

# **National Westminster Bank Plc**

## **2020 Annual Results**



**NatWest**

## Financial review

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### Presentation of information

National Westminster Bank Plc ('NWB Plc') is a wholly-owned subsidiary of NatWest Holdings Limited ('NWH Ltd' or 'the intermediate holding company'). The term 'NWB Group' refers to NWB Plc and its subsidiary and associated undertakings. The term 'NWH Group' refers to NWH Ltd and its subsidiary and associated undertakings. NatWest Group plc (renamed from The Royal Bank of Scotland Group plc on 22 July 2020) is 'the ultimate holding company'. The term 'NatWest Group' refers to NatWest Group plc and its subsidiary and associated undertakings.

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

To aid readability, this document retains references to EU legislative and regulatory provisions in effect in the UK before 1 January 2021 that have now been implemented in UK domestic law. These references should be read and construed as including references to the applicable UK implementation measures with effect from 1 January 2021.

### Description of business

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

### Principal activities and operating segments

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

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.

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

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

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

### Business Developments

In December 2020, we acquired a £3.0 billion portfolio of prime UK mortgages from Metro Bank plc. Growing our mortgage book is an important strategic priority, as we build a bank that delivers sustainable returns for shareholders. The addition of this loan book will supplement the strong organic growth that we continue to achieve.

## Financial review

### Performance overview

The business performance of NWB Group in the year has been significantly impacted by the challenges and uncertainty the economy continues to face as a result of COVID-19. However, NWB Group has a robust capital position, underpinned by a resilient, capital generative and well diversified business. A strong balance sheet and prudent approach to risk means NWB Group is well placed not only to withstand COVID-19 related impacts but to provide the right support to customers in the tough times to come.

### Financial performance in a challenging environment

NWB Group attributable profit for the year was £536 million compared with £884 million in 2019, reflecting lower income and significantly higher impairment charges primarily due to the current COVID-19 crisis and resulting uncertain economic conditions, partly offset by a reduction in costs.

Total income decreased by £208 million compared with 2019 as the lower yield curve, mortgage margin dilution, subdued business activity and lower consumer spending due to government measures in response to COVID-19 were partially offset by strong balance growth.

Operating expenses decreased by £1,081 million compared with 2019 principally due to lower litigation and conduct costs, reducing the cost:income ratio from 79.3% to 69.1%.

Impairment losses increased by £1,597 million compared with 2019, primarily reflecting the deterioration of the economic outlook as a result of the COVID-19 pandemic driving Stage 2 charges.

### Robust balance sheet with strong capital levels

Total assets increased by £71.0 billion to £389.5 billion compared with £318.5 billion at 31 December 2019. This included net increases in loans to customers - amortised cost of £39.3 billion primarily driven by growth in retail mortgages and an increase in corporate lending due to drawdowns against UK Government lending initiatives in response to COVID-19 uncertainty.

Customer deposits increased by £51.5 billion as customers sought to retain liquidity in response to the uncertain economic environment together with increases of £35.5 billion in cash and balances at central banks and £12.5 billion in reverse repos as a result.

Common Equity Tier 1 (CET1) ratio increased to 17.8% from 15.9% due to a £2.6 billion increase in CET1 capital primarily driven by a reduction in the regulatory capital deductions for significant investments in other financial institutions of £0.4 billion, software development costs of £0.5 billion due to the implementation of CRR2 amended Article 36 and a £1.0 billion increase for IFRS 9 transitional arrangements on expected credit losses, which offsets the impact of the increased impairment losses charged to the attributable profit of £0.6 billion. RWAs increased by £5.8 billion to £86.9 billion primarily due to an increase in credit risk RWAs of £5.7 billion during 2020.

## Financial review

### Summary consolidated income statement for the year ended 31 December 2020

	Retail Banking £m	Commercial Banking £m	Private Banking £m	Central items & other £m	Year ended		Variance	
					31 December 2020 £m	31 December 2019 £m	£m	%
Net interest income	3,114	2,302	466	(72)	5,810	5,836	(26)	nm
Non-interest income	272	934	251	1,688	3,145	3,327	(182)	(5)
Total income	3,386	3,236	717	1,616	8,955	9,163	(208)	(2)
Operating expenses	(2,064)	(2,011)	(452)	(1,657)	(6,184)	(7,265)	1,081	(15)
Profit/(loss) before impairment losses	1,322	1,225	265	(41)	2,771	1,898	873	46
Impairment losses	(669)	(1,378)	(106)	(16)	(2,169)	(572)	(1,597)	279
Operating profit/(loss)	653	(153)	159	(57)	602	1,326	(724)	(55)
Tax charge					(66)	(442)	376	(85)
Profit for the year					536	884	(348)	(39)

#### Notable items within operating expenses

Strategic costs	728	907
PPI (release)/costs	(175)	603

#### Key metrics and ratios

	2020	2019
Cost:income ratio (%)	69.1%	79.3%
Loan impairment expected credit loss rate (bps)	78	24
CET1 ratio (%)	17.8	15.9
Leverage ratio (%)	4.7	5.0
Risk weighted assets (RWAs) (£bn)	86.9	81.1

NWB Group reported a profit of £536 million compared with £884 million in 2019, driven mainly by an increase in impairment losses of £1,597 million reflecting the deterioration of the economic outlook as a result of the COVID-19 pandemic, together with a decrease in total income of £208 million, partially offset by a reduction in operating expenses of £1,081 million.

**Total income** decreased by £208 million, or 2%, to £8,955 million compared with £9,163 million in 2019.

**Net interest income** decreased by £26 million to £5,810 million compared with £5,836 million in 2019, reflecting the lower yield curve and mortgage margin dilution, partially offset by a substantial increase in asset volumes as a result of mortgage lending growth and drawdowns against UK Government lending schemes.

**Non-interest income** decreased by £182 million to £3,145 million compared with £3,327 million in 2019. Net fees and commissions decreased by £339 million to £1,384 million due to regulatory changes, subdued business activity and lower customer spending resulting from government measures in response to COVID-19 in 2020. Other non-interest income increased by £157 million to £1,761 million compared with £1,604 million in 2019, as a result of a £208 million increase in recharges to other NatWest Group entities.

Other key drivers include:

- an increase in hedging-related income of £75 million;
- increased income from asset sales of £25 million;
- a decrease of £108 million in income related to the disposal of subsidiaries, branches and property; and
- a £25 million increase in fair value losses.

**Operating expenses** decreased by £1,081 million, or 15%, to £6,184 million, compared with £7,265 million in 2019, primarily due to PPI provision releases of £175 million in 2020, compared with a charge of £603 million in 2019, partly offset by other conduct provision charges in 2020. Other reductions reflect our continued transition from physical to digital, the optimisation of our property footprint and lower investment spend.

**Strategic costs** of £728 million include charges related to reductions in the property portfolio and restructuring costs incurred to achieve operating and cost efficiencies.

**Impairment losses** increased by £1,597 million, or 279%, to £2,169 million compared with £572 million in 2019, primarily reflecting the deterioration of the economic outlook as a result of the COVID-19 pandemic driving Stage 2 charges. The level of Stage 3 defaults remains low.

## Financial review

### Summary consolidated balance sheet as at 31 December 2020

	2020 £m	2019 £m	Variance £m	%
<b>Assets</b>				
Cash and balances at central banks	62,983	27,457	35,526	129
Derivatives	3,288	3,302	(14)	nm
Loans to banks - amortised cost	3,344	3,325	19	1
Loans to customers - amortised cost	271,581	232,313	39,268	17
Amounts due from holding companies and fellow subsidiaries	3,305	3,828	(523)	(14)
Other financial assets	37,995	40,948	(2,953)	(7)
Other assets	7,043	7,320	(277)	(4)
<b>Total assets</b>	<b>389,539</b>	<b>318,493</b>	<b>71,046</b>	<b>22</b>
<b>Liabilities</b>				
Bank deposits	14,871	15,505	(634)	(4)
Customer deposits	293,605	242,117	51,488	21
Amounts due to holding companies and fellow subsidiaries	37,559	21,447	16,112	75
Derivatives	6,552	4,898	1,654	34
Other financial liabilities	10,383	8,307	2,076	25
Subordinated liabilities	1,230	1,242	(12)	(1)
Notes in circulation	1,012	842	170	20
Other liabilities	4,435	4,463	(28)	(1)
<b>Total liabilities</b>	<b>369,647</b>	<b>298,821</b>	<b>70,826</b>	<b>24</b>
<b>Total equity</b>	<b>19,892</b>	<b>19,672</b>	<b>220</b>	<b>1</b>
<b>Total liabilities and equity</b>	<b>389,539</b>	<b>318,493</b>	<b>71,046</b>	<b>22</b>

**Total assets** increased by £71.0 billion to £389.5 billion at 31 December 2020, compared with £318.5 billion at 31 December 2019.

**Cash and balances at central banks** increased by £35.5 billion to £63.0 billion, compared with £27.5 billion at 31 December 2019, driven by increased deposits and a £14.0 billion liquidity switch from The Royal Bank of Scotland plc (RBS plc) to NWB Plc to maintain the operational buffer in the Bank of England account. The increases were partially offset by a net £5.0 billion reduction related to Term Funding Scheme (TFS) repayments and a Term Funding Scheme with additional incentives for SMEs (TFSME) drawdown in the year, and £2.0 billion decrease due to liquidity portfolio optimisation activity. The net impact of issuance activity was neutral, as £6.8 billion of new issuances was offset by £6.6 billion of covered bond maturities and debt redemptions.

**Loans to customers – amortised cost** increased by £39.3 billion to £271.6 billion, compared with £232.3 billion at 31 December 2019, reflecting £18.8 billion of strong gross new mortgage lending growth, partially offset by redemptions, and the purchase of a £3.0 billion mortgage portfolio from Metro Bank plc, £9.8 billion growth in corporate lending due to drawdowns against UK Government lending schemes in response to COVID-19 and £12.5 billion higher volume of reverse repos.

**Amounts due from holding companies and fellow subsidiaries** decreased by £0.5 billion to £3.3 billion, compared with £3.8 billion at 31 December 2019, reflecting a decrease of inter company balances with entities outside the ring-fenced bank.

**Other financial assets** decreased by £3.0 billion to £38.0 billion, primarily reflecting the net impact of sales, maturities and purchases of bonds which form part of the treasury liquidity portfolio.

**Other assets** decreased by £0.3 billion to £7.0 billion, reflecting decreased tangible assets due to the ongoing optimisation of the property portfolio.

**Bank deposits** decreased by £0.6 billion to £14.9 billion, driven by a net £5.0 billion repayment of the TFS / TFSME facilities, partially offset by an increase in repos of £4.1 billion and additional third party deposits of £0.3 billion.

**Customer deposits** increased by £51.5 billion to £293.6 billion, as customers sought to retain liquidity and reduced spending in response to COVID-19.

**Amounts due to holding companies and fellow subsidiaries** increased by £16.1 billion to £37.6 billion, compared with £21.4 billion at 31 December 2019, primarily due to a £14.0 billion cash transfer from RBS plc.

**Derivative liabilities** increased by £1.7 billion to £6.6 billion, compared with £4.9 billion at 31 December 2019, due to the valuation of derivative products used to hedge the liquidity portfolio, driven by floating rate decreases.

**Other financial liabilities** increased by £2.1 billion to £10.4 billion, compared with £8.3 billion at 31 December 2019, driven by £3.1 billion payable to Metro Bank plc for the acquisition of its mortgage book in December 2020 and £1.7 billion of commercial paper issuances, offset by a £2.9 billion decrease due to maturity of covered bonds.

**Total equity** increased by £0.2 billion to £19.9 billion, compared with £19.7 billion at 31 December 2019. The increase reflects attributable profit for 2020, partially offset by lower cash flow hedge reserves of £0.2 billion and lower merger reserves of £0.2 billion.

## Statement of directors' responsibilities

This statement should be read in conjunction with the responsibilities of the auditor set out in their report on pages 81 to 90 of the NatWest Bank Group 2020 Annual Report and Accounts.

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

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

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

The directors confirm that to the best of their knowledge:

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

By order of the Board

Howard Davies  
Chairman

Alison Rose-Slade  
Chief Executive Officer

Katie Murray  
Chief Financial Officer

18 February 2021

### Board of directors

#### Chairman

Howard Davies

#### Executive directors

Alison Rose-Slade  
Katie Murray

#### Non-executive directors

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

## Consolidated income statement for the year ended 31 December 2020

	2020 £m	2019 £m
Interest receivable	6,825	7,408
Interest payable	(1,015)	(1,572)
<b>Net interest income</b>	<b>5,810</b>	<b>5,836</b>
Fees and commissions receivable	1,685	2,208
Fees and commissions payable	(301)	(485)
Other operating income	1,761	1,604
<b>Non-interest income</b>	<b>3,145</b>	<b>3,327</b>
<b>Total income</b>	<b>8,955</b>	<b>9,163</b>
Staff costs	(2,823)	(2,859)
Premises and equipment	(1,044)	(1,078)
Other administrative expenses	(1,476)	(2,450)
Depreciation and amortisation	(832)	(834)
Impairment of other intangible assets	(9)	(44)
<b>Operating expenses</b>	<b>(6,184)</b>	<b>(7,265)</b>
<b>Profit before impairment losses</b>	<b>2,771</b>	<b>1,898</b>
Impairment losses	(2,169)	(572)
<b>Operating profit before tax</b>	<b>602</b>	<b>1,326</b>
Tax charge	(66)	(442)
<b>Profit for the year</b>	<b>536</b>	<b>884</b>
<b>Attributable to:</b>		
Ordinary shareholders	380	714
Paid-in equity holders	152	166
Non-controlling interests	4	4
	<b>536</b>	<b>884</b>

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

	2020 £m	2019 £m
<b>Profit for the year</b>	<b>536</b>	<b>884</b>
<b>Items that do not qualify for reclassification</b>		
Remeasurement of retirement benefit schemes	(76)	(127)
Tax	35	30
	<b>(41)</b>	<b>(97)</b>
<b>Items that do qualify for reclassification</b>		
FVOCI financial assets	47	(6)
Cash flow hedges	(218)	36
Currency translation	7	(85)
Tax	41	(3)
	<b>(123)</b>	<b>(58)</b>
<b>Other comprehensive loss after tax</b>	<b>(164)</b>	<b>(155)</b>
<b>Total comprehensive income for the year</b>	<b>372</b>	<b>729</b>
<b>Attributable to:</b>		
Ordinary shareholders	216	559
Paid-in equity holders	152	166
Non-controlling interests	4	4
	<b>372</b>	<b>729</b>

## Balance sheet as at 31 December 2020

	NWB Group		NWB Plc	
	2020 £m	2019 £m	2020 £m	2019 £m
<b>Assets</b>				
Cash and balances at central banks	62,983	27,457	62,878	26,377
Derivatives	3,288	3,302	3,438	3,404
Loans to banks - amortised cost	3,344	3,325	2,798	2,741
Loans to customers - amortised cost	271,581	232,313	238,366	198,504
Amounts due from holding companies and fellow subsidiaries	3,305	3,828	28,176	31,705
Securities subject to repurchase agreements	11,438	4,175	11,438	4,175
Other financial assets excluding securities subject to repurchase agreements	26,557	36,773	26,168	36,383
Other financial assets	37,995	40,948	37,606	40,558
Investment in group undertakings	—	—	2,374	2,394
Other assets	7,043	7,320	4,967	5,271
<b>Total assets</b>	<b>389,539</b>	<b>318,493</b>	<b>380,603</b>	<b>310,954</b>
<b>Liabilities</b>				
Bank deposits	14,871	15,505	14,866	15,487
Customer deposits	293,605	242,117	255,290	208,698
Amounts due to holding companies and fellow subsidiaries	37,559	21,447	69,617	51,019
Derivatives	6,552	4,898	6,769	5,013
Other financial liabilities	10,383	8,307	9,612	7,635
Subordinated liabilities	1,230	1,242	1,230	1,242
Notes in circulation	1,012	842	1,266	—
Other liabilities	4,435	4,463	3,489	3,834
<b>Total liabilities</b>	<b>369,647</b>	<b>298,821</b>	<b>362,139</b>	<b>292,928</b>
Owners' equity	19,882	19,666	18,464	18,026
Non-controlling interests	10	6	—	—
<b>Total equity</b>	<b>19,892</b>	<b>19,672</b>	<b>18,464</b>	<b>18,026</b>
<b>Total liabilities and equity</b>	<b>389,539</b>	<b>318,493</b>	<b>380,603</b>	<b>310,954</b>

Owners' equity of NWB Plc as at 31 December 2020 includes the profit for the year of £722 million (2019 - £724 million).



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

	NWB Group		NWB Plc	
	2020 £m	2019 £m	2020 £m	2019 £m
Called-up share capital - at 1 January and 31 December	1,678	1,678	1,678	1,678
Paid-in equity - at 1 January and 31 December	2,370	2,370	2,370	2,370
Share premium - at 1 January and 31 December	2,225	2,225	2,225	2,225
Merger reserve - at 1 January	167	412	(231)	(294)
Addition (1)	(34)	—	—	—
Amortisation	(124)	(245)	91	63
At 31 December	9	167	(140)	(231)
FVOCI reserve - at 1 January	250	250	251	249
Unrealised gains/(losses)	157	(22)	155	(20)
Realised (gains)/losses	(110)	16	(110)	16
Tax	(17)	6	(17)	6
At 31 December	280	250	279	251
Cash flow hedging reserve - at 1 January	27	—	27	—
Amount recognised in equity	(275)	36	(275)	36
Amount transferred from equity to earnings	57	—	57	—
Tax	58	(9)	58	(9)
At 31 December	(133)	27	(133)	27
Foreign exchange reserve - at 1 January	(70)	15	(14)	(13)
Retranslation of net assets	13	(30)	(2)	(16)
Foreign currency (losses)/gains on hedges of net assets	(5)	5	3	—
Recycled to profit or loss on disposal businesses	(1)	(60)	—	15
Tax	—	—	—	—
At 31 December	(63)	(70)	(13)	(14)
Capital redemption reserve - at 1 January and 31 December	796	796	796	796
Retained earnings - at 1 January	12,223	12,121	10,924	11,265
Implementation of IFRS 16 on 1 January 2019	—	(153)	—	(150)
Profit attributable to ordinary shareholders and other equity owners	532	880	722	724
Ordinary dividends paid	—	(700)	—	(700)
Paid-in equity dividends paid	(152)	(166)	(152)	(166)
Remeasurement of retirement benefit schemes				
- gross	(76)	(127)	(70)	(108)
- tax	35	30	35	29
Shares issued under employee share schemes	(11)	(6)	(11)	(6)
Share based payments	45	99	45	99
Amortisation of merger reserve	124	245	(91)	(63)
At 31 December	12,720	12,223	11,402	10,924
Owners' equity at 31 December	19,882	19,666	18,464	18,026
Non-controlling interests - at 1 January	6	7	—	—
Profit attributable to non-controlling interests	4	4	—	—
Dividends paid	—	(5)	—	—
At 31 December	10	6	—	—
Total equity at 31 December	19,892	19,672	18,464	18,026
Attributable to:				
Ordinary shareholders	17,512	17,296	16,094	15,656
Paid-in equity holders	2,370	2,370	2,370	2,370
Non-controlling interests	10	6	—	—
	19,892	19,672	18,464	18,026

Note:

(1) A new merger reserve of £34 million was created at NWB Group relating to the purchase of NWM SIPL from NWM Group.

## Cash flow statement for the year ended 31 December 2020

	NWB Group		NWB Plc	
	2020	2019	2020	2019
	£m	£m	£m	£m
<b>Cash flows from operating activities</b>				
Operating profit before tax	602	1,326	689	1,045
<b>Adjustments for:</b>				
Impairment losses	2,169	572	1,934	540
Amortisation of discounts and premiums of other financial assets	213	219	212	219
Depreciation, amortisation and impairment of other assets	841	935	650	737
Write-down of investment in group undertakings	—	—	50	87
Change in fair value taken to profit or loss of other financial assets	(1,436)	(807)	(1,436)	(807)
Change in fair value taken to profit or loss of other financial liabilities and subordinated liabilities	237	229	237	229
Elimination of foreign exchange differences	(758)	452	(749)	484
Other non-cash items	146	35	124	64
Interest receivable on other financial assets	(250)	(520)	(251)	(520)
(Profit)/loss on sale of other financial assets	(113)	16	(113)	16
Dividends receivable from group undertakings	—	—	(489)	(454)
(Profit)/loss on sale of subsidiaries and associates	(4)	—	—	—
Profit on sale of other assets and net assets/liabilities sold	(16)	(44)	(16)	(40)
Interest payable on MREs and subordinated liabilities	344	302	339	300
Charges and releases on provisions	189	899	183	854
Defined benefit pension schemes	168	161	136	121
<b>Net cash flows from trading activities</b>	<b>2,332</b>	<b>3,775</b>	<b>1,500</b>	<b>2,875</b>
Increase in derivative assets	(261)	(2,049)	(309)	(2,127)
(Increase)/decrease in net loans to banks	(401)	3,259	(391)	477
Increase in net loans to customers	(38,384)	(28,787)	(38,781)	(27,387)
Decrease in amounts due from holding companies and fellow subsidiaries	146	328	891	3,542
Decrease in other financial assets	20	138	20	220
(Increase)/decrease in other assets	(145)	74	(59)	(27)
Decrease in bank deposits	(634)	(2,058)	(621)	(1,941)
Increase in customer deposits	51,488	4,347	46,592	4,419
Increase/(decrease) in amounts due to holding companies and fellow subsidiaries	14,799	(2,547)	17,285	(1,390)
Increase in derivative liabilities	1,654	4,119	1,756	3,828
(Decrease)/increase in other financial liabilities	(1,051)	1,810	(1,150)	1,747
Increase in notes in circulation	170	21	1,266	—
Decrease in other liabilities	(672)	(685)	(862)	(603)
<b>Changes in operating assets and liabilities</b>	<b>26,729</b>	<b>(22,030)</b>	<b>25,637</b>	<b>(19,242)</b>
Income taxes received/(paid)	170	(221)	363	(136)
<b>Net cash flows from operating activities (1)</b>	<b>29,231</b>	<b>(18,476)</b>	<b>27,500</b>	<b>(16,503)</b>
<b>Cash flows from investing activities</b>				
Sale and maturity of other financial assets	12,091	13,158	11,702	12,768
Purchase of other financial assets	(7,816)	(12,405)	(7,428)	(12,016)
Income received on other financial assets	250	520	251	520
Net movement in business interests and intangible assets	(387)	(387)	(353)	(391)
Dividends received from group undertakings	—	—	489	454
Sale of property, plant and equipment	319	382	125	241
Purchase of property, plant and equipment	(344)	(497)	(176)	(231)
<b>Net cash flows from investing activities</b>	<b>4,113</b>	<b>771</b>	<b>4,610</b>	<b>1,345</b>
<b>Cash flows from financing activities</b>				
Movement in MREs	648	1,330	654	1,072
Movement in subordinated liabilities	321	(290)	321	(282)
Dividends paid	(152)	(871)	(152)	(866)
<b>Net cash flows from financing activities</b>	<b>817</b>	<b>169</b>	<b>823</b>	<b>(76)</b>
Effects of exchange rate changes on cash and cash equivalents	621	(646)	641	(638)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>34,782</b>	<b>(18,182)</b>	<b>33,574</b>	<b>(15,872)</b>
Cash and cash equivalents at 1 January	33,266	51,448	33,620	49,492
<b>Cash and cash equivalents at 31 December</b>	<b>68,048</b>	<b>33,266</b>	<b>67,194</b>	<b>33,620</b>

Note:

(1) NWB Group includes interest received of £6,736 million (2019 - £7,422 million) and interest paid of £1,092 million (2019 - £1,570 million), and NWB Plc includes interest received of £6,063 million (2019 - £6,711 million) and interest paid of £1,345 million (2019 - £1,760 million).

## Notes to the financial statements

### 1. Basis of preparation

The consolidated financial statements should be read in conjunction with NatWest Bank Plc 2020 Annual Report and Accounts which were prepared 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.

#### Going concern

Having reviewed NWB Plc's forecasts, projections, the potential impact of COVID-19, and other relevant evidence, the directors have a reasonable expectation that NWB Plc will continue in operational existence for the foreseeable future. Accordingly, the results for the period ended 31 December 2020 have been prepared on a going concern basis.

### 2. Accounting policies

NWB Plc's principal accounting policies are as set out on pages 95 to 99 of the NatWest Bank Plc 2020 Annual Report and Accounts and are unchanged other than as presented below.

#### Accounting 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. NWB 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. NWB 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 NWB 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, NWB Group has applied International Accounting Standards, which have been adopted for use within the UK. NWB 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.

#### Critical accounting policies and key sources of estimation uncertainty

The judgements and assumptions that are considered to be the most important to the portrayal of NWB Plc's financial condition are those relating to deferred tax, fair value of financial instruments, loan impairment provision and provisions for liabilities and charges. These critical accounting policies and judgements are described on page 99 of the NatWest Bank Plc 2020 Annual Report and Accounts. Estimation uncertainty has been affected by the COVID-19 pandemic during 2020. Management's consideration of this source of uncertainty is outlined in the relevant sections of NatWest Bank Plc 2020 Annual Report and Accounts, including the ECL estimate for the period in the Risk and capital management section.

#### Information used for significant estimates

The COVID-19 pandemic has continued to cause significant economic and social disruption during 2020. Key financial estimates are based on management's latest five-year revenue and cost forecasts. Measurement of deferred tax and expected credit losses are highly sensitive to reasonably possible changes in those anticipated conditions. Other reasonably possible assumptions about the future include a prolonged financial effect of the COVID-19 pandemic on the economy of the UK and other countries. Changes in judgements and assumptions could result in a material adjustment to those estimates in the next reporting periods. (refer to the Risk factors in the NatWest Bank Plc 2020 Annual Report and Accounts).

## Notes to the financial statements

### 3 Operating expenses

	2020 £m	2019 £m
Wages, salaries and other staff costs	2,110	2,069
Temporary and contract costs	213	334
Social security costs	236	217
Pension costs	264	239
- defined benefit schemes	168	155
- defined contribution schemes	96	84
Staff costs	2,823	2,859
Premises and equipment (1)	1,044	1,078
Depreciation and amortisation (2)	832	834
Other administrative expenses (3)	1,476	2,450
Administrative expenses (4)	3,352	4,362
Impairment of intangible assets	9	44
	6,184	7,265

Notes:

- (1) 2020 includes a 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) 2020 includes a £100 million charge relating to the reduction in property portfolio, leasehold £81 million and freehold £19 million (2019 - £275 million charge, leasehold £20 million and freehold £255 million).
- (3) Includes litigation and conduct costs. Further details are provided in Note 21 of the NatWest Bank Group 2020 Annual Report and Accounts..
- (4) In 2019 NWB Group became the provider of shared services to NatWest Group. Direct costs incurred are recovered through legal entity recharging and recorded in Other operating income. For periods prior to 2019 NWB Group was a net receiver of shared services from fellow NatWest Group companies.

### 4. Segmental analysis

#### 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.

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

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

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

	Retail Banking £m	Commercial Banking £m	Private Banking £m	Central items & other £m	Total £m
2020					
Net interest income	3,114	2,302	466	(72)	5,810
Net fees and commissions	300	854	235	(5)	1,384
Other operating income	(28)	80	16	1,693	1,761
Total income	3,386	3,236	717	1,616	8,955
Operating expenses	(2,064)	(1,862)	(444)	(982)	(5,352)
Depreciation and amortisation	—	(149)	(8)	(675)	(832)
Impairment losses	(669)	(1,378)	(106)	(16)	(2,169)
Operating profit/(loss)	653	(153)	159	(57)	602

2019					
Net interest income	3,343	2,166	511	(184)	5,836
Net fees and commissions	551	976	209	(13)	1,723
Other operating income	205	198	30	1,171	1,604
Total income	4,099	3,340	750	974	9,163
Operating expenses	(2,969)	(2,167)	(467)	(828)	(6,431)
Depreciation and amortisation	—	(142)	(4)	(688)	(834)
Impairment (losses)/releases	(329)	(247)	7	(3)	(572)
Operating profit/(loss)	801	784	286	(545)	1,326

# Notes to the financial statements

## 4 Segmental analysis continued

	2020			2019		
	External £m	Inter segment £m	Total £m	External £m	Inter segment £m	Total £m
<b>Total revenue (1)</b>						
Retail Banking	4,490	26	4,516	5,153	183	5,336
Commercial Banking	2,909	196	3,105	3,275	150	3,425
Private Banking	662	199	861	666	285	951
Central items & other	2,210	(421)	1,789	2,126	(618)	1,508
<b>Total</b>	<b>10,271</b>	<b>—</b>	<b>10,271</b>	<b>11,220</b>	<b>—</b>	<b>11,220</b>

Note:

(1) Total revenue comprises interest receivable, fees and commissions receivable and other operating income.

	2020			2019		
	External £m	Inter segment £m	Total £m	External £m	Inter segment £m	Total £m
<b>Total income</b>						
Retail Banking	3,374	12	3,386	3,937	162	4,099
Commercial Banking	3,185	51	3,236	3,590	(250)	3,340
Private Banking	613	104	717	551	199	750
Central items & other	1,783	(167)	1,616	1,085	(111)	974
<b>Total</b>	<b>8,955</b>	<b>—</b>	<b>8,955</b>	<b>9,163</b>	<b>—</b>	<b>9,163</b>

## Analysis of net fees and commissions

	Retail Banking £m	Commercial Banking £m	Private Banking £m	Central items & other £m	Total £m
<b>2020</b>					
<b>Fees and commissions receivable</b>					
- Payment services	209	390	26	—	625
- Credit and debit card fees	239	96	9	—	344
- Lending and financing	34	382	7	—	423
- Brokerage	41	—	6	—	47
- Investment management, trustee and fiduciary services (1)	3	—	205	—	208
- Other	1	82	26	(71)	38
<b>Total</b>	<b>527</b>	<b>950</b>	<b>279</b>	<b>(71)</b>	<b>1,685</b>
Fees and commissions payable	(227)	(96)	(44)	66	(301)
<b>Net fees and commissions</b>	<b>300</b>	<b>854</b>	<b>235</b>	<b>(5)</b>	<b>1,384</b>

<b>2019</b>					
<b>Fees and commissions receivable</b>					
- Payment services	231	498	31	—	760
- Credit and debit card fees	341	107	12	—	460
- Lending and financing	311	357	2	—	670
- Brokerage	42	—	5	—	47
- Investment management, trustee and fiduciary services	37	3	172	—	212
- Other	2	87	26	(56)	59
<b>Total</b>	<b>964</b>	<b>1,052</b>	<b>248</b>	<b>(56)</b>	<b>2,208</b>
Fees and commissions payable	(413)	(76)	(39)	43	(485)
<b>Net fees and commissions</b>	<b>551</b>	<b>976</b>	<b>209</b>	<b>(13)</b>	<b>1,723</b>

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	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Retail Banking	156,829	143,638	140,415	123,092
Commercial Banking	84,629	125,635	75,466	99,285
Private Banking	17,113	30,392	15,383	26,587
Central items & other	130,968	69,982	87,229	49,857
<b>Total</b>	<b>389,539</b>	<b>369,647</b>	<b>318,493</b>	<b>298,821</b>

## Notes to the financial statements

### 5 Tax

	2020 £m	2019 £m
<b>Current tax</b>		
Charge for the year	(190)	(457)
Over provision in respect of prior years	10	20
	(180)	(437)
<b>Deferred tax</b>		
Credit/(charge) for the year	122	(74)
Decrease in the carrying value of deferred tax assets in respect of UK losses	(7)	(2)
(Under)/over provision in respect of prior years	(1)	71
<b>Tax charge for the year</b>	<b>(66)</b>	<b>(442)</b>

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

	2020 £m	2019 £m
<b>Expected tax charge</b>	<b>(114)</b>	<b>(252)</b>
Foreign profits taxed at other rates	(3)	(5)
Items not allowed for tax:		
- losses on disposals and write-downs	(5)	(3)
- UK bank levy	(18)	(17)
- regulatory and legal actions	22	(133)
- other disallowable items	(39)	(46)
Non-taxable items	6	27
Decrease in the carrying value of deferred tax assets in respect of:		
- UK losses	(7)	(2)
Banking surcharge	(28)	(134)
Tax on paid in equity	29	32
UK tax rate change impact <sup>(1)</sup>	82	—
Adjustments in respect of prior years <sup>(2)</sup>	9	91
<b>Actual tax charge</b>	<b>(66)</b>	<b>(442)</b>

#### 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

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

## Notes to the financial statements

### 6 Loan impairment provisions

#### Loan exposure and impairment metrics

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

	NWB Group		NWB Plc	
	31 December 2020 £m	31 December 2019 £m	31 December 2020 £m	31 December 2019 £m
<b>Loans - amortised cost</b>				
Stage 1	217,575	215,111	192,484	184,611
Stage 2	57,864	19,392	49,473	15,783
Stage 3	3,254	2,835	2,438	2,266
Inter-Group (1)	2,685	3,389	27,092	30,754
<b>Total</b>	<b>281,378</b>	<b>240,727</b>	<b>271,487</b>	<b>233,414</b>
<b>ECL provisions (2)</b>				
Stage 1	365	223	305	190
Stage 2	2,060	518	1,808	452
Stage 3	1,285	1,281	1,093	1,091
Inter-Group	2	—	25	4
	<b>3,712</b>	<b>2,022</b>	<b>3,231</b>	<b>1,737</b>
<b>ECL provision coverage (3,4)</b>				
Stage 1 (%)	0.17	0.10	0.16	0.10
Stage 2 (%)	3.56	2.67	3.65	2.86
Stage 3 (%)	39.49	45.19	44.83	48.15
Inter-Group (%)	0.07	—	0.09	0.01
	<b>1.33</b>	<b>0.85</b>	<b>1.31</b>	<b>0.86</b>
<b>Impairment losses</b>				
ECL charge (5)				
Stage 1	(69)	(122)	(51)	(79)
Stage 2	1,839	305	1,638	291
Stage 3	397	389	327	329
Third party	2,167	572	1,914	541
Inter-Group	2	—	20	(1)
	<b>2,169</b>	<b>572</b>	<b>1,934</b>	<b>540</b>
ECL loss rate - annualised (basis points)(4)	<b>78</b>	<b>24</b>	<b>78</b>	<b>27</b>
Amounts written-off	<b>517</b>	<b>404</b>	<b>487</b>	<b>364</b>

Notes:

- (1) NWB Group's intercompany assets are classified in Stage 1.
- (2) Includes £5 million (2019 – £2 million) related to assets classified as FVOCI.
- (3) ECL provisions coverage is calculated as ECL provisions divided by loans - amortised cost and FVOCI.
- (4) 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.
- (5) Includes a £9 million charge (2019 – £28 million charge) related to other financial assets, of which a £2 million charge (2019 – £1 million charge) related to assets classified as FVOCI; and a £13 million charge (2019 – £27 million) related to contingent liabilities.
- (6) The table shows gross loans only and excludes amounts that are outside the scope of the ECL framework. Refer to page 31 of the NatWest Bank Plc 2020 Annual Report and Accounts for Financial Instruments within the scope of the IFRS 9 ECL framework for further details. Other financial assets within the scope of the IFRS 9 ECL framework were cash and balances at central banks totaling £62.0 billion (2019 – £26.8 billion) and debt securities of £37.1 billion (2019 – £40.2 billion).

### 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 14 sets out how the expected loss approach is applied. At 31 December 2020, customer loan impairment provisions amounted to £3,712 million (2019 - £2,022 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 of the NatWest Bank Plc 2020 Annual Report and Accounts.



## Notes to the financial statements

### 6 Loan impairment provisions continued

#### IFRS 9 ECL model design principles

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

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

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

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

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

#### Approach for multiple economic scenarios (MES)

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

#### Portfolio summary – segment analysis

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

	Retail Banking £m	Commercial Banking £m	Private Banking £m	Central items & other £m	Total £m
<b>2020</b>					
<b>Loans - amortised cost and FVOCI</b>					
Stage 1	124,894	52,291	14,682	25,708	217,575
Stage 2	27,860	28,014	1,880	110	57,864
Stage 3	1,336	1,633	285	—	3,254
Inter-Group (1)				2,685	2,685
	<b>154,090</b>	<b>81,938</b>	<b>16,847</b>	<b>28,503</b>	<b>281,378</b>
<b>ECL provisions (2)</b>					
Stage 1	111	214	30	10	365
Stage 2	731	1,247	67	15	2,060
Stage 3	596	652	37	—	1,285
Inter-Group				2	2
	<b>1,438</b>	<b>2,113</b>	<b>134</b>	<b>27</b>	<b>3,712</b>
<b>ECL provisions coverage (3,4)</b>					
Stage 1 (%)	0.09	0.41	0.20	0.04	0.17
Stage 2 (%)	2.62	4.45	3.56	13.64	3.56
Stage 3 (%)	44.61	39.93	12.98	—	39.49
Inter-Group (%)				0.07	0.07
	<b>0.93</b>	<b>2.58</b>	<b>0.80</b>	<b>0.10</b>	<b>1.33</b>
<b>Impairment losses</b>					
ECL charge (5)					
Stage 1	(28)	(75)	25	9	(69)
Stage 2	526	1,242	60	11	1,839
Stage 3	169	211	15	2	397
Third party (7)	667	1,378	100	22	2,167
Inter-Group				2	2
	<b>667</b>	<b>1,378</b>	<b>100</b>	<b>24</b>	<b>2,169</b>
<b>ECL loss rate - annualised (basis points) (4)</b>	<b>43</b>	<b>168</b>	<b>59</b>	<b>9</b>	<b>78</b>
Amounts written-off	282	231	4	—	517

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



# Notes to the financial statements

## 6 Loan impairment provisions continued

2019	Retail Banking £m	Commercial Banking £m	Private Banking £m	Central items & other £m	Total £m
<b>Loans - amortised cost and FVOCI</b>					
Stage 1	125,591	61,438	14,292	13,790	215,111
Stage 2	10,236	8,602	551	3	19,392
Stage 3	1,295	1,360	180	—	2,835
Inter-Group (1)				3,389	3,389
	137,122	71,400	15,023	17,182	240,727
<b>ECL provisions (2)</b>					
Stage 1	95	116	7	5	223
Stage 2	363	149	6	—	518
Stage 3	597	658	26	—	1,281
	1,055	923	39	5	2,022
<b>ECL provisions coverage (3,4)</b>					
Stage 1 (%)	0.08	0.19	0.05	0.04	0.10
Stage 2 (%)	3.55	1.73	1.09	—	2.67
Stage 3 (%)	46.10	48.38	14.44	—	45.19
	0.77	1.29	0.26	0.04	0.85
<b>Impairment losses</b>					
<b>ECL charge (5)</b>					
Stage 1	(66)	(42)	(14)	—	(122)
Stage 2	210	90	4	1	305
Stage 3	185	199	3	2	389
Third party	329	247	(7)	3	572
<b>ECL loss rate - annualised (basis points) (4)</b>					
Amounts written-off	24	35	(5)	2	24
	172	231	1	—	404

Notes:

- (1) NWB Group's intercompany assets are classified in Stage 1.
- (2) Includes £5 million (2019 – £2 million) related to assets classified as FVOCI.
- (3) ECL provisions coverage is calculated as ECL provisions divided by loans - amortised cost and FVOCI.
- (4) 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.
- (5) Includes a £9 million charge (2019 – £28 million charge) related to other financial assets, of which a £2 million charge (2018 – £1 million charge) related to assets classified as FVOCI; and a £13 million charge (2019 – £27 million) related to contingent liabilities.
- (6) The table shows gross loans only and excludes amounts that are outside the scope of the ECL framework. Refer to the Financial Instruments within the scope of the IFRS 9 ECL framework section of the NatWest Bank Plc 2020 Annual Report and Accounts for further details. Other financial assets within the scope of the IFRS 9 ECL framework were cash and balances at central banks totaling £62.0 billion (2019 – £26.8 billion) and debt securities of £37.1 billion (2019 – £40.2 billion).
- (7) Intercompany impairment charges are shown in Central items & other. In Note 4 Segmental analysis of NatWest Bank Plc 2020 Annual Report and Accounts, they are shown in the segments where the charges are booked.

## 7 Provisions for liabilities and charges

	NWB Group			
	Payment protection insurance (1) £m	Other customer redress £m	Litigation and other (2) £m	Total £m
<b>Provisions for liabilities and charges</b>				
At 1 January	732	124	509	1,365
Expected credit losses impairment charge	—	—	46	46
Currency translation and other movements	2	—	13	15
Charge to income statement	1	233	278	512
Releases to income statement	(177)	(22)	(124)	(323)
Provisions utilised	(361)	(91)	(220)	(672)
At 31 December	197	244	502	943

  

	NWB Plc			
	Payment protection insurance (1) £m	Other customer redress £m	Other (2) £m	Total £m
<b>Provisions for liabilities and charges</b>				
At 1 January	730	111	426	1,267
Expected credit losses impairment charge	—	—	38	38
Currency translation and other movements	—	1	19	20
Charge to income statement	—	220	237	457
Releases to income statement	(177)	(16)	(81)	(274)
Provisions utilised	(357)	(80)	(203)	(640)
At 31 December	196	236	436	868

Notes:

- (1) Balances at 31 December 2020 include provisions held in relation to offers made in 2019 and earlier years of £66 million.
- (2) Materially comprises provisions relating to property closures and restructuring costs.

## Notes to the financial statements

### 7 Provisions for liabilities and charges continued 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 NWB Group can look to another party such as an insurer to pay some or all of the expenditure required to settle a provision, any reimbursement is recognised when, and only when, it is virtually certain that it will be received.

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

- **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. NWB 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:** NWB 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 27 of the NatWest Bank Plc 2020 Annual Report and Accounts.
- **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 on all material provisions is given in Note 27 of the NatWest Bank Group 2020 Annual Report and Accounts.

### 8 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 NWB Group is exposed to credit risk in the event of non-performance of the obligations undertaken by customers, the amounts shown do not, and are not intended to, provide any indication of NWB Group's expectation of future losses.

	NWB Group		NWB Plc	
	2020 £m	2019 £m	2020 £m	2019 £m
<b>Contingent liabilities and commitments</b>				
Guarantees	762	1,015	674	920
Other contingent liabilities	1,404	1,368	1,361	1,327
Standby facilities, credit lines and other commitments	75,625	72,592	69,372	66,799
	<b>77,791</b>	<b>74,975</b>	<b>71,407</b>	<b>69,046</b>

Note:

- (1) In the normal course of business, NWB Plc guarantees specified third party liabilities of certain subsidiaries; it also gives undertakings that individual subsidiaries will fulfil their obligations to third parties under contractual or other arrangements.

### Trustee and other fiduciary activities

In its capacity as trustee or other fiduciary role, NWB Group may hold or place assets on behalf of individuals, trusts, companies, pension schemes and others. The assets and their income are not included in NWB Group's financial statements. NWB Group earned fee income of £185 million (2019 - £187 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.

## Notes to the financial statements

### 8 Memorandum items continued Litigation and regulatory matters

NWB Plc and its subsidiary and associated undertakings ('NWB 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.

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

In many 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 NWB Group's reputation, businesses and operations. Numerous legal and factual issues may need to be resolved, including through potentially lengthy discovery and document production exercises and determination of important factual matters, and by addressing novel or unsettled legal questions relevant to the proceedings in question, before a liability can reasonably be estimated for any claim. NWB Group cannot predict if, how, or when such claims will be resolved or what the eventual settlement, damages, fine, penalty or other relief, if any, may be, particularly for claims that are at an early stage in their development or where claimants seek substantial or indeterminate damages.

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

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

For a discussion of certain risks associated with NWB Group's litigation 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 173 of the NatWest Bank Group 2020 Annual Report and Accounts.

#### Litigation

##### London Interbank Offered Rate (LIBOR) and other rates litigation

In January 2019, a class action antitrust complaint was filed in the United States District Court for the Southern District of New York alleging that the defendants (USD ICE LIBOR panel banks and affiliates) have conspired to suppress USD ICE LIBOR from 2014 to the present by submitting incorrect information to ICE about their borrowing costs. The NatWest Group defendants are NatWest Group plc, NatWest Markets Plc, NatWest Markets Securities Inc., 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, NatWest Markets Plc, NatWest Markets Securities Inc., 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.

#### 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.

## Notes to the financial statements

### 8 Memorandum items continued

#### Litigation and regulatory matters

##### Regulatory matters (including investigations and customer redress programmes)

NWB Group's financial condition can be affected by the actions of various governmental and regulatory authorities in the UK, the US, the EU and elsewhere. NWB Group and/or NatWest Group have engaged, and will continue to engage, in discussions with relevant governmental and regulatory authorities, including in the UK, the US, the EU and elsewhere, on an ongoing and regular basis, and in response to informal and formal inquiries or investigations, regarding operational, systems and control evaluations and issues including those related to compliance with applicable laws and regulations, including consumer protection, investment advice, business conduct, competition/anti-trust, VAT recovery, anti-bribery, anti-money laundering and sanctions regimes. Any matters discussed or identified during such discussions and inquiries may result in, among other things, further inquiry or investigation, other action being taken by governmental and regulatory authorities, increased costs being incurred by NWB Group, remediation of systems and controls, public or private censure, restriction of NWB Group's business activities and/or fines. Any of the events or circumstances mentioned in this paragraph or below could have a material adverse effect on NWB Group, its business, authorisations and licences, reputation, results of operations or the price of securities issued by it, or lead to material additional provisions being taken.

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

#### Investigations

##### 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.

#### 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.

NWB Group's remaining provisions in relation to these matters at 31 December 2020 were £14 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.

## Notes to the financial statements

### 9 Related parties

The table below discloses transactions between NWB Group and subsidiaries of RBS Group.

	2020 £m	2019 £m
Interest receivable	2	45
Interest payable	(272)	(414)
Fees and commissions receivable	—	1
Fees and commissions payable	(2)	(2)
Other administrative expenses	12	1
	(260)	(369)

### UK Government

The UK Government through HM Treasury is the ultimate controlling party of 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 NatWest Group's ordinary shares was 61.9%.

NWB 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; together with banking transactions such as loans and deposits undertaken in the normal course of banker-customer relationships.

### Bank of England facilities

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

Members of NWB Group that are UK authorised institutions are required to maintain non-interest bearing (cash ratio) deposits with the Bank of England amounting to 0.368% 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.

NWB Plc guarantees certain liabilities of NWH Group to the Bank of England.

### Other related parties

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

### 10 Date of approval

The annual results for the year ended 31 December 2020 were approved by the board of directors on 18 February 2020

### 11 Post balance sheet events

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

## Forward-looking statements

### Cautionary statement regarding forward-looking statements

This document contains forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995, such as statements that include, without limitation, 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. These statements concern or may affect future matters, such as NWB Group's future economic results, business plans and current strategies. In particular, this document may include forward-looking statements relating to NWB Group in respect of, but not limited to: the impact of the COVID-19 pandemic, its regulatory capital position and related requirements, its financial position, profitability and financial performance (including financial, capital, cost savings and operational targets), the implementation of NatWest Group's Purpose-led strategy, NWB Group's ESG and climate-related targets, its access to adequate sources of liquidity and funding, increasing competition from new incumbents and disruptive technologies, its exposure to third party risks, its ongoing compliance with the UK ring-fencing regime and ensuring operational continuity in resolution, its impairment losses and credit exposures under certain specified scenarios, substantial regulation and oversight, ongoing legal, regulatory and governmental actions and investigations, the transition of LIBOR and IBOR rates to alternative risk free rates and NWB Group's exposure to economic and political risks (including with respect to terms surrounding Brexit and climate change), operational risk, conduct risk, cyber and IT risk, key person risk and credit rating risk. Forward-looking statements are subject to a number of risks and uncertainties that might cause actual results and performance to differ materially from any expected future results or performance expressed or implied by the forward-looking statements. Factors that could cause or contribute to differences in current expectations include, but are not limited to, the impact of the COVID-19 pandemic, the outcome of legal, regulatory and governmental actions and investigations, legislative, political, fiscal and regulatory developments, accounting standards, competitive conditions, technological developments, interest and exchange rate fluctuations and general economic and political conditions and the impact of climate-related risks and the transitioning to a low carbon economy. These and other factors, risks and uncertainties that may impact any forward-looking statement or the NWB Group's actual results are discussed in the NWB Plc's UK 2020 Annual Report and Accounts (ARA). The forward-looking statements contained in this document speak only as of the date of this document and NWB Plc does not assume or undertake any obligation or responsibility to update any of the forward-looking statements contained in this document, whether as a result of new information, future events or otherwise, except to the extent legally required.

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