risk enhancement and mitigation

For information on Credit risk enhancement and mitigation held as security, refer to Risk and capital management – Credit risk enhancement and mitigation section.

Critical accounting policy: Loan impairment provisions

The loan impairment provisions have been established in accordance with IFRS 9. Accounting policy 13 sets out how the expected loss approach is applied. At 31 December 2020, customer loan impairment provisions amounted to £6,186 million (2019 - £3,792 million). A loan is impaired when there is objective evidence that the cash flows will not occur in the manner expected when the loan was advanced. Such evidence includes, changes in the credit rating of a borrower, the failure to make payments in accordance with the loan agreement, significant reduction in the value of any security, breach of limits or covenants, and observable data about relevant macroeconomic measures.

The impairment loss is the difference between the carrying value of the loan and the present value of estimated future cash flows at the loan's original effective interest rate.

The measurement of credit impairment under the IFRS expected loss model depends on management's assessment of any potential deterioration in the creditworthiness of the borrower, its modelling of expected performance and the application of economic forecasts. All three elements require judgments that are potentially significant to the estimate of impairment losses. For further information and sensitivity analysis, refer to Risk and capital management – Measurement uncertainty and ECL sensitivity analysis section.

IFRS 9 ECL model design principles

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

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

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

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

For wholesale, while conversion ratios in the historical data show temporal variations, these cannot be sufficiently explained by the CCI measure (unlike in the case of PD and some LGD models) and are presumed to be driven to a larger extent by exposure management practices. Therefore point-in-time best estimates measures for EAD are derived by estimating the regulatory model specification on a rolling five-year window.

Approach for multiple economic scenarios (MES)

The base scenario plays a greater part in the calculation of ECL than the approach to MES.

15 Other financial assets

	Debt securities							
	Central and local government			Other		Equity	Other	
	UK	US	Other	debt	Total	shares	loans	Total
2020	£m	£m	£m	£m	£m	£m	£m	£m
Mandatory fair value through profit or loss	**—**	**—**	**—**	**88**	**88**	**14**	**338**	**440**
Fair value through other comprehensive income	**17,458**	**11,742**	**6,802**	**8,591**	**44,593**	**294**	**15**	**44,902**
Amortised cost	**4,997**	**235**	**116**	**4,458**	**9,806**	**—**	**—**	**9,806**
Total	**22,455**	**11,977**	**6,918**	**13,137**	**54,487**	**308**	**353**	**55,148**
2019								
Mandatory fair value through profit or loss	—	—	—	305	305	45	365	715
Fair value through other comprehensive income	18,437	13,981	8,786	7,130	48,334	949	—	49,283
Amortised cost	5,411	242	120	5,681	11,454	—	—	11,454
Total	23,848	14,223	8,906	13,116	60,093	994	365	61,452

Equity shares disposed during 2020 include SABB (£383 million), VISA Inc. (£186 million), and Vocalink (£16 million).

Dividends on FVOCI equity shares include £5 million in relation to the equity holding in OTC Derivative Limited and £2 million for VISA Inc. Dividends received in relation to equity shares disposed during the year were £15 million in relation to NWG's equity holding in SABB.

16 Intangible assets

	2020 Goodwill £m	2020 Other (1) £m	2020 Total £m	2019 Goodwill £m	2019 Other (1) £m	2019 Total £m
Cost						
At 1 January	**9,980**	**2,293**	**12,273**	18,164	2,024	20,188
Currency translation and other adjustments	**—**	**(1)**	**(1)**	(180)	2	(178)
Acquisition of subsidiaries	**—**	**—**	**—**	1	—	1
Additions	**—**	**348**	**348**	—	380	380
Disposals and write-off of fully amortised assets (2)	**(41)**	**(48)**	**(89)**	(8,005)	(113)	(8,118)
At 31 December	**9,939**	**2,592**	**12,531**	9,980	2,293	12,273
Accumulated amortisation and impairment						
At 1 January	**4,373**	**1,278**	**5,651**	12,558	1,014	13,572
Currency translation and other adjustments	**—**	**1**	**1**	(180)	1	(179)
Disposals and write-off of fully amortised assets	**(41)**	**(26)**	**(67)**	(8,005)	(72)	(8,077)
Charge for the year	**—**	**282**	**282**	—	291	291
Impairment of intangible assets	**—**	**9**	**9**	—	44	44
At 31 December	**4,332**	**1,544**	**5,876**	4,373	1,278	5,651
Net book value at 31 December	**5,607**	**1,048**	**6,655**	5,607	1,015	6,622

Notes:
(1) Principally internally generated software.
(2) Write-off of fully amortised Goodwill for £8 billion in 2019 that arose on the acquisition of ABN AMRO Holding N.V..

Intangible assets other than goodwill are reviewed for indicators of impairment. In 2020 £9 million (2019 - £44 million) of previously capitalised software was impaired primarily as a result of software which is no longer expected to yield future economic benefit.

NatWest Group's goodwill acquired in business combinations analysed by reportable segment is in Note 4 Segmental analysis. It is reviewed annually at 31 December for impairment. No impairment was indicated at 31 December 2020 or 2019.

Impairment testing involves the comparison of the carrying value of each cash-generating unit (CGU) with its recoverable amount. The carrying values of the segments reflect the equity allocations made by management which are consistent with NatWest Group's capital targets.

Recoverable amount is the higher of fair value less costs of disposal and value in use. Value in use is the present value of expected future cash flows from the CGU. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants.

The recoverable amounts for all CGUs at 31 December 2020 were based on value in use, using management's latest five-year revenue and cost forecasts. These are discounted cash flow projections over five years. The forecast is then extrapolated in perpetuity using a long-term growth rate to compute a terminal value, which comprises the majority of the value in use. The long-term growth rates have been based on expected nominal growth of the CGUs. The pre-tax risk discount rates are based on those observed to be applied to businesses regarded as peers of the CGUs.

Critical accounting policy: Goodwill

Critical estimates

Impairment testing involves a number of judgments. The key judgments are the five-year cash flow forecast, the long-term growth rate used to derive the terminal value, and the discount rate. Future value in use is primarily affected by changes in profitability, and changes in discount rate. Adverse changes could lead to value in use falling below carrying value. The most likely cause for this would be a failure to meet budgets, including cost targets, or external downgrades in the UK economy.

The recoverable amount exceeds the carrying value for each CGU at 31 December 2020. Alternative scenarios applied to consider the recoverability of the Commercial Banking goodwill indicated that there were possibilities of partial / full impairment for worse economic outlooks or failure to meet income or cost forecasts. The conclusion that Commercial Banking goodwill was recoverable reflected the current ECL outlook and management plans for costs and revenues. An impairment of Commercial Banking goodwill is possible if there is a further economic deterioration or other negative effects on costs and revenues.

The impact of reasonably possible changes to the more significant variables in the value in use calculations are presented below. This reflects the sensitivity of the VIU to each key assumption on its own. It is possible that more than one change may occur at the same time.

		Assumptions				Consequential impact of 1% adverse movement		Consequential impact of 5% adverse movement	
31 December 2020	Goodwill £bn	Terminal growth rate %	Pre-tax discount rate %	Cost: income ratio (1) %	Recoverable amount exceeded carrying value £bn	Discount rate £bn	Terminal growth rate £bn	Forecast Income £bn	Forecast cost £bn
Retail Banking	**2.7**	**1.6**	**13.7**	**48.3**	**5.9**	**(1.8)**	**(0.8)**	**(2.0)**	**(0.9)**
Commercial Banking	**2.6**	**1.6**	**13.7**	**53.7**	**1.5**	**(1.5)**	**(0.5)**	**(1.8)**	**(0.9)**
RBS International	**0.3**	**1.6**	**12.1**	**42.7**	**1.1**	**(0.4)**	**(0.2)**	**(0.3)**	**(0.1)**
31 December 2019									
Retail Banking	2.7	1.6	13.3	47.9	8.7	(2.2)	(1.0)	(2.1)	(0.9)
Commercial Banking	2.6	1.6	13.4	53.8	4.1	(1.8)	(0.7)	(2.1)	(1.1)
RBS International	0.3	1.6	12.0	37.5	2.1	(0.5)	(0.3)	(0.4)	(0.1)

Note:
(1) Average Cost:income ratio % over the 5-year forecast period.

16 Intangible assets continued

The following table gives the percentage change in key assumptions that would reduce the headroom of CGUs to nil.

	2020				2019			
Change in key assumptions to reduce headroom to nil (%)	Terminal growth rate %	Pre-tax discount rate %	Forecast income %	Forecast cost %	Terminal growth rate %	Pre-tax discount rate %	Forecast income %	Forecast cost %
Retail Banking	**(25.4)**	**6.2**	**(14.6)**	**33.9**	(83.0)	8.5	(20.4)	48.0
Commercial Banking	**(4.0)**	**1.3**	**(4.1)**	**8.2**	(16.4)	3.5	(9.8)	19.4
RBS International	**(10.8)**	**4.4**	**(18.6)**	**52.8**	(44.2)	8.2	(28.1)	85.6

17 Other assets

	2020 £m	2019 £m
Interests in associates (1)	**449**	436
Property, plant and equipment	**4,418**	4,928
Pension schemes in net surplus (Note 5)	**723**	614
Prepayments	**328**	380
Accrued income	**216**	275
Tax recoverable	**192**	46
Deferred tax (Note 7)	**901**	1,011
Acceptances	**272**	268
Other	**391**	352
Other assets	**7,890**	8,310

Note:
(1) Includes interest in Business Growth Fund £442 million (2019 - £424 million).

18 Other financial liabilities

	2020 £m	2019 £m
Customer deposits - designated as at fair value through profit or loss	**796**	—
Debt securities in issue		
- designated as at fair value through profit or loss	**1,607**	2,258
- amortised cost	**43,408**	42,962
Total	**45,811**	45,220

19 Subordinated liabilities

	2020 £m	2019 £m
Dated loan capital	**8,530**	7,775
Undated loan capital	**1,287**	2,058
Preference shares	**145**	146
	9,962	9,979

Certain preference shares issued by the company are classified as liabilities; these securities remain subject to the capital maintenance rules of the Companies Act 2006.

New issue	Capital treatment	2020 £m	2019 £m
NatWest Group plc			
US$750 million 3.754% dated notes 2029	Tier 2	**—**	577
£1,000 million 3.622% dated notes 2030 (callable between May 2025 to August 2025)	Tier 2	**996**	—
US$850 million 3.032% dated notes 2035 (callable November 2030)	Tier 2	**634**	—
		1,630	577
Redemptions			
NatWest Group plc			
€1,000 million 3.63% dated notes 2024 (callable March 2019)	Tier 2	**—**	855
US$2,250 million 6.13% dated notes 2022 (partial redemption)	Tier 2	**499**	—
US$1,000 million 6.10% dated notes 2023 (partial redemption)	Tier 2	**358**	—
US$2,000 million 7.5% dated notes 2020	Tier 2	**1,528**	—
US$762 million 7.648% undated notes (partial redemption)	Ineligible	**497**	—
		2,882	855
NatWest Markets Plc			
£35 million 5.5% fixed rate undated subordinated notes (callable December 2019)	Tier 2	**—**	35
US$125.6 million floating rate notes 2020	Tier 2	**97**	—
		97	35
NatWest Bank Plc			
SEK 90 million floating rate notes 2019	Tier 1	**—**	8
		—	8
NWM N.V. and subsidiaries			
US$16 million floating rate notes 2019	Tier 2	**—**	10
US$71.8 million floating rate notes 2019	Tier 2	**—**	56
€250 million 4.70% notes 2019	Tier 2	**—**	145
US$650 million 6.425% undated notes 2043 (partial redemption)	Ineligible	**187**	—
€15 million 6.00% notes 2020	Tier 2	**11**	—
		198	211

20 Other liabilities

	2020 £m	2019 £m
Lease liabilities (Note 22)	**1,698**	1,823
Provisions for liabilities and charges	**1,852**	2,677
Retirement benefit liabilities (Note 5)	**121**	119
Accruals	**990**	1,125
Deferred income	**361**	362
Current tax	**63**	132
Deferred tax (Note 7)	**291**	266
Acceptances	**272**	233
Other liabilities	**740**	801
	6,388	7,538

Provisions for liabilities and charges	Payment protection insurance (1) £m	Other customer redress £m	Litigation and other regulatory £m	Other (2) £m	Total £m
At 1 January	**1,156**	**314**	**426**	**781**	**2,677**
Expected credit losses impairment charge	**—**	**—**	**—**	**83**	**83**
Currency translation and other movements	**—**	**5**	**1**	**(2)**	**4**
Charge to income statement	**1**	**352**	**120**	**400**	**873**
Releases to income statement	**(277)**	**(55)**	**(67)**	**(178)**	**(577)**
Provisions utilised	**(557)**	**(190)**	**(115)**	**(346)**	**(1,208)**
At 31 December	**323**	**426**	**365**	**738**	**1,852**

Notes:
(1) The balance at 31 December 2020 includes provisions held in relation to offers made in 2019 and earlier years of £110 million.
(2) Materially comprises provisions relating to property closures and restructuring costs.

Critical accounting policy: Provisions for liabilities
The key judgement is involved in determining whether a present obligation exists. There is often a high degree of uncertainty and judgement is based on the specific facts and circumstances relating to individual events in determining whether there is a present obligation. Judgement is also involved in estimation of the probability, timing and amount of any outflows. Where NatWest Group can look to another party such as an insurer to pay some or all of the expenditure required to settle a provision, any reimbursement is recognised when, and only when, it is virtually certain that it will be received.

Estimates **-** Provisions are liabilities of uncertain timing or amount and are recognised when there is a present obligation as a result of a past event, the outflow of economic benefit is probable and the outflow can be estimated reliably. Any difference between the final outcome and the amounts provided will affect the reported results in the period when the matter is resolved.

- PPI: The provision reflects the estimated cost of PPI redress attributable to claims prior to the Financial Conduct Authority (FCA) complaint deadline of 29 August 2019. All pre-deadline complaints have been processed which removes complaint volume estimation uncertainty from the provision estimate. NatWest Group continues to conclude remaining bank-identified closure work and conclude cases with the Financial Ombudsmen Service.
- Other customer redress: Provisions reflect the estimated cost of redress attributable to claims where it is determined that a present obligation exists.
- Litigation and other regulatory: NatWest Group is engaged in various legal proceedings, both in the UK and in overseas jurisdictions, including the US. For further information in relation to legal proceedings and discussion of the associated uncertainties, refer to Note 26.
- Other provisions: These materially comprise provisions for onerous contracts and restructuring costs. Onerous contract provisions comprise an estimate of the costs involved with fulfilling the terms and conditions of contracts net of any expected benefits to be received. This includes provision for contractual costs such as rates associated with vacant properties. Redundancy and restructuring provisions comprise the estimated cost of restructuring, including redundancy costs where an obligation exists.

Background information for all material provisions is given in Note 26.

21 Share capital and other equity

Allotted, called up and fully paid	2020 £m	2019 £m	Number of shares 2020 000s	Number of shares 2019 000s
Ordinary shares of £1	**12,129**	12,094	**12,129,165**	12,093,909
Non-cumulative preference shares of US$0.01 (1)	**—**	—	**10**	10
Cumulative preference shares of £1	**1**	1	**900**	900

Note:
(1) No shares were redeemed in 2020 or 2019.

Movement in allotted, called up and fully paid ordinary shares	£m	Number of shares - 000s
At 1 January 2019	12,049	12,048,605
Shares issued	45	45,304
At 1 January 2020	**12,094**	**12,093,909**
Shares issued	**35**	**35,256**
At 31 December 2020	**12,129**	**12,129,165**

Ordinary shares

There is no authorised share capital under the company's constitution. At 31 December 2020, the directors had authority granted at the 2020 Annual General Meeting to issue up to £604,695,460 million nominal of ordinary shares other than by pre-emption to existing shareholders.

On 6 February 2019 the company held a General Meeting and shareholders approved a special resolution to give the company authority to make off-market purchases of its ordinary shares from HM Treasury (or its nominee) at such times as the directors may determine is appropriate. Full details of the proposal are set out in the Circular and Notice of General Meeting. This authority was renewed at the Annual General Meeting in 2020 and shareholders will be asked to renew this authorisation at the Annual General Meeting in 2021.

In the three years to 31 December 2020, the percentage increase in issued share capital due to non pre-emptive issuance (excluding employee share schemes) for cash was 0.43%. In addition, the company issued 35 million ordinary shares of £1 each in connection with employee share plans.

In 2019 NatWest Group paid an interim dividend of £241 million, or 2.0p per ordinary share (2018 - £241 million, or 2.0p per ordinary share) and a special dividend of £1,449 million, or 12.0p per ordinary share (2018 – nil). In addition, the company had announced that the directors had recommended a final dividend of £364 million, or 3.0p per ordinary share (2018 – £422 million, or 3.5p per ordinary share), and a further special dividend of £606 million, or 5.0p per ordinary share (2018 £904 million, or 7.5p per ordinary share), both of which were subject to shareholders' approval at the Annual General Meeting on 29 April 2020.

In response to a formal request from the Prudential Regulatory Authority, the Board cancelled the final and special ordinary dividend payments in relation to the 2019 financial year and did not submit them for approval at the AGM held on 29 April 2020.

The company has announced that the directors have recommended a final dividend of £364 million, or 3p per ordinary share (2019 – nil) subject to shareholder approval at the Annual General Meeting on 28 April 2021.

If approved, payment will be made on 4 May 2021 to shareholders on the register at the close of business on 26 March 2021. The ex-dividend date will be 25 March 2021.

Non-cumulative preference shares

Non-cumulative preference shares entitle their holders to periodic non-cumulative cash dividends at specified fixed rates for each series payable out of distributable profits of the company.

The company may redeem some or all of the non-cumulative preference shares from time to time at the rates detailed in the table on the next page plus dividends otherwise payable for the then current dividend period to the date of redemption.

21 Share capital and other equity continued

Non-cumulative preference shares classified as equity	Number of shares in issue	Interest rate	Redemption date on or after	Redemption price per share
Shares of US$0.01 - Series U	10,130	floating	29 September 2017	US$100,000

Note:
(1) Preference shares where distributions are discretionary are classified as equity.

On a winding-up or liquidation of the company, the holders of the non-cumulative preference shares are entitled to receive, out of any surplus assets available for distribution to the company's shareholders (after payment of arrears of dividends on the cumulative preference shares up to the date of repayment) pari passu with the cumulative preference shares and all other shares of the company ranking pari passu with the non-cumulative preference shares as regards participation in the surplus assets of the company, a liquidation distribution per share equal to the applicable redemption price detailed in the table above, together with an amount equal to dividends for the then current dividend period accrued to the date of payment, before any distribution or payment may be made to holders of the ordinary shares as regards participation in the surplus assets of the company.

Except as described above, the holders of the non-cumulative preference shares have no right to participate in the surplus assets of the company.

Holders of the non-cumulative preference shares are not entitled to receive notice of or attend general meetings of the company except if any resolution is proposed for adoption by the shareholders of the company to vary or abrogate any of the rights attaching to the non-cumulative preference shares or proposing the winding-up or liquidation of the company. In any such case, they are entitled to receive notice of and to attend the general meeting of shareholders at which such resolution is to be proposed and are entitled to speak and vote on such resolution (but not on any other resolution). In addition, in the event that, prior to any general meeting of shareholders, the company has failed to pay in full the most recent dividend payment due on the series U non-cumulative dollar preference shares, the holders shall be entitled to receive notice of, attend, speak and vote at such meeting on all matters together with the holders of the ordinary shares. In these circumstances only, the rights of the holders of the non-cumulative preference shares so to vote shall continue until the company shall have resumed the payment in full of the dividends in arrears.

Paid-in equity - comprises equity instruments issued by the company other than those legally constituted as shares.

Additional Tier 1 Instruments issued by NatWest Group plc having the legal form of debt are classified as equity under IFRS. The coupons on these Instruments are non-cumulative and payable at the company's discretion. In the event NatWest Group's CET1 ratio falls below 7% any outstanding Instruments will be converted into ordinary shares at a fixed price.

	2020 £m	2019 £m	2018 £m
Additional Tier 1 notes			
US$2.0 billion 7.5% notes callable August 2020 (1)	—	1,277	1,277
US$1.15 billion 8% notes callable August 2025 (1)	734	734	734
US$2.65 billion 8.625% notes callable August 2021 (2)	2,047	2,047	2,047
US$1.5 billion 6.000% notes callable December 2025 - June 2026 (3)	1,220	—	—
GBP£1.0 billion 5.125% notes callable May - November 2027 (4)	998	—	—
	4,999	4,058	4,058

Notes:
(1) Issued in August 2015. In the event of conversion, converted into ordinary shares at a price of $3.606 nominal per £1 share.
(2) Issued in August 2016. In the event of conversion, converted into ordinary shares at a price of $2.284 nominal per £1 share.
(3) Issued in June 2020. In the event of conversion, converted into ordinary shares at a price of £1.754 (translated at applicable exchange rate) per £1 share.
(4) Issued in November 2020. In the event of conversion, converted into ordinary shares at a price of £1.754 nominal per £1 share.

Capital recognised for regulatory purposes cannot be redeemed without Prudential Regulation Authority consent. This includes ordinary shares, preference shares and additional Tier 1 Instruments.

Merger reserve - the merger reserve comprises the premium on shares issued to acquire NatWest Bank Plc, less goodwill amortisation charged under previous GAAP.

Capital redemption reserve - under UK companies legislation, when shares are redeemed or purchased wholly or partly out of the company's profits, the amount by which the company's issued share capital is diminished must be transferred to the capital redemption reserve. The capital maintenance provisions of UK companies legislation apply to the capital redemption reserve as if it were part of the company's paid up share capital. On 15 June 2017, the Court of Session approved a reduction of NatWest plc capital so that the amounts which stood to the credit of the capital redemption reserve were transferred to retained earnings.

Own shares held - at 31 December 2020, 16 million ordinary shares of £1 each of the company (2019 - 15 million) were held by employee share trusts in respect of share awards and options granted to employees. During the year, the employee share trusts purchased 42 million ordinary shares and delivered 41 million ordinary shares in satisfaction of the exercise of options and the vesting of share awards under the employee share plans. The company retains the flexibility to use newly issued shares, shares purchased by the NatWest Group Employee Share Ownership Trust and any available treasury shares to satisfy obligations under its employee share plans.

NatWest Group plc optimises capital efficiency by maintaining reserves in subsidiaries, including regulated entities. Certain preference shares and subordinated debt are also included within regulatory capital. The remittance of reserves to the company or the redemption of shares or subordinated capital by regulated entities may be subject to maintaining the capital resources required by the relevant regulator.

UK law prescribes that only the reserves of the company are taken into account for the purpose of making distributions and in determining permissible applications of the share premium account.

Notes to the consolidated financial statements

22 Leases

Lessee

NatWest Group is party to lease contracts as lessee to support its operations. The following table provides information in respect of those lease contracts as lessee.

	2020 £m	2019 £m
Amounts recognised in consolidated income statement		
Interest payable	**(42)**	(44)
Depreciation (1)	**(209)**	(224)
Rental expense on short term leases	**(1)**	(4)
Income from subleasing right of use assets	**4**	9

	2020 £m	2019 £m
Amounts recognised on balance sheet		
Right of use assets included in property, plant and equipment (2)	**955**	1,162
Additions to right of use assets	**80**	135
Lease liabilities (3)	**(1,698)**	(1,823)

The total cash outflow for leases is £220 million (2019: £222 million), including payment of principal amount of £179 million (2019: £181 million) which are included in the operating activities in cash flow statement.

Notes:
(1) Includes impairment of right of use assets of £89 million (2019: £86 million).
(2) Includes right of use asset for plant and equipment of £8 million (2019: £23 million) and depreciation of £2 million (2019: £5 million).
(3) Contractual cashflows of lease liabilities is shown in Note 13.

Lessor

Acting as a lessor, NatWest Group provides asset finance to its customers. It purchases plant, equipment and intellectual property, renting them to customers under lease arrangements that, depending on their terms, qualify as either operating or finance leases.

	2020 £m	2019 £m
Amounts included in consolidated income statement		
Finance leases		
Finance income on the net investment in leases	**289**	314
Operating leases		
Gross Lease income	**168**	165
Depreciation	**(145)**	(138)
Net lease income	**23**	27

	2020 £m	2019 £m
Amount receivable under finance leases		
Within 1 year	**3,231**	3,388
1 to 2 years	**2,288**	2,229
2 to 3 years	**1,638**	1,733
3 to 4 years	**959**	758
4 to 5 years	**509**	682
After 5 years	**1,735**	1,758
Lease payments total	**10,360**	10,548
Unguaranteed residual values	**(232)**	(215)
Future drawdowns	**(22)**	(30)
Unearned income	**(1,081)**	(1,196)
Present value of lease payments	**9,025**	9,107
Impairments	**(196)**	(110)
Net investment in finance leases	**8,829**	8,997

22 Leases continued

The following tables show undiscounted lease receivables from operating leases:

	2020 £m	2019 £m
Amounts receivable under operating leases		
Within 1 year	**143**	154
1 to 2 years	**112**	123
2 to 3 years	**79**	83
3 to 4 years	**34**	48
4 to 5 years	**14**	17
After 5 years	**11**	12
Total	**393**	437

	2020 £m	2019 £m
Nature of operating lease assets on the balance sheet		
Transportation	**327**	334
Cars and light commercial vehicles	**28**	24
Other	**245**	295
	600	653

Investment properties are leased out on operating lease for £840 million (2019: £949 million) and had lease income for £60 million (2019: £76 million). The following table shows undiscounted lease receivables from Investment properties:

	2020 £m	2019 £m
Amounts receivable under investment properties		
Within 1 year	**67**	113
1 to 2 years	**127**	156
2 to 3 years	**54**	128
3 to 4 years	**76**	55
4 to 5 years	**88**	98
After 5 years	**142**	179
Total	**554**	729

Notes to the consolidated financial statements

23 Structured entities

A structured entity (SE) is an entity that has been designed such that voting or similar rights are not the dominant factor in deciding who controls the entity, for example, when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. SEs are usually established for a specific, limited purpose. They do not carry out a business or trade and typically have no employees. They take a variety of legal forms - trusts, partnerships and companies - and fulfil many different functions. As well as being a key element of securitisations, SEs are also used in fund management activities in order to segregate custodial duties from the provision of fund management advice.

Consolidated structured entities

Securitisations

In a securitisation, assets, or interests in a pool of assets, are transferred generally to an SE which then issues liabilities to third party investors. The majority of securitisations are supported through liquidity facilities or other credit enhancements. NatWest Group arranges securitisations to facilitate client transactions and undertakes own asset securitisations to sell or to fund portfolios of financial assets. NatWest Group also acts as an underwriter and depositor in securitisation transactions in both client and proprietary transactions.

NatWest Group involvement in client securitisations takes a number of forms. It may: sponsor or administer a securitisation programme; provide liquidity facilities or programme-wide credit enhancement; and purchase securities issued by the vehicle.

Other credit risk transfer securitisations

NatWest Group also transfers credit risk on originated loans and mortgages without the transfer of assets to an SE. As part of this, NatWest Group enters into credit derivative and financial guarantee contracts with consolidated SEs. At 31 December 2020, debt securities in issue by such SEs (and held by third parties) were £772 million (2019 - £673 million). The associated loans and mortgages at 31 December 2020 were £10,027 million (2019 - £9,001 million). At 31 December, ECL in relation to non-defaulted assets was reduced by £183 million (2019 - £29 million) as a result of financial guarantee contracts with consolidated SEs.

Covered debt programme

Group companies have assigned loans to customers and debt investments to bankruptcy remote limited liability partnerships to provide security for issues of debt securities. NatWest Group retains all of the risks and rewards of these assets and continues to recognise them. The partnerships are consolidated by NatWest Group and the related covered bonds included within other financial liabilities. At 31 December 2020, £10,758 million (2019 - £9,630 million) of loans to customers and £318 million (2019 - £280 million) of debt investments provided security for debt securities in issue and other borrowing of £4,105 million (2019 - £7,241 million).

Lending of own issued securities

NatWest Group has issued, retained, and lent debt securities under securities lending arrangements. Under standard terms in the UK and US markets, the recipient has an unrestricted right to sell or repledge collateral, subject to returning equivalent securities on maturity of the transaction. NatWest Group retains all of the risks and rewards of own issued liabilities lent under such arrangements and does not recognise them. At 31 December 2020, £1,893 million secured and nil unsecured (2019 - £1,704 million secured, £424 million unsecured) of own issued liabilities have been retained and lent under securities lending arrangements. At 31 December 2020, £2,029 million (2019 - £1,745 million) of loans and other debt instruments provided security for secured own issued liabilities that have been retained and lent under securities lending arrangements.

Unconsolidated structured entities

NatWest Group's interest in unconsolidated structured entities is analysed below.

	2020			2019		
	Asset backed securitisation vehicles £m	Investment funds and other £m	Total £m	Asset backed securitisation vehicles £m	Investment funds and other £m	Total £m
Trading assets and derivatives						
Trading assets	319	46	365	760	52	812
Derivative assets	441	16	457	196	24	220
Derivative liabilities	(319)	(21)	(340)	(154)	(4)	(158)
Total	441	41	482	802	72	874
Non trading assets						
Loans to customers	1,400	497	1,897	1,544	636	2,180
Other financial assets	3,892	170	4,062	5,373	107	5,480
Total	5,292	667	5,959	6,917	743	7,660
Liquidity facilities/loan commitments	1,482	204	1,686	1,619	297	1,916
Maximum exposure	7,215	912	8,127	9,338	1,112	10,450

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24 Asset transfers

Transfers that do not qualify for derecognition

NatWest Group enters into securities repurchase, lending and total return transactions in accordance with normal market practice which includes the provision of additional collateral if necessary. Under standard terms in the UK and US markets, the recipient has an unrestricted right to sell or repledge collateral, subject to returning equivalent securities on settlement of the transaction.

Securities sold under repurchase transactions and transactions with the substance of securities repurchase agreements are not derecognised if NatWest Group retains substantially all the risks and rewards of ownership. The fair value (and carrying value) of securities transferred under such transactions included on the balance sheet, are set out below. All of these securities could be sold or repledged by the holder.

The following assets have failed derecognition (1)	2020 £m	2019 £m
Trading assets	**20,526**	23,247
Loans to banks - amortised cost	**5**	—
Loans to customers - amortised cost	**39**	—
Other financial assets	**11,542**	4,269
	32,112	27,516

Note:
(1) Associated liabilities were £31,932 million (2019 – £27,342 million).

Assets pledged as collateral

NatWest Group pledges collateral with its counterparties in respect of derivative liabilities and bank and stock borrowings.

Assets pledged against liabilities	2020 £m	2019 £m
Trading assets	**28,728**	27,918
Loans to banks - amortised cost	**49**	39
Loans to customers - amortised cost	**15,939**	17,920
Other financial assets (1)	**4,966**	4,688
	49,682	50,565

Note:
(1) Includes assets pledged for pension derivatives and stock borrowings.

Own asset securitisations

In own-asset securitisations, the pool of assets held by the SE is either originated by NatWest Group, or (in the case of whole loan programmes) purchased from third parties.

The table below analyses the asset categories for those own-asset securitisations where the transferred assets continue to be recorded on NatWest Group's balance sheet.

	2020				2019			
		Debt securities in issue				Debt securities in issue		
Asset type	Assets £m	Held by third parties £m	Held by NatWest Group (1) £m	Total £m	Assets £m	Held by third parties £m	Held by NatWest Group (1) £m	Total £m
Mortgages - RoI	**1,921**	**243**	**1,848**	**2,091**	2,221	468	1,917	2,385
Cash deposits	**146**				156	—	—	—
	2,067				2,377			

Note:
(1) Debt securities retained by NatWest Group may be pledged with central banks.

Notes to the consolidated financial statements

25 Capital resources

The minimum requirement for own funds is set out under the Capital Requirements Regulation on a legal entity and consolidated basis. Transitional arrangements on the phasing in of end-point capital resources are set by the relevant regulatory authority.

The capital resources under the PRA transitional basis for NatWest Group are set out below.

	PRA transitional basis	
	2020 £m	2019 £m
Shareholders' equity (excluding non-controlling interests)		
Shareholders' equity	**43,860**	43,547
Preference shares - equity	**(494)**	(496)
Other equity instruments	**(4,999)**	(4,058)
	38,367	38,993
Regulatory adjustments and deductions		
Own credit	**(1)**	(118)
Defined benefit pension fund adjustment	**(579)**	(474)
Cash flow hedging reserve	**(229)**	(35)
Deferred tax assets	**(760)**	(757)
Prudential valuation adjustments	**(286)**	(431)
Goodwill and other intangible assets	**(6,182)**	(6,622)
Expected losses less impairments	**—**	(167)
Foreseeable ordinary and special dividends	**(364)**	(968)
Foreseeable charges	**(266)**	(365)
Adjustment under IFRS 9 transitional arrangements	**1,747**	
Other regulatory adjustments	**—**	(2)
	(6,920)	(9,939)
CET1 capital	**31,447**	29,054
Additional Tier 1 (AT1) capital		
Qualifying instruments and related share premium	**4,983**	4,051
Qualifying instruments and related share premium subject to phase out	**690**	1,366
Qualifying instruments issued by subsidiaries and held by third parties subject to phase out	**140**	140
AT1 capital	**5,813**	5,557
Tier 1 capital	**37,260**	34,611
Qualifying Tier 2 capital		
Qualifying instruments and related share premium	**4,882**	4,867
Qualifying instruments issued by subsidiaries and held by third parties	**1,191**	1,345
Other regulatory adjustments	**400**	—
Tier 2 capital	**6,473**	6,212
Total regulatory capital	**43,733**	40,823

It is NatWest Group policy to maintain a strong capital base, to expand it as appropriate and to utilise it efficiently throughout its activities to optimise the return to shareholders while maintaining a prudent relationship between the capital base and the underlying risks of the business. In carrying out this policy, NatWest Group has regard to the supervisory requirements of the PRA. The PRA uses capital ratios as a measure of capital adequacy in the UK banking sector, comparing a bank's capital resources with its risk-weighted assets (the assets and off-balance sheet exposures are 'weighted' to reflect the inherent credit and other risks); by international agreement, the Pillar 1 capital ratios should be not less than 8% with a Common Equity Tier 1 component of not less than 4.5%. NatWest Group has complied with the PRA's capital requirements throughout the year.

A number of subsidiaries and sub-groups within NatWest Group, principally banking entities, are subject to various individual regulatory capital requirements in the UK and overseas. Furthermore, the payment of dividends by subsidiaries and the ability of members of NatWest Group to lend money to other members of NatWest Group may be subject to restrictions such as local regulatory or legal requirements, the availability of reserves and financial and operating performance.

26 Memorandum items

Contingent liabilities and commitments

The amounts shown in the table below are intended only to provide an indication of the volume of business outstanding at 31 December 2020. Although NatWest Group is exposed to credit risk in the event of a customer's failure to meet its obligations, the amounts shown do not, and are not intended to, provide any indication of NatWest Group's expectation of future losses.

	Less than 1 year £m	More than 1 year but less than 3 years £m	More than 3 years but less than 5 years £m	Over 5 years £m	2020 £m	2019 £m
Guarantees	**1,044**	**308**	**159**	**733**	**2,244**	2,757
Other contingent liabilities	**1,219**	**491**	**42**	**569**	**2,321**	2,478
Standby facilities, credit lines and other commitments	**62,794**	**27,476**	**26,483**	**7,414**	**124,167**	119,760
Contingent liabilities and commitments	**65,057**	**28,275**	**26,684**	**8,716**	**128,732**	124,995

Note:
(1) The maturity of contingent liabilities and commitment is based on the expiry of the agreement between NatWest Group and the customer.

Banking commitments and contingent obligations, which have been entered into on behalf of customers and for which there are corresponding obligations from customers, are not included in assets and liabilities. NatWest Group's maximum exposure to credit loss, in the event of its obligation crystallising and all counterclaims, collateral or security proving valueless, is represented by the contractual nominal amount of these instruments included in the table above. These commitments and contingent obligations are subject to NatWest Group's normal credit approval processes.

Guarantees – NatWest Group gives guarantees on behalf of customers. A financial guarantee represents an irrevocable undertaking that NatWest Group will meet a customer's specified obligations to third party if the customer fails to do so. The maximum amount that NatWest Group could be required to pay under a guarantee is its principal amount as disclosed in the table above. NatWest Group expects most guarantees it provides to expire unused.

Other contingent liabilities - these include standby letters of credit, supporting customer debt issues and contingent liabilities relating to customer trading activities such as those arising from performance and customs bonds, warranties and indemnities.

Standby facilities and credit lines - under a loan commitment, NatWest Group agrees to make funds available to a customer in the future. Loan commitments, which are usually for a specified term, may be unconditionally cancellable or may persist, provided all conditions in the loan facility are satisfied or waived. Commitments to lend include commercial standby facilities and credit lines, liquidity facilities to commercial paper conduits and unutilised overdraft facilities.

Other commitments - these include documentary credits, which are commercial letters of credit providing for payment by NatWest Group to a named beneficiary against presentation of specified documents, forward asset purchases, forward deposits placed and undrawn note issuance and revolving underwriting facilities, and other short-term trade related transactions.

Contractual obligations for future expenditure not provided for in the accounts

The following table shows contractual obligations for future expenditure not provided for in the accounts at the year end.

	2020 £m	2019 £m
Capital expenditure on property, plant and equipment	**15**	20
Contracts to purchase goods or services (1)	**729**	614
	744	634

Note:
(1) Of which due within 1 year: £267 million (2019 – £285 million).

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Trustee and other fiduciary activities

In its capacity as trustee or other fiduciary role, NatWest Group may hold or place assets on behalf of individuals, trusts, companies, pension schemes and others. The assets and their income are not included in NatWest Group's financial statements. NatWest Group earned fee income of £245 million (2019 - £250 million; 2018 - £257 million) from these activities.

The Financial Services Compensation Scheme

The Financial Services Compensation Scheme (FSCS), the UK's statutory fund of last resort for customers of authorised financial services firms, pays compensation if a firm is unable to meet its obligations. The FSCS funds compensation for customers by raising management expenses levies and compensation levies on the industry. In relation to protected deposits, each deposit-taking institution contributes towards these levies in proportion to their share of total protected deposits on 31 December of the year preceding the scheme year (which runs from 1 April to 31 March), subject to annual maxima set by the Prudential Regulation Authority. In addition, the FSCS has the power to raise levies on a firm that has ceased to participate in the scheme and is in the process of ceasing to be authorised for the costs that it would have been liable to pay had the FSCS made a levy in the financial year it ceased to be a participant in the scheme.

Litigation and regulatory matters

NatWest Group plc and certain members of NatWest Group are party to legal proceedings and involved in regulatory matters, including as the subject of investigations and other regulatory and governmental action ('Matters') in the United Kingdom (UK), the United States (US), the European Union (EU) and other jurisdictions.

NatWest Group recognises a provision for a liability in relation to these Matters when it is probable that an outflow of economic benefits will be required to settle an obligation resulting from past events, and a reliable estimate can be made of the amount of the obligation.

In many of these Matters, it is not possible to determine whether any loss is probable, or to estimate reliably the amount of any loss, either as a direct consequence of the relevant proceedings and regulatory matters or as a result of adverse impacts or restrictions on NatWest Group's reputation, businesses and operations. Numerous legal and factual issues may need to be resolved, including through potentially lengthy discovery and document production exercises and determination of important factual matters, and by addressing novel or unsettled legal questions relevant to the proceedings in question, before a liability can reasonably be estimated for any claim. NatWest Group cannot predict if, how, or when such claims will be resolved or what the eventual settlement, damages, fine, penalty or other relief, if any, may be, particularly for claims that are at an early stage in their development or where claimants seek substantial or indeterminate damages.

There are situations where NatWest Group may pursue an approach that in some instances leads to a settlement agreement. This may occur in order to avoid the expense, management distraction or reputational implications of continuing to contest liability, or in order to take account of the risks inherent in defending claims or regulatory matters, even for those Matters for which NatWest Group believes it has credible defences and should prevail on the merits. The uncertainties inherent in all such Matters affect the amount and timing of any potential outflows for both Matters with respect to which provisions have been established and other contingent liabilities.

The future outflow of resources in respect of any Matter may ultimately prove to be substantially greater than or less than the aggregate provision that NatWest Group has recognised. Where (and as far as) liability cannot be reasonably estimated, no provision has been recognised. NatWest Group expects that in future periods, additional provisions, settlement amounts and customer redress payments will be necessary, in amounts that are expected to be substantial in some instances.

For a discussion of certain risks associated with NatWest Group's litigation and regulatory matters (including investigations and customer redress programmes), see the Risk Factor relating to legal, regulatory and governmental actions and investigations set out on page 360.

Litigation

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

NatWest Group companies continue to defend RMBS-related claims in the US in which plaintiffs allege that certain disclosures made in connection with the relevant offerings of RMBS contained materially false or misleading statements and/or omissions regarding the underwriting standards pursuant to which the mortgage loans underlying the RMBS were issued. The remaining RMBS lawsuits against NatWest Group companies consist of cases filed by the Federal Deposit Insurance Corporation and the State of New Mexico that together involve the issuance of less than US$400 million of RMBS issued primarily from 2005 to 2007. In addition, NWMSI previously agreed to settle a purported RMBS class action entitled New Jersey Carpenters Health Fund v. Novastar Mortgage Inc. et al. for US$55.3 million. This was paid into escrow pending court approval of the settlement, which was granted in March 2019, but which is now the subject of an appeal by a class member who does not want to participate in the settlement.

London Interbank Offered Rate (LIBOR) and other rates litigation

NWM Plc and certain other members of NatWest Group, including NatWest Group plc, are defendants in a number of class actions and individual claims pending in the United States District Court for the Southern District of New York (SDNY) with respect to the setting of LIBOR and certain other benchmark interest rates. The complaints allege that certain members of NatWest Group and other panel banks violated various federal laws, including the US commodities and antitrust laws, and state statutory and common law, as well as contracts, by manipulating LIBOR and prices of LIBOR-based derivatives in various markets through various means.

Several class actions relating to USD LIBOR, as well as more than two dozen non-class actions concerning USD LIBOR, are part of a co-ordinated proceeding in the SDNY. In December 2016, the SDNY held that it lacks personal jurisdiction over NWM Plc with respect to certain claims. As a result of that and other decisions, all NatWest Group companies have been dismissed from each of the USD LIBOR-related class actions (including class actions on behalf of over-the-counter plaintiffs, exchange-based purchaser plaintiffs, bondholder plaintiffs, and lender plaintiffs), but seven non-class cases in the co-ordinated proceeding remain pending against NatWest Group defendants. The dismissal of NatWest Group companies for lack of personal jurisdiction is the subject of a pending appeal to the United States Court of Appeals for the Second Circuit. In March 2020, NatWest Group companies finalised a settlement resolving the class action on behalf of bondholder plaintiffs (those who held bonds issued by non-defendants on which interest was paid from 2007 to 2010 at a rate expressly tied to USD LIBOR). The amount of the settlement (which was covered by an existing provision) has been paid into escrow pending court approval of the settlement.

Among the non-class claims dismissed by the SDNY in December 2016 were claims that the Federal Deposit Insurance Corporation (FDIC) had asserted on behalf of certain failed US banks. In July 2017, the FDIC, on behalf of 39 failed US banks, commenced substantially similar claims against NatWest Group companies and others in the High Court of Justice of England and Wales. The action alleges that the defendants breached English and European competition law, as well as asserting common law claims of fraud under US law.

In addition, there are two class actions relating to JPY LIBOR and Euroyen TIBOR. The first class action, which relates to Euroyen TIBOR futures contracts, was dismissed by the SDNY in September 2020 on legal grounds, and the plaintiffs have commenced an appeal to the United States Court of Appeals for the Second Circuit. The second class action, which relates to other derivatives allegedly tied to JPY LIBOR and Euroyen TIBOR, is the subject of a motion to dismiss that remains pending in the SDNY.

26 Memorandum items continued

Litigation and regulatory matters

In addition to the above, five other class action complaints were filed against NatWest Group companies in the SDNY, each relating to a different reference rate. The SDNY dismissed all claims against NWM Plc in the case relating to Euribor for lack of personal jurisdiction in February 2017. The SDNY dismissed, for various reasons, the case relating to the Singapore Interbank Offered Rate and Singapore Swap Offer Rate in July 2019, the case relating to Pound Sterling LIBOR in August 2019, and the case relating to Swiss Franc LIBOR in September 2019. Plaintiffs are appealing each of these four dismissals to the United States Court of Appeals for the Second Circuit. In the class action relating to Swiss Franc LIBOR, NWM Plc and the plaintiffs reached a settlement in principle in February 2021. The amount of the settlement, which remains subject to final documentation and court approval, is covered by an existing provision. In the fifth class action, which relates to the Australian Bank Bill Swap Reference Rate, the SDNY in February 2020 declined to dismiss the amended complaint as against NWM Plc and certain other defendants, but dismissed it as to other members of NatWest Group (including NatWest Group plc). The claims against non-dismissed defendants (including NWM Plc) are now proceeding in discovery.

NWM Plc was also named as a defendant in a motion to certify a class action relating to LIBOR in the Tel Aviv District Court in Israel. NWM Plc filed a motion for cancellation of service, which was granted in July 2020. The claimants appealed that decision and in November 2020 the appeal was refused and the claim dismissed by the Appellate Court. The claim could in future be recommenced depending on the outcome of a separate case under appeal to Israel's Supreme Court.

In January 2019, a class action antitrust complaint was filed in the SDNY alleging that the defendants (USD ICE LIBOR panel banks and affiliates) have conspired to suppress USD ICE LIBOR from 2014 to the present by submitting incorrect information to ICE about their borrowing costs. The NatWest Group defendants are NatWest Group plc, NWM Plc, NWMSI and NWB Plc. The defendants made a motion to dismiss this case, which was granted by the court in March 2020. Plaintiffs' appeal of the dismissal is pending in the United States Court of Appeals for the Second Circuit.

In August 2020, a complaint was filed in the United States District Court for the Northern District of California by several United States consumer borrowers against the USD ICE LIBOR panel banks and their affiliates, alleging that the normal process of setting USD ICE LIBOR amounts to illegal price-fixing, and also that banks in the United States have illegally agreed to use LIBOR as a component of price in variable consumer loans. The NatWest Group defendants are NatWest Group plc, NWM Plc, NWMSI and NWB Plc. The plaintiffs seek damages and to prevent the enforcement of LIBOR-based instruments through injunction. Defendants have filed a motion to transfer the matter to federal court in New York and will seek dismissal.

FX litigation

NWM Plc, NWMSI and / or NatWest Group plc are defendants in several cases relating to NWM Plc's foreign exchange (FX) business, each of which is pending before the same federal judge in the SDNY. In 2015, NWM Plc paid US$255 million to settle the consolidated antitrust class action on behalf of persons who entered into over-the-counter FX transactions with defendants or who traded FX instruments on exchanges. That settlement received final court approval in August 2018. In November 2018, some members of the settlement class who opted out of the settlement filed their own non-class complaint in the SDNY asserting antitrust claims against NWM Plc, NWMSI and other banks. Those opt-out claims are proceeding in discovery. In December 2018, some of the same claimants, as well as others, filed proceedings in the High Court of Justice of England and Wales, asserting competition claims against NWM Plc and several other banks. The claim was served in April 2019.

One other FX-related class action, on behalf of 'consumers and end-user businesses', is proceeding in the SDNY against NWM Plc and others. Plaintiffs have filed a motion for class certification, which defendants are opposing. The 2020 settlement of another class action, on behalf of 'indirect purchasers' of FX instruments (which plaintiffs define as persons who transacted FX instruments with retail foreign exchange dealers that transacted directly with defendant banks), received final court approval in November 2020. NWM Plc has paid the settlement in that case (which was covered by an existing provision).

In May 2019, a cartel class action was filed in the Federal Court of Australia against NWM Plc and four other banks on behalf of persons who bought or sold currency through FX spots or forwards between 1 January 2008 and 15 October 2013 with a total transaction value exceeding AUS $0.5 million. The claimant has alleged that the banks, including NWM Plc, contravened Australian competition law by sharing information, coordinating conduct, widening spreads and manipulating FX rates for certain currency pairs during this period. NatWest Group plc has been named in the action as an 'other cartel participant', but is not a respondent. The claim was served in June 2019. The claimant sought permission to amend its claim to strengthen its claim of alleged breaches of competition law, but this was refused by the court in the form sought by the claimant. The claimant now seeks a further opportunity to amend its claim.

In July and December 2019, two separate applications seeking opt-out collective proceedings orders were filed in the UK Competition Appeal Tribunal against NatWest Group plc, NWM Plc and other banks. Both applications have been brought on behalf of persons who, between 18 December 2007 and 31 January 2013, entered into a relevant FX spot or outright forward transaction in the EEA with a relevant financial institution or on an electronic communications network. A hearing to determine class certification and which of the applications should be permitted to represent the class is scheduled to take place in July 2021.

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

Two motions to certify FX-related class actions were filed in the Tel Aviv District Court in Israel in September and October 2018, and were subsequently consolidated into one motion. The consolidated motion, which names The Royal Bank of Scotland plc (now NWM Plc) as the defendant, was served on NWM Plc in May 2020. NWM Plc has filed a motion for cancellation of service.

Certain other foreign exchange transaction related claims have been or may be threatened. NatWest Group cannot predict whether any of these claims will be pursued, but expects that some may.

Government securities antitrust litigation

NWMSI and certain other US broker-dealers are defendants in a consolidated antitrust class action pending in the SDNY on behalf of persons who transacted in US Treasury securities or derivatives based on such instruments, including futures and options. The plaintiffs allege that defendants rigged the US Treasury securities auction bidding process to deflate prices at which they bought such securities and colluded to increase the prices at which they sold such securities to plaintiffs. The defendants' motion to dismiss this matter remains pending.

26 Memorandum items continued

Litigation and regulatory matters

Class action antitrust claims commenced in March 2019 are pending in the SDNY against NWM Plc, NWMSI and other banks in respect of Euro-denominated bonds issued by European central banks (EGBs). The complaint alleges a conspiracy among dealers of EGBs to widen the bid-ask spreads they quoted to customers, thereby increasing the prices customers paid for the EGBs or decreasing the prices at which customers sold the bonds. The class consists of those who purchased or sold EGBs in the US between 2007 and 2012. The defendants filed a motion to dismiss this matter, which was granted by the court in respect of NWM Plc and NWMSI in July 2020, subject to plaintiffs attempting to remedy the pleading deficiencies identified by the court through an amended complaint.

Swaps antitrust litigation

NWM Plc and other members of NatWest Group, including NatWest Group plc, as well as a number of other interest rate swap dealers, are defendants in several cases pending in the SDNY alleging violations of the US antitrust laws in the market for interest rate swaps. There is a consolidated class action complaint on behalf of persons who entered into interest rate swaps with the defendants, as well as non-class action claims by three swap execution facilities (TeraExchange, Javelin, and trueEx). The plaintiffs allege that the swap execution facilities would have successfully established exchange-like trading of interest rate swaps if the defendants had not unlawfully conspired to prevent that from happening through boycotts and other means. Discovery in these cases is complete, and the plaintiffs' motion for class certification remains pending.

In addition, in June 2017, TeraExchange filed a complaint against NatWest Group companies, including NatWest Group plc, as well as a number of other credit default swap dealers, in the SDNY. TeraExchange alleges it would have established exchange-like trading of credit default swaps if the defendant dealers had not engaged in an unlawful antitrust conspiracy. In October 2018, the court dismissed all claims against NatWest Group companies.

Odd lot corporate bond trading antitrust litigation

NWMSI is the subject of a class action antitrust complaint filed in the SDNY against NWMSI and several other securities dealers. The complaint alleges that, from August 2006 to the present, the defendants conspired artificially to widen spreads for odd lots of corporate bonds bought or sold in the United States secondary market and to boycott electronic trading platforms that would have allegedly promoted pricing competition in the market for such bonds. Defendants filed a motion to dismiss the operative complaint in this matter in December 2020.

Madoff

NWM N.V. is a defendant in two actions filed by Irving Picard, as trustee for the bankruptcy estates of Bernard L. Madoff and Bernard L. Madoff Investment Securities LLC, in bankruptcy court in New York. In both cases, the trustee alleges that certain transfers received by NWM N.V. amounted to fraudulent conveyances that should be clawed back for the benefit of the Madoff estate.

In the primary action, filed in December 2010, the trustee is seeking to clawback a total of US$276.3 million in redemptions that NWM N.V. allegedly received from certain Madoff feeder funds and certain swap counterparties. In March 2020, the bankruptcy court denied the trustee's request for leave to amend its complaint to include additional allegations against NWM N.V., holding that, even with the proposed amendments, the complaint would fail as a matter of law to state a valid claim against NWM N.V. The trustee has commenced an appeal of the bankruptcy court's decision, which has been stayed pending the result of appeals in different proceedings, against different defendants, that involve similar issues. In the second action, filed in October 2011, the trustee seeks to recover an additional US$21.8 million. This action has been stayed pending the result of the appeal in the primary action.

Interest rate hedging products and similar litigation

NatWest Group continues to deal with a small number of active litigation claims in the UK relating to the alleged mis-selling of interest rate hedging products.

Separately, NWM Plc is defending claims filed in France by two French local authorities relating to structured interest rate swaps. The plaintiffs allege, among other things, that the swaps are void for being illegal transactions, that they were mis-sold, and that information / advisory duties were breached. One of the claims is being appealed to the Supreme Court and the other has been remitted from the Supreme Court to the Court of Appeal for reconsideration of one aspect. NWM N.V. was a defendant in the latter case but has been dismissed from the proceedings.

EUA trading litigation

HMRC issued a tax assessment in 2012 against NatWest Group plc for approximately £86 million regarding a value-added-tax (VAT) matter in relation to the trading of European Union Allowances (EUAs) by a joint venture subsidiary in 2009. NatWest Group plc has lodged an appeal, which is due to be heard in June 2021, before the First-tier Tribunal (Tax), a specialist tax tribunal, challenging the assessment (the 'Tax Dispute'). In the event that the assessment is upheld, interest and costs would be payable, and a penalty of up to 100 per cent of the VAT held to have been legitimately denied by HMRC could also be levied.

Separately, NWM Plc was a named defendant in civil proceedings before the High Court of Justice of England and Wales brought in 2015 by ten companies (all in liquidation) (the 'Liquidated Companies') and their respective liquidators (together, 'the Claimants'). The Liquidated Companies previously traded in EUAs in 2009 and were alleged to be defaulting traders within (or otherwise connected to) the EUA supply chains forming the subject of the Tax Dispute. The Claimants claimed approximately £71.4 million plus interest and costs and alleged that NWM Plc dishonestly assisted the directors of the Liquidated Companies in the breach of their statutory duties and/or knowingly participated in the carrying on of the business of the Liquidated Companies with intent to defraud creditors. The trial in that matter concluded in July 2018 and judgment was issued in March 2020. The court held that NWM Plc and Mercuria Energy Europe Trading Limited were liable for dishonestly assisting and knowingly being a party to fraudulent trading during a seven business day period in 2009. In October 2020, the High Court quantified damages against NWM Plc at £45 million plus interest and costs, and permitted it to appeal to the Court of Appeal. The appeal hearing is due to take place in March 2021.

Offshoring VAT assessments

HMRC issued protective tax assessments in 2018 against NatWest Group plc totalling £143 million relating to unpaid VAT in respect of the UK branches of two NatWest Group companies registered in India. NatWest Group formally requested reconsideration by HMRC of their assessments, and this process was completed in November 2020. HMRC upheld their original decision and, as a result, NatWest Group plc lodged an appeal with the Tax Tribunal and an application for judicial review with the High Court of Justice of England and Wales, both in December 2020. In order to lodge the appeal with the Tax Tribunal, NatWest Group plc was required to pay the £143 million to HMRC, and payment was made on 16 December 2020.

US Anti-Terrorism Act litigation

NWB Plc is defending lawsuits filed in the United States District Court for the Eastern District of New York by a number of US nationals (or their estates, survivors, or heirs) who were victims of terrorist attacks in Israel. The plaintiffs allege that NWB Plc is liable for damages arising from those attacks pursuant to the US Anti-Terrorism Act because NWB Plc previously maintained bank accounts and transferred funds for the Palestine Relief & Development Fund, an organisation which plaintiffs allege solicited funds for Hamas, the alleged perpetrator of the attacks.

In October 2017, the trial court dismissed claims against NWB Plc with respect to two of the 18 terrorist attacks at issue. In March 2018, the trial court granted a request by NWB Plc for leave to file a renewed summary judgment motion in respect of the remaining claims, and in March 2019, the court granted summary judgment in favour of NWB Plc. The plaintiffs' appeal of the judgment to the United States Court of Appeals for the Second Circuit is pending.

26 Memorandum items continued

Litigation and regulatory matters

NWM N.V. and certain other financial institutions are defendants in several actions pending in the United States District Courts for the Eastern and Southern Districts of New York, filed by a number of US nationals (or their estates, survivors, or heirs), most of whom are or were US military personnel, who were killed or injured in attacks in Iraq between 2003 and 2011. NWM Plc is also a defendant in some of these cases.

The attacks at issue in the cases were allegedly perpetrated by Hezbollah and certain Iraqi terror cells allegedly funded by the Islamic Republic of Iran. According to the plaintiffs' allegations, the defendants are liable for damages arising from the attacks because they allegedly conspired with Iran and certain Iranian banks to assist Iran in transferring money to Hezbollah and the Iraqi terror cells, in violation of the US Anti-Terrorism Act, by agreeing to engage in 'stripping' of transactions initiated by the Iranian banks so that the Iranian nexus to the transactions would not be detected.

The first of these actions was filed in the United States District Court for the Eastern District of New York in November 2014. In September 2019, the district court dismissed the case, finding that the claims were deficient for several reasons, including lack of sufficient allegations as to the alleged conspiracy and causation. The plaintiffs are appealing the decision to the United States Court of Appeals for the Second Circuit. Another action, filed in the SDNY in 2017, was dismissed in March 2019 on similar grounds, but remains subject to appeal to the United States Court of Appeals for the Second Circuit. Other follow-on actions that are substantially similar to the two that have now been dismissed are pending in the same courts.

Securities underwriting litigation

NWMSI is an underwriter defendant in several securities class actions in the US in which plaintiffs generally allege that an issuer of public debt or equity securities, as well as the underwriters of the securities (including NWMSI), are liable to purchasers for misrepresentations and omissions made in connection with the offering of such securities.

Regulatory matters (including investigations and customer redress programmes)

NatWest Group's businesses and financial condition can be affected by the actions of various governmental and regulatory authorities in the UK, the US, the EU and elsewhere. NatWest Group has engaged, and will continue to engage, in discussions with relevant governmental and regulatory authorities, including in the UK, the US, the EU and elsewhere, on an ongoing and regular basis, and in response to informal and formal inquiries or investigations, regarding operational, systems and control evaluations and issues including those related to compliance with applicable laws and regulations, including consumer protection, investment advice, business conduct, competition/anti-trust, VAT recovery, anti-bribery, anti-money laundering and sanctions regimes.

The NatWest Markets business in particular has been providing, and continues to provide, information regarding a variety of matters, including, for example, offering of securities, the setting of benchmark rates and related derivatives trading, conduct in the foreign exchange market, product mis-selling and various issues relating to the issuance, underwriting, and sales and trading of fixed-income securities, including structured products and government securities, some of which have resulted, and others of which may result, in investigations or proceedings.

Any matters discussed or identified during such discussions and inquiries may result in, among other things, further inquiry or investigation, other action being taken by governmental and regulatory authorities, increased costs being incurred by NatWest Group, remediation of systems and controls, public or private censure, restriction of NatWest Group's business activities and/or fines. Any of the events or circumstances mentioned in this paragraph or below could have a material adverse effect on NatWest Group, its business, authorisations and licences, reputation, results of operations or the price of securities issued by it, or lead to material additional provisions being taken.

NatWest Group is co-operating fully with the matters described below.

Investigations

US investigations relating to fixed-income securities

In the US, NatWest Group companies have in recent years been involved in investigations relating to, among other things, issuance, underwriting and trading in RMBS and other mortgage-backed securities and collateralised debt obligations (CDOs). Investigations by the US Department of Justice (DoJ) and several state attorneys general relating to the issuance and underwriting of RMBS were previously resolved. In December 2020, RBS Financial Products, Inc. agreed to pay US$18.2 million to resolve such an investigation by the State of Maryland. RBS Financial Products, Inc. has paid the settlement amount, which was covered by an existing provision.

In October 2017, NWMSI entered into a non-prosecution agreement (NPA) with the United States Attorney for the District of Connecticut (USAO) in connection with alleged misrepresentations to counterparties relating to secondary trading in various forms of asset-backed securities. In the NPA, the USAO agreed not to file criminal charges relating to certain conduct and information described in the NPA, conditioned on NWMSI and affiliated companies complying with the NPA's reporting and conduct requirements during its term, including by not engaging in conduct during the NPA that the USAO determines was a felony under federal or state law or a violation of the anti-fraud provisions of the United States securities law.

The NatWest Markets business is currently responding to a separate criminal investigation by the USAO and DoJ concerning unrelated trading by certain NatWest Markets former traders involving alleged spoofing. The NPA (referred to above) has been extended as the criminal investigation has progressed and related discussions with the USAO and the DoJ, including relating to the impact of such alleged conduct on the status of the NPA and the potential consequences thereof, have been ongoing. The duration and outcome of these matters remain uncertain, including in respect of whether settlement may be reached. Material adverse collateral consequences, in addition to further substantial costs and the recognition of further provisions, may occur depending on the outcome of the investigations, as further described in the Risk Factor relating to legal, regulatory and governmental actions and investigations set out on page 360.

Foreign exchange related investigations

In 2014 and 2015, NWM Plc paid significant penalties to resolve investigations into its FX business by the FCA, the Commodity Futures Trading Commission, the DoJ, and the Board of Governors of the Federal Reserve System. In May and June 2019, NatWest Group plc and NWM Plc reached settlements totalling approximately EUR 275 million in connection with the European Commission and certain other related competition law investigations into FX trading. NWM Plc continues to co-operate with ongoing investigations from competition authorities on similar issues relating to past FX trading. The exact timing and amount of future financial penalties, related risks and collateral consequences remain uncertain and may be material.

FCA investigation into NatWest Group's compliance with the Money Laundering Regulations 2007

In July 2017, the FCA notified NatWest Group that it was undertaking an investigation into NatWest Group's compliance with the UK Money Laundering Regulations 2007 in relation to certain money service businesses and related parties. The investigation is assessing both criminal and civil culpability. NatWest Group is co-operating with the investigation, including responding to information requests from the FCA.

Systematic Anti-Money Laundering Programme assessment

In December 2018, the FCA commenced a Systematic Anti-Money Laundering Programme assessment of NatWest Group. The FCA provided its written findings to NatWest Group in June 2019, and NatWest Group responded on 8 August 2019. On 28 August 2019, the FCA instructed NatWest Group to appoint a Skilled Person under section 166 of the Financial Services and Markets Act 2000 to provide assurance on financial crime governance arrangements in relation to two financial crime change programmes. NatWest Group is co-operating with the Skilled Person's review, which is ongoing.

26 Memorandum items continued

Litigation and regulatory matters

FCA mortgages market study

In December 2016, the FCA launched a market study into the provision of mortgages. In March 2019 the final report was published. This found that competition was working well for many customers but also proposed remedies to help customers shop around more easily for mortgages. A period of consultation is underway and the FCA has indicated that it intends to provide updates on the remedies in due course.

Customer redress programmes

FCA review of NatWest Group's treatment of SMEs

In 2014, the FCA appointed an independent Skilled Person under section 166 of the Financial Services and Markets Act 2000 to review NatWest Group's treatment of SME customers whose relationship was managed by NatWest Group's Global Restructuring Group (GRG) in the period 1 January 2008 to 31 December 2013. In response to the Skilled Person's final report and update in 2016, NatWest Group announced redress steps for SME customers in the UK and the Republic of Ireland that were in GRG between 2008 and 2013. These steps were (i) an automatic refund of certain complex fees; and (ii) a new complaints process, overseen by an independent third party. The complaints process has since closed to new complaints.

NatWest Group's remaining provisions in relation to these matters at 31 December 2020 were £30 million.

Investment advice review

During October 2019, the FCA notified NatWest Group of its intention to appoint a Skilled Person under section 166 of the Financial Services and Markets Act 2000 to conduct a review of whether NatWest Group's past business review of investment advice provided during 2010 to 2015 was subject to appropriate governance and accountability and led to appropriate customer outcomes. NatWest Group is co-operating with the Skilled Person's review and, subject to discussion with the FCA, expects to conduct additional review / remediation work during 2021. Accordingly, NatWest Group recognised an increased provision in relation to these matters at 31 December 2020.

Review and investigation of treatment of tracker mortgage customers in Ulster Bank Ireland DAC

In December 2015, correspondence was received from the CBI setting out an industry examination framework in respect of the sale of tracker mortgages from approximately 2001 until the end of 2015. The redress and compensation phase has concluded, although an appeals process is currently anticipated to run until at least the end of 2021. NatWest Group has made provisions totalling €335 million (£301 million), of which €284 million (£255 million) had been utilised by 31 December 2020 in respect of redress and compensation.

In April 2016, the CBI commenced an investigation alleging that it suspected UBI DAC of breaching specified provisions of the Consumer Protection Code 2006 in its treatment of certain tracker mortgage customers. This investigation is ongoing.

UBI DAC identified further legacy business issues, as an extension to the tracker mortgage review. These remediation programmes are ongoing. NatWest Group has made provisions of €164 million (£147 million), of which €144 million (£129 million) had been utilised by 31 December 2020 for these programmes.

Notes to the consolidated financial statements

27 Analysis of the net investment in business interests and intangible assets

Acquisitions and disposals	2020 £m	2019 £m	2018 £m
Fair value given for businesses acquired (1)	—	(55)	(113)
Additional investment in associates	(40)	—	(9)
Net outflow of cash in respect of acquisitions	(40)	(55)	(122)
Sale of interests in associates	27	—	—
Net assets sold	288	351	—
Profit on disposal	3	—	—
Net inflow of cash in respect of disposals	318	351	—
Dividends received from associates	—	—	5
Cash expenditure on intangible assets	(348)	(380)	(364)
Net outflow of cash	(70)	(84)	(481)

Note:
(1) 2019 includes the purchase of Free agent.

28 Analysis of changes in financing during the year

	Share capital, share premium, and paid-in equity			Subordinated liabilities			MRELs		
	2020 £m	2019 £m	2018 £m	2020 £m	2019 £m	2018 £m	2020 £m	2019 £m	2018 £m
At 1 January	17,246	17,134	16,910	9,979	10,535	12,722	19,249	16,821	9,202
Issue of ordinary shares	—	17	144						
Issue of paid in equity	2,218	—	—						
Issue of subordinated liabilities				1,631	577	—			
Redemption of subordinated liabilities				(3,502)	(1,108)	(2,258)			
Interest on subordinated liabilities				(510)	(533)	(566)			
Issue of MRELs							1,309	3,640	6,996
Maturity/redemption of MRELs							(2)	(1,285)	(83)
Interest on MRELs							(671)	(428)	(237)
Net cash inflow/(outflow) from financing	2,218	17	144	(2,381)	(1,064)	(2,824)	636	1,927	6,676
Ordinary shares issued	52	95	80						
Effects of foreign exchange				(234)	(315)	419	(514)	(683)	587
Changes in fair value of subordinated liabilities/MRELs				133	317	(243)	829	539	(59)
AT1 reclassification to subordinated liabilities	(1,277)	—	—	1,632	—	—			
Loss on sale of MRELs and subordinated liabilities				324	—	—	—	—	—
Interest on subordinated liabilities/MRELs				509	506	461	673	645	415
At 31 December	18,239	17,246	17,134	9,962	9,979	10,535	20,873	19,249	16,821

29 Analysis of cash and cash equivalents

	2020 £m	2019 £m	2018 £m
At 1 January			
- cash	80,993	91,368	100,724
- cash equivalents	19,595	17,568	21,881
	100,588	108,936	122,605
Net cash outflow	38,611	(8,348)	(13,669)
At 31 December	139,199	100,588	108,936
Comprising:			
Cash and balances at central banks	124,489	80,993	91,368
Trading assets	9,220	12,578	11,610
Other financial assets	173	459	40
Loans to banks - amortised cost (1)	5,317	6,558	5,918
Cash and cash equivalents	139,199	100,588	108,936

Note:
(1) Includes cash collateral posted with bank counterparties in respect of derivative liabilities of £7,592 million (2019 - £7,570 million; 2018 - £7,302 million).

Certain members of NatWest Group are required by law or regulation to maintain balances with the central banks in the jurisdictions in which they operate. Natwest Markets N.V. had mandatory reserve deposits with De Nederlandsche Bank N.V. of €81 million (2019 - €47 million).

30 Directors' and key management remuneration

Directors' remuneration	2020 £000	2019 £000
Non-executive Directors	**1,708**	1,881
Chairman and executive directors		
- emoluments	**4,349**	4,783
	6,057	6,664
Amounts receivable under long-term incentive plans and share option plans	**609**	741
Total	**6,666**	7,405

No directors accrued benefits under defined benefit schemes or defined contribution schemes during 2020 and 2019.

The executive directors may participate in the company's long-term incentive plans, executive share option and sharesave schemes and details of their interests in the company's shares arising from their participation are given in the directors' remuneration report. Details of the remuneration received by each director are also given in the directors' remuneration report.

Compensation of key management

The aggregate remuneration of directors and other members of key management during the year was as follows:

	2020 £000	2019 £000
Short-term benefits	**18,718**	22,067
Post-employment benefits	**474**	401
Share-based payments	**3,249**	2,435
	22,441	24,903

Key management comprises members of the NatWest Group plc and NWH Ltd Boards, members of the NatWest Group plc and NWH Ltd Executive Committees, and the Chief Executives of NatWest Markets Plc and RBS International (Holdings) Limited. This is on the basis that these individuals have been identified as Persons Discharging Managerial Responsibilities of NatWest Group plc under the new governance structure.

31 Transactions with directors and key management

At 31 December 2020, amounts outstanding in relation to transactions, arrangements and agreements entered into by authorised institutions in NatWest Group, as defined in UK legislation, were £1,329,102 in respect of loans to five persons who were directors of the company at any time during the financial period.

For the purposes of IAS 24 'Related Party Disclosures', key management comprise directors of the company and Persons Discharging Managerial Responsibilities (PDMRs) of NatWest Group plc. The captions in the NatWest Group's primary financial statements include the following amounts attributable, in aggregate, to key management:

	2020 £000	2019 £000
Loans to customers - amortised cost	**5,165**	1,662
Customer deposits	**45,747**	37,727

Key management have banking relationships with NatWest Group entities which are entered into in the normal course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with other persons of a similar standing or, where applicable, with other employees. These transactions did not involve more than the normal risk of repayment or present other unfavourable features.

Notes to the consolidated financial statements

32 Related parties

UK Government

The UK Government through HM Treasury is the ultimate controlling party of The NatWest Group plc. The UK government's shareholding is managed by UK Government Investments Limited, a company wholly owned by the UK Government. As a result the UK Government and UK Government controlled bodies are related parties of the Group.

At 31 December 2020, HM Treasury's holding in the company's ordinary shares was 61.9%.

NatWest Group enters into transactions with many of these bodies. Transactions include the payment of: taxes – principally UK corporation tax (Note 7) and value added tax; national insurance contributions; local authority rates; and regulatory fees and levies (including the bank levy (Note 3) and FSCS levies (Note 26) - together with banking transactions such as loans and deposits undertaken in the normal course of banker-customer relationships.

Bank of England facilities

NatWest Group may participate in a number of schemes operated by the Bank of England in the normal course of business.

Members of NatWest Group that are UK authorised institutions are required to maintain non-interest bearing (cash ratio) deposits with the Bank of England amounting to 0.368% of their average eligible liabilities in excess of £600 million. They also have access to Bank of England reserve accounts: sterling current accounts that earn interest at the Bank of England Base Rate.

NatWest Group provides guarantees for certain subsidiary liabilities to the Bank of England.

Other related parties

(a) In their roles as providers of finance, NatWest Group companies provide development and other types of capital support to businesses. These investments are made in the normal course of business. In some instances, the investment may extend to ownership or control over 20% or more of the voting rights of the investee company. However, these investments are not considered to give rise to transactions of a materiality requiring disclosure under IAS 24.
(b) NatWest Group recharges NatWest Group Pension Fund with the cost of administration services incurred by it. The amounts involved are not material to NatWest Group.
(c) In accordance with IAS 24, transactions or balances between NatWest Group entities that have been eliminated on consolidation are not reported.
(d) The captions in the primary financial statements of the parent company include amounts attributable to subsidiaries. These amounts have been disclosed in aggregate in the relevant notes to the financial statements.

33 Post balance sheet events

NatWest Group has announced a phased withdrawal from the Republic of Ireland and has entered into a non-binding Memorandum of Understanding ('MOU') with Allied Irish Banks, p.l.c. for the sale of a c.€4bn portfolio of performing commercial loans. The potential sale contemplated by the MoU remains subject to due diligence, further negotiation and agreement of final terms and definitive documentation, as well as obtaining regulatory and other approvals and satisfying other conditions. The proposed sale may not be concluded on the terms contemplated in the MoU, or at all. No estimate of any financial effect of the potential transaction can be made at the date of approval of these accounts.

On 18 February 2021, NatWest Group reached final agreement with the Official Receiver in relation to a portfolio of historical PPI claims. NatWest Group carried adequate provision for this outcome and there is no further charge/release as a result.

Other than as disclosed in the accounts, there have been no other significant events between 31 December 2020 and the date of approval of these accounts which would require a change or additional disclosure.

Parent company financial statements and notes

Balance sheet as at 31 December 2020

	Note	2020 £m	2019 £m
Assets			
Derivatives with subsidiaries		**1,580**	979
Amounts due from subsidiaries	4	**26,910**	25,018
Other financial assets		**579**	277
Investments in Group undertakings	9	**46,229**	55,808
Other assets		**117**	1
Total assets		**75,415**	82,083
Liabilities			
Amounts due to subsidiaries	4	**723**	439
Derivatives with subsidiaries		**1,102**	711
Other financial liabilities		**21,056**	19,331
Subordinated liabilities	8	**7,944**	7,647
Other liabilities		**151**	168
Total liabilities		**30,976**	28,296
Owners' equity		**44,439**	53,787
Total liabilities and equity		**75,415**	82,083

Owners' equity includes a total comprehensive loss for the year, dealt with in the accounts of the parent company, of £9,598 million (2019 - £2,712 million profit). This is due to a VIU write down in subsidiaries that eliminates on consolidation in the Group Accounts.

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

The accompanying notes on pages 326 to 338 form an integral part of these financial statements.

The accounts were approved by the Board of directors on 19 February 2021 and signed on its behalf by:

Howard Davies Chairman	Alison Rose-Slade Group Chief Executive Officer	Katie Murray Group Chief Financial Officer	NatWest Group plc Registered No. SC45551

Parent company financial statements and notes

Statement of changes in equity for the year ended 31 December 2020

	2020 £m	2019 £m	2018 £m
Called-up share capital - at 1 January (1)	**12,094**	12,049	11,965
Ordinary shares issued	**35**	45	84
At 31 December	**12,129**	12,094	12,049
Paid-in equity - at 1 January	**4,047**	4,047	4,047
Redeemed/reclassified (2)	**(1,277)**	—	—
Securities issued during the period (3)	**2,209**	—	—
At 31 December	**4,979**	4,047	4,047
Share premium account - at 1 January	**1,094**	1,027	887
Ordinary shares issued	**17**	67	140
At 31 December	**1,111**	1,094	1,027
Cash flow hedging reserve - at 1 January	**67**	83	20
Amount recognised in equity	**4**	18	103
Amount transferred from equity to earnings	**(33)**	(39)	(25)
Tax	**4**	5	(15)
At 31 December	**42**	67	83
Retained earnings - at 1 January	**36,485**	37,181	38,042
Implementation of IFRS 9 on 1 January 2018	**—**	—	231
(Loss)/profit attributable to ordinary shareholders and other equity owners	**(9,573)**	2,728	2,491
Equity preference dividends paid	**(26)**	(39)	(182)
Ordinary dividend paid	**—**	(3,018)	(241)
Paid-in equity dividends paid	**(355)**	(367)	(355)
Unclaimed dividend	**2**	—	—
Redemption of equity preference shares (4)	**—**	—	(2,805)
Redemption/reclassification of paid-in equity (2)	**(355)**	—	—
At 31 December	**26,178**	36,485	37,181
Owners' equity at 31 December	**44,439**	53,787	54,387

Notes:
(1) Details of the company's share capital are set out in Note 21 to the consolidated accounts.
(2) Paid-in equity reclassified to liabilities as the result of a call of US$2 billion AT1 notes in June 2020, redeemed in August 2020.
(3) AT1 capital notes totalling US$1.5 billion less fees issued in June 2020. In November 2020 AT1 capital notes totalling £1.0 billion less fees were issued.
(4) During 2018, non-cumulative US dollar, Euro and Sterling preference shares were redeemed.

The accompanying notes on pages 326 to 338 form an integral part of these financial statements.

Cash flow statement for the year ended 31 December 2020

	2020 £m	2019 £m	2018 £m
Operating (loss)/profit before tax	**(9,698)**	2,799	2,341
Adjustments for:			
Write-down of investment in group undertakings	**9,606**	1,489	293
Change in fair value taken to profit or loss on other financial liabilities and subordinated liabilities	**672**	221	(144)
Elimination of foreign exchange differences	**(540)**	(526)	986
Other non-cash items	**(31)**	(23)	478
Dividends received from subsidiaries	**(485)**	(5,596)	—
Profit on sale of investment in group undertakings	**—**	1,739	—
Interest payable on MRELs and subordinated liabilities	**537**	513	846
Loss on sale of MRELs and subordinated liabilities	**324**	—	—
Charges and releases on provisions	**(8)**	(25)	—
Net cash flows from trading activities	**377**	591	4,800
Increase in derivative assets with subsidiaries	**(598)**	(436)	(380)
(Increase)/decrease in amounts due from subsidiaries	**(792)**	863	12,290
Increase in other financial assets	**(302)**	(36)	(131)
(Increase)/decrease in other assets	**(2)**	113	(16)
Increase/(decrease) in amounts due to subsidiaries	**289**	(193)	466
Increase in derivative liabilities with subsidiaries	**391**	266	161
Increase/(decrease) in other financial liabilities	**2**	(1)	—
Decrease in other liabilities	**(33)**	—	(211)
Change in operating assets and liabilities	**(1,045)**	576	12,179
Income taxes received	**40**	15	49
Net cash flows from operating activities (1)	**(628)**	1,182	17,028
Net movement in business interests	**(27)**	(676)	(9,481)
Disposal of subsidiaries and associates	**—**	234	—
Dividends received from subsidiaries	**485**	3,751	—
Net cash flows from investing activities	**458**	3,309	(9,481)
Movement in MRELs	**(147)**	(142)	(3,317)
Movement in subordinated liabilities	**(1,972)**	(709)	(710)
Issue of ordinary shares	**109**	17	144
Dividends paid	**(381)**	(3,424)	(798)
Issue of paid in equity	**2,209**	—	—
Redemption of other equity instruments	**—**	—	(2,805)
Net cash flows from financing activities	**(182)**	(4,258)	(7,486)
Effects of exchange rate changes on cash and cash equivalents	**1**	(1)	1
Net (decrease)/increase in cash and cash equivalents	**(351)**	232	62
Cash and cash equivalents at 1 January	**539**	307	245
Cash and cash equivalents at 31 December (2)	**188**	539	307

Notes:
(1) Includes interest received of £344 million (2019 - £371 million, 2018 - £508 million) and interest paid of £816 million (2019 - £988 million, 2018 - £819 million).
(2) Cash and cash equivalents are comprised of intragroup loans and advances with a maturity of less than 3 months for 2020, 2019 and 2018.

Financial statements

Parent company financial statements and notes

1. Presentation of accounts
The accounts are prepared on a going concern basis (refer to the Report of the directors on page 153) and in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006.

The parent company is incorporated in the UK and registered in Scotland. The accounts are prepared on the historical cost basis except that derivatives and certain financial instruments which are stated at fair value. Recognised financial assets and financial liabilities in fair value hedges are adjusted for changes in fair value in respect of the risk that is hedged.

The accounting policies that are applicable to the parent company are included in NatWest Group plc's accounting policies which are set out on pages 264 to 268 of the consolidated financial statements, except that it has no policy regarding 'Basis of consolidation'.

2. Critical accounting policies and sources of estimation uncertainty
The reported results of the company are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. The judgements and assumptions involved in the company's accounting policies that are considered by the Board to be the most important to the portrayal of its financial condition are those involved in assessing the impairment, if any, in its investments in subsidiaries. At each reporting date, the company assesses whether there is any indication that its investment in a subsidiary is impaired. If any such indication exists, the company undertakes an impairment test by comparing the carrying value of the investment in the subsidiary with its estimated recoverable amount. The recoverable amount of an investment in a subsidiary is the higher of its fair value less cost to sell and its value in use. Impairment testing inherently involves a number of judgments: the choice of appropriate discount and growth rates; and the estimation of fair value.

Future accounting developments
International Financial Reporting Standards
A number of IFRSs and amendments to IFRS were in issue at 31 December 2020. NatWest Group plc is assessing the effect of adopting these standards on its financial statements.

3 Derivatives with subsidiaries – designated hedges
Fair value hedging is used to hedge loans and other financial liabilities, and cash flow hedging is used to hedge other financial liabilities and subordinated liabilities.

Derivatives held for designated hedging purposes are as follows:

	2020			2019		
	Notional	Assets	Liabilities	Notional	Assets	Liabilities
	£bn	£m	£m	£bn	£m	£m
Fair value hedging - interest rate contracts	25.0	1,537	359	25.2	953	243
Cash flow hedging - exchange rate contracts	5.8	7	3	8.4	23	—
Total		1,544	362		976	243

Parent company financial statements and notes

4 Financial instruments – classification

The following tables analyse NWG plc's financial assets and liabilities in accordance with the categories of financial instruments on an IFRS 9 basis. Assets and liabilities outside the scope of IFRS 9 are shown within other assets and other liabilities.

Assets	MFVTPL £m	FVOCI £m	Amortised cost £m	Other assets £m	Total £m
Derivatives with subsidiaries	**1,580**				**1,580**
Amounts due from subsidiaries	**15,506**	**—**	**11,404**	**—**	**26,910**
Other financial assets	**576**	**3**			**579**
Investment in Group undertakings				**46,229**	**46,229**
Other assets				**117**	**117**
31 December 2020	**17,662**	**3**	**11,404**	**46,346**	**75,415**
Derivatives with subsidiaries	979				979
Amounts due from subsidiaries	14,029	—	10,984	5	25,018
Other financial assets	274	3			277
Investment in Group undertakings				55,808	55,808
Other assets				1	1
31 December 2019	15,282	3	10,984	55,814	82,083

Liabilities	Held-for-trading £m	DFV £m	Amortised cost £m	Other liabilities £m	Total £m
Amounts due to subsidiaries	**542**	**—**	**111**	**70**	**723**
Derivatives with subsidiaries	**1,102**				**1,102**
Other financial liabilities		**3,987**	**17,069**		**21,056**
Subordinated liabilities			**7,944**		**7,944**
Other liabilities				**151**	**151**
31 December 2020	**1,644**	**3,987**	**25,124**	**221**	**30,976**
Amounts due to subsidiaries	307	—	116	16	439
Derivatives with subsidiaries	711				711
Other financial liabilities		2,677	16,654		19,331
Subordinated liabilities			7,647		7,647
Other liabilities				168	168
31 December 2019	1,018	2,677	24,417	184	28,296

Amounts due from/to subsidiaries

	2020 £m	2019 £m
Assets		
Loans to banks and customers - amortised cost	**11,404**	10,984
Other financial assets/other assets	**15,506**	14,034
Amounts due from subsidiaries	**26,910**	25,018
Derivatives (1)	**1,580**	979
Liabilities		
Bank and customer deposits - amortised cost	**542**	307
Other liabilities	**70**	16
Subordinated liabilities	**111**	116
Amounts due to subsidiaries	**723**	439
Derivatives (1)	**1,102**	711

Note:
(1) Intercompany derivatives are included within derivative classification on the balance sheet.

5 Financial instruments

Interest rate benchmark reform

The table below provides an overview of NWG plc's IBOR related exposure by currency and nature of financial instruments. Non-derivative financial instruments are presented on the basis of their carrying amounts excluding expected credit losses while derivative financial instruments are presented on the basis of their notional amount.

	Rates subject to IBOR reform				Balances not subject to IBOR reform	Expected credit losses	Total
	GBP LIBOR £m	USD IBOR (1) £m	EUR IBOR £m	Other IBOR £m	£m	£m	£m
Amounts due from subsidiaries	1,422	11,908	4,557	38	8,996	(11)	26,910
Other financial assets	—	—	—	—	579	—	579
Amounts due to subsidiaries	—	—	—	—	653		653
Other financial liabilities	—	9,540	4,187	108	7,221		21,056
Subordinated liabilities	—	767	—	—	7,177		7,944
Derivatives notional - with subsidiaries (£bn)	4.1	23.7	9.8	0.1	11.4		49.1

Note:
(1) USD LIBOR is now expected to convert to alternative risk free rates in mid-2023.

AT1 Issuances

As part of its capital management activities NatWest Group plc has acquired certain equity instruments issued by its subsidiaries which contain reset clauses linked to IBOR rates subject to reform. These are reported in investment in group undertakings.

These are outlined below:

	£m
USD$ 2 billion 8.0169%	1,581
GBP£ 300 million 6.597%	300
USD$ 2.65 billion 7.9916%	2,095
USD$ 950 million 7.9604%	749
USD$ 200 million 5.540%	155

6 Financial instruments - fair value of financial instruments not carried at fair value

The following table shows the carrying value and fair value of financial instruments carried at amortised cost on the balance sheet.

	2020		2019	
	Carrying value £bn	Fair value £bn	Carrying value £bn	Fair value £bn
Financial assets				
Amounts due from subsidiaries (1)	11.4	11.7	11.0	11.3
Financial liabilities				
Amounts due to subsidiaries (2)	0.1	0.1	0.1	0.1
Other financial liabilities - debt securities in issue (3)	17.1	17.7	16.7	17.3
Subordinated liabilities (3)	7.9	8.6	7.6	8.4

Notes:
(1) Fair value hierarchy level 2 - £6.4 billion (2019 - £6.1 billion) and level 3 - £5.3 billion (2019 - £5.2 billion).
(2) Fair value hierarchy level 3.
(3) Fair value hierarchy level 2.

7 Financial instruments - maturity analysis

Remaining maturity

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

	2020			2019		
	Less than 12 months £m	More than 12 months £m	Total £m	Less than 12 months £m	More than 12 months £m	Total £m
Assets						
Derivatives with subsidiaries	3	1,577	1,580	9	970	979
Amounts due from subsidiaries (1)	5,591	21,319	26,910	5,314	19,699	25,013
Other financial assets	—	579	579	—	277	277
Liabilities						
Amounts due to subsidiaries (2)	543	110	653	309	114	423
Derivatives with subsidiaries	38	1,064	1,102	38	673	711
Other financial liabilities	203	20,853	21,056	203	19,128	19,331
Subordinated liabilities	36	7,908	7,944	33	7,614	7,647

Notes:
(1) Amounts due from subsidiaries relating to non-financial instruments of nil (2019 - £5 million) have been excluded from the table.
(2) Amounts due to subsidiaries relating to non-financial instruments of £70 million (2019 - £16 million) have been excluded from the table.

7 Financial instruments - maturity analysis continued

Financial liabilities: contractual maturity

The following table shows undiscounted cash flows payable up to 20 years from the balance sheet date, including future interest payments.

Held-for-trading liabilities amounting to £1.3 billion (2019 - £0.8 billion) have been excluded from the tables.

2020	0-3 months £m	3-12 months £m	1-3 years £m	3-5 years £m	5-10 years £m	10-20 years £m
Liabilities by contractual maturity						
Amounts due to subsidiaries (1)	**—**	**7**	**18**	**18**	**44**	**88**
Derivatives held for hedging	**47**	**73**	**187**	**46**	**30**	**—**
Other financial liabilities	**222**	**420**	**9,884**	**5,623**	**6,522**	**—**
Subordinated liabilities	**22**	**361**	**3,728**	**3,444**	**907**	**674**
	291	**861**	**13,817**	**9,131**	**7,503**	**762**

2019	0-3 months £m	3-12 months £m	1-3 years £m	3-5 years £m	5-10 years £m	10-20 years £m
Liabilities by contractual maturity						
Amounts due to subsidiaries (1)	3	7	18	18	45	91
Derivatives held for hedging	1	56	117	66	7	—
Other financial liabilities	231	420	4,814	8,444	8,297	—
Subordinated liabilities	21	405	2,558	4,987	387	1,301
	256	888	7,507	13,515	8,736	1,392

Note:
(1) Amounts due to subsidiaries relating to non-financial instruments have been excluded from the tables.

8 Subordinated liabilities

	2020 £m	2019 £m
Dated loan capital	**7,768**	6,980
Undated loan capital	**175**	666
Preference shares	**1**	1
	7,944	7,647

Note:
(1) Table excludes amounts due to NatWest Group subsidiaries of £111 million (2019 - £116 million).

Redemptions in the period are disclosed in Note 19 on the consolidated accounts.

Certain preference shares issued by the company are classified as liabilities; these securities remain subject to the capital maintenance rules of the Companies Act 2006.

Dated loan capital	Capital treatment	2020 £m	2019 £m
US$2,250 million 6.13% dated notes 2022	Tier 2	**1,234**	1,737
US$650 million 6.425% dated notes 2043 (callable January 2034) (1)	Ineligible	**593**	554
US$2,000 million 6.00% dated notes 2023	Tier 2	**1,574**	1,578
US$1,000 million 6.10% dated notes 2023	Tier 2	**419**	773
US$2,250 million 5.13% dated notes 2024	Tier 2	**1,778**	1,769
US$750 million 3.754% dated notes 2029	Tier 2	**551**	569
US$850 million 3.032% dated notes 2035 (callable November 2030)	Tier 2	**606**	—
£1,000 million 3.622% dated notes 2030	Tier 2	**1,013**	—
		7,768	6,980

Note:
(1) The call is on the underlying security in the partnership, rather than the internal issued debt.

Undated loan capital	Capital treatment	2020 £m	2019 £m
US$106 million floating rate notes (callable semi-annually)	Ineligible	**78**	81
US$762 million 7.648% notes (callable September 2031) (1)	Ineligible	**97**	585
		175	666

Note:
(1) The company can satisfy interest payment obligations by issuing sufficient ordinary shares to appointed trustees to enable them, on selling these shares, to settle the interest payment.

Preference shares (1)	Capital treatment	2020 £m	2019 £m
£0.5 million 11% and £0.4 million 5.5% cumulative preference shares of £1 (not callable)	Ineligible	**1**	1

Note:
(1) Further details of the contractual terms of the preference shares are given in Note 21 on the consolidated accounts.

The following table analyses intercompany subordinated liabilities:

Undated loan capital	Capital treatment	2020 £m	2019 £m
US$150 million 8.00% undated notes 2012	Tier 2	**112**	116

9 Investments in Group undertakings

Investments in Group undertakings are carried at cost less impairment losses. Movements during the year were as follows:

	2020 £m	2019 £m
At 1 January	**55,808**	56,747
Currency translation and other adjustments	**—**	(38)
Additional investments in Group undertakings	**27**	2,523
Disposals	**—**	(1,973)
Impairment of investments	**(9,606)**	(1,451)
At 31 December	**46,229**	55,808

In 2020 the company invested additional capital in its subsidiaries of £27 million of equity (NWM Plc and RBS AA Holdings). The 2019 additional investments were mainly related to NatWest Markets Plc.

The key judgement is in determining the recoverable amount. This is the higher of net realisable value and value in use, being an assessment of the discounted future cash flows of the entity. The 2020 charge is mostly related to the company's investment in NatWest Holdings Limited which was impaired by £9 billion at 30 June 2020 and £320 million at 31 December 2020, primarily due to the decline in net realisable value as a result of challenging market conditions, including the impact of the COVID-19 pandemic. The company's investment in NatWest Markets Plc was impaired by £286 million at 31 December 2020, due to a decline in net realisable value. Therefore, the carrying value of investments in Group undertakings at the year end is supported by the respective net realisable values of the entities.

The principal subsidiary undertakings of the company are shown below. Their capital consists of ordinary shares, preference shares and additional Tier 1 notes which are unlisted with the exception of certain preference shares listed by NWB Plc. All of these subsidiaries are included in NatWest Group's consolidated financial statements and have an accounting reference date of 31 December.

	Nature of business	Country of incorporation and principal area of operation	Group interest
National Westminster Bank Plc (1,3)	Banking	Great Britain	100%
The Royal Bank of Scotland plc (3)	Banking	Great Britain	100%
Coutts & Company (2, 3)	Banking	Great Britain	100%
Ulster Bank Ireland Designated Activity Company (3)	Banking	Republic of Ireland	100%
NatWest Markets Plc	Banking	Great Britain	100%
NatWest Markets N.V. (4)	Banking	Netherlands	100%
The Royal Bank of Scotland International Limited (5)	Financial Institution	Jersey	100%

Notes:
(1) The company does not hold any of the preference shares in issue.
(2) Coutts & Company is incorporated with unlimited liability.
(3) Owned via NatWest Holdings Limited.
(4) Owned via NatWest Markets Plc.
(5) Owned via The Royal Bank of Scotland International (Holdings) Limited.

For full information on all related undertakings, refer to Note 12.

10 Analysis of changes in financing during the year

	Share capital, share premium, and paid-in equity			Subordinated liabilities			MRELs		
	2020	2019	2018	**2020**	2019	2018	**2020**	2019	2018
	£m	£m	£m	**£m**	£m	£m	**£m**	£m	£m
At 1 January	**17,235**	17,123	16,899	**7,763**	8,059	7,977	**6,440**	6,785	9,202
Issue of ordinary shares	**52**	17	144		—	—		—	—
Issue of Additional Tier 1 capital notes		—	—		—	—		—	—
Issue of subordinated liabilities		—	—	**1,631**	577	—		—	—
Issue of paid in equity	**2,209**								
Redemption of subordinated liabilities		—	—	**(3,207)**	(855)	(267)		—	—
Interest on subordinated liabilities		—	—	**(396)**	(431)	(443)		—	—
Issue of MRELs							**(3)**	1,178	(2,997)
Maturity/redemption of MRELs							**(2)**	(1,285)	(83)
Interest on MRELs							**(142)**	(35)	(237)
Net cash inflow/(outflow) from financing	**2,261**	17	144	**(1,972)**	(709)	(710)	**(147)**	(142)	(3,317)
Ordinary shares issued		95	80		—	—		—	—
Effects of foreign exchange		—	—	**(264)**	(264)	403	**(275)**	(261)	589
Changes in fair value of subordinated liabilities/MRELs		—	—	**173**	268	(49)	**499**	(46)	(95)
Redeemed/reclassified	**(1,277)**								
AT1 reclassification to subordinated liability				**1,632**					
Loss on sale of MRELs and subordinated liabilities				**324**					
Interest on subordinated liabilities/MRELs		—	—	**399**	409	438	**138**	104	406
At 31 December	**18,219**	17,235	17,123	**8,055**	7,763	8,059	**6,655**	6,440	6,785

11 Directors' and key management remuneration

Directors' remuneration is disclosed in Note 30 on the consolidated accounts. The directors had no other reportable related party transactions or balances with the company.

Parent company financial statements and notes

12 Related undertakings

Legal entities and activities at 31 December 2020

In accordance with the Companies Act 2006, the company's related undertakings and the accounting treatment for each are listed below. All undertakings are wholly-owned by the company or subsidiaries of the company and are consolidated by reason of contractual control (Section 1162(2) CA 2006), unless otherwise indicated. NatWest Group interest refers to ordinary shares of equal values and voting rights unless further analysis is provided in the notes. Activities are classified in accordance with Annex I to the Capital Requirements Directive ("CRD IV") and the definitions in Article 4 of the Capital Requirements Regulation.

The following table details active related undertakings incorporated in the UK which are 100% owned by NatWest Group and fully consolidated for accounting purposes

Entity name	Activity	Regulatory treatment	Notes
280 Bishopsgate Finance Ltd	INV	FC	(6)
Adam & Company Investment Management Ltd	BF	FC	(11)
Caledonian Sleepers Rail Leasing Ltd	BF	FC	(2)
Care Homes 1 Ltd	BF	FC	(6)
Care Homes 2 Ltd	BF	FC	(6)
Care Homes 3 Ltd	BF	FC	(6)
Care Homes Holdings Ltd	BF	FC	(6)
Churchill Management Ltd	BF	FC	(2)
Coutts & Company	CI	FC	(50)
Coutts Finance Company	BF	FC	(50)
Desertlands Entertainment Ltd	BF	FC	(6)
Distant Planet Productions Ltd	BF	FC	(6)
Esme Loans Ltd	BF	FC	(6)
FreeAgent Central Ltd	SC	FC	(7)
FreeAgent Holdings Ltd	SC	FC	(7)
G L Trains Ltd	BF	FC	(2)
Gatehouse Way Developments Ltd	INV	DE	(2)
Helena Productions Ltd	BF	FC	(6)
KUC Properties Ltd	BF	DE	(1)
Land Options (West) Ltd	INV	DE	(1)
Lombard & Ulster Ltd	BF	FC	(33)
Lombard Business Finance Ltd	BF	FC	(6)
Lombard Business Leasing Ltd	BF	FC	(6)
Lombard Corporate Finance (6) Ltd	BF	FC	(6)
Lombard Corporate Finance (7) Ltd	BF	FC	(6)
Lombard Corporate Finance (11) Ltd	BF	FC	(6)
Lombard Corporate Finance (13) Ltd	BF	FC	(6)
Lombard Corporate Finance (15) Ltd	BF	FC	(6)
Lombard Corporate Finance (December 1) Ltd	BF	FC	(6)
Lombard Corporate Finance (December 3) Ltd	BF	FC	(6)
Lombard Corporate Finance (June 2) Ltd	BF	FC	(6)
Lombard Discount Ltd	BF	FC	(6)
Lombard Finance Ltd	BF	FC	(6)
Lombard Industrial Leasing Ltd	BF	FC	(6)
Lombard Initial Leasing Ltd	BF	FC	(6)
Lombard Lease Finance Ltd	BF	FC	(6)
Lombard Leasing Company Ltd	BF	FC	(6)
Lombard Leasing Contracts Ltd	BF	FC	(2)
Lombard Lessors Ltd	BF	FC	(6)
Lombard Maritime Ltd	BF	FC	(6)
Lombard North Central Leasing Ltd	BF	FC	(6)
Lombard North Central PLC	BF	FC	(6)
Lombard Property Facilities Ltd	BF	FC	(2)
Lombard Technology Services Ltd	BF	FC	(6)
Mettle Ventures Ltd	OTH	FC	(6)
Nanny McPhee Productions Ltd	BF	FC	(6)
National Westminster Bank Plc	CI	FC	(6)
National Westminster Home Loans Ltd	BF	FC	(6)
National Westminster Properties No. 1 Ltd	SC	DE	(6)
NatWest Capital Finance Ltd	BF	FC	(2)
NatWest Corporate Investments	BF	FC	(6)
NatWest Holdings Ltd	INV	FC	(6)
NatWest Invoice Finance Ltd	OTH	FC	(6)
NatWest Markets Plc	CI	FC	(36)
NatWest Markets Secretarial Services Ltd	SC	FC	(6)
NatWest Markets Secured Funding LLP	BF	FC	(47)
NatWest Property Investments Ltd	INV	DE	(6)
NatWest Trustee and Depositary Services Ltd	INV	FC	(6)
NatWest Ventures Investments Ltd	BF	FC	(6)
Northern Isles Ferries Ltd	BF	FC	(6)
P of A Productions Ltd	BF	FC	(6)
Patalex Productions Ltd	BF	FC	(6)
Patalex III Productions Ltd	BF	FC	(6)
Patalex V Productions Ltd	BF	FC	(6)
Pittville Leasing Ltd	BF	FC	(6)
Premier Audit Company Ltd	BF	FC	(6)
Price Productions Ltd	BF	FC	(6)
Priority Sites Investments Ltd	BF	DE	(6)
Priority Sites Ltd	INV	DE	(6)
Property Venture Partners Ltd	INV	FC	(1)
R.B. Capital Leasing Ltd	BF	FC	(6)
R.B. Equipment Leasing Ltd	BF	FC	(6)
R.B. Leasing (April) Ltd	BF	FC	(6)
R.B. Leasing (September) Ltd	BF	FC	(6)
R.B. Leasing Company Ltd	BF	FC	(1)
R.B. Quadrangle Leasing Ltd	BF	FC	(6)
R.B.S. Special Investments Ltd	BF	FC	(6)
RB Investments 3 Ltd	OTH	FC	(6)
RBOS (UK) Ltd	BF	FC	(6)
RBS AA Holdings (UK) Ltd	BF	FC	(6)
RBS Asset Finance Europe Ltd	BF	FC	(6)
RBS Asset Management (ACD) Ltd	BF	FC	(50)
RBS Asset Management Holdings	BF	FC	(50)
RBS Collective Investment Funds Ltd	BF	FC	(11)
RBS HG (UK) Ltd	BF	FC	(6)
RBS Invoice Finance Ltd	BF	FC	(6)
RBS Management Services (UK) Ltd	SC	FC	(6)
RBS Mezzanine Ltd	BF	FC	(1)
RBS Property Developments Ltd	INV	FC	(36)
RBS Property Ventures Investments Ltd	BF	FC	(1)
RBS SME Investments Ltd	BF	FC	(2)
RBSG Collective Investments Holdings Ltd	BF	FC	(11)
RBSG International Holdings Ltd	BF	FC	(1)
RBSM Capital Ltd	BF	FC	(1)
RBSSAF (2) Ltd	BF	FC	(6)
RBSSAF (6) Ltd	BF	FC	(6)
RBSSAF (7) Ltd	BF	FC	(6)
RBSSAF (8) Ltd	BF	FC	(6)
RBSSAF (12) Ltd	BF	FC	(6)
RBSSAF (25) Ltd	BF	FC	(6)
RoboScot Equity Ltd	BF	FC	(1)
Royal Bank Investments Ltd	BF	FC	(1)
Royal Bank Leasing Ltd	BF	FC	(1)
Royal Bank of Scotland (Industrial Leasing) Ltd	BF	FC	(1)
Royal Bank Ventures Investments Ltd	BF	FC	(1)
Royal Scot Leasing Ltd	BF	FC	(1)
RoyScot Trust Plc	BF	FC	(6)
SIG 1 Holdings Ltd	BF	FC	(1)
SIG Number 2 Ltd	BF	FC	(1)
The One Account Ltd	BF	FC	(6)
The Royal Bank of Scotland Group Independent Financial Services Ltd	BF	FC	(25)
The Royal Bank of Scotland plc	CI	FC	(36)
Theobald Film Productions LLP	BF	FC	(6)
Ulster Bank Ltd	CI	FC	(33)
Ulster Bank Pension Trustees Ltd	TR	DE	(33)

Financial statements

12 Related undertakings continued

Entity name	Activity	Regulatory treatment	Notes
Voyager Leasing Ltd	BF	FC	(6)
Walton Lake Developments Ltd	INV	DE	(2)
West Register (Hotels Number 3) Ltd	INV	DE	(1)
West Register (Property Investments) Ltd	BF	DE	(1)
West Register (Realisations) Ltd	INV	DE	(1)
Winchcombe Finance Ltd	BF	FC	(6)

The following table details active related undertakings incorporated outside the UK which are 100% owned by NatWest Group and fully consolidated for accounting purposes

Entity name	Activity	Regulatory treatment	Notes
Action Corporate Services Ltd	BF	FC	(30)
Airside Properties AB	BF	FC	(12)
Airside Properties ASP Denmark AS	BF	FC	(67)
Airside Properties Denmark AS	BF	FC	(67)
Alcover A.G.	BF	DE	(76)
Alternative Investment Fund B.V.	BF	FC	(4)
Arkivborgen KB	BF	FC	(12)
Artul Koy	BF	FC	(5)
Backsmedjan KB	BF	FC	(12)
BD Lagerhus AS	BF	FC	(13)
Bilfastighet i Akalla AB	BF	FC	(12)
Brödmagasinet KB	BF	FC	(12)
C.J. Fiduciaries Ltd	BF	FC	(37)
Candlelight Acquisition LLC	BF	FC	(9)
Coutts & Co (Cayman) Ltd	BF	FC	(34)
Coutts & Co Ltd	CI	FC	(51)
Coutts General Partner (Cayman) V Ltd	BF	FC	(61)
Eiendomsselskapet Apteno La AS	BF	FC	(13)
Eurohill 4 KB	BF	FC	(12)
Fab Ekenäs Formanshagen 4	BF	FC	(5)
Fastighets AB Flöjten I Norrköping	BF	FC	(12)
Fastighets AB Stockmakaren	BF	FC	(29)
Fastighets Aktiebolaget Sambiblioteket	BF	FC	(12)
Fastighetsbolaget Holma I Höör AB	BF	FC	(12)
Financial Asset Securities Corp.	BF	FC	(9)
First Active Ltd	BF	FC	(23)
Forskningshöjden KB	BF	FC	(12)
Förvaltningsbolaget Dalkyrkan KB	BF	FC	(12)
Fyrsate Fastighets AB	BF	FC	(12)
Gredelinen KB	BF	FC	(12)
Grinnhagen KB	BF	FC	(12)
Hatros 1 AS	BF	FC	(13)
Horrsta 4:38 KB	BF	FC	(12)
IR Fastighets AB	BF	FC	(12)
IR IndustriRenting AB	BF	FC	(12)
Kallebäck Institutfastigheter AB	BF	FC	(12)
Kastrup Commuter K/S	BF	FC	(67)
Kastrup Hangar 5 K/S	BF	FC	(67)
Kastrup V & L Building K/S	BF	FC	(67)
KB Eurohill	BF	FC	(12)
KB IR Gamlestaden	BF	FC	(12)
KB Lagermannen	BF	FC	(12)
KB Likriktaren	BF	FC	(12)
KEB Investors, L.P.	BF	FC	(79)
Keep SPV Ltd	BF	FC	(77)
Koy Lohjan Ojamonharjuntie 61	BF	FC	(5)
Koy Pennalan Johtotie 2	BF	FC	(5)
Koy Vantaan Rasti IV	BF	FC	(5)
Koy Espoon Entresse II	BF	FC	(5)
Koy Helsingin Mechelininkatu 1	BF	FC	(5)
Koy Helsingin Osmontie 34	BF	FC	(5)
Koy Helsingin Panuntie 11	BF	FC	(5)
Koy Helsingin Panuntie 6	BF	FC	(5)
Koy Iisalmen Kihlavirta	BF	FC	(5)
Koy Jämsän Keskushovi	BF	FC	(5)
Koy Jasperintie 6	BF	FC	(10)
Koy Kokkolan Kaarlenportti Fab	BF	FC	(5)
Koy Kouvolan Oikeus ja Poliisitalo	BF	FC	(5)
Koy Millennium	BF	FC	(5)
Koy Nummelan Portti	BF	FC	(5)
Koy Nuolialan päiväkoti	BF	FC	(5)
Koy Peltolantie 27	BF	FC	(10)
Koy Puotikuja 2 Vaasa	BF	FC	(5)
Koy Raision Kihlakulma	BF	FC	(5)
Koy Ravattulan Kauppakeskus	BF	FC	(5)
Koy Tapiolan Louhi	BF	FC	(5)
Koy Vapaalan Service-Center	BF	FC	(5)
Läkten 1 KB	BF	FC	(12)
LerumsKrysset KB	BF	FC	(12)
Limstagården KB	BF	FC	(12)
Lombard Finance (CI) Ltd	BF	FC	(37)
Lothbury Insurance Company Ltd	BF	DE	(78)
Minster Corporate Services Ltd	BF	FC	(30)
Morar ICC Insurance Ltd	BF	DE	(69)
Narmovegen 455 AS	BF	FC	(21)
National Westminster International Holdings B.V.	BF	FC	(73)
NatWest Germany GmbH	OTH	FC	(22)
NatWest Innovation Services Inc.	OTH	FC	(9)
NatWest Markets Group Holdings Corporation	BF	FC	(9)
NatWest Markets N.V.	CI	FC	(4)
NatWest Markets Securities Inc.	INV	FC	(9)
NatWest Markets Securities Japan Ltd	INV	FC	(58)
NatWest Services (Switzerland) Ltd	SC	FC	(51)
Nordisk Renting AB	BF	FC	(12)
Nordisk Renting AS	BF	FC	(13)
Nordisk Renting Facilities Management AB	BF	FC	(29)
Nordisk Renting OY	BF	FC	(5)
Nordisk Specialinvest AB	BF	FC	(12)
Nordiska Strategifastigheter Holding AB	BF	FC	(12)
NWM Services India Private Ltd	SC	FC	(41)
Nybergflata 5 AS	BF	FC	(13)
R.B. Leasing BDA One Ltd	BF	FC	(16)
Random Properties Acquisition Corp. III	INV	FC	(9)
RBS (Gibraltar) Ltd	BF	FC	(72)
RBS AA Holdings (Netherlands) B.V.	BF	FC	(4)
RBS Acceptance Inc.	BF	FC	(9)
RBS Americas Property Corp.	SC	FC	(9)
RBS Asia Financial Services Ltd	BF	FC	(58)
RBS Asia Futures Ltd	BF	FC	(58)
RBS Assessoria Ltd	SC	FC	(68)
RBS Asset Management (Dublin) Ltd	BF	FC	(64)
RBS Commercial Funding Inc.	BF	FC	(9)
RBS Deutschland Holdings GmbH	BF	FC	(22)

12 Related undertakings continued

Entity name	Activity	Regulatory treatment	Notes
RBS Employment (Guernsey) Ltd	SC	FC	(28)
RBS Financial Products Inc.	BF	FC	(9)
RBS Group (Australia) Pty Ltd	BF	FC	(35)
RBS Holdings III (Australia) Pty Ltd	BF	FC	(35)
RBS Holdings N.V.	BF	FC	(4)
RBS Holdings USA Inc.	BF	FC	(9)
RBS Hollandsche N.V.	BF	FC	(4)
RBS International Depositary Services S.A.	CI	FC	(8)
RBS Investments (Ireland) Ltd	BF	FC	(23)
RBS Netherlands Holdings B.V.	BF	FC	(4)
RBS Nominees (Hong Kong) Ltd	BF	FC	(58)
RBS Nominees (Ireland) Ltd	BF	FC	(23)
RBS Nominees (Netherlands) B.V.	BF	FC	(4)
RBS Polish Financial Advisory Services Sp. Z o.o.	BF	FC	(31)
RBS Prime Services (India) Private Ltd	OTH	FC	(71)
RBS Services India Private Ltd	SC	FC	(18)
RBS WCS Holding Company	BF	FC	(44)
Redlion Investments Ltd	OTH	FC	(34)
Redshield Holdings Ltd	BF	FC	(34)
Ringdalveien 20 AS	BF	FC	(24)
Royhaven Secretaries Ltd	BF	FC	(34)
SFK Kommunfastigheter AB	BF	FC	(12)
Sjöklockan KB	BF	FC	(12)
Skinnarängen KB	BF	FC	(12)
Solbänken KB	BF	FC	(12)
Strand European Holdings AB	BF	FC	(12)
Svenskt Energikapital AB	BF	FC	(12)
Svenskt Fastighetskapital AB	BF	FC	(12)
Svenskt Fastighetskapital Holding AB	BF	FC	(12)
The RBS Group Ireland Retirement Savings Trustee Ltd	TR	DE	(23)
The Royal Bank of Scotland International (Holdings) Ltd	BF	FC	(37)
The Royal Bank of Scotland International Ltd	CI	FC	(37)
Tilba Ltd	BF	FC	(17)
Tygverkstaden 1 KB	BF	FC	(12)
Ulster Bank (Ireland) Holdings Unlimited Company	INV	FC	(23)
Ulster Bank Dublin Trust Company Unlimited Company	TR	FC	(23)
Ulster Bank Holdings (ROI) Ltd	BF	FC	(23)
Ulster Bank Ireland Designated Activity Company	CI	FC	(23)
Ulster Bank Pension Trustees (RI) Ltd	TR	DE	(23)

The following table details related undertakings which are 100% owned by NatWest Group ownership but are not consolidated for accounting purposes

Entity name	Activity	Regulatory treatment	Notes
RBS Capital LP II	BF	DE	(44)
RBS Capital Trust II	BF	DE	(43)
RBS International Employees' Pension Trustees Ltd	BF	DE	(49)
RBS Retirement And Death Provision Company Ltd	BF	DE	(75)
RBSG Capital Corp.	BF	DE	(9)
West Granite Homes Inc.	INV	DE	(52)

The following table details active related undertakings incorporated in the UK where NatWest Group ownership is less than 100%

Entity name	Activity	Accounting treatment	Regulatory treatment	Group %	Notes
BGF Group Plc	BF	EAA	PC	25	(14)
Falcon Wharf Ltd	OTH	EAJV	PC	50	(63)
GWNW City Developments Ltd	BF	EAJV	DE	50	(63)
Higher Broughton (GP) Ltd	BF	EAA	PC	41	(62)
Higher Broughton Partnership LP	BF	EAA	DE	41	(66)
Jaguar Cars Finance Ltd	BF	FC	FC	50	(6)
JCB Finance (Leasing) Ltd	BF	FC	FC	75	(60)
JCB Finance Ltd	BF	FC	FC	75	(60)
Landpower Leasing Ltd	BF	FC	FC	75	(60)
London Rail Leasing Ltd	BF	EAJV	PC	50	(20)
Natwest Covered Bonds (LM) Ltd	BF	IA	PC	20	(47)
Natwest Covered Bonds LLP	BF	FC	FC	73	(2)
Natwest Markets Secured Funding (LM) Ltd	BF	FC	PC	20	(47)
Pollinate Networks Ltd	OTH	EAA	DE	30	(82)
RBS Sempra Commodities LLP	BF	FC	FC	51	(1)
Silvermere Holdings Ltd	BF	FC	FC	95	(11)
Vizolution Ltd	OTH	EAA	PC	5	(81)

12 Related undertakings continued

The following table details related undertakings incorporated outside the UK where NatWest Group ownership is less than 100%.

Entity name	Activity	Accounting treatment	Regulatory treatment	Group %	Notes
Ardmore Securities No.1 DAC	BF	FC	DE	0	(80)
Ardmore Securities No.2 DAC	BF	FC	DE	0	(80)
Celtic Issuer Holdings Limited	BF	FC	DE	0	(86)
Celtic Residential Irish Mortgage Securitisation No 14 DAC	BF	FC	DE	0	(86)
Celtic Residential Irish Mortgage Securitisation No 15 DAC	BF	FC	DE	0	(86)
CITIC Capital China Mezzanine Ltd	BF	IA	PC	33	(42)
Dunmore Securities No.1 DAC	BF	FC	DE	0	(80)
Eris Finance S.R.L.	BF	IA	PC	45	(19)
Förvaltningsbolaget Klöverbacken Skola KB	BF	FC	FC	51	(12)
Foundation Commercial Property Ltd	OTH	EAJV	PC	50	(37)
German Public Sector Finance B.V.	BF	EAJV	PC	50	(40)
Herge Holding B.V.	BF	EAJV	PC	63	(85)
Lunar Funding VIII Ltd	BF	FC	DE	0	(84)
Lunar Luxembourg SA	BF	FC	DE	0	(84)
Lunar Luxembourg Series 2019-04	BF	FC	DE	0	(84)
Lunar Luxembourg Series 2019-05	BF	FC	DE	0	(84)
Lunar Luxembourg Series 2019-06	BF	FC	DE	0	(84)
Lunar Luxembourg Series 2020-01	BF	FC	DE	0	(84)
Lunar Luxembourg Series 2020-02	BF	FC	DE	0	(84)
Maja Finance S.R.L.	BF	FC	FC	98	(19)
Nightingale CRE 2018-1 Ltd	BF	FC	DE	0	(27)
Nightingale Project Finance 2019 1 Ltd	BF	FC	DE	0	(27)
Nightingale Securities 2017-1 Ltd	BF	FC	DE	0	(27)
Nightingale UK Corp 2020 2 Ltd	BF	FC	DE	0	(27)
Natwest Secured Funding DAC	BF	FC	FC	0	(39)
Optimus KB	BF	FC	FC	51	(12)
Pharos Estates Ltd	OTH	EAA	DE	49	(55)
Sempra Energy Trading LLC	BF	FC	FC	51	(9)
Spring Allies Jersey Ltd	BF	EAA	DE	49	(27)
Thames Asset Global Securitization No.1 Inc.	BF	FC	FC	0	(59)
The Drive4Growth Company Ltd	OTH	EAA	DE	20	(56)
Tulip Asset Purchase Company B.V.	BF	FC	FC	0	(65)
Wiöniowy Management sp. Z.o.o.	SC	EAA	DE	25	(32)

The following table details related undertakings that are not active (actively being dissolved).

Entity name	Accounting treatment	Regulatory treatment	Group %	Notes
AA Merchant Services B.V.	FC	FC	100	(4)
Arran Cards Funding Plc	FC	FC	0	(53)
Belfast Bankers' Clearing Company Ltd	EAA	DE	25	(3)
Celtic Residential Irish Mortgage Securitisation No 09 Plc	FC	DE	0	(87)
Celtic Residential Irish Mortgage Securitisation No 10 Plc	FC	DE	0	(87)
Celtic Residential Irish Mortgage Securitisation No 11 Plc	FC	DE	0	(87)
Coutts & Co Trustees (Suisse) S.A.	FC	FC	100	(54)
CTB Ltd	FC	FC	100	(57)
Euro Sales Finance Ltd	FC	FC	100	(6)
First Active Holdings Ltd	FC	FC	100	(23)
First Active Insurances Services Ltd	FC	FC	100	(88)
First Active Investments No. 4 Ltd	FC	FC	100	(88)
Isobel AssetCo Ltd	FC	FC	75	(46)
Isobel EquityCo Ltd	FC	FC	75	(46)
Isobel HoldCo Ltd	FC	FC	75	(46)
Isobel Intermediate HoldCo Ltd	FC	FC	75	(46)
Isobel Loan Capital Ltd	FC	FC	75	(46)
Isobel Mezzanine Borrower Ltd	FC	FC	75	(46)
Lombard Ireland Group Holdings Unlimited Company	FC	FC	100	(88)
Lombard Ireland Ltd	FC	FC	100	(88)
Lombard Manx Leasing Ltd	FC	FC	100	(17)
Lombard Manx Ltd	FC	FC	100	(17)
NatWest Nominees Ltd	FC	FC	100	(2)
Nevis Derivatives No. 3 LLP	FC	FC	100	(53)
RBS Asia Holdings B.V.	FC	FC	100	(4)
RBS Asset Management Ltd	FC	FC	100	(6)
RBS European Investments SARL	FC	FC	100	(70)
RBS Investment Ltd	FC	FC	100	(1)
Royal Bank Invoice Finance Ltd	FC	FC	100	(6)
RoyScot Financial Services Ltd	FC	FC	100	(6)
Safetosign Ltd	FC	FC	100	(6)
Style Financial Services Ltd	FC	FC	100	(25)
The Royal Bank of Scotland Invoice Discounting Ltd	FC	FC	100	(6)
Total Capital Finance Ltd	FC	FC	100	(2)
UB SIG (ROI) Ltd	FC	FC	100	(23)
Ulster Bank Group Treasury Ltd	FC	FC	100	(88)
West Register Hotels (Holdings) Ltd	FC	FC	100	(25)

12 Related undertakings continued

The following table details related undertakings that are dormant

Entity name	Accounting treatment	Regulatory treatment	Group %	Notes
Adam & Company (Nominees) Ltd	FC	FC	100	(25)
Atlas Nominees Ltd	FC	FC	100	(58)
British Overseas Bank Nominees Ltd	FC	FC	100	(6)
Buchanan Holdings Ltd	FC	FC	100	(2)
Custom House Docks Basement Management No. 2 Ltd	EAA	DE	25	(45)
Dixon Vehicle Sales Ltd	FC	FC	100	(2)
Dunfly Trustee Ltd	FC	FC	100	(2)
FIT Nominee 2 Ltd	FC	FC	100	(6)
FIT Nominee Ltd	FC	FC	100	(6)
Freehold Managers (Nominees) Ltd	FC	FC	100	(6)
HPUT A Ltd	NC	DE	100	(6)
HPUT B Ltd	NC	DE	100	(6)
ITB1 Ltd	FC	FC	100	(1)
ITB2 Ltd	FC	FC	100	(1)
JCB Finance Pension Ltd	FC	DE	88	(33)
Marigold Nominees Ltd	FC	FC	100	(6)
Mulcaster Street Nominees Ltd	FC	FC	100	(37)
N.C. Head Office Nominees Ltd	FC	FC	100	(1)
National Westminster Bank Nominees (Jersey) Ltd	FC	FC	100	(74)
NatWest FIS Nominees Ltd	FC	FC	100	(6)
NatWest Group Secretarial Services Ltd	FC	FC	100	(1)
NatWest Pension Trustee Ltd	NC	DE	100	(6)
NatWest PEP Nominees Ltd	FC	FC	100	(2)
Nextlinks Ltd	FC	FC	100	(6)
Nordisk Renting A/S	FC	FC	100	(26)
Nordisk Renting HB	FC	FC	100	(12)
Project & Export Finance (Nominees) Ltd	FC	FC	100	(2)
R.B. Leasing (March) Ltd	FC	FC	100	(6)
RBOS Nominees Ltd	FC	FC	100	(6)
RBS Investment Executive Ltd	NC	DE	100	(1)
RBS Retirement Savings Trustee Ltd	FC	FC	100	(2)
RBSG Collective Investments Nominees Ltd	FC	FC	100	(11)
Sixty Seven Nominees Ltd	FC	FC	100	(2)
Strand Nominees Ltd	FC	FC	100	(50)
Syndicate Nominees Ltd	FC	FC	100	(2)
TDS Nominee Company Ltd	FC	FC	100	(25)
The Royal Bank of Scotland (1727) Ltd	FC	FC	100	(1)
The Royal Bank of Scotland Group Ltd	FC	FC	100	(2)
W G T C Nominees Ltd	FC	FC	100	(6)
Williams & Glyn's Bank Ltd	FC	FC	100	(6)

The following table details related undertakings that are in administration.

Entity name	Activity	Accounting treatment	Regulatory treatment	Group %	Notes
Loot Financial Services Ltd	OTH	EAA	PC	26	(83)
Uniconn Ltd	OTH	EAA	DE	30	(38)

The following table details overseas branches of NatWest Group

Subsidiary	Geographic location
Coutts & Co	Hong Kong
National Westminster Bank Plc	Germany
NatWest Markets Plc	Germany, Hong Kong, Japan, Singapore Turkey, United Arab Emirates
NatWest Markets N.V.	France, Germany, Hong Kong, Italy Republic of Ireland, Spain, Sweden United Kingdom
The Royal Bank of Scotland International Ltd	Gibraltar, Guernsey, Isle of Man Luxembourg, United Kingdom

Key:

BF	Banking and financial institution
CI	Credit institution
INV	Investment (shares or property) holding company
SC	Service company
TR	Trustee
OTH	Other
DE	Deconsolidated
FC	Full consolidation
PC	Pro-rata consolidation
EAA	Equity accounting – Associate
EAJV	Equity accounting – Joint venture
IA	Investment accounting
NC	Not consolidated

Notes	Registered addresses	Country of incorporation
(1)	RBS Gogarburn, 175 Glasgow Road, Edinburgh, EH12 1HQ, Scotland	UK
(2)	1 Princes Street, London, EC2R 8BP, England	UK
(3)	Scottish Provident Building 7 Donegall Square West Belfast BT1 6JH, Northern Ireland	UK
(4)	Claude Debussylaan 94, 1082 MD, Amsterdam	Netherlands
(5)	c/o Epicenter, Mikonkatu 9, 6th Floor, 00100, Helsinki	Finland
(6)	250 Bishopsgate, London, EC2M 4AA, England	UK
(7)	One Edinburgh Quay, 133 Fountainbridge, Edinburgh, EH3 9QG, Scotland	UK
(8)	40, Avenue J.F Kennedy, Kirchberg L 1855	Luxembourg
(9)	251, Little Falls Drive, Wilmington, Delaware, 19808	USA
(10)	c/o Nordisk Renting Oy, Mikonkatu 9, 00100 Helsinki	Finland
(11)	6-8 George Street, Edinburgh, EH2 2PF, Scotland	UK
(12)	c/o Nordisk Renting AB, Jakobsbergsgatan 13, 8 storey, Box 14044, SE-111 44, Stockholm	Sweden
(13)	Hieronymus Heyerdahlsgate 1, Postboks 2020 Vika, 0125, Oslo	Norway
(14)	13-15 York Buildings, London, WC2N 6JU, England	UK
(15)	24/26 City Quay, Dublin 2, D02 NY19	RoI
(16)	Victoria Place, 5th Floor, 31 Victoria Street, Hamilton, HM 10	Bermuda

12 Related undertakings continued

Notes	Registered addresses	Country of incorporation
(17)	2 Athol Street, Douglas, IM99 1AN	Isle Of Man
(18)	6th Floor, Building 2, Tower A, GIL IT/ITES SEZ, Candor TechSpace, Sector 21, Dundahera, Gurugram, Haryana, 122016	India
(19)	Via Vittorio Alfieri 1, Conegliano TV, IT-TN 31015	Italy
(20)	99 Queen Victoria Street, London, EC4V 4EH, England	UK
(21)	c/o Advokatfirmaet Wirsholm AS, Dokkveien 1, NO-0250, Oslo	Norway
(22)	Roßmarkt 10, Frankfurt am Main, 60311	Germany
(23)	Ulster Bank Group Centre, George's Quay, Dublin 2, D02 VR98	RoI
(24)	c/o Nordisk Renting AS, 9 Etasje, Klingenberggata 7, NO-0161, Oslo	Norway
(25)	24/25 St Andrew Square, Edinburgh, Midlothian, EH2 1AF, Scotland	UK
(26)	c/o Adv Jan-Erik Svensson, HC Andersens Boulevard 12, Kopenhaum V, 1553	Denmark
(27)	44 Esplanade, St Helier, JE4 9WG	Jersey
(28)	Regency Court, Glategny Esplanade, St Peter Port, GY1 3AP	Guernsey
(29)	c/o Nordisk Renting AB, Box 14044, SE-104 40, Stockholm	Sweden
(30)	Hudsun Chambers, PO Box 986, Road Town, Tortola	British Virgin Islands
(31)	Wiśniowy Business Park, ul. 1-go Sierpnia 8A, Warsaw, 02-134	Poland
(32)	Wisniowy Business Park Ul Ilzecka 26, Building E, Warsaw, 02-135	Poland
(33)	11-16 Donegall Square East, Belfast, Co Antrim, BT1 5UB, Northern Ireland	UK
(34)	c/o Estera Trust (Cayman) Ltd, Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman, KY1-1108	Cayman Islands
(35)	Ashurst L26, 181 William Street, Melbourne, VIC, 3000	Australia
(36)	36 St Andrew Square, Edinburgh, EH2 2YB, Scotland	UK
(37)	Royal Bank House, 71 Bath Street, St Helier, JE4 8PJ	Jersey
(38)	4 Atlantic Quay, 70 York Street, Glasgow, G2 8JX, Scotland	UK
(39)	5 Harbourmaster Place, Dublin 1, D01 E7E8	RoI
(40)	De entree 99 -197, 1101HE Amsterdam Zuidoost	Netherlands
(41)	c/o CE Serviced Offices Pvt Ltd, Level 1, Tower A, Building No 10, Phase III, DLF Cyber City, Gurgaon, Haryana, 122002	India
(42)	Boundary Hall, Cricket Square, 171 Elgin Avenue, George Town, Grand Cayman, KY1-1104	Cayman Islands
(43)	301, Bellevue Parkway, 3rd Floor, Wilmington, DE, 19809	USA
(44)	1209, Orange Street, Wilmington, New Castle County, DE, 19801	USA
(45)	First Floor, 1 Exchange Place, Dublin 1, D01 R8W8	RoI
(46)	40 Berkeley Square, London, W1J 5AL, England	UK
(47)	1 Bartholomew Lane London EC2N 2AX, England	UK
(48)	Riverside One, Sir John Rogersons Quay, Dublin 2, D02 X576	RoI
(49)	23/25 Broad Street, St Helier, JE4 8ND	Jersey
(50)	440 Strand, London, WC2R OQS, England	UK
(51)	Lerchenstrasse 18, Zurich, CH-8022	Switzerland
(52)	200, Bellevue Parkway, Suite 210, Wilmington, DE 19809	USA
(53)	35 Great St Helen's, London, EC3A 6AP, England	UK
(54)	c/o Regus Rue du Rhone Sarl, Rue du Rhone 14, 1204, Geneva	Switzerland
(55)	24 Demostheni Severi, 1st Floor, Nicosia, 1080	Cyprus
(56)	c/o Denis Crowley & Co Chartered Accountants, Unit 6 Riverside Grove, Co. Cork, P43 W221	RoI
(57)	Suite 200B, 2nd Floor, Centre of Commerce, One Bay Street, PO Box N-3944, Nassau	Bahamas
(58)	Level 54, Hopewell Centre, 183 Queen's Road East	Hong Kong
(59)	114 West 47th Street, New York, 10036	USA
(60)	The Mill, High Street, Rocester, Staffordshire, ST14 5JW, England	UK
(61)	c/o Maples Corporate Services Ltd, PO Box 309, 121 South Church Street, George Town, Grand Cayman, KY1-1104	Cayman Islands
(62)	3rd Floor, 1 St Ann Street, Manchester, M2 7LR, England	UK
(63)	Gate House, Turnpike Road, High Wycombe, Buckinghamshire, HP12 3NR, England	UK
(64)	One Dockland Central, Guild Street, IFSC, Dublin 1, D01 E4X0	RoI
(65)	Claude Debussylaan 24, 1082 MD, Amsterdam	Netherlands
(66)	Cornwall Buildings, 45-51 Newhall Street, Birmingham, West Midlands, B3 3QR, England	UK
(67)	c/o Visma Services Danmark A/S, Lyskaer 3C-3D, 2730 Herlev, Hjortespring	Denmark
(68)	254, 13th Floor, Rua Boa Vista, Sao Paulo, 01014-907	Brazil
(69)	PO Box 384, The Albany, South Esplanade, St Peter Port, GY1 4NF	Guernsey
(70)	46, Avenue John F. Kennedy, L-1855	Luxembourg
(71)	12/14 Veer Nariman Road, Brady House 4th floor, Fort, Mumbai 400001	India
(72)	Madison Building, Midtown, Queensway	Gibraltar
(73)	Kokermolen 16, 3994 Dh Houten	Netherlands
(74)	16 Library Place, St. Helier, JE4 8NH	Jersey
(75)	PO Box 236, First Island House, Peter Street, St Helier, JE4 8SG	Jersey
(76)	Tirolerweg 8, Zug, CH- 6300	Switzerland
(77)	66-72, Gaspé House, Esplanade, St Helier, JE2 3QT	Jersey
(78)	PO Box 230, Heritage Hall, Le Marchant Street, St Peter Port, GY1 4JH	Guernsey
(79)	Clarendon House, Two Church Street, Suite 104, Reid Street, Hamilton, HM 11	Bermuda
(80)	3rd Floor, Fleming Court, Fleming's Place, Dublin 4, D04 N4X9	RoI
(81)	Office Block A, Bay Studios Business Park, Fabian Way, Swansea, SA1 8QB, Wales	UK
(82)	The Chestnuts Brewers End, Takeley, Bishop's Stortford, CM22 6QJ, England	UK
(83)	Smith and Williamson Llp 25 Moorgate London EC2R 6AY, England	UK
(84)	Grand Pavilion Commercial Centre, 802 West Bay Road, P.O. Box 31119,	Cayman Islands
(85)	Verlengde Poolseweg 16, Breda, 4818CL	Netherlands
(86)	Block A , George's Quay Plaza, George's Quay, Dublin 2, Dublin	RoI
(87)	Pinnacle 2, Eastpoint Business Park, Dublin 3, Dublin, D03 P580	RoI
(88)	13-18 City Quay, Dublin 2, Dublin, D02 ED70	RoI

Non-IFRS financial measures

As described in the Accounting policies, NatWest Group prepares its financial statements in accordance with the basis set out in the accounting policies, page 264 which constitutes a body of generally accepted accounting principles (GAAP). This document contains a number of adjusted or alternative performance measures, also known as non-GAAP or non-IFRS performance measures. These measures are adjusted for certain items which management believe are not representative of the underlying performance of the business and which distort period-on-period comparison. The non-IFRS measures provide users of the financial statements with a consistent basis for comparing business performance between financial periods and information on elements of performance that are one-off in nature. The non-IFRS measures also include the calculation of metrics that are used throughout the banking industry. These non-IFRS measures are not measures within the scope of IFRS and are not a substitute for IFRS measures. These measures include:

Measure	Basis of preparation	Additional analysis or reconciliation
NatWest Group return on tangible equity	Profit for the period attributable to ordinary shareholders divided by average tangible equity. Average tangible equity is total equity less intangible assets and other owners' equity.	Table I
Segmental return on equity	Segmental operating profit adjusted for preference share dividends and tax divided by average notional equity, allocated at an operating segment specific rate, of the period average segmental risk-weighted assets incorporating the effect of capital deductions (RWAes).	Table I
Operating expenses analysis – management view	The management analysis of strategic disposals in other income and operating expenses shows strategic costs and litigation and conduct costs in separate lines. These amounts are included in staff, premises and equipment and other administrative expenses in the statutory analysis.	Table II
Cost:income ratio	Total operating expenses less operating lease depreciation, divided by total income less operating lease depreciation.	Table III
Commentary – adjusted periodically for specific items	NatWest Group and segmental business performance commentary have been adjusted for the impact of specific items such as notable items, transfers, operating lease depreciation, strategic and litigation and conduct costs.	Notable items within income – page 87, Transfers – pages 90 and 93, Operating lease depreciation, Strategic costs and litigation and conduct costs – page 86
Net lending in the retail and commercial business	Comprises customer loans in the Retail Banking, Ulster Bank RoI, Commercial Banking, Private Banking and RBSI operating segments.	Pages 13 and 19
Bank net interest margin (NIM)	Net interest income of the banking business less the NatWest Markets (NWM) element as a percentage of interest-earning assets of the banking business less the NWM element.	Table IV

Performance metrics not defined under IFRS[(1)]

Measure	Basis of preparation	Additional analysis or reconciliation
Loan:deposit ratio	Net customer loans held at amortised cost divided by total customer deposits.	Table V
Tangible net asset value (TNAV)	Tangible equity divided by the number of ordinary shares in issue. Tangible equity is ordinary shareholders' interest less intangible assets.	Page 89
NIM	Net interest income as a percentage of interest-earning assets.	Pages 90 to 95
Funded assets	Total assets less derivatives.	Pages 91 and 95
ECL loss rate	The annualised loan impairment charge divided by gross customer loans.	Page 88
Assets under management and administration (AUMA)	Total AUMA comprises both assets under management (AUMs) and assets under administration (AUAs) managed within the Private Banking franchise. AUMs comprise assets under management, assets under custody and investment cash relating to Private Banking customers. AUAs are managed by Private Banking on behalf of Retail Banking and RBSI and a management fee is received in respect of providing this service.	Page 93
Third party customer asset rate	Third party customer asset rate is calculated as interest receivable on third-party loans to customers as a percentage of third-party loans to customers only. This excludes intragroup items, loans to banks and liquid asset portfolios, which are included for the calculation of net interest margin.	Page 86
Third party customer funding rate	Third party customer funding rate is calculated as interest payable on third-party customer deposits as a percentage of third-party customer deposits, including interest bearing and non-interest bearing customer deposits. This excludes intragroup items, bank deposits and debt securities in issue.	Page 86

Note:
(1) Metric based on GAAP measures, included as not defined under IFRS and reported for compliance with ESMA adjusted performance measure rules.

Non-IFRS financial measures

I. Return on tangible equity

NatWest Group return on tangible equity	Year ended or as at 31 December 2020	31 December 2019
(Loss)/profit attributable to ordinary shareholders (£m)	**(753)**	3,133
Average total equity (£m)	**43,774**	45,160
Adjustment for other owners equity and intangibles (£m)	**(11,872)**	(11,960)
Adjusted total tangible equity (£m)	**31,902**	33,200
Return on tangible equity (%)	**(2.4%)**	9.4%

Year ended 31 December 2020	Retail Banking	Ulster Bank RoI	Commercial Banking	Private Banking	RBS International	NatWest Markets
Operating profit/(loss) (£m)	**849**	**(226)**	**(399)**	**208**	**99**	**(227)**
Preference share cost allocation (£m)	**(88)**	**—**	**(153)**	**(22)**	**(20)**	**(68)**
Adjustment for tax (£m)	**(213)**	**—**	**155**	**(52)**	**(11)**	**83**
Adjusted attributable profit/(loss) (£m)	**548**	**(226)**	**(397)**	**134**	**68**	**(212)**
Average RWAe (£bn)	**37.2**	**12.4**	**76.4**	**10.4**	**7.0**	**37.3**
Equity factor	**14.5%**	**15.5%**	**11.5%**	**12.5%**	**16.0%**	**15.0%**
RWAe applying equity factor (£bn)	**5.4**	**1.9**	**8.8**	**1.3**	**1.1**	**5.6**
Return on equity	**10.2%**	**(11.7%)**	**(4.5%)**	**10.3%**	**6.1%**	**(3.8%)**
Year ended 31 December 2019						
Operating profit/(loss) (£m)	855	49	1,327	297	344	(25)
Adjustment for tax (£m)	(236)	—	(372)	(83)	(48)	7
Preference share cost allocation (£m)	(74)	—	(163)	(18)	(11)	(64)
Adjustment for Alawwal bank merger gain (£m)	—	—	—	—	—	(150)
Adjusted attributable profit/(loss) (£m)	545	49	792	196	285	(232)
Average RWAe (£bn)	37.7	14.0	78.2	9.8	6.9	48.0
Equity factor	15.0%	15.0%	12.0%	13.0%	16.0%	15.0%
RWAe applying equity factor (£bn)	5.7	2.1	9.4	1.3	1.1	7.2
Return on equity	9.6%	2.3%	8.4%	15.4%	25.7%	(3.2%)
Year ended 31 December 2018						
Operating profit/(loss) (£m)	1,848	12	1,968	303	336	(70)
Adjustment for tax (£m)	(510)	—	(549)	(85)	(47)	20
Preference share cost allocation (£m)	(80)	—	(188)	(23)	(18)	(108)
Adjusted attributable profit/(loss) (£m)	1,258	12	1,231	195	271	(158)
Average RWAe (£bn)	34.0	17.0	85.0	9.4	7.0	53.8
Equity factor	15.0%	14.0%	12.0%	13.5%	16.0%	15.0%
RWAe applying equity factor (£bn)	5.1	2.4	10.2	1.3	1.1	8.1
Return on equity	24.7%	0.5%	12.1%	15.4%	24.4%	(2.0%)

Non-IFRS financial measures

II. Operating expenses analysis

Statutory analysis (1,2)

	Year ended		
	31 December 2020	31 December 2019	31 December 2018
Operating expenses	**£m**	£m	£m
Staff costs	**3,923**	4,018	4,122
Premises and equipment	**1,223**	1,259	1,383
Other administrative expenses	**1,845**	2,828	3,372
Depreciation and amortisation	**905**	1,176	731
Impairment of other intangible assets	**9**	44	37
Total operating expenses	**7,905**	9,325	9,645

Non-statutory analysis

	Year ended							
	31 December 2020				31 December 2019			
Operating expenses	**Strategic costs**	**Litigation and conduct costs**	**Other expenses**	**Statutory operating expenses**	Strategic costs	Litigation and conduct costs	Other expenses	Statutory operating expenses
Staff expenses	**462**	**—**	**3,461**	**3,923**	451	—	3,567	4,018
Premises and equipment	**233**	**—**	**990**	**1,223**	239	—	1,020	1,259
Other administrative expenses	**197**	**113**	**1,535**	**1,845**	295	895	1,638	2,828
Depreciation and amortisation	**114**	**—**	**791**	**905**	352	—	824	1,176
Impairment of other intangible assets	**7**	**—**	**2**	**9**	44	—	—	44
Total	**1,013**	**113**	**6,779**	**7,905**	1,381	895	7,049	9,325

	31 December 2018			
Operating expenses	Strategic costs	Litigation and conduct costs	Other expenses	Statutory operating expenses
Staff expenses	473	—	3,649	4,122
Premises and equipment	142	—	1,241	1,383
Other administrative expenses	303	1,282	1,787	3,372
Depreciation and amortisation	86	—	645	731
Impairment of other intangible assets	—	—	37	37
Total	1,004	1,282	7,359	9,645

Notes:
(1) On a statutory, or GAAP, basis, strategic costs are included within staff, premises and equipment, depreciation and amortisation, impairment of other intangible assets and other administrative expenses. Strategic costs relate to restructuring provisions, related costs and projects that are transformational in nature.
(2) On a statutory, or GAAP, basis, litigation and conduct costs are included within other administrative expenses.

III. Cost:income ratio

Year ended 31 December 2020	**Retail Banking £m**	**Ulster Bank RoI £m**	**Commercial Banking £m**	**Private Banking £m**	**RBS International £m**	**NatWest Markets £m**	**Central items & other £m**	**NatWest Group £m**
Operating expenses	**(2,540)**	**(486)**	**(2,430)**	**(455)**	**(291)**	**(1,310)**	**(393)**	**(7,905)**
Operating lease depreciation	**—**	**—**	**145**	**—**	**—**	**—**	**—**	**145**
Adjusted operating expenses	**(2,540)**	**(486)**	**(2,285)**	**(455)**	**(291)**	**(1,310)**	**(393)**	**(7,760)**
Total income	**4,181**	**510**	**3,958**	**763**	**497**	**1,123**	**(236)**	**10,796**
Operating lease depreciation	**—**	**—**	**(145)**	**—**	**—**	**—**	**—**	**(145)**
Adjusted total income	**4,181**	**510**	**3,813**	**763**	**497**	**1,123**	**(236)**	**10,651**
Cost:income ratio	**60.8%**	**95.3%**	**59.9%**	**59.6%**	**58.6%**	**116.7%**	**nm**	**72.9%**
Year ended 31 December 2019								
Operating expenses	(3,618)	(552)	(2,600)	(486)	(264)	(1,418)	(387)	(9,325)
Operating lease depreciation	—	—	138	—	—	—	—	138
Adjusted operating expenses	(3,618)	(552)	(2,462)	(486)	(264)	(1,418)	(387)	(9,187)
Total income	4,866	567	4,318	777	610	1,342	1,773	14,253
Operating lease depreciation	—	—	(138)	—	—	—	—	(138)
Adjusted total income	4,866	567	4,180	777	610	1,342	1,773	14,115
Cost:income ratio	74.4%	97.4%	58.9%	62.5%	43.3%	105.7%	nm	65.1%
Year ended 31 December 2018								
Operating expenses	(2,867)	(583)	(2,487)	(478)	(260)	(1,604)	(1,366)	(9,645)
Operating lease depreciation	—	—	121	—	—	—	—	121
Adjusted operating expenses	(2,867)	(583)	(2,366)	(478)	(260)	(1,604)	(1,366)	(9,524)
Total income	5,054	610	4,602	775	594	1,442	325	13,402
Operating lease depreciation	—	—	(121)	—	—	—	—	(121)
Adjusted total income	5,054	610	4,481	775	594	1,442	325	13,281
Cost:income ratio	56.7%	95.6%	52.8%	61.7%	43.8%	111.2%	nm	71.7%

Non-IFRS financial measures

IV. Net interest margin

	Year ended		
	31 December 2020 £m	31 December 2019 £m	31 December 2018 £m
NatWest Group net interest income	**7,749**	8,047	8,656
Less: NWM net interest income	**57**	188	(112)
Net interest income excluding NWM	**7,806**	8,235	8,544
Average interest earning assets (IEA)	**493,471**	448,556	436,957
Less: NWM average IEA	**37,929**	35,444	27,851
Bank average IEA excluding NWM	**455,542**	413,112	409,106
Net interest margin	**1.57%**	1.79%	1.98%
Bank net interest margin (NatWest Group NIM excluding NWM)	**1.71%**	1.99%	2.09%

V. Loan:deposit ratio

	As at		
	31 December 2020 £m	31 December 2019 £m	31 December 2018 £m
Loans to customers - amortised cost	**360,544**	326,947	305,089
Customer deposits	**431,739**	369,247	360,914
Loan:deposit ratio (%)	**84%**	89%	85%

The Capital Requirements (Country-by-Country Reporting) Regulations (Audited)

This report has been prepared for NatWest Group to comply with the Capital Requirements (Country by Country Reporting) Regulations 2013 which implement Article 89 of the Capital Requirements Directive IV.

This report shows the income, profit/(loss) before tax, tax paid/(received), average and spot employee numbers on a full-time equivalent basis for the entities located in the countries in which we operate.

Country

Each subsidiary or branch is allocated to the country in which it is resident for tax purposes. The data is consolidated for all the subsidiaries and branches allocated to each country.

Income and profit/(loss) before tax

Income and profit/(loss) totals are reported on page 275 within the Geographical segments table.

Tax paid/(received)

Tax paid/(received) disclosed under CRD IV relates to corporate tax.

Corporate tax paid represents net cash taxes paid to/(received) from the tax authorities in each jurisdiction.

Corporate tax paid is reported on a cash basis as opposed to an accounting basis and therefore does not necessarily have a direct correlation to the reported profits or losses arising in the year.

Full time equivalent employees (“FTEs”)

FTEs are allocated to the country in which they are primarily based for the performance of their employment duties. The figures disclosed represent the average number of FTEs, including temporary staff, in each country during the period. The FTEs, including temporary staff as at the year end 31 December 2020, have been added for completeness.

Public subsidies received

No public subsidies were received during the period.

The Capital Requirements (Country-by-Country Reporting) Regulations (Audited)

NatWest Group Country by Country tax breakdown 2020

	Income (1) £m	(Loss)/profit before tax (1) £m	Tax paid/ (received) £m	Headcount: Average FTE including temporary staff	Headcount: FTE including temporary staff as at the year end 31 December 2020
Country					
UK	**9,431**	**(223)**	**113**	**42,748**	**41,185**
Guernsey	**92**	**42**	**12**	**100**	**92**
Isle of Man	**59**	**4**	**3**	**405**	**382**
Jersey	**165**	**(16)**	**15**	**624**	**616**
UK Region	**9,747**	**(193)**	**143**	**43,877**	**42,275**
Finland	**6**	**6**	**2**	**3**	**2**
France	**20**	**2**	**—**	**31**	**32**
Germany	**13**	**1**	**(1)**	**39**	**43**
Gibraltar	**28**	**9**	**4**	**67**	**60**
Greece	**—**	**—**	**1**	**1**	**1**
Ireland	**512**	**(235)**	**1**	**2,223**	**2,153**
Italy	**9**	**2**	**1**	**16**	**16**
Luxembourg	**16**	**1**	**1**	**57**	**62**
Netherlands	**77**	**7**	**—**	**99**	**96**
Norway	**3**	**2**	**2**	**—**	**—**
Poland (4)	**1**	**5**	**—**	**1,216**	**1,184**
Spain	**9**	**—**	**1**	**18**	**18**
Sweden	**36**	**21**	**(2)**	**36**	**36**
Switzerland (4)	**3**	**18**	**11**	**273**	**270**
Turkey	**2**	**—**	**3**	**2**	**2**
Europe Region	**735**	**(161)**	**24**	**4,081**	**3,975**
USA	**181**	**(85)**	**(1)**	**378**	**326**
US Region	**181**	**(85)**	**(1)**	**378**	**326**
Hong Kong	**13**	**—**	**—**	**27**	**24**
India (4)	**28**	**52**	**24**	**13,321**	**13,164**
Japan	**23**	**5**	**1**	**41**	**39**
Singapore	**68**	**30**	**—**	**135**	**112**
Taiwan	**1**	**2**	**(1)**	**—**	**—**
Asia Pacific Region	**133**	**89**	**24**	**13,524**	**13,339**
Saudi Arabia (3)	**—**	**—**	**24**	**—**	**—**
United Arab Emirates	**—**	**(1)**	**—**	**—**	**—**
Middle East Region	**—**	**(1)**	**24**	**—**	**—**
UK Region	**9,747**	**(193)**	**143**	**43,877**	**42,275**
Europe Region	**735**	**(161)**	**24**	**4,081**	**3,975**
US Region	**181**	**(85)**	**(1)**	**378**	**326**
Rest of World Region	**133**	**88**	**48**	**13,524**	**13,339**
Global Total	**10,796**	**(351)**	**214**	**61,860**	**59,915**

Notes:
(1) A full list of NatWest Group subsidiaries' names, nature of activities and geographical locations is available at Note 12 of the parent company accounts.
(2) A list of the principal subsidiaries in each jurisdiction and the nature of their activities is available at Note 9 of the parent company accounts.
(3) Tax paid of £24 million in Saudi Arabia is due to capital gains tax arising on the merger of Alawwal bank with SABB during 2019.
(4) Income excludes internal service fee income which has been calculated on a cost plus mark-up basis.
(5) The amounts shown above are presented to the nearest million and as a result any amounts less than £0.5 million have been rounded to zero.

Risk factors

Principal Risks and Uncertainties

[illegible] could adversely affect NatWest Group's future [illegible]

Risks relating to the COVID-19 pandemic

The effects of the COVID-19 pandemic on the UK, global economies and financial markets, and NatWest Group's customers, as well as its competitive environment may continue to have a material adverse effect on NatWest Group's business, results of operations and outlook.

[illegible] including the UK (NatWest Group's most [illegible]

[illegible] of which have affected NatWest Group's [illegible]

[illegible] material adverse effect on NatWest Group's [illegible] to [illegible] NatWest Group's consumer [illegible] Group's [illegible]

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

[illegible] of NatWest Group's borrowers and other [illegible]

[illegible] facilities may also increase NatWest Group's [illegible] Group's mortgage and wholesale property [illegible]

[illegible] Group's participation in BBLS, CBILS and [illegible] adverse effect on NatWest Group's reputation [illegible]

Risk factors

[illegible] Group's [illegible]

The COVID-19 pandemic may adversely affect NatWest Group's strategy and impair its ability to meet its targets and to achieve its strategic objectives.

[illegible] NatWest Group's ability to meet the financial, [illegible] NatWest Group plc's capital base. [illegible] increased NatWest Group's market risk [illegible] This may impair NatWest Group's ability to [illegible] 'NWM franchise'), which may have a material adverse effect on NatWest Group's [illegible]

[illegible] effect on NatWest Group' [illegible] and the value of NatWest Group's securities. [illegible] 'A failure to adapt NatWest Group's [illegible] NatWest Group's reputation, business, [illegible] of operations and outlook' [illegible]

The COVID-19 pandemic has heightened NatWest Group's operational risks as many of its employees are working remotely which may also adversely affect NatWest Group's ability to maintain effective internal controls.

[illegible] Group's [illegible] on NatWest Group's ability to maintain [illegible] also, 'NatWest Group's operations are highly [illegible]

[illegible] NatWest Group'. [illegible] customer requirements, NatWest Group's [illegible] NatWest Group's ability to hire, retain and [illegible] impact NatWest Group's ability to serve its [illegible] adversely affect NatWest Group's reputation, [illegible] Group's [illegible]

The effects of the COVID-19 pandemic could affect NatWest Group's ability to access sources of liquidity and funding, which may result in higher funding costs and failure to comply with regulatory capital, funding and leverage requirements.

[illegible] Group's foreign subsidiaries, branches and [illegible] earnings of NatWest Group's UK and non [illegible]

Risk factors

[illegible] NatWest Group's [illegible]

NatWest Group's results could be adversely affected if the effects of the COVID-19 pandemic or other events trigger the recognition of a goodwill impairment.

[illegible] Group's cash [illegible]

[illegible] on management's assumptions on future [illegible] fall below management's forecasts, [illegible]

[illegible] recorded in NatWest Group's income [illegible]'s regulatory capital position. [illegible] on NatWest Group's [illegible]

Economic and political risk

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

[illegible] European Economic Area ('EEA') [illegible] January 2020 ('Brexit'). [illegible] Trade and Cooperation Agreement ('TCA') [illegible]

[illegible] The EU's equivalence regime [illegible]

[illegible] act NatWest Group's [illegible]

NatWest Group faces increased political and economic risks and uncertainty in the UK and global markets.

[illegible] y changes to Scotland's [illegible] Group's structur [illegible]

Additional information

Risk factors

financial markets and NatWest Group's

Group's customers.

The value of NatWest Group's financial

value certain of NatWest Group's financial

decline in the value of NatWest Group's

adverse effect on NatWest Group's results of

scale, increasing NatWest Group's

counterparty risk. NatWest Group's risk

to quantify and mitigate NatWest Group's

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

SMEs ('TFSME')

pressure on NatWest Group's interest income

may support NatWest Group's interest

HM Treasury (or UKGI on its behalf) could exercise a significant degree of influence over NatWest Group and further offers or sales of NatWest Group's shares held by HM Treasury may affect the price of securities issued by NatWest Group.

Group's Annual General Meeting on 29 April

price volatility on NatWest Group's ordinary

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

NatWest Group's control, may lead to sharp

Risk factors

Although NatWest Group is now principally a UK and ROI-focused banking group, it is subject to foreign exchange risk from capital deployed in NatWest Group's foreign subsidiaries, branches and joint arrangements and customer transactions denominated in a currency other than the functional currency of NatWest Group. NatWest Group also relies on issuing securities in foreign currencies that assist in meeting NatWest Group's minimum requirements for own funds and eligible liabilities ('MREL') and NWM Plc deals foreign exchange instruments. NatWest Group maintains policies and procedures designed to manage the impact of exposures to fluctuations in currency rates. Nevertheless, changes in currency rates, particularly in the sterling-US dollar and euro-sterling rates, can adversely affect the value of assets, liabilities (including the total amount MREL eligible instruments), foreign exchange dealing activity, income and expenses, RWAs and hence the reported earnings and financial condition of NatWest Group.

Strategic risk

NatWest Group is currently implementing its Purpose-led Strategy, which carries significant execution and operational risks and may not achieve its stated aims and targeted outcomes.

In February 2020, NatWest Group announced a new strategy, focused on becoming a Purpose-led business, designed to champion potential and to help individuals, families and businesses to thrive. This strategy is intended to reflect the rapidly shifting environment and backdrop of unprecedented disruption in society driven by technology and changing customer expectations, as accelerated by the COVID-19 pandemic. NatWest Group aims to deliver this strategy, referred to as its 'Purpose-led Strategy', through: (i) four strategic priorities: 'supporting customers at every stage of their lives;' 'powered by innovation and partnerships;' 'simple to deal with'; and 'sharpened capital allocation;' and (ii) three areas of focus: climate change, enterprise and learning. This strategy requires an internal cultural shift across NatWest Group as to how performance is perceived and how NatWest Group conducts its business. These changes are substantial and will take many years to fully embed. These changes may not result in the expected outcome within the timeline and in the manner currently contemplated.

To deliver against this purpose and deliver sustainable returns, NatWest Group has been: focusing on the lifecycles of its customers using insights about customers to evolve product and service offerings; re-engineering and simplifying NatWest Group by updating operational and technological capabilities and strengthening governance and control frameworks to reduce costs and improve customer journeys; focusing on innovation and partnership to drive change and achieve growth in new product areas and customer segments; and having a sharper focus on capital allocation and deploying it more effectively for customers, in particular by refocusing its NWM franchise and through its phased withdrawal from ROI.

As part of its Purpose-led Strategy, NatWest Group has set a number of financial, capital and operational targets and expectations, both for the short term and throughout the implementation period. These include targets, amongst others, for: return on tangible equity, CET1 ratio and dividend pay-out ratio. Achieving these targets requires further significant reductions to NatWest Group's cost base. Realising these cost reductions will result in material strategic costs, which may be more than currently expected. The continued focus on meeting cost reduction targets may also mean limited investment in other areas, which could affect NatWest Group's long-term prospects, product offering or competitive position and its ability to meet its other targets and commitments, including those related to customer satisfaction and its capacity to respond to climate-related risks and opportunities in line with its ambition. Any of the factors above, could jeopardise NatWest Group's ability to achieve its associated financial targets and generate sustainable returns.

Implementing the Purpose-led Strategy is highly complex as discussed above. More generally, NatWest Group may seek to adapt its strategy, including in respect of acquisitions, divestments, restructurings, reorganisations or partnerships. There remains uncertainty as to consolidation within the financial industry and the scale and timing of any further NatWest Group strategic initiatives or participation in any such consolidation.

NatWest Group may not be able to successfully: (i) implement all aspects of its strategy; (ii) reach any or all of the related targets or expectations of its Purpose-led Strategy; (iii) realise the intended strategic objectives of any other future strategic initiative, in the time frames contemplated or at all, which may require additional management actions by NatWest Group. In addition, NatWest Group's ability to serve its target customers, scale certain ventures, deliver growth in new markets, refocus the NWM franchise and implement a phased withdrawal from ROI may be impacted and the anticipated revenue, profitability and cost reduction levels may not be achieved in the timescale envisaged or at all. Moreover, NatWest Group's strategy involves a large number of concurrent and strategic actions and initiatives, including refocusing of the NWM franchise and the phased withdrawal from ROI, any of which could fail to be implemented in the manner and to the extent currently contemplated, including as a result of operational, legal, execution or other issues.

The refocusing of the NWM franchise and NatWest Group's phased withdrawal from ROI are two strategic initiatives that may entail significant commercial, operational, legal and execution risks. For the risks relating to the refocusing of the NWM franchise, see 'NatWest Group is in the process of refocusing its NWM franchise, which entails significant commercial, operational and execution risks and the intended benefits for NatWest Group may not be realised within the timeline and in the manner currently contemplated'. NatWest Group's phased withdrawal from ROI, which may involve transfers of business, assets and liabilities to third parties, entails many risks, the most significant of which include: (i) anticipated reductions in net income, total lending and RWAs; (ii) potential trapped or stranded capital; (iii) the diversion of management resources and attention away from day-to-day management; (iv) the recognition of disposal losses as part of the orderly run-down of certain loan portfolios which may be higher than anticipated; (v) execution risks arising from the significant uncertainties of a phased withdrawal, including the additional IT and operational expense and resource required to mitigate manual and limited customer switching and handling processes of Ulster Bank, potential counterparties and other banks; (vi) customer action or inaction, or the inability to obtain necessary approvals and/or support from governmental authorities, regulators, trade unions and/or other stakeholders resulting in additional cost, resource and delays; (vii) potential loss of customers, resulting in retail and commercial deposit outflows (or a failure to attract deposit inflows) and reduced revenues and liquidity; (viii) increased people risk through the potential loss of key colleagues and institutional knowledge and increased challenges of attracting and retaining colleagues; (ix) regulatory risk, including in relation to prudential, conduct and other regulatory requirements; (x) the potential early repayment of ECB funding and no or limited access to other Euro system funding arrangements; (xi) brand and reputational risks due to press speculation and stakeholder scrutiny about the future of the ROI business. Any of these risks and uncertainties may cost more, be more complex or worse than currently estimated and may adversely affect NatWest Group's ability to execute a phased withdrawal from ROI.

In addition, successful implementation of NatWest Group's strategy in part depends on initiatives and growth in ventures that are new to NatWest Group or to the market. There is a risk, therefore, that some or all these initiatives will not succeed, or may be limited in scope or scale, including due to its current ownership structure.

The scale and scope of the intended changes present material business, operational, IT system, internal culture, conduct and people risks to NatWest Group as the planning and implementation of the transformation programme are resource-intensive and disruptive, and will divert management resources. In addition, implementing many changes concurrently, in particular with respect to any strategic partnerships, acquisitions or divestments, will require application of robust governance and controls frameworks and robust IT systems. There is a

Risk factors

[illegible] factors outside of NatWest Group's control) [illegible]

[illegible] Uncertainty surrounding the terms of the UK's [illegible]

[illegible] NatWest Group's strategy also [illegible]

[illegible] NatWest Group's reputation may be adversely [illegible]

[illegible] Group's products and services offering, its [illegible] and adversely impact NatWest Group's ability [illegible] adverse impact on NatWest Group's [illegible]

NatWest Group is in the process of refocusing its NWM franchise, which entails significant commercial, operational and execution risks and the intended benefits for NatWest Group may not be realised within the timeline and in the manner currently contemplated.

[illegible] serve NatWest Group's corporate and [illegible]

[illegible] COVID-19 pandemic, the UK's exit from [illegible]

Financial resilience risk

NatWest Group may not meet targets and be in a position to continue to make discretionary capital distributions (including dividends to shareholders).

As part of NatWest Group's [illegible] equity ('ROTE'), leverage [illegible] See also, '[illegible] stated aims and targeted outcomes'.

NatWest Group's ability to meet its targets [illegible] relating to NatWest Group's business model [illegible] may impact NatWest Group's ability to [illegible]

NatWest Group's ability to meet its planned [illegible] NatWest Group's long-term [illegible]

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

[illegible] may impede NatWest Group's ability to [illegible]

Risk factors

[illegible] enhancing measures under NatWest Group's [illegible] ('ARP') [illegible] onerous than anticipated'.

[illegible] NatWest Group's ability to develop [illegible] Group's customer business in the UK. There [illegible] ty that NatWest Group's [illegible] NatWest Group's current or future competitors [illegible]

NatWest Group's [illegible] NatWest Group's focus on its cost savings [illegible] therefore affect NatWest Group's off [illegible]

[illegible] on NatWest Group's ability to produce [illegible]

[illegible] integrated into NatWest Group's current [illegible]

[illegible] NatWest Group's phased [illegible] new entrants could affect NatWest Group's [illegible] Group's strategic initiatives. Furthermore, [illegible] NatWest Group's remaining competitors [illegible] affect NatWest Group's business [illegible]

NatWest Group has significant exposure to counterparty and borrower risk.

[illegible] wide range of NatWest Group's businesses. [illegible] that, under SICR ('significant increases in credit risk') rules, it moves to Stage 2 for [illegible] Group's lending strategy and associated [illegible]

[illegible] impact NatWest Group's profitability. See also, 'R[illegible] Risk'.

The credit quality of NatWest Group's [illegible] consequently impact NatWest Group's ability [illegible]

[illegible] NatWest Group's mortgage loan and [illegible] % of NatWest Group's total [illegible] Group's credit risk may be exacerbated if the [illegible]

Additional information

Risk factors

[illegible] assets). Due to NatWest Group's exposure to [illegible]

NatWest Group may not meet the prudential regulatory requirements for capital and MREL, or manage its capital effectively, which could trigger the execution of certain management actions or recovery options.

[illegible] plc's CET1 ratio was [illegible] NatWest Group plc's target capital ratio [illegible] management's and/or the PRA's views on [illegible]

NatWest Group plc's current capital strategy [illegible]

[illegible] Group plc's ability to maintain its current [illegible]

- [illegible]
- [illegible] plc's Total Capital Requirement set by the [illegible]
- [illegible]
- reduced dividends from NatWest Group's [illegible] p plc's target ratio; and
- [illegible] i.e. NatWest Group plc's use of [illegible] result of the Bank of England's and/or NatWest Group's evolving views on [illegible]

[illegible] NatWest Group plc's capital ratio, and/or [illegible]

[illegible]

[illegible]

[illegible] or MREL [illegible]

[illegible] (‘BRRD’), as [illegible] Group's applicable capital or leverage [illegible] NatWest Group's recovery plan to remediate [illegible] or, if NatWest Group plc's CET1 ratio falls [illegible] dilution of NatWest Group plc's existing [illegible] among other things, NatWest Group's product [illegible] See also, ‘[illegible] certain other of NatWest Group's securities’.

NatWest Group is subject to Bank of England oversight in respect of resolution, and NatWest Group could be adversely affected should the Bank of England deem NatWest Group's preparations to be inadequate.

[illegible] of England's assessment of NatWest Group's [illegible]

[illegible]

Risk factors

result in restrictions on NatWest Group's

NatWest Group may not be able to adequately access sources of liquidity and funding.

Group's control, such as a loss of

any material decrease in NatWest Group's

materially affect NatWest Group's ability to

plc's liquidity coverage ratio was

negatively affect NatWest Group's results.

Any reduction in the credit rating and/or outlooks assigned to NatWest Group plc, any of its subsidiaries or any of their respective debt securities could adversely affect the availability of funding for NatWest Group, reduce NatWest Group's liquidity position and increase the cost of funding.

rating agency's assessment of NatWest Group's strategy and management's

frameworks applicable to NatWest Group's

tWest Group's key markets

the UK's sovereign credit rating and market

markets' perception of NatWest Group's

atWest Group's access to money markets,

affect NatWest Group's (and, in particular, NatWest Group plc's) cost of funding and its

Group's competitive position and threaten its

NatWest Group may be adversely affected if it fails to meet the requirements of regulatory stress tests.

stress tests reveal that a bank's existing

Group's regulators requiring NatWest Group

NatWest Group could incur losses or be required to maintain higher levels of capital as a result of limitations or failure of various models.

Given the complexity of NatWest Group's

itate NatWest Group's

atWest Group's models, and

Group's current business model or operations,

Group's regulator

NatWest Group's mandated stress testing)

NatWest Group's financial statements are sensitive to the underlying accounting policies, judgments, estimates and assumptions.

Risk factors

to [illegible] 'NatWest Group's results could be adversely [illegible] r[illegible]o[illegible]nition of a goodwill impairment'.

T[illegible] NatWest Group's results and financial [illegible] sources of estimation uncertainty' on page [illegible] Group are discussed in 'Accounting developments' on page [illegible]

Changes in accounting standards may materially impact NatWest Group's financial results.

[illegible] [illegible]st Group's internal [illegible]

The value or effectiveness of any credit protection that NatWest Group has purchased depends on the value of the underlying assets and the financial condition of the insurers and counterparties.

[illegible] Group's exposure to the risk of default by the [illegible]

[illegible] negative impact on NatWest Group's results.

NatWest Group may become subject to the application of UK statutory stabilisation or resolution powers which may result in, among other actions, the cancellation, transfer or dilution of ordinary shares, or the write-down or conversion of certain other of NatWest Group's securities.

[illegible] PRA and FCA (together, the 'Authorities') are [illegible] business of the relevant entity to a 'bridge bank' wholly [illegible] of the transferor's assets, rights or liabilities; [illegible] entity's equity, capital instruments and [illegible] Mor[illegible]

[illegible] system of the UK. Moreover, the 'no creditor worse off' safeguard contained in the Banking [illegible]

[illegible] outside of NatWest Group's control. Mor[illegible]

[illegible] Group plc's ordinary shares or other NatWest [illegible]

Climate and sustainability-related risks

NatWest Group and its customers may face significant climate-related risks, including in transitioning to a low-carbon economy, which may adversely impact NatWest Group.

[illegible]

[illegible] t[illegible] primary channels, or 'risk factors': [illegible]

[illegible] Group's portfolios. In addition, NatWest Group's premises and resilience may also [illegible]

Risk factors

[illegible] See also, '[illegible] conduct risk'.

[illegible] customers face, NatWest Group's reputation, [illegible]

NatWest Group's Purpose-led Strategy includes one area of focus on climate change that is likely to require material changes to the business of NatWest Group which entails significant execution risk.

[illegible]

NatWest Group's commitment to reduce the [illegible] materially affect NatWest Group's business [illegible] accelerated changes to NatWest Group's [illegible] NatWest Group's ability to achieve its [illegible]

[illegible] NatWest Group's climate [illegible]

[illegible] NatWest Group's ability to meet its [illegible] many factors beyond NatWest Group's [illegible]

[illegible] NatWest Group's [illegible]

Any failure by NatWest Group to implement effective and compliant climate change resilient systems, controls and procedures could adversely affect NatWest Group's ability to manage climate-related risks.

[illegible] European Central Bank published its 'Guide [illegible] related and environmental risks' [illegible] supervisory statement 'Enhancing banks' and insurers' approaches to managing the financial risks from climate change' (the 'SS [illegible]9').

[illegible]

- [illegible]
- [illegible]
- [illegible]
- [illegible]

[illegible] NatWest Group's original [illegible] climate scenarios (the 'Climate Biennial [illegible]xplanatory Scenario' or 'CBES'). Further, in [illegible]

Additional information

Risk factors

adverse impact on NatWest Group's [illegible]

There are significant uncertainties inherent in accurately modelling the impact of climate-related risks.

[illegible] considerably longer than NatWest Group's [illegible]

[illegible]

[illegible]

A failure to adapt NatWest Group's business strategy, governance, procedures, systems and controls to manage emerging sustainability-related risks and opportunities may have a material adverse effect on NatWest Group's reputation, business, results of operations and outlook.

[illegible] 'sustainability related' related risks and [illegible]

[illegible] valuations of issuers' securities [illegible]

[illegible] Group's business strategy [illegible] Group's reputation, [illegible]

Any reduction in the ESG ratings of NatWest Group could have a negative impact on NatWest Group's reputation and on investors' risk appetite.

[illegible] beyond NatWest Group's control [illegible] Group's [illegible] investors' risk [illegible] NatWest Group's and/or its subsidiaries' [illegible]

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

[illegible]

[illegible] Group's recognition of its climate financing [illegible] Group's achieving its climate strategy and [illegible]

In addition, NatWest Group's EU subsidiaries [illegible] investors' expectations, [illegible] NatWest Group's [illegible]

[illegible] related Financial Disclosure ('TCFD') recommendations to comply with the FCA's [illegible]

[illegible]

[illegible] adverse effect on NatWest Group's regulatory compliance and [illegible]

NatWest Group may be subject to potential climate, environmental and other sustainability-related litigation, enforcement proceedings, investigations and conduct risk.

[illegible]

[illegible] Group's ability to achieve its strategy, [illegible]

Operational and IT resilience risk

Operational risks (including reliance on third party suppliers and outsourcing of certain activities) are inherent in NatWest Group's businesses.

[illegible]

[illegible] Group's Purpose [illegible] Group's phased withdrawal from ROI, NatWest Group's current cost [illegible]

[illegible] Group's ability to maintain effective internal [illegible]

[illegible]

NatWest Group is subject to increasingly sophisticated and frequent cyberattacks.

[illegible] Group and against NatWest Group's supply [illegible] Denial of Service ('DDOS') attacks, which are [illegible] availability of services for NatWest Group's [illegible]

[illegible] NatWest Group's [illegible] See also, 'NatWest Group's operations are [illegible]'.

Any failure in NatWest Group's cy[illegible]

Risk factors

[illegible]
NatWest Group's ability to retain and attract
[illegible]
who have access to NatWest Group's
[illegible]
order to gain access to NatWest Group's data
or that of NatWest Group's customers or
[illegible]
part of NatWest Group's employees or third
[illegible]
to NatWest Group's reliance on technology
[illegible]
Protection Regulation ('GDPR') and European
Banking Authority ('EBA') Guidelines on ICT
[illegible]

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

[illegible]
satisfy customers' expectations including the
[illegible]
NatWest Group's strategy and could
[illegible]
NatWest Group's strategy. [illegible]

NatWest Group's operations are highly dependent on its complex IT systems (including those that enable remote working) and any IT failure could adversely affect NatWest Group.

NatWest Group's operations are highly
[illegible]
of NatWest Group's payment systems,
[illegible]
Group's [illegible]
[illegible]
serious damage to NatWest Group's ability to
[illegible]
term damage to NatWest Group's
[illegible]
heightened as most of NatWest Group's
[illegible]
affect NatWest Group's operations, its
[illegible]
impacting NatWest Group's [illegible]

NatWest Group relies on attracting, retaining and developing senior management and skilled personnel, and is required to maintain good employee relations.

NatWest Group's success depends on its
[illegible]
NatWest Group's ability to do this may be
[illegible]
the PRA's request that bank boards consider
[illegible]
on NatWest Group's ability to hire, retain and
[illegible]

Many of NatWest Group's employees in the
[illegible]
could impact NatWest Group's ability to
[illegible]

Risk factors

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

[illegible] NatWest Group's activities and [illegible] definition and monitoring of NatWest Group's [illegible] Group's risk exposure and the potential impact thereof on NatWest Group's financial [illegible] Group's reputation or its relationship with its [illegible]

NatWest Group's operations are inherently [illegible] aligned with NatWest Group's regulatory obligations, customers' needs or do not reflect NatWest Group's customer [illegible] NatWest Group's businesses are also [illegible]

[illegible] effective. Any failure in NatWest Group's risk [illegible]

[illegible]

NatWest Group's operations are subject to inherent reputational risk.

[illegible] respect to NatWest Group's Purpose and [illegible] detrimental to NatWest Group's business, [illegible] affect NatWest Group's ability to attract and [illegible] Group's ability to attract and retain customers [illegible] employee misconduct, NatWest Group's [illegible]

[illegible]

[illegible]

Legal, regulatory and conduct risk

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

[illegible]

[illegible] provision of 'investment ser[illegible] activities' [illegible]

[illegible]

- [illegible]
- [illegible]
- [illegible]
- [illegible]

Additional information

Risk factors

- [illegible] NatWest Group's operations, such as [illegible]

[illegible] impact on NatWest Group's authorisations [illegible] the value of its assets, NatWest Group's [illegible] Group's ability to comply with the applicable [illegible]

[illegible] regulator's ongoing focus on the integrity of [illegible] Reporting ('COREP') regulatory returns and to [illegible]

[illegible] may adversely affect NatWest Group's [illegible]

[illegible] affect NatWest Group's ability to engage in [illegible]

NatWest Group is subject to various litigation matters, regulatory and governmental actions and investigations as well as remedial undertakings, including conduct-related reviews, anti-money laundering and redress projects, the outcomes of which are inherently difficult to predict, and which could have an adverse effect on NatWest Group.

NatWest Group's operations are diverse and [illegible]

[illegible] Group's expectation for resolution may [illegible]

[illegible]

[illegible] currently exposed, see '[illegible]' of Note 26 to the [illegible]

[illegible] Group's business and result in restrictions or limitations on NatWest Group's operations. [illegible] adversely impact NatWest Group's business, [illegible] adversely impact NatWest Group's capital [illegible]

[illegible] Group's operations, additional supervision by NatWest Group's regulators, and loss of [illegible]

Risk factors

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

[illegible]

counterparties' willingness to accept, and

[illegible]

IBORs that may impact NatWest Group's

[illegible]

instruments and on NatWest Group's

[illegible]

NatWest Group operates in jurisdictions that are subject to intense scrutiny by the competition authorities.

[illegible]

retail banking sector. The CMA's Retail

[illegible]

personal current account ('PCA') and SME

[illegible]

adversely impact NatWest Group's

[illegible]

The cost of implementing the Alternative Remedies Package ('ARP') could be more onerous than anticipated.

[illegible]

Group's competitive position.

[illegible]

impact customer service for NatWest Group's

[illegible]

Risk factors

[illegible]

[illegible] NatWest Group's [illegible] Group's regulators, and loss of investor [illegible]

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

[illegible]

[illegible] impact NatWest Group's capital position. In addition, NatWest Group's interpretation or [illegible]

Material contracts

The company and its subsidiaries are party to various contracts in the ordinary course of business. Material contracts include the following:

B Share Acquisition and Contingent Capital Agreement

On 26 November 2009, the company and HM Treasury entered into the Acquisition and Contingent Capital Agreement pursuant to which HM Treasury subscribed for the initial B shares and the Dividend Access Share (the Acquisitions) and agreed the terms of HM Treasury's contingent subscription (the Contingent Subscription) for an additional £8 billion in aggregate in the form of further B shares (the Contingent B shares), to be issued on the same terms as the initial B shares. The Acquisitions were subject to the satisfaction of various conditions, including the company having obtained the approval of its shareholders in relation to the Acquisitions.

On 16 December 2013, the company announced that, having received approval from the PRA, it had terminated the £8 billion Contingent Subscription. The company was able to cancel the Contingent Subscription as a result of the actions announced in the second half of 2013 to further strengthen its capital position.

On 9 October 2015, the company announced that on 8 October 2015, it had received a valid conversion notice from HM Treasury in respect of all outstanding B shares held by HM Treasury. The new ordinary shares issued on conversion of the B shares were admitted to the official list of the UK Listing Authority (UKLA), and to trading on the London Stock Exchange plc, on 14 October 2015. Following such conversion, HM Treasury no longer holds any B shares.

The company gave certain representations and warranties to HM Treasury on the date of the Acquisition and Contingent Capital Agreement, on the date the circular was posted to shareholders, on the first date on which all of the conditions precedent were satisfied, or waived, and on the date of the Acquisitions. The company also agreed to a number of undertakings.

The company agreed to reimburse HM Treasury for its expenses incurred in connection with the Acquisitions.

For as long as it is a substantial shareholder of the company (within the meaning of the UKLA's Listing Rules), HM Treasury has undertaken not to vote on related party transaction resolutions at general meetings and to direct that its affiliates do not so vote.

Directed Buyback Contract

On 7 February 2019, the company and HM Treasury entered into the Directed Buyback Contract to help facilitate the return of the company to full private ownership through the use of any excess capital to buy back the company's ordinary shares held by HM Treasury.

Under the terms of the Directed Buyback Contract, the company may agree with HM Treasury to make off-market purchases from time to time of its ordinary shares held by HM Treasury, including by way of one or more standalone purchases, through a non-discretionary, broker-managed directed trading programme, or in conjunction with any offer or sale by HM Treasury by way of an institutional placing. Neither the company nor HM Treasury would be under an obligation to agree to make such off-market purchases and would only do so subject to regulatory approval at the time.

The aggregate number of ordinary shares which the company may purchase from HM Treasury under the Directed Buyback Contract will not exceed 4.99%. of the company's issued share capital and the aggregate consideration to be paid will not exceed 4.99%. of the company's market capitalisation. The price to be paid for each ordinary share will be the market price at the time of purchase or, if the directed buyback is in conjunction with an institutional placing, the placing price.

Framework and State Aid Deed

As a result of the State Aid granted to the company, it was required to work with HM Treasury to submit a State Aid restructuring plan to the European Commission (EC), which was then approved by the EC under the State Aid rules on 14 December 2009. The company agreed a series of measures which supplemented the measures in the company's strategic plan.

The company entered into a State Aid Commitment Deed with HM Treasury at the time of the initial EC decision and, following the EC's approval of amendments to the restructuring plan in April 2014, the company entered into a revised State Aid Commitment Deed with HM Treasury. In September 2017, the revised State Aid Commitment Deed was amended by a Deed of Variation (as so amended, the "Revised State Aid Commitment Deed") following the EC's approval of an alternative remedies package (the "Alternative Remedies Package") to replace the company's final outstanding commitment under its State Aid obligations (to divest the business previously known as Williams & Glyn).

On 25 April 2018, the Revised State Aid Commitment Deed was replaced by the Framework and State Aid Deed between the company, HM Treasury and an independent body established to facilitate and oversee the delivery of the Alternative Remedies Package (the "Independent Body"). Under the Framework and State Aid Deed, the company agrees to do all acts and things necessary to ensure that HM Treasury is able to comply with its obligations under any EC decision approving State Aid to the company, including under the Alternative Remedies Package.

Pursuant to the Framework and State Aid Deed, the company has committed: (i) £425 million into a fund for eligible bodies in the UK banking and financial technology sectors to develop and improve their capability to compete with the company in the provision of banking services to small and medium-sized enterprises ("SMEs") and develop and improve the financial products and services available to SMEs (the "Capability and Innovation Fund"); and (ii) £275 million to eligible bodies to help them incentivise SME banking customers within the division of the company previously known as Williams & Glyn to switch their business current accounts and loans to the eligible bodies (the "Incentivised Switching Scheme"). The company has also agreed to set aside up to a further £75 million in funding to cover certain costs customers may incur as a result of switching under the Incentivised Switching Scheme. In addition, under the terms of the Alternative Remedies Package, should the uptake within the Incentivised Switching Scheme not be sufficient, the company may be required to make a further contribution, capped at £50 million. The Independent Body will distribute funds from the Capability and Innovation Fund and implement the Incentivised Switching Scheme.

Under the Framework and State Aid Deed, the company also agreed to indemnify the Independent Body and HM Treasury, up to an amount of £320 million collectively to cover liabilities that may be incurred in implementing the Alternative Remedies Package. The provisions of the indemnity to the Independent Body are set out in the Framework and State Aid Deed and the provisions of the indemnity to HM Treasury are set out in a separate agreement between the company and HM Treasury, described under "*Deed of Indemnity*" below.

The Framework and State Aid Deed also provides that if the EC adopts a decision that the UK Government must recover any State Aid (a "Repayment Decision") and the recovery order of the Repayment Decision has not been annulled or suspended by the General Court or the European Court of Justice, then the company must repay HM Treasury any aid ordered to be recovered under the Repayment Decision.

Deed of Indemnity

In the context of the Framework and State Aid Deed, the company entered into a Deed of Indemnity with HM Treasury on 25 April 2018, pursuant to which the company agreed to indemnify HM Treasury to cover liabilities that may be incurred in implementing the Alternative Remedies Package, as described under "*Framework and State Aid Deed*" above.

Trust Deed

In the context of the Framework and State Aid Deed, the company entered into a Trust Deed with the Independent Body on 25 April 2018, to set up a trust to administer the funds committed by the company under the

Material contracts

Framework and State Aid Deed for the Alternative Remedies Package.

State Aid Costs Reimbursement Deed
Under the 2009 State Aid Costs Reimbursement Deed, the company has agreed to reimburse HM Treasury for fees, costs and expenses associated with the State Aid and State Aid approval.

HMT and UKFI Relationship Deed
On 7 November 2014, in order to comply with an amendment to the UK Listing Rules, the company entered into a Relationship Deed with HM Treasury and UK Financial Investments Limited in relation to the company's obligations under the UK Listing Rules to put in place an agreement with any controlling shareholder (as defined for these purposes in the Listing Rules). The Relationship Deed covers the three independence provisions mandated by the Listing Rules: (i) that contracts between the company and HM Treasury (or any of its subsidiaries) will be arm's length and normal commercial arrangements, (ii) that neither HM Treasury nor any of its associates will take any action that would have the effect of preventing the company from complying with its obligations under the Listing Rules; and (iii) neither HM Treasury nor any of its associates will propose or procure the proposal of a shareholder resolution which is intended or appears to be intended to circumvent the proper application of the Listing Rules.

Memorandum of Understanding Relating to The Royal Bank of Scotland Group Pension Fund
On 16 April 2018 the company entered into a Memorandum of Understanding (the "MoU") with the trustee of The Royal Bank of Scotland Group Pension Fund (the "Group Fund"), which aimed to facilitate both the necessary changes to the Main Section of the Group Fund to align the employing entity structure with the requirements of the UK ring-fencing legislation and acceleration of the settlement framework for the 31 December 2017 triennial valuation of the Main Section of the Group Fund (brought forward from 31 December 2018).

In addition, the MoU also provided clarity on the additional related funding contributions required to be made by the company to the Main Section of the Group Fund as follows: (i) a pre-tax payment of £2 billion that was made in the second half of 2018 and (ii) from 1 January 2020, further pre-tax contributions of up to £1.5 billion in aggregate linked to the making of future distributions to RBS shareholders including ordinary and special dividends and/or share buy backs (subject to an annual cap on contributions of £500 million before tax).

On 28 September 2018, the implementation of the MoU was documented through a Framework Agreement entered into between the company and the trustee of the Group Fund.

Shareholder information

Financial calendar

Dividends

Payment dates

Cumulative preference shares	28 May and 31 December 2021
Non-cumulative preference shares	31 March, 30 June 30 September and 31 December 2021
Ordinary shares (2020 final)	4 May 2021

Ex-dividend date

Cumulative preference shares	29 April and 2 December 2021
Ordinary shares (2020 final)	25 March 2021

Record date

Cumulative preference shares	30 April and 3 December 2021
Ordinary shares (2020 final)	26 March 2021

Annual General Meeting	28 April 2021
Interim results	30 July 2021

Shareholder enquiries

You can check your shareholdings in the company by visiting the Shareholder Hub section of our website at natwestgroup.com and clicking the 'Access your shareholding online' tab. You will need the shareholder reference number printed on your share certificate or dividend confirmation statement to access this information. You can also view any outstanding payments, update bank account and address details and download various forms.

NatWest Group is committed to reducing its impact on the environment. You can choose to receive your shareholder communications electronically via the 'Sign up for e-comms' tab and you will receive an email notification when documents become available to view on our website.

You can also check your shareholding by contacting our Registrar:

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ
Telephone: +44 (0)370 702 0135
Fax: +44 (0)370 703 6009
Website: www-uk.computershare.com/investor/contactus

Braille and audio Strategic report with additional information

Shareholders requiring a Braille or audio version of the Strategic report with additional information should contact the Registrar on +44 (0)370 702 0135.

ShareGift

The company is aware that shareholders who hold a small number of shares may be retaining these shares because dealing costs make it uneconomical to dispose of them. ShareGift is a free charity share donation service operated by The Orr Mackintosh Foundation (registered charity 1052686) to enable shareholders to donate shares to charity.

If you are a UK taxpayer, donating your shares in this way will not give rise to either a gain or a loss for UK capital gains tax purposes. You may be able to claim UK income tax relief on gifted shares and can do so in various ways. Further information can be obtained from HM Revenue & Customs.

Should you wish to donate your shares to charity please contact ShareGift for further information:

ShareGift, The Orr Mackintosh Foundation
4th Floor Rear, 67/68 Jermyn Street, London SW1Y 6NY
Telephone: +44 (0)20 7930 3737
Website: www.sharegift.org

Share and bond scams

Share and bond scams are often run from 'boiler rooms' where fraudsters cold-call investors, offering them worthless, overpriced or even non-existent shares or bonds.They use increasingly sophisticated tactics to approach investors, offering to buy or sell shares, often pressuring investors to make a quick decision or miss out on the deal. Contact can also be in the form of email, post or word of mouth. Scams are sometimes advertised in newspapers, magazines or online as genuine investment opportunities and may offer free gifts or discounts on dealing charges.

Scammers will request money upfront, as a bond or other form of security, but victims are often left out of pocket, sometimes losing their savings or even their family home. Even seasoned investors have been caught out by scams.

Clone firms

A 'clone firm' uses the name, firm registration number (FRN) and address of a firm or individual who is FCA authorised. The scammer may claim that the genuine firm's contact details on the FCA Register (Register) are out of date and then use their own details, or copy the website of an authorised firm, making subtle changes such as the phone number. They may claim to be an overseas firm, which won't always have full contact and website details listed on the Register.

How to protect yourself

Always be wary if you're contacted out of the blue, pressured to invest quickly, or promised returns that sound too good to be true. FCA authorised firms are unlikely to contact you unexpectedly with an offer to buy or sell shares or bonds.

Please do not give any personal details to any caller unless you are certain that they are genuine. Check the Register to ensure the firm contacting you is authorised and also check the FCA's Warning List of firms to avoid at www.fca.org.uk/scamsmart.

Ask for their (FRN) and contact details and then contact them using the telephone number on the Register. Never use a link in an email or website from the firm offering you an investment.

It is strongly advised that you seek independent professional advice before making any investment.

Report a scam

If you suspect that you have been approached by fraudsters, or have any concerns about a potential scam, report this to the FCA by contacting their Consumer Helpline on 0800 111 6768 or by using their reporting form which can be found on their website.

If you have already invested in a scam, fraudsters are likely to target you again or sell your details to other criminals. The follow-up scam may be completely separate, or may be related to the previous scam in the form of an offer to get your money back or buy back the investment on payment of a fee.

Find out more at www.fca.org.uk/consumers

Shareholder information

Analysis of ordinary shareholders

At 31 December 2020	Shareholdings	Number of shares - millions	%
Individuals	175,501	101,783,482	0.84
Banks and nominee companies	4,531	11,969,268,979	98.68
Investment trusts	40	385,295	—
Insurance companies	3	417,909	—
Other companies	445	29,888,066	0.25
Pension trusts	20	33,956	—
Other corporate bodies	70	27,387,790	0.23
	180,610	12,129,165,477	100.00
Range of shareholdings:			
1 - 1,000	155,790	37,742,402	0.31
1,001 - 10,000	23,073	53,203,748	0.44
10,001 - 100,000	979	28,169,088	0.23
100,001 - 1,000,000	466	163,187,042	1.35
1,000,001 - 10,000,000	226	780,066,052	6.43
10,000,001 and over	76	11,066,797,145	91.24
	180,610	12,129,165,477	100.00

Important addresses

Shareholder enquiries
Registrar
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ
Telephone: +44 (0)370 702 0135
Facsimile: +44 (0)370 703 6009
Website: www-uk.computershare.com/investor/contactus

ADR Depositary Bank
BNY Mellon Shareowner Services
PO Box 505000
Louisville, KY 40233-5000

Direct Mailing for overnight packages:
BNY Mellon Shareowner Services
462 South 4th Street
Suite 1600
Louisville KY 40202

Telephone: 1-888-269-2377 (US callers – toll free)
Telephone: +1 201 680 6825 (International)
Email: shrrelations@cpushareownerservices.com
Website: www.mybnymdr.com

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EC2M 4AA, England

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Co Antrim, BT1 5UB
Northern Ireland

Ulster Bank Ireland DAC
Ulster Bank Group Centre, George's Quay,
Dublin 2, D02 VR98

NatWest Markets Group Holdings Corp.
251, Little Falls Drive, Wilmington
Delaware, 19808

Coutts & Company
440 Strand, London
WC2R 0QS, England

The Royal Bank of Scotland International Limited
Royal Bank House, 71 Bath Street
St Helier, JE4 8PJ

Forward looking statements

Cautionary statement regarding forward-looking statements
Certain sections in this document contain 'forward-looking statements' as that term is defined in the United States Private Securities Litigation Reform Act of 1995, such as statements that include the words 'expect', 'estimate', 'project', 'anticipate', 'commit', 'believe', 'should', 'intend', 'will', 'plan', 'could', 'probability', 'risk', 'Value-at-Risk (VaR)', 'target', 'goal', 'objective', 'may', 'endeavour', 'outlook', 'optimistic', 'prospects' and similar expressions or variations on these expressions. In particular, this document includes forward-looking statements relating, but not limited to: the COVID-19 pandemic and its impact on NatWest Group; future profitability and performance, including financial performance targets (such as RoTE) and discretionary capital distribution targets; ESG and climate-related targets, including in relation to sustainable financing and financed emissions; planned cost savings; implementation of NatWest Group's Purpose-led strategy, including in relation to the refocusing of its NWM franchise and the digitalisation of its operations and services; the timing and outcome of litigation and government and regulatory investigations; the implementation of the Alternative Remedies Package; balance sheet reduction, including the reduction of RWAs; capital, liquidity and leverage ratios and requirements, including CET1 Ratio, RWAes, Pillar 2 and other regulatory buffer requirements and MREL; funding plans and credit risk profile; capitalisation; portfolios; net interest margin; customer loan and income growth and market share; impairments and write-downs, including with respect to goodwill; restructuring and remediation costs and charges; NatWest Group's exposure to political risk, economic risk, climate, environmental and sustainability risk, operational risk, conduct risk, cyber and IT risk and credit rating risk and to various types of market risks, including interest rate risk, foreign exchange rate risk and commodity and equity price risk; customer experience, including our Net Promotor Score (NPS); employee engagement and gender balance in leadership positions.

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

Important factors that could affect the actual outcome of the forward-looking statements
We caution you that a large number of important factors could adversely affect our results or our ability to implement our strategy, cause us to fail to meet our targets, predictions, expectations and other anticipated outcomes or affect the accuracy of forward-looking statements described in this document. These factors include, but are not limited to, those set forth in the risk factors and the other uncertainties described in NatWest Group plc's Annual Report on Form 20-F and its other filings with the US Securities and Exchange Commission.

The principal risks and uncertainties that could adversely NatWest Group's future results, its financial condition and prospects and cause them to be materially different from what is forecast or expected, include, but are not limited to: risks relating to the COVID-19 pandemic (including in respect of: the effects on the global economy and financial markets, and NatWest Group's customers; increased counterparty risk; NatWest Group's ability to meet its targets and strategic objectives; increased operational and control risks; increased funding risk; future impairments and write-downs); economic and political risk (including in respect of: uncertainty regarding the effects of Brexit; increased political and economic risks and uncertainty in the UK and global markets; changes in interest rates and foreign currency exchange rates; and HM Treasury's ownership of NatWest Group plc); strategic risk (including in respect of the implementation of NatWest Group's Purpose-led Strategy, including the re-focusing of the NWM franchise and NatWest Group's ability to achieve its targets); financial resilience risk (including in respect of: NatWest Group's ability to meet targets and to resume discretionary capital distributions; the competitive environment; counterparty risk; prudential regulatory requirements for capital and MREL; funding risk; changes in the credit ratings; the adequacy of NatWest Group's resolution plans; the requirements of regulatory stress tests; model risk; sensitivity to accounting policies, judgments, assumptions and estimates; changes in applicable accounting standards; the value or effectiveness of credit protection; and the application of UK statutory stabilisation or resolution powers); climate and sustainability risk (including in respect of: risks relating to climate change and the transitioning to a low carbon economy; the implementation of NatWest Group's climate change strategy and climate change resilient systems, controls and procedures; increased model risk; the failure to adapt to emerging climate, environmental and sustainability risks and opportunities; changes in ESG ratings; increasing levels of climate, environmental and sustainability related regulation and oversight; and climate, environmental and sustainability related litigation, enforcement proceedings and investigations); operational and IT resilience risk (including in respect of: operational risks (including reliance on third party suppliers); cyberattacks; the accuracy and effective use of data; complex IT systems (including those that enable remote working); attracting, retaining and developing senior management and skilled personnel; NatWest Group's risk management framework; and reputational risk); and legal, regulatory and conduct risk (including in respect of: the impact of substantial regulation and oversight; compliance with regulatory requirements; the outcome of legal, regulatory and governmental actions and investigations; the replacement of LIBOR, EURIBOR and other IBOR rates; heightened regulatory and governmental scrutiny (including by competition authorities); implementation of the Alternative Remedies Package; and changes in tax legislation or failure to generate future taxable profits).

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