Company Registered Number: 25766

ULSTER BANK IRELAND DESIGNATED ACTIVITY COMPANY

ANNUAL REPORT AND ACCOUNTS

31 December 2020

Contents

Board of directors and secretary

Chairman
Martin Murphy

Executive directors
Jane Howard
Chief Executive Officer

Paul Stanley
Chief Financial Officer and Deputy CEO

Independent non-executive directors
Dermot Browne
Rosemary Quinlan
Gervaise Slowey

Board changes in 2020
Helen Grimshaw (non-executive director) resigned on 15 January 2020
Des O'Shea (Chairman) resigned on 31 July 2020
Ruairí O'Flynn (Chairman) appointed on 16 September 2020 - resigned on 9 November 2020
William Holmes (non-executive director) resigned on 30 September 2020
Martin Murphy appointed as chairman on 12 November 2020

Company Secretary
Andrew Nicholson resigned on 14 August 2020
Colin Kelly appointed on 14 August 2020

Auditors
Ernst & Young
Chartered Accountants and Statutory Auditor
Ernst & Young Building
Harcourt Centre
Harcourt Street
Dublin 2
D02 YA40

Registered office and Head office
Ulster Bank Group Centre
George's Quay
Dublin 2
D02 VR98

Ulster Bank Ireland Designated Activity Company
Registered in Republic of Ireland No. 25766

Presentation of information

Ulster Bank Ireland Designated Activity Company ('UBIDAC' or the 'Bank') is a wholly-owned subsidiary of NatWest Holdings Limited ('NatWest Holdings'). The ultimate holding company is NatWest Group plc ('NWG' or the 'ultimate holding company'). The 'Group' or 'UBIDAC Group' comprises UBIDAC and its subsidiary and associated undertakings. 'NatWest Group' comprises the ultimate holding company and its subsidiary and associated undertakings.

The Bank publishes its financial statements in euros ('€' or 'Euro'). The abbreviation '€bn' represents billions of euros, the abbreviation '€m' represents millions of euros and the abbreviation '€k' represents thousands of euros. The abbreviation '£' represents 'pounds sterling'.

The directors of UBIDAC present their report, together with audited financial statements of the Group for the financial year ended 31 December 2020. The financial statements are prepared in accordance with International Financial Reporting Standards ('IFRS'), as adopted by the European Union (EU).

Principal activities

The Bank, operating under the Ulster Bank and Lombard brands, provides a comprehensive range of financial services through its Personal Banking and Commercial Banking divisions. Personal Banking provides loan and deposit products and other services through the Group's network of branches and direct channels, including mobile, internet and telephony. Commercial Banking provides services to business and corporate customers, including small and medium enterprises (SME). The Bank is regulated by the Central Bank of Ireland (CBI) and the Joint Supervisory Team (JST) as part of the EU Single Supervisory Mechanism (SSM).

Business review

NatWest Group has announced its intention to begin a phased withdrawal from the Republic of Ireland (ROI) after undertaking a strategic review of the Group's business in ROI and concluding that Ulster Bank's business in ROI will not be in a position to achieve an acceptable level of sustainable returns over its planning horizon.

NatWest Group plc and the Bank have entered into a non-binding Memorandum of Understanding ('MOU') with AIB Group plc for the sale of c. €4 billion of the Group's performing commercial loan book.

NatWest Group plc is also in very early discussions with Permanent TSB Group Holdings p.l.c., among other strategic banking counterparties, about their potential interest in buying certain retail and micro-SME assets, liabilities and operations. These discussions may or may not result in agreement. The preference is to focus discussions with counterparties who can provide customers with full banking services in the Irish market.

The phased withdrawal strategy from ROI will be overseen by the Group's Board while maintaining a strong culture throughout, supporting all the Group's customers and colleagues and ensuring engagement with all stakeholders.

The consequences of the phased withdrawal strategy for the Group's Personal Banking and Commercial Banking businesses remain materially uncertain. The Group will continue to operate and write new Commercial Banking and Personal Banking business following the non-binding MOU announced.

During the year the Group was, in common with the wider Irish economy, significantly impacted by the circumstances arising as a result of COVID-19. The outbreak of the virus and implementation of associated containment measures resulted in a sudden and severe economic impact.

The Group reacted quickly to support its customers and colleagues and has continued to adapt to the unprecedented challenges, ensuring it remains a safe and sustainable bank.

This support for customers has included providing almost 18,000 payment breaks, waiving early closure charges on fixed savings accounts, providing additional liquidity and fee free facilities to business customers, launching a dedicated phoneline and branch opening hours for frontline workers and vulnerable customers, creating a companion card for vulnerable customers and their trusted carers and introducing a €500 million Working Capital support fund for SMEs across Ireland.

The focus on colleague wellbeing became even more critical in 2020. Over 2,000 colleagues began to work from home on a full-time basis, whilst the Bank's cash centre and branch staff continued to serve customers under extremely challenging circumstances. The Group provided support to colleagues in a variety of ways, including access to mental health and financial wellbeing resources, ensuring colleagues could continue to safely and securely serve customers.

The Group recognises the urgent need to address the threat of climate change and the vital role it plays as an organisation in shaping the future of the communities in which we live. In September the Bank launched its "Sustainability Hub", providing information on its commitments under the Group's **Climate Strategy**, as part of its ambition to become a leading bank in addressing climate change.

The Group continues to assess the potential impact of Brexit on business activity and loan performance, following the implementation of the EU-UK Trade and Cooperation Agreement ('TCA') on 1 January 2021. Operational readiness was delivered under the Bank's Brexit programme and we continue to focus on actively supporting our customers in the post transition arrangements.

The customer remediation of legacy issues including the tracker mortgage examination is largely complete, with outstanding activity on track to be brought to a conclusion for our customers. The Group continued to make good progress in delivering on the European Central Bank (ECB) requirement for banks to reduce their non-performing loan ratios. The non-performing loan ratio reduced from 9.7% at 31 December 2019 to 5.7% at 31 December 2020. This reduction was due to both the sale of non-performing loans and helping customers move to sustainable repayment solutions.

Personal Banking generated new mortgage lending of €1 billion in the financial year, in unprecedented economic conditions and market uncertainty. A key component of this success, given the impact of COVID-19, was the end-to-end digital journey available via the Home Buying Platform, enabling mortgage applicants to complete their application from the comfort and safety of their own home.

In November, the Group further enhanced the portal's functionality with the integration of HooYu. This customer verification technology enables applicants to have their identities verified in as little as 15 minutes, reducing the overall customer journey by up to five days.

In October, as part of its **Climate Strategy**, the Group launched its new "Green Mortgage. The mortgage is aimed at customers buying a home with a B2 (or higher) Building Energy Rating, offering them a discount on the Bank's standard four-year fixed rate.

The Bank also launched its new Home Saver regular savings account, helping customers on their journey to home ownership. Customers can earn interest on up to €2,500 of savings per month up to a maximum of €100,000, with first time buyers who hold a Home Saver account and draw down an Ulster Bank mortgage eligible to receive bonus interest of up to €2,000.

In August the Bank launched its "Banking My Way" service, an initiative established as a core part of the Group's commitment to championing diversity and inclusion. The service aims to better support the Bank's more vulnerable customers by allowing them to disclose any challenges they face, for example, a disability, bereavement, addiction or illness. The customer can share as much or as little information as they like and will be prompted to review this annually, ensuring the Bank can continue to support them in the best way possible.

The Group continued on its journey to becoming a digital-first bank and in a number of areas accelerated the expansion of its digital capabilities in 2020 in response to the significant increase in customer demand for digital services in light of the impact of COVID-19. This included the launch of the Video Banking service, a secure and convenient means for customers to access personal banking support, from help with personal loan and mortgage applications to a Financial Health Check. The service utilises the latest technology whilst also enabling visual connectivity with the Bank's staff, something that remains valuable to many customers.

During 2020, over 73% of the Bank's personal current account customers were digitally active, with over 54% of customers now using the mobile app. A number of new features were introduced to the mobile app during the financial year including the 'Spending' analytics interface. This feature is available to all current account customers, providing them with an insight into their spending habits, with the option for the user to set monthly budget goals for each category against which they can track their spending. Cora, the Bank's AI Digital Assistant, was also introduced to the app, providing customers with support in over 130 categories and 68% of queries answered at the first point of contact.

The Bank is committed to keeping customers' finances secure and protecting them from falling victim to fraud remains a top priority. The Bank met a significant increase in online transactions in 2020 as a result of COVID-19 with new strategic approaches to fraud awareness and prevention. The Bank's fraud prevention strategy, typically delivered to customers and the wider community by frontline staff, including community bankers and the Bank's Community Protection Advisor, was impacted by COVID-19. However, the strategy was enhanced through several fraud awareness radio campaigns, live events hosted on the Bank's social media channels, dedicated webpages and provision of free malware protection to eligible customers.

Commercial Banking supported new and existing customers with their investment plans and working capital requirements throughout 2020, lending €1 billion despite significantly reduced economic activity and market uncertainty impacting the demand for credit. Support for the Bank's key Corporate sectors continued with new lending generated in the Food and Drink, Healthcare and Renewable Energy sectors.

In addition to the €500 million Working Capital support fund made available to SMEs, the Bank responded to support businesses impacted by COVID-19 by providing over 750 temporary overdraft facilities, as well as waiving fees on both arranged and unarranged overdrafts. The Bank also partnered with the Strategic Banking Corporation of Ireland ('SBCI') to deliver a range of loan and working capital schemes available under COVID-19 support measures. Working with the SBCI, the Bank hosted a series of virtual information sessions, tailored to its SME and Agri customers, illustrating their key features and provided €60 million in lending under these schemes in 2020.

In October the Bank launched, 'U-Connect', its new digital lending platform available to existing Commercial customers applying for loans and overdraft facilities of up to €50,000 in aggregate. The platform provides customers with an end-to-end paperless journey, including pricing, product selection, real-time credit decisions, automated facility documentation and e-signing, with funds released to the customer within 48 hours of the application being approved.

The Bank continued with its comprehensive outreach programme throughout 2020, helping customers as they dealt with the challenges of Brexit on their businesses. The Bank worked with industry partners and stakeholders to host seminars and provided practical product support to its customers. As the post-Brexit environment continues to unfold, the Group has established plans to ensure its customers have access to appropriate product and relationship support.

The Board continues to focus on improving culture which it has defined as "*the way we do things – consistently living our values to act in the best interests of our customers, colleagues and stakeholders*." The Group is a founding member of the Irish Banking Culture Board, an independent body which has been established to rebuild trust and embed a customer-focused culture across the banking sector.

The Group's expected behaviours and mindsets guide our decisions and actions through living our core values of 'serving customers', 'working together', 'doing the right thing' and 'thinking long term'. Our Code sets out what we expect of each other, and what our customers and communities expect of us. The 'Yes Check' tool is part of Our Code and guides our decision-making and actions. Our Critical People Capabilities underpin the recruitment, selection and development of our colleagues, ensuring we have the right knowledge, skills and behaviours to help the bank to be successful now and in the future. We are focused on becoming a more diverse and inclusive organisation, to reflect the communities in which we operate and the needs of all our people and our customers.

The Group's risk, compliance and control frameworks, together with enhanced corporate governance processes, form essential building blocks in improving culture.

During 2020, the Group demonstrated its commitment to championing potential and building colleague capability through **learning**. A suite of new "Data & Digital" learning modules were released for all staff to complete in 2020. The modules focused on expanding colleague capability around these key concepts and equipping more colleagues with the skills to help customers use the Bank's digital services simply, securely and in ways that work best for them. 'StartUp', the Group's "intrapreneurship" programme, run as part of the ongoing partnership with Dogpatch Labs, went virtual in 2020. The twelve week incubator programme focuses on harnessing the creativity of the Group's colleagues and helps them develop ideas into purposeful, customer-focused propositions.

The Group continued with its strong **corporate social responsibility** agenda and in 2020 was, for the fourth time, certified with the Business Working Responsibly Mark by Business in the Community. This is the highest level of sustainability accreditation in Ireland, recognising the Group's efforts across areas such as community engagement, responsible workplace practices and protection of the environment.

Despite unprecedented circumstances, the 'Do Good, Feel Good' initiative returned for the month of June. Given the restrictions under COVID-19, there was a broader focus to the initiative in 2020, with staff encouraged to champion their communities across the country and get involved in ways that suited each individual's personal circumstances, whether through raising funds or giving of their time.

Over €62k was raised as part of 'Do Good, Feel Good' and other fundraising activities in 2020, supporting 20 charities across Ireland. The Bank also joined the Team Hope charity's Christmas Shoebox Appeal, with staff encouraged to donate a gift-filled shoebox online to be delivered to children affected by poverty in Africa and Eastern Europe.

MoneySense, the Bank's financial education programme for primary and secondary level students, was adapted to ensure it could continue to be delivered in 2020. A series of eight workshops were made available in digital format to participating organisations, with the content enabling classes to complete workshop activities and group discussions.

MoneySense also launched a new workshop focused on helping to address the climate challenge. 'Save our money, save our planet' for 8-12 year-olds explores the topic from a money-saving angle, with pupils tasked to think about everyday activities that use a lot of energy, the role they play in climate change and how to reduce energy costs for a household.

Financial performance in a challenging environment

The Group's financial performance is presented in the consolidated income statement on page 22.

The Group reported an operating loss before tax for the financial year of €267 million (2019 - €84 million profit).

Net interest income

Net interest income decreased by 2% to €450 million in 2020 primarily reflecting lower interest income on lending driven by a reduction in volumes due to the impacts of COVID-19 and an increase in interest payable on MREL-eligible bail-in debt issued in December 2019 (see page 91). This was partially offset by an increase in interest income recognised on effective hedges, a decrease in interest payable on customer deposits, interest receivable on Targeted Longer-Term Refinancing Operations deposits and the introduction of negative interest rates on certain commercial deposits.

Non-interest income

Non-interest income decreased from €184 million in 2019 to €126 million, primarily due to a decrease in income on ineffective hedges and a reduction in net fee income due primarily to the impacts of COVID-19 on transaction volumes.

Operating expenses

Operating expenses decreased by 6% to €562 million in 2020 reflecting a decrease in staff costs linked to a reduction in the overall headcount and lower restructuring costs, and a decrease in property related charges. This was partially offset by an increase in the cost of services provided from other NatWest Group entities, including investment in technology, and a one-off gain in 2019 relating to the defined benefit pension scheme.

Impairment loss

The impairment loss of €281 million (2019 - €38 million release) primarily reflects increased credit risk due to the uncertain economic environment created by the COVID-19 pandemic. The unprecedented level of institutional and government support as a result of the pandemic limited the number of Stage 3 defaults in 2020.

Tax

The Group incurred a tax charge in 2020 of €164 million (2019 - €80 million) mainly driven by the impairment of the deferred tax asset on losses based on a revised economic outlook. The 2019 tax charge similarly related to an impairment of the deferred tax asset on losses.

Return on assets

At the financial year end the total assets of the Group were €31,205 million (2019 - €30,646 million). Return on total assets for 2020 was (1.4)% (2019 – 0.0%).

Capital ratios

The Group's capital position remained strong during 2020, as evidenced by the CET1 ratio of 28.1% at 31 December 2020 (2019 - 26.5%). Total risk weighted assets (RWAs) decreased from €15.0 billion in 2019 to €14.1 billion at the balance sheet date.

Share capital presented as equity

Details of share capital presented as equity can be found in Note 20 to the accounts.

Principal risks and uncertainties

Going concern uncertainties

As disclosed in Note 1 to the accounts and the Going Concern section of the Report of the directors there are material uncertainties relating to the Group's ability to continue as a going concern. The most important of these uncertainties are summarised below.

Risks and uncertainties arising from NatWest Group's withdrawal from the Republic of Ireland

NatWest Group has announced its intention to begin a phased withdrawal from the Republic of Ireland (ROI) after undertaking a strategic review of the Group's business in ROI and concluding that Ulster Bank's business in ROI will not be in a position to achieve an acceptable level of sustainable returns over its planning horizon. NatWest Group's withdrawal from ROI is expected to take a number of years and may expose the Group's business to many risks and uncertainties that may have a material adverse effect on the Group's operating results, financial condition, outlook, prospects and ability to comply with its regulatory capital requirements. These risks and uncertainties may be accentuated by adverse colleague and customer reaction and press speculation about the Group's future. The Group's Board will review and consider these risks and uncertainties in seeking to achieve appropriate implementation of this phased withdrawal strategy.

Risks relating to potential transfers of the Group's business, assets and liabilities

As mentioned in Note 32 to the accounts NatWest Group plc recently informed the Group's Board that, as a result of a strategic review, it is seeking a phased withdrawal from the Republic of Ireland (ROI) market. NatWest Group plc and the Bank have agreed a memorandum of understanding ('MOU') for the proposed sale of c. €4 billion of the Group's performing commercial loan book to AIB Group plc (the 'Proposed Sale'). The MOU is a non-binding preliminary agreement of intent and many important terms are to be agreed. Successful completion of the Proposed Sale is therefore subject to many risks and uncertainties of which many are beyond the control of UBIDAC Group and NatWest Group. These include: finalising commercial terms, further operational, IT and other due diligence, negotiating and executing definitive legal documentation, satisfying relevant conditions precedent, obtaining regulatory and other approvals, legislative changes and other transaction execution risks and uncertainties. Accordingly, the Proposed Sale may not be completed on acceptable terms as contemplated in the non-binding MOU, in the timescale envisaged, or at all.

As part of NatWest Group's phased withdrawal from ROI, the Group will explore other potential transfers of the Group's business, assets and liabilities. Whether any transfers are agreed will depend on a variety of factors, such as the willingness and ability of purchasers to complete the transfers on acceptable terms, including raising any necessary financing when needed; purchasers' technology and operational capability (including scaling of relevant platforms) to accept large volumes of customer switching, onboarding and continuing customer service; and obtaining any necessary legislative, regulatory or other approvals.

A phased withdrawal of NatWest Group from ROI, whether effected by the Proposed Sale, other business transfers, assets and liability transfers, or other mechanisms is likely to be highly complex from an IT and operational perspective with implementation to be spread over coming years. Changes may be required to the Group's business model and strategy and material execution, commercial, legal, IT and operational risks may be involved. Substantial effort, resource and expense may be needed to mitigate the manual and limited capacity and capability of existing customer account switching processes of the Group, any purchasers and other banks. Additional uncertainties include customer action or inaction, or the inability to obtain necessary approvals and/or support from government agencies, regulators, trade unions and/or other stakeholders resulting in additional cost, resource and delays, resulting in significantly increased costs beyond acceptable levels. The phased withdrawal, the Proposed Sale and any other transfers may also be subject to various internal and external factors and risks, including (but not limited to) market, regulatory, economic and political uncertainties. Successful implementation of the withdrawal, the Proposed Sale and any other transfers will also depend on how the Group is perceived by its customers, regulators, rating agencies, stakeholders and the wider market, the Group's ability to retain employees required to deliver the transition and its go-forward strategic priorities.

The Group's Board will review and consider these risks in seeking to achieve appropriate implementation of this phased withdrawal strategy.

Potential adverse impacts of uncertainties on the Group

The above-mentioned uncertainties relating to NatWest Group's phased withdrawal, the Proposed Sale and any other transfer of the Group's business, assets and liabilities may, therefore, materially and adversely affect the Group's business, results of operations, financial condition, regulatory compliance and outlook in many ways. These include (but are not limited to):

- potential damage to the Group's brand and reputation from press speculation, regulatory and other stakeholder scrutiny regarding its future;
- potential loss of customers, resulting in retail and commercial deposit outflows (or a failure to attract deposit inflows) and reduced revenues and liquidity;
- increased operating costs and losses during the phased withdrawal;
- increased people risk through the potential loss of key staff, loss of institutional knowledge, increased challenges of attracting and retaining colleagues, which,

combined with the prolonged COVID-19 pandemic, may impact the Group's culture and morale;
- material and increased operational, IT system, culture, conduct, business and financial risks due to colleague and customer disengagement;
- the recognition of disposal losses as part of an orderly run-down of certain of the Group's loan portfolios which may be higher than anticipated;
- regulatory risk, relating to the need for the Group to remain compliant, including in relation to its prudential, conduct and other regulatory and corporate governance requirements;
- the potential early repayment of ECB funding and access to other Eurosystem funding arrangements;
- the diversion of management resources and attention away from day-to-day management of the Group; and
- potential diminished willingness of suppliers and other counterparties to supply and transact with the Group on preferential terms, or at all.

These risks and uncertainties may also jeopardise completion of the Proposed Sale or any other transfers, result in higher than expected operating costs, negatively impact the Group's products and services offering and competitive position, and may adversely impact the Group's ability to deliver its strategy.

The Group's Board will review and consider these risks and uncertainties in seeking to achieve appropriate implementation of this phased withdrawal strategy.

Risks of a smaller business

Completion of the Proposed Sale will result in the Group having a smaller business and significantly lower revenues. The Group's Board will review and consider all options in seeking to achieve appropriate implementation of the phased withdrawal strategy. These options may include, in addition to the Proposed Sale, the sale of other parts of the business to alternative single or multiple purchasers and/or a residual business or asset sale of any part of the business that is not otherwise disposed of. Accordingly, whether or not the Proposed Sale and any other sale are successfully completed, the size of the Group's business may challenge the ability to be a viable business in the medium term.

During the implementation of the phased withdrawal strategy the directors remain focused on supporting the Group's customers and colleagues through the current challenging economic conditions.

Risks and uncertainties arising from COVID-19 pandemic

In March 2020, the World Health Organization declared the spread of the COVID-19 virus a pandemic. Since then, many countries, including the Republic of Ireland, have periodically imposed strict social distancing measures, restrictions on non-essential activities and travel quarantines, in an attempt to slow the spread of the virus and reduce its impact.

The directors note that the global spread of COVID-19 and associated containment measures resulted in unprecedented, sharp and sudden impacts on economic activity across a wide range of countries, including Ireland. Impacts on some sectors and parts of the economy have been extreme at times. Particular weakness in domestic-oriented sectors has been evident in a number of key metrics, including measures of demand and output (notably in hospitality, travel and leisure) and the labour market.

However, there are also important signs of relative resilience in overall Irish output and the housing market, aided by sizable and extensive policy supports and by the fact that the economy entered this episode in solid shape and with no signs of major imbalances in its overall underlying macro-financial position. Moreover, the shock to aggregate output has also been importantly cushioned by strength in some key multi-national dominated sectors, including pharmaceuticals/chemicals and ICT. Meanwhile, trends in house prices have also shown notable resilience, partly reflecting the fact that COVID-19 labour market impacts have been skewed towards younger age groups, and lower-paid sectors, with such groups less likely to be active in the home-buying market.

Whilst vaccination programmes are currently being deployed globally and underpin expectations around medium-term recovery prospects, these vaccines may ultimately fail to achieve sufficient levels of general population immunity. Therefore, significant uncertainties remain as to how long the COVID-19 pandemic will last. Subsequent waves of infection may result in the reintroduction of restrictions in affected countries or regions. Even when restrictions are relaxed, they may be re-imposed, potentially at short notice, if either levels of immunisation are insufficient or new strains of the COVID-19 virus or other diseases develop into new epidemics or pandemics.

The ultimate extent of the economic impact of the COVID-19 pandemic, and consequently the path and length of time required to achieve economic recovery, remains highly uncertain. In the short-term the COVID-19 pandemic has adversely affected the credit quality of many of the Group's borrowers. As a result, the Group has experienced elevated exposure to credit risk. Significant government and central bank mechanisms to support businesses and individuals, including various forms of financial assistance, as well as legal and regulatory initiatives, were introduced in response to the impact of the virus and associated containment measures. It is uncertain how long these initiatives will remain in place, how they may evolve in the future and to what extent the Group's customers may be negatively impacted when these initiatives are scaled back and ultimately ended. If borrowers default or suffer deterioration in credit, this would increase impairment charges and write-downs.

Furthermore, the ability of households to service their debts could be worsened by a period of high unemployment caused by the COVID-19 pandemic, particularly if prolonged. The Group's mortgage and wholesale property loans portfolio may also be subject to higher impairment charges as a result of the COVID-19 pandemic if volatility in the property market results in weakened property prices, particularly if default rates increase.

The medium and long-term implications of the COVID-19 pandemic for the Group's customers, the Irish and global economies and financial markets remain uncertain and may continue to have a material adverse effect on the Group's financial results and operations. If the Group experiences losses and a reduction in future profitability, this is likely to affect the recoverable value of fixed assets and deferred tax assets which may lead to further write-downs.

Risks and uncertainties arising from Brexit

The UK ceased to be a member of the EU and the European Economic Area ('EEA') on 31 January 2020 ('Brexit'), with the EU-UK Trade and Cooperation Agreement ('TCA') implemented on 1 January 2021. The TCA provides for free trade between the EU and UK, with zero tariffs and quotas on goods that satisfy rules of origin requirements. Simultaneously the Ireland/Northern Ireland Protocol was implemented, with Northern Ireland remaining in the EU single market for goods.

The long-term effects of Brexit on the Group's operating environment remain difficult to predict. Those effects may be impacted by wider global macro-economic trends and events, particularly COVID-19 pandemic related uncertainties, which may significantly impact the Group and its customers who are themselves dependent on trading with the UK or personnel from the UK. Equally, the long-term effects of Brexit may exacerbate the economic impacts of the COVID-19 pandemic on the Republic of Ireland, the rest of the EU/EEA and the UK.

Furthermore, significant uncertainty remains as to the extent to which UK law, under which the Group's parent operates, will diverge from EU/EEA laws, whether and what equivalence determinations will be made by the various regulators and therefore what respective legal and regulatory arrangements the Group will be subject to. The legal and political uncertainty and any new or amended rules, could have a significant adverse impact on the Group. This includes increases in operating, compliance and restructuring costs and increased impairments. There is also potential for adverse impacts on capital requirements, the regulatory environment and taxation and, as a result, the Group's profitability, competitive position, business model and product offering.

Related stress testing will continue to inform balance sheet management, including capital and liquidity assessments. Monitoring of loan performance remains elevated, with comprehensive early warning triggers in place, whilst sector specific risk appetite is assessed on a continual basis.

Additionally, the Group remains vulnerable to risks and uncertainty in the external economic environment, including persistent weakness in the global economy; escalation in global trade disputes; shifts in the international tax policy environment; persistently low or lower interest rates; global financial market volatility (including in euro area sovereign debt markets) linked to the effects of highly accommodative monetary policy settings in advanced economies; political and geopolitical instability and climate change.

Accounting policies

The reported results of the Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. Details of the Group's critical accounting policies and key sources of estimation uncertainty are included in Notes 1(u), 6, 8, 11, 12 and 19 to the accounts.

Risk management

The major risks associated with the Group's business are credit, liquidity and funding, model, non-traded market, operational, reputational, financial crime, capital adequacy, compliance and conduct. The Group is also exposed to risks from its defined benefit pension schemes. The Group has a risk management framework for managing these risks which are under continual review as the Group's business activities change in response to consumer, market, credit, product, regulatory and other developments.

The Group's policies for managing each of these risks and its exposures are detailed in Note 23 to the accounts.

Board of directors

The Board is the main decision-making forum for the Bank. It has overall responsibility for management of the business and affairs of the Group, strategy and the allocation and raising of capital, and is accountable to its shareholder for financial and operational performance.

The Board considers strategic issues and ensures the Group manages risk effectively through approving and monitoring the Group's risk appetite, considering Group stress scenarios and agreed mitigants and identifying longer term strategic threats to the Group's business operations. The Board's terms of reference include key aspects of the Bank's affairs reserved for the Board's decision and are reviewed at least annually.

There are a number of areas where the Board has delegated specific authority to management, including the Chief Executive Officer and Chief Financial Officer. These include responsibility for the operational management of the Group's businesses as well as reviewing high level strategic issues and considering risk appetite, risk policies and risk management strategies in advance of these being considered by the Board and/or its committees. Specific delegated authorities are also in place in relation to business commitments across the Group.

The roles of Chairman and Chief Executive Officer are distinct and separate, with a clear division of responsibilities. The Chairman leads the Board and ensures the effective engagement and contribution of all executive, non-executive and independent non-executive directors. The Chief Executive Officer has responsibility for all Group businesses and acts in accordance with authority delegated by the Board.

The independent non-executive directors combine broad business and commercial experience with independent and objective judgement, and they provide independent challenge to the executive directors and leadership team.

Board and Executive Committees with delegation from the Board include:

The Audit Committee - comprises at least three members who are all non-executive directors, with a majority of independent non-executive directors, and assists the Board in discharging its responsibilities for the disclosure of the financial affairs of the Group. It reviews the accounting policies, financial reporting and regulatory compliance practices of the Group, the Group's systems and standards of internal controls, and monitors the Group's processes for internal audit and external audit.

The Board Risk Committee - comprises at least three members who are all non-executive directors, with a majority of independent non-executive directors. It provides oversight and advice to the Board on current and potential future risk exposures of the Group and risk strategy. It reviews the Group's performance on risk appetite and oversees the operation of the Group Policy Framework.

The Nominations and Governance Committee - comprises at least three members who are all non-executive directors, with a majority of independent non-executive directors and is chaired by the Chairman of the Group. It assists the Board in the selection and appointment of directors and senior management. It reviews the structure, size and composition of the Board, and membership and chairmanship of Board committees. It also monitors the governance arrangements for UBIDAC, ensuring that these are consistent with best practice and policy.

The Performance and Remuneration Committee - comprises at least three members who are all Independent Non-Executive Directors. The committee advises the Board on remuneration matters.

The Related Party Lending Committee - comprises at least two members, with a majority of independent non-executive directors. The committee is responsible for approving lending to related parties, which is regulated under the CBI Code of Practice on Related Party Lending 2013.

The Sustainable Banking Committee - comprised at least three members who were all independent non-executive directors. The purpose of the committee was to support the Board in overseeing, supporting and challenging actions being taken by management to run the Bank as a sustainable customer centric business, capable of generating long term value for its stakeholders. The committee was disbanded in December 2020 and responsibilities were subsumed into Board.

The Board may from time to time seek to establish ad hoc committees to address key areas of focus.

The Customer Remediation Committee - comprised a mix of executive and independent non-executive directors. Its purpose was to focus on policy and remediation. The committee was disbanded in January 2020 and responsibilities were subsumed into Board.

The Executive Committee - comprises the Group's senior executives and supports the Chief Executive Officer in managing the Group's businesses. It reviews strategic issues and initiatives and monitors financial performance and capital allocations.

Directors and secretary

The directors and secretary who served at any time during the financial year and up to the date of signing are listed on page 1.

In accordance with the Constitution, the directors are not required to retire by rotation.

Interests in shares or debentures

At 1 January and 31 December 2020, the directors and secretary did not have any interests in the shares or debentures of NatWest Group plc representing more than 1% of the nominal value of its issued share capital.

Colleagues

Over the coming months there will be a full engagement with all colleagues, their representative bodies and pension trustees on the implementation of the phased withdrawal from the ROI market.

Colleague engagement

We believe in developing our people and creating a culture where we act in the best interests of our colleagues is one of our core priorities.

We gather feedback from our colleagues through our employee engagement surveys and other key performance indicators, which help us to assess our progress and respond accordingly. We do this along with feedback from our regulators and industry bodies. Over 73% of colleagues completed engagement surveys in 2020, achieving a 2020 employee engagement score of 85, an increase of 2 from 2019. The Bank continues to significantly outperform the Global Financial Services Norm ('GFSN') in 12 out of 16 categories, including the key indicators of 'Employee Engagement Index', 'Leadership Index' and 'My Manager'.

We have clear goals to reinforce our values and set priorities each year to continue our progress on building a stronger culture. We have supported our Senior Leaders this year through 'Big Conversations', facilitated discussions on the connection between purpose and culture. These 'Big Conversations' have in turn been rolled out to local teams, continuing to build knowledge and understanding of purpose and culture across the Bank.

Colleagues are encouraged to report concerns relating to wrongdoing or misconduct. They can raise these in the first instance with their line manager or alternatively they can raise any concerns via 'Speak Up', the Bank's whistleblowing service. Engagement surveys continue to show that a significant proportion of colleagues feel safe to speak up, as well as understanding the process of how they should do that.

The Group is committed to an ethos of life-long learning and we are focused on creating an inclusive learning organisation. Taking on board feedback from colleague engagement surveys, we have invested significantly in personal and professional development resources, including providing over 3,000 hours of training, sponsorship of 214 Professional Qualifications and the continuation of our Coaching Mastery programme, designed to enhance the coaching skills of the Group's management and leadership population.

The Group is represented on the European Employee Council which facilitates dialogue amongst employee representatives in the European Economic Area.

Employment of people with disabilities

The Group's policy is that people with disabilities are always considered for employment and subsequent training, career development and promotion based on merit. If colleagues develop a disability, it is the Group's policy, wherever possible, to retain them in their existing jobs or to re-deploy them in suitable alternative duties, making appropriate adjustments.

Diversity and inclusion

The Group's Diversity and Inclusion strategy, along with Our Values, promotes diversity in all areas of recruitment and employment. The principal aim of our Diversity and Inclusion strategy is to provide an inclusive culture and environment in which all colleagues can bring the best of themselves to work.

Building a working environment where all our colleagues can develop to their full potential is important to us irrespective of their age, beliefs, disability, ethnic or national origin, gender, gender identity, marital or civil partnership status, political opinion, race, religion or sexual orientation.

We work to avoid limiting colleagues' potential through bias, prejudice or discrimination. The Group recognises the beneficial contribution of a diverse mix of uniquely talented individuals for the delivery of great service to our diverse customer base. Key principles of our Diversity and Inclusion Policy include that we attract, motivate and retain the best talent. We base the employment relationship on the principles of fairness, respect and inclusion. We comply with local laws on equality and Our Code, which sets out the Group's expected behaviours and standards of conduct, to build and develop an inclusive workforce in order to understand and respond to our diverse customer base.

We also have wellbeing plans and initiatives in place that support inclusion, for example our Employee Assistance Programme and our "Moments that Matter" toolkits and guidelines.

Safety, health and wellbeing

The Group recognises that people are key to the success of its business. The Group is committed to the safety, health and wellbeing of colleagues. Benchmarking, industry leading expertise, innovative events and resources are combined to ensure a comprehensive 'Wellbeing Plan' continues to be developed and delivered. Feedback on effectiveness of this plan is facilitated through the 'Our View' survey results, cross divisional colleague focus groups, the Financial Services Union and HR Business Partners.

The Group holds the 'KeepWell Mark', the Irish Business and Employers Confederation's workplace wellness national accreditation programme. We believe that investing in the 'KeepWell Mark' demonstrates our commitment to focus on and improve the wellbeing of our colleagues.

Our 'Live Well, Being You' wellbeing campaign is about helping our colleagues bring the best of themselves to work. We believe everyone should be able to be themselves at work and achieve a healthy life balance in a place where colleagues' wellbeing is supported. Our four wellbeing pillars focus on Mental, Physical, Social and Financial Wellbeing.

The focus on Wellbeing became even more critical in 2020 as many of our colleagues began to work from home on a full-time basis as a result of COVID-19.

The Group was able to support colleagues in a variety of ways during this time, including a "Commitment to Pay" at the outset of the pandemic, a dedicated COVID Wellbeing Hub, virtual health and financial wellbeing webinars, the launch of 'SilverCloud' – our new digital mental health platform, and 24/7 access to a virtual GP for all colleagues.

We created a focused communications campaign concept of 'Live well through lockdown', demonstrating the continued purpose-led focus of the Group through championing the wellbeing and recognition of our people. In November, the Group launched the "SMILEs" bank-wide challenge to support colleagues' wellbeing and encourage everyone to stay active and connect with each other. The "SMILEs" initiative (Sport, Make, Inspire, Learn, Entertain) challenged colleagues to log their activities, where every minute committed counted as one 'SMILE', with the aim of generating 1 million "SMILEs" by the end of 2020.

Charitable contributions

During the financial year the Group made charitable and community investment donations in the Republic of Ireland totalling €37,800 (2019 - €138,866).

Political donations

During the financial year the Group did not make any political donations (2019 - nil).

Branches outside the Republic of Ireland

The Bank and Group has a branch (as defined by Council Directive 89/666/EEC) in Northern Ireland. The banking activities of the branch ceased on 31 December 2018.

Corporate Governance Code for Credit Institutions

The Corporate Governance Requirements for Credit Institutions 2015 ("the Code") imposes minimum core standards upon all credit institutions licensed or authorised by the CBI with additional requirements upon credit institutions which are designated as High Impact. The Bank has been designated as a High Impact credit institution and is therefore subject to the additional requirements for High Impact designation credit institutions included within Appendix 1 of the Code.

Corporate Governance Statement under Section 1373(2) of the Companies Act 2014

The Group operates internal control processes over financial reporting to support the preparation of the consolidated financial statements and manage risk in relation to financial statements preparation. The main components of this framework are as follows:

- a comprehensive set of accounting policies are in place to facilitate preparation of the annual financial statements in accordance with International Financial Reporting Standards as adopted by the EU;
- a control process is in place involving the appropriate level of management review of significant account line items and disclosures to ensure that the financial information required for the financial statements is presented fairly and disclosed appropriately;
- the financial statements are subject to detailed review and approval by senior management and executive personnel within Finance and Risk with other specialists consulted as appropriate;
- a Disclosure Committee operates as a sub-committee of the Executive Committee to oversee, evaluate and review accounting issues and developments and recommendations on key accounting judgements including impairment provisions and valuations prior to presentation to the Audit Committee and Board;
- detailed papers are prepared for review and approval by the Audit Committee and Board setting out significant judgemental and technical accounting issues and any significant presentation and disclosure considerations;
- user access to financial reporting systems is restricted to those individuals that require it to fulfil their assigned roles and responsibilities; and
- Internal Audit, as the Third Line of Defence, and in accordance with the Institute of Internal Auditors International Professional Practices Framework, provides independent assurance to the Board and executive management on the quality and effectiveness of governance, risk management and internal controls to monitor manage and mitigate key risks to achieving the Group's objectives. Further detail on the Three Lines of Defence model is included in Note 23.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, including potential risks and uncertainties, are set out in the report of the directors' on pages 2 to 7.

The financial position of the Group, its cash flows, liquidity position, capital and funding sources are set out in the financial statements. Notes 11, 23 and 34 to the accounts include the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its management of market, credit and liquidity risks.

The Group's liquidity position remained strong during 2020, evidenced by the Liquidity Coverage Ratio of 250% at 31 December 2020 (2019 - 181%). The Group avails of a number of sources of liquidity including retail and commercial deposits, the European Central Bank's Targeted Longer-Term Refinancing Operations ('TLTRO 3') and debt securities in issue. Furthermore, the Group's assets as at 31 December 2020 contain €8.6 billion of high quality liquid assets (2019 - €7.2 billion). In addition, the Group has pre-packaged assets providing contingent liquidity of €3.0 billion at 31 December 2020 (2019 – €0.6 billion).

The Group's capital position remained strong during 2020, as evidenced by the CET1 ratio of 28.1% at 31 December 2020 (2019 – 26.5%).

The consequences of the phased withdrawal strategy for the Group's Personal Banking and Commercial Banking businesses remain materially uncertain. Following this announcement and the non-binding MOU for a significant portion of the Commercial Banking loan book, the future scale and focus of the Group's operations will be materially altered. The Group will continue to operate and write new Commercial Banking and Personal Banking business.

Although there remain material uncertainties in respect of the implementation of the phased withdrawal strategy, having considered public statements made by NatWest Group plc, having made inquiries of NatWest Group plc, considered the Group's liquidity and capital position as set out above and the results of stressed liquidity scenarios the directors have a reasonable expectation that the Group will continue in operational existence for a period of not less than twelve months. Accordingly, the financial statements of the Group and the Bank have been prepared on a going concern basis.

Accounting records

The measures taken by the directors to secure compliance with the requirements of Sections 281 to 285 of the Companies Act 2014 with regard to the keeping of accounting records are the employment of appropriately qualified accounting personnel and the maintenance of computerised accounting systems. The Company's accounting records are maintained at the Company's registered office at Ulster Bank Group Centre, George's Quay, Dublin 2, D02 VR98.

Investments in Group undertakings

Details of the Bank's investments in group undertakings are shown in Notes 14 and 29. All of the group undertakings are included in the Group's consolidated financial statements and all have an accounting reference date of 31 December.

Country-by-country reporting

The Bank has opted to publish the information required under Section 77 of Statutory Instrument No.158 of 2014 on its website: www.ulsterbank.ie.

European Union (Disclosure of Non-Financial and Diversity Information by Certain Large Undertakings and Groups) Regulations 2017

The Bank complies with the disclosure of the non-financial elements of the above regulations by publishing the required disclosures in its Strategic Report. This document is made available on the Bank's website (www.ulsterbank.ie) within six months of the Bank's financial year end date. No part of the Bank's website or its contents are deemed to be incorporated by reference in these financial statements unless specifically stated otherwise.

Directors' compliance statement

In accordance with the provisions of Section 225 of the Companies Act 2014, the directors acknowledge that they are responsible for securing the Bank's compliance with the relevant obligations, as defined by the Act. The directors confirm that:

- a compliance statement has been drawn up setting out the Group's policies in relation to complying with the relevant obligations;
- appropriate measures are in place that are designed to ensure material compliance with the relevant obligations; and
- the directors have carried out a review of these measures during the financial year.

Dividends

The directors did not pay any interim dividends during the financial year (2019 - €500 million). The directors do not recommend the payment of a final dividend (2019 - nil).

Post balance sheet events

NatWest Group plc has confirmed that, as a result of a strategic review, it is seeking a phased withdrawal from the Republic of Ireland market.

NatWest Group plc and the Bank have entered into a non-binding Memorandum of Understanding ('MOU') with AIB Group plc for the sale of c. €4 billion of the Group's performing commercial loan book. Given the related risks and uncertainties on pages 5 and 6 a reasonable estimate of the financial impacts from the proposed transaction cannot be determined at this time.

The potential transaction contemplated by the non-binding MOU remains subject to customary due diligence, further negotiation and agreement of final terms and definitive documentation, as well as obtaining appropriate regulatory approvals and other conditions precedent. No assurance can be given that the parties will reach a definitive agreement or that the proposed sale will be concluded on acceptable terms, when contemplated, or at all.

Auditors

The auditors, Ernst & Young, Chartered Accountants and Statutory Audit Firm, were appointed on 20 April 2016 and will continue in office in accordance with the Companies Act 2014.

Directors' disclosure to auditors

Each of the directors at the date of approval of this report confirms that:

(a) so far as the director is aware, there is no relevant audit information of which the Bank's auditors are unaware; and

(b) the director has taken all steps he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Bank's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 330(1) of the Companies Act 2014.

On behalf of the Board:

Martin Murphy	Jane Howard
Chairman	Chief Executive Officer

19 February 2021

Statement of directors' responsibilities

The directors are responsible for preparing the directors' report and the financial statements in accordance with the Companies Act 2014 and applicable regulations.

Irish company law requires the directors to prepare the financial statements for each financial year. Under company law, the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ("relevant financial reporting framework"). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position of the Group and Bank as at the financial year end date and of the profit or loss of the Group and Bank for the financial year and otherwise comply with the Companies Act 2014.

In preparing these financial statements the directors are required to:

- select suitable accounting policies for the Bank and the Group financial statements and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with applicable accounting standards, identify those standards, and note the effect and the reasons for any material departure from those standards; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Bank will continue in business.

The directors are responsible for ensuring that the Group and Bank keep or cause to be kept adequate accounting records which correctly explain and record the transactions of the Group and Bank, enable at any time the assets, liabilities, financial position and profit or loss of the Group and Bank to be determined with reasonable accuracy, enable them to ensure that the financial statements and directors' report comply with the Companies Act 2014 and enable the financial statements to be audited. They are also responsible for safeguarding the assets of the Group and Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website.

By order of the Board:

Martin Murphy
Chairman

Jane Howard
Chief Executive Officer

Paul Stanley
Chief Financial Officer and Deputy CEO

19 February 2021

Board of directors

Chairman
Martin Murphy

Executive directors
Jane Howard
Paul Stanley

Non-executive directors
Dermot Browne
Rosemary Quinlan
Gervaise Slowey

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Ulster Bank Ireland Designated Activity Company ('the Company') and its controlled entities ('the Group') for the year ended 31 December 2020, which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, the Group and Parent Company Balance Sheets, the Group and Parent Company Statements of Changes in Equity, the Group and Parent Company Cash Flow Statements and notes to the financial statements, including the summary of significant accounting policies set out in note 1. The financial reporting framework that has been applied in their preparation is Irish Law and International Financial Reporting Standards (IFRS) as adopted by the European Union and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2014.

In our opinion:

- the Group financial statements give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2020 and of its loss for the year then ended;
- the Company financial statements give a true and fair view of the assets, liabilities and financial position of the company as at 31 December 2020;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2014; and
- the Group financial statements and Company financial statements have been properly prepared in accordance with the requirements of the Companies Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) (ISAs (Ireland)) 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 Company in accordance with ethical requirements that are relevant to our audit of financial statements in Ireland, including the Ethical Standard as applied to public interest entities issued by the Irish Auditing and Accounting Supervisory Authority (IAASA), 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.

Material Uncertainty relating to going concern

We draw attention to the basis of presentation in note 1(a) of the financial statements which indicates there are material uncertainties relating to the Group's ability to continue as a going concern. Subsequent to year end, the Group's ultimate parent, NatWest Group plc ('NatWest'), has confirmed that, as a result of a strategic review, it is seeking a phased withdrawal from the Republic of Ireland ('ROI') market. The implementation of this phased withdrawal strategy gives rise to the following material uncertainties.

1. Following this announcement and the non-binding Memorandum of Understanding for a significant portion of the Commercial Banking loan book, the future scale and focus of the Group's operations will be materially altered.
2. The consequences of the phased withdrawal strategy for the Group's Personal Banking and Commercial Banking businesses remain materially uncertain.
3. NatWest's withdrawal from ROI is expected to take a number of years and may expose the Group's business to many risks and uncertainties that may have a material adverse effect on the Group's operating results, financial condition, outlook, prospects and ability to comply with its regulatory capital requirements including through potential loss of customers, resulting in retail and commercial deposit outflows (or a failure to attract deposit inflows) and reduced revenues and liquidity.

How we evaluated management's assessment:

- We obtained management's going concern assessment which includes an analysis of the capital, liquidity and funding position of the Group post the proposed sale of a significant portion of the performing commercial loan book.
- As part of our procedures we confirmed our understanding of management's going concern assessment process, including the inputs, estimates and assumptions used by management.
- Increased involvement from the audit engagement partner, directing and supervising the audit procedures on going concern and senior members of the audit team increased their time and involvement in performing the audit procedures on going concern.
- With the support of our specialists including our economists, we evaluated and reviewed the financial forecasts prepared by management, and we challenged key inputs, estimates and assumptions, including the forecast COVID-19 impact, used in the forecasts. We also challenged management's forecasts by assessing historical forecasting accuracy.
- We assessed the reasonableness and performed sensitivity analysis on the inputs, estimates and assumptions supporting this assessment including potential deposit outflow, asset growth and the ability of the Group to avail of contingent liquidity.

- We made enquiries of management, including at a NatWest Group plc level, as to the status of the strategic review, and updated this to the date of approval of our audit report.
- We obtained supporting documentation for the Group's contingent liquidity arrangements.
- We reviewed Board Minutes and Regulatory correspondence for any matters which could impact the going concern basis of accounting.
- We assessed the disclosures in the Financial Statements relating to going concern, including the material uncertainties, to ensure compliance with IAS 1 "Presentation of Financial Statements"
- We reviewed management's assessment to ensure all reasonably possible factors were included in their assessment based on information available at the date of our report.

Our key observations

- The decision by NatWest to seek a phased withdrawal from the ROI market and the entering into a non-binding MOU for the sale of €4bn of the performing commercial loan book occurred post year end.
- While the future profitability outlook for the Group remains challenged, the capital and liquidity position as at year end and up to the date of signing the annual report support the Group's ability to continue as a going concern.
- Key capital and liquidity ratios at year end are above the required regulatory minimums. The outlook in a stressed scenario indicates the Group maintains capital and liquidity buffers in excess of minimum regulatory requirements. There is a risk that the material uncertainties may lead to early repayment of ECB funding and affect access to other Eurosystem funding arrangements. Although capital and liquidity ratios, as at the date of approval of the audit report, are in excess of the regulatory requirements, there is a risk of deposit outflow following the announcement of a phased withdrawal from the Irish market.
- The Group avails of a number of liquidity sources including customer deposits, TLTRO and securitisations. The Group also has contingent liquidity assets which may be utilised if needed.
- The Group has confirmed to us that it is considering options in relation to the implementation of the phased withdrawal strategy.
- The disclosures in the Financial Statements in relation to going concern, including the material uncertainties, are in compliance with IAS1 "Presentation of Financial Statements".
- As stated in note 1(a), these events and conditions indicate the existence of material uncertainties that may cast significant doubt on the ability of the Group to continue as a going concern. Our opinion is not modified in respect of this matter.

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, including 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 forming our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk
Impairment provision on loans and advances to customers At 31 December 2020 the Group reported total gross loans to customers of €21,059m (2019: €22,435m) and €893m (2019: €911m) of expected credit loss provisions (ECL). Key judgements and estimates in respect of the timing and measurement of ECL include: • Allocation of assets to stage 1, 2, or 3 using criteria in accordance with the accounting standard; • Accounting interpretations, modelling assumptions and data used to build and run the models that calculate the ECL considering the impact of COVID-19 on model performance and any additional data to be considered in the ECL calculation; • Measurements of individually assessed provisions including the assessment of multiple scenarios; • Inputs and assumptions used to consider the impact of multiple economic scenarios, particularly those influenced by COVID-19 and Brexit including any changes to scenarios required through 31 December 2020; and • Appropriateness, completeness and valuation of post model adjustments including COVID-19 specific adjustments due to the increased uncertainty and less reliance on modelled outputs considering the risk of management override. Refer to the Accounting policies and Notes 12 and 23 of the Consolidated Financial Statements.	Tested the design and operating effectiveness of key controls across the processes relevant to the ECL, including the key judgements and estimates noted involving specialists where appropriate. This included the allocation of assets into stages including management's monitoring of stage effectiveness, model monitoring, model validation, data accuracy and completeness, credit monitoring, multiple economic scenarios, post model adjustments, individual provisions and production of journal entries and disclosures. In obtaining sufficient audit evidence we: • Attended the key executive finance and risk committees where the inputs, assumptions and adjustments to the ECL were discussed and approved. • Performed an overall assessment of the ECL provision levels by stage to determine if they were reasonable by considering the overall credit quality of the Group's portfolios, risk profile, impact of COVID-19 including geographic considerations and high risk industries, the impact of government support measures, such as payment breaks 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. • Challenged the criteria used to allocate an asset to stage 1, 2 or 3 in accordance with IFRS 9; this included peer benchmarking to assess staging levels. Tested assets in stage 1, 2 and 3 to verify that 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 due to COVID-19. • 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 tested material in-model and post-model adjustments which were applied as a result of COVID-19. With our modelling specialists, we assessed the data, judgments, methodology, sensitivities, completeness, and governance of these adjustments. • To evaluate data quality, 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. • 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, as well as EY internally developed forecasts. 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 rates, interest rates and the House Price Index. With the support of our modelling specialists we evaluated the correlation and the overall impact of the macroeconomic factors to the ECL. • With the support of our internal valuation specialists, recalculated a sample of individually assessed provisions including the alternative scenarios and challenge of probability weights assigned. We considered the impact COVID-19 had on collateral valuations and time to collect. We also considered whether planned exit strategies remained viable under COVID-19. • Assessed the adequacy and appropriateness of disclosures for compliance with the accounting standards, including expectations of COVID-19 specific disclosures and the process and controls management had in place to create and approve the disclosures. Our planned audit procedures were completed without material exception. We are satisfied impairment provisions on loans and advances to customers were reasonable and recognised in accordance with IFRS.

Risk	Our response to the risk
Remediation and associated programme cost provisions The continued heightened regulatory scrutiny gives rise to a high level of judgement in determining appropriate provisions and disclosures. At the year end the Group reported €118m (2019: €170m) of Provisions for liabilities and other charges of which €72m (2019: €105m) related to remediation and associated programme cost provisions. Management judgement is needed to determine whether an obligation exists and a provision should be recorded at 31 December 2020 in accordance with the accounting criteria set under IAS 37. This includes determining if: • It is likely that an economic outflow such as a payment will occur; and • The amount of the payment (or other economic outflow) can be estimated reliably. The measurement of the provision is based on the best estimate of the expenditure to settle the present obligation. The most significant areas of judgement are: • Completeness of provisions recognised; Judgement in the determination of whether an outflow in respect of identified material matters are probable or can be estimated reliably; • Measurement of provisions recognised; Integrity and completeness of data, and the appropriateness of assumptions and judgements used in the estimation of material provisions; and • Adequacy of disclosures of provision for liabilities and contingent liabilities. Refer to the Accounting policies and Notes 19 and 24 of the Consolidated Financial Statements.	Tested the design and operating effectiveness of key controls over the identification, estimation and monitoring of provisions considering the potential for management override of controls. The controls tested include those designed and implemented to identify whether an obligation exists, to assess the completeness and accuracy of data used to estimate provisions and to check the accuracy and completeness of disclosures made in accordance with accounting standards. In obtaining sufficient audit evidence we: • Understood, assessed, and challenged the provisioning methodology. • Challenged the assumptions used in the determination of the provisions recorded. • Tested the underlying data used in the determination of the provisions recorded. • Considered regulatory correspondence, legal advice and notifiable events as appropriate. • Reviewed the provision including programme costs to determine if the provision met the requirements of IAS 37. In addition, for matters where a provision was not recognised, we considered whether the outcome was probable and reliably estimable in accordance with the accounting criteria. • Attended meetings with key management and reviewed the minutes of meetings of those charged with governance to conclude on the appropriateness of the conclusions reached. • Tested the disclosures provided on provisions for liabilities and contingent liabilities to determine whether it complied with accounting standards. Given the inherent estimation uncertainty and the judgemental nature of these provisions, we evaluated the appropriateness of the disclosures made in the financial statements. Our planned audit procedures were completed without material exception. We are satisfied provisions for remediation and associated programme costs were reasonable and recognised in accordance with IFRS.

Risk	Our response to the risk
Recoverability of deferred tax assets At 31 December 2020, the Group had reported deferred tax assets of €10m (2019: €184m). The recognition and carrying value of deferred tax assets are based on estimates of future profitability which require significant management judgement. Key judgements and estimates include: • Macroeconomic assumptions used in forecasts prepared as at 31 December 2020 including yield curves and adjustments as a result of COVID-19 and Brexit; • Revenue forecasts, driven by new lending targets; • Cost outlook, in particular indirect costs and direct cost savings that were, as at 31 December 2020, unsolutioned and future credit impairment charges; • Appropriateness of the recovery period; and • Growth rates Refer to the Accounting policies and Note 8 of the Consolidated Financial Statements.	Tested the design and operating effectiveness of key controls over the preparation and review of budgets and forecasts supporting the deferred tax assessment and profitability projections. The controls tested include those over the macroeconomic assumptions including appropriate governance procedures and management challenge. In obtaining sufficient audit evidence we: • Tested, with the support of our internal economic specialists, whether macroeconomic assumptions, including COVID-19, Brexit and other geopolitical considerations, used in the Group's forecasting process were reasonable by comparing to external sources, as well as EY internally developed forecasts. Considering the recent developments on Brexit, the continued uncertainty relating to COVID-19 and the macroeconomic environment and their consequential impact on the forecasts, we evaluated the adequacy of disclosures in the financial statements. • Assessed the reasonableness of revenue forecasts by challenging the underlying business strategies and comparing to expected market trends. • Reviewed management's cost forecasts and challenged the strategy to achieve these targets. Considered the appropriateness of forecasted future impairment charges and the impact of COVID-19. • Tested how previous management forecasts and cost reduction programmes compared to actual results to evaluate the accuracy of the forecasting process. • Evaluated how management considered alternative assumptions and performed our own sensitivity analyses on certain assumptions such as cost and revenue forecasts, discount rate and long-term growth rate. • Evaluated how the growth rates used by management compared to EY reasonable ranges which were informed by external market data and calculations performed by our valuation specialists and by peer practice. Our planned audit procedures were completed without material exception. We are satisfied that management methodologies, judgements and assumptions supporting the carrying value of deferred tax assets were reasonable and in accordance with IFRS.

Risk	Our response to the risk
IT systems and controls impacting financial reporting The IT environment is complex and pervasive to the operations of the Group due to the large volume of transactions processed in numerous locations daily and the reliance on automated and IT dependent manual controls. Appropriate IT controls are required to ensure that applications process data as expected and that changes are made in an appropriate manner. This risk is also impacted by the greater dependency on third-parties, increasing use of cloud platforms, decommissioning of legacy systems, and migration to new systems. Such controls contribute to mitigating the risk of potential fraud or errors as a result of changes to applications and data. Our audit approach relies upon IT applications and the related control environment including: • User access management across application, database and operating systems; • Changes to the IT environment, including transformation that changes the IT landscape including the general ledger and human resource system migrations; • IT operational controls; • IT application or IT dependent controls; and • Evaluation of IT control environment at third party service providers.	We evaluated the design and operating effectiveness of IT 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. In obtaining sufficient audit evidence we: Tested system migrations and related technology changes (including where relevant new systems) resulting from IT transformations during the current financial year, where material to financial statement reporting. This included verifying the completeness of information transferred to new systems as well as testing the controls in place for both the migration and the new system. 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 applications onto a strategic platform (SLX) which will facilitate most of the 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. Assessed automated controls within business processes and the reliability of relevant reports used as part of a manual control. This included assessing the integrity of system interfaces, the completeness and accuracy of data feeds, automated calculations and specific input and validation controls. There continues to be a high number of systems outsourced to third party service providers. For these systems, we tested IT general controls through evaluating the relevant Service Organisation Controls reports (where available). This included assessing the timing of the reporting, the controls tested by the service auditor and whether they address relevant IT risks. We also tested required complementary user entity controls performed by management. Where control deficiencies were identified, tested remediation activities performed by management and compensating controls in place and assessed what additional testing procedures were necessary to mitigate any residual risk. We are satisfied that IT controls impacting financial reporting are designed and operating effectively.

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 €44m (2019: €44m), which is 1% (2019: 1%) of equity. We believe that Equity provides us with the most appropriate basis for materiality having considered the expectation of the users of the financial statements.

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 overall control environment, our judgement was that performance materiality should be set at 50% (2019: 50%) of our planning materiality, namely €22m (2019: €22m). We have set performance materiality at this percentage having considered our prior year experience of the risk of misstatements, both corrected and uncorrected.

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 €2.2m (2019: €2.2m), 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.

An overview of the scope of our audit report

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, 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 entity.

There have been no significant changes in scoping from that applied in our prior year audit as all subsidiaries are included in full scope population and all audit work performed for the purposes of these financial statements was undertaken by the Group audit team.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report and Accounts other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this 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 2014

In our opinion, based solely on the work undertaken in the course of the audit, we report that:

- the information given in the directors' report for the financial year for which the financial statements are prepared, other than those parts dealing with the non-financial statement pursuant to the requirements of S.I. No. 360/2017 on which we are not required to report in the current year, is consistent with the financial statements; and
- the directors' report, other than those parts dealing with the non-financial statement pursuant to the requirements of S.I. No. 360/2017 on which we are not required to report in the current year, has been prepared in accordance with applicable legal requirements.

We have obtained all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

In our opinion the accounting records of the Company were sufficient to permit the financial statements to be readily and properly audited and the Company statement of financial position is in agreement with the accounting records.

Corporate Governance Statement

We report, in relation to information given in the Corporate Governance Statement on page 10 that:

- In our opinion, based on the work undertaken during the course of the audit, the information given in the Corporate Governance Statement pursuant to subsections 2(c) and (d) of section 1373 of the Companies Act 2014 is consistent with the Company's statutory financial statements in respect of the financial year concerned and such information has been prepared in accordance with the Companies Act 2014.

Based on our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in this information.

Matters on which we are required to report by exception

Based on the knowledge and understanding of the group and parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

The Companies Act 2014 requires us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions required by sections 305 to 312 of the Act, which relate to disclosures of directors' remuneration and transactions are not complied with by the Company. We have nothing to report in this regard.

We have nothing to report in respect of section 13 of the European Union (Disclosure of Non-Financial and Diversity Information by certain large undertakings and groups) Regulations 2017, which require us to report to you if, in our opinion, the Company has not provided in the non-financial statement the information required by Section 5(2) to (7) of those Regulations, in respect of year ended 31 December 2019.

Respective responsibilities

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 12, the directors are responsible for the preparation of the financial statements in accordance with the applicable financial reporting framework that give a true and fair view, and for such internal control as they 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 the parent Company's ability to continue as going concerns, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or the parent Company or to cease operations, or has 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 (Ireland) 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.

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

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and have a direct impact on the preparation of the financial statements and understood how the Group is complying with those frameworks by reviewing policy framework, holding discussions with the Group's general counsel, internal audit, amongst others.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by holding discussions with senior management, including the Chief Executive Officer, Chief Financial Officer, Director of Risk, Director of Compliance and the Group Audit Committee Chairman. We also reviewed the Group's fraud-related policies and mandates of different governance forums assessing fraud.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiring of key management, reviewing the key policies and reviewing the correspondence exchanged with the Regulator.

A further description of our responsibilities for the audit of the financial statements is located on the IAASA's website at: http://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsibilities_for_audit.pdf. This description forms part of our auditor's report.

Other matters which we are required to address

We were appointed by the board of Ulster Bank Ireland Designated Activity Company on 20 April 2016 to audit the financial statements for the year ending 31 December 2016 and subsequent financial periods. The current period of total uninterrupted engagement including previous renewals and reappointments of the firm is 5 years.

The non-audit services prohibited by IAASA's Ethical Standard were not provided to the Group or Company and we remain independent of the Group and Company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

The purpose of our audit work and to whom we owe our responsibilities

Our report is made solely to the Company's members, as a body, in accordance with section 391 of the Companies Act 2014. 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.

Martina Keane
for and on behalf of
Ernst & Young Chartered Accountants and Statutory Audit Firm
Office: Dublin
Date: 19 February 2021

Note: The maintenance and integrity of the NatWest Group and Ulster Bank Ireland DAC Group web sites are the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Consolidated income statement for the financial year ended 31 December 2020

	Note	2020 €m	2019 €m
Interest receivable		509	511
Interest payable		(59)	(53)
Net interest income	2	450	458
Fees and commissions receivable		110	138
Fees and commissions payable		(9)	(13)
Other operating income		25	59
Non-interest income	3	126	184
Total income		576	642
Staff costs		(200)	(222)
Premises and equipment		(17)	(26)
Other administrative expenses		(330)	(323)
Depreciation, impairment and amortisation		(15)	(25)
Operating expenses	4	(562)	(596)
Profit before impairment (losses)/releases		14	46
Impairment (losses)/releases	12	(281)	38
Operating (loss)/profit before tax		(267)	84
Tax charge	8	(164)	(80)
(Loss)/profit for the financial year		(431)	4
Attributable to:			
Ordinary shareholders		(431)	4

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

	2020 €m	2019 €m
(Loss)/profit for the financial year	(431)	4
Items that do not qualify for reclassification		
Remeasurement of retirement benefit schemes	81	41
Fair value through comprehensive income (FVOCI) financial assets	-	(2)
Tax	(10)	(5)
	71	34
Items that do qualify for reclassification		
FVOCI financial assets	13	(1)
Cash flow hedges	43	41
	56	40
Other comprehensive income after tax	127	74
Total comprehensive (loss)/income for the financial year	(304)	78
Attributable to:		
Ordinary shareholders	(304)	78

The accompanying notes form an integral part of these financial statements.

Balance sheet as at 31 December 2020

		Group		Bank		
					Restated	Restated
		2020	2019	2020	2019*	2018*
	Note	€m	€m	€m	€m	€m
Assets						
Cash and balances at central banks	11	5,874	4,221	5,874	4,221	3,046
Derivatives	10	226	205	226	205	210
Loans to banks - amortised cost	11	195	221	33	37	58
Loans to customers - amortised cost	11	20,022	21,362	20,022	21,362	21,016
Amounts due from holding companies and fellow subsidiaries	11	1,517	850	1,570	909	1,553
Other financial assets	13	2,951	3,250	2,951	3,250	2,949
Investments in Group undertakings	14	-	-	5	5	7
Other assets	15	420	537	418	535	551
Total assets		31,205	30,646	31,099	30,524	29,390
Liabilities						
Bank deposits - amortised cost	11	3,092	1,975	3,092	1,975	1,983
Customer deposits - amortised cost	11	21,828	21,716	21,828	21,716	20,085
Other financial liabilities	17	270	550	-	-	176
Amounts due to holding companies and fellow subsidiaries	11	1,339	1,356	1,506	1,787	1,594
Derivatives	10	98	121	98	121	131
Subordinated liabilities	18	85	86	85	86	86
Other liabilities	19	328	373	328	373	436
Total liabilities		27,040	26,177	26,937	26,058	24,491
Owners' equity		4,165	4,469	4,162	4,466	4,899
Total liabilities and equity		31,205	30,646	31,099	30,524	29,390

*For details on restatements refer to Note 1, Accounting policy (a) and Note 30.

The accompanying notes form an integral part of these financial statements. As detailed in Note 9 the Bank's loss after tax for the financial year ended 31 December 2020 was €431 million (2019 restated – €5 million profit).

The financial statements were approved by the Board of Directors on 19 February 2021 and signed on its behalf by:

Martin Murphy	Jane Howard	Paul Stanley	Colin Kelly
Chairman	Chief Executive Officer	Chief Financial Officer and Deputy CEO	Company Secretary

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

	Group		Bank	
	2020 €m	2019 €m	2020 €m	Restated 2019* €m
Called up share capital - at 1 January	3,379	3,592	3,379	3,592
Reduction of capital (Note 20)	-	(213)	-	(213)
At 31 December	3,379	3,379	3,379	3,379
Share premium - at 1 January	857	1,144	857	1,144
Reduction of capital (Note 20)	-	(287)	-	(287)
At 31 December	857	857	857	857
FVOCI reserve - at 1 January	(2)	1	(2)	1
Unrealised gains/(losses)	13	(3)	13	(3)
Realised losses	4	-	4	-
At 31 December	15	(2)	15	(2)
Cash flow hedging reserve - at 1 January	41	-	41	-
Amount recognised in equity	61	49	61	49
Amount transferred from equity to earnings	(18)	(8)	(18)	(8)
At 31 December	84	41	84	41
Retained earnings - at 1 January	194	166	191	162
Implementation of IFRS 16 on 1 January 2019	-	(12)	-	(12)
Gain on remeasurement of retirement benefit schemes	81	41	81	41
Tax	(10)	(5)	(10)	(5)
Realised losses in financial year on FVOCI assets	(4)	-	(4)	-
Reduction of capital (Note 20)	-	500	-	500
(Loss)/profit attributable to ordinary shareholders	(431)	4	(431)	5
Dividends paid	-	(500)	-	(500)
At 31 December	(170)	194	(173)	191
Owners' equity at 31 December	4,165	4,469	4,162	4,466

Total comprehensive (loss)/income recognised in the statement of changes in equity is attributable as follows:

Ordinary shareholders	(304)	78	(304)	79

*For details on restatements refer to Note 1, Accounting policy (a) and Note 30.

The accompanying notes form an integral part of these financial statements.

Cash flow statement for the financial year ended 31 December 2020

	Note	Group 2020 €m	Group 2019 €m	Bank 2020 €m	Bank Restated 2019* €m
Cash flows from operating activities					
Operating (loss)/profit before tax		(267)	84	(267)	85
Depreciation, impairment and amortisation of property, plant and equipment		15	25	15	25
Interest on subordinated liabilities		5	5	5	5
Dividends received		-	(1)	-	(2)
Defined benefit pension schemes		(2)	(20)	(2)	(20)
Impairment losses/(releases)		281	(38)	281	(41)
Elimination of foreign exchange differences		18	(14)	18	(14)
Provisions charges		13	42	13	42
Other non-cash items		51	30	51	32
Net cash flows from trading activities		114	113	114	112
Decrease/(increase) in loans to customers		1,078	(284)	1,078	(284)
(Increase)/decrease in amounts due from holding companies and fellow subsidiaries		(143)	70	(130)	118
(Increase)/decrease in other financial assets		-	100	-	100
Decrease/(increase) in other assets		13	(28)	13	(28)
Increase in derivative assets and liabilities		(44)	(5)	(44)	(5)
Increase in bank and customers deposits		1,229	1,447	1,229	1,447
Decrease in other financial liabilities		(280)	(319)	-	-
Decrease in amounts due to holding companies and fellow subsidiaries		(17)	(113)	(281)	(407)
Decrease in other liabilities		(58)	(103)	(58)	(103)
Changes in operating assets and liabilities		1,778	765	1,807	838
Income taxes received		-	2	-	2
Net cash flows from operating activities[1]		1,892	880	1,921	952
Cash flows from investing activities					
Sale and maturity of securities		1,088	1,154	1,088	1,154
Purchase of debt securities		(903)	(1,484)	(903)	(1,484)
Sale of property, plant and equipment		-	1	-	1
Purchase of property, plant and equipment		(2)	(9)	(2)	(9)
Dividends received		-	1	-	2
Net cash flows from investing activities		183	(337)	183	(336)
Cash flows from financing activities					
Issue of debt securities		-	600	-	600
Interest on subordinated liabilities		(5)	(5)	(5)	(5)
Dividends paid		-	(500)	-	(500)
Net cash flows from financing activities		(5)	95	(5)	95
Effect of exchange rate changes on cash and cash equivalents		(19)	14	(19)	14
Net increase in cash and cash equivalents		2,051	652	2,080	725
Cash and cash equivalents 1 January	26	5,393	4,741	5,244	4,519
Cash and cash equivalents 31 December	26	7,444	5,393	7,324	5,244

*For details on restatements refer to Note 1, Accounting policy (a) and Note 30.

Note:
(1) Includes interest received of: Group €505 million (2019 - €507 million); Bank €505 million (2019 restated - €507 million) and interest paid of: Group €43 million (2019 - €64 million); Bank €44 million (2019 restated - €66 million).

The accompanying notes form an integral part of these financial statements.

1. Accounting policies

a) Presentation of accounts

NatWest Group plc has confirmed that, as a result of a strategic review, it is seeking a phased withdrawal from the Republic of Ireland (ROI) market. NatWest Group's withdrawal from ROI is expected to take a number of years and may expose the Group's business to many risks and uncertainties that may have a material adverse effect on the Group's operating results, financial condition, outlook, prospects and ability to comply with its regulatory capital requirements including through potential loss of customers, resulting in retail and commercial deposit outflows (or a failure to attract deposit inflows) and reduced revenues and liquidity. Further detail on these risks and uncertainties is set out in the Principal risks and uncertainties section in the Report of the directors.

Following this announcement and the non-binding MOU for a significant portion of the Commercial Banking loan book (see Note 32), the future scale and focus of the Group's operations will be materially altered. The consequences of the phased withdrawal strategy for the Group's Personal Banking and Commercial Banking businesses remain materially uncertain. The Group will continue to operate and write new Commercial Banking and Personal Banking business following the non-binding MOU announced.

Although there remain material uncertainties in respect of the implementation of the phased withdrawal strategy, having considered public statements made by NatWest Group plc, having made inquiries of NatWest Group plc and considered the Group's liquidity and capital position as set out in the Report of the directors (page 10) and the results of stressed liquidity scenarios, the directors are of the opinion that notwithstanding these material uncertainties it remains appropriate to prepare the accounts on a going concern basis.

The accounts, set out on pages 22 to 106, are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB), and interpretations as issued by the International Financial Reporting Interpretations Committee of the IASB (IFRIC) and adopted by the EU (together IFRS). The significant accounting policies and related judgments are set out below.

The Bank is incorporated as a designated activity company and registered in the Republic of Ireland (Registration number - 25766). The Bank's registered and head office is Ulster Bank Group Centre, George's Quay, Dublin 2, D02 VR98. The Group and Bank's accounts are presented in accordance with the Companies Act 2014 and the European Communities (Credit Institutions: Financial Statements) Regulations, 2015.

The accounts are presented in the functional currency, euro.

With the exception of certain financial instruments as described in accounting policies (k) and (r) the accounts are presented on a historical cost basis.

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 materiality – Amendments to IAS 1 – Presentation of Financial Statements and IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors

The IASB clarified the definition of 'material' and aligned the definition of materiality 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.

The 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. The 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 addresses the wider accounting issues arising from the IBOR reform. This was published in August 2020 and endorsed in January 2021 in the UK and EU. The amendments are effective for annual reporting periods beginning on or after 1 January 2021 with early application permitted. The Group early adopted these amendments for the annual period ending on 31 December 2020. The 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

During the financial year the classification of amounts that are held in cash and balances at central banks and loans to banks has been refined. Amounts placed with central banks that are not subject to mandatory or term deposit, or that are subject to time deposit restrictions of less than 24 hours are now classified as cash and balances with central banks. Amounts that are subject to mandatory restrictions or time deposit restrictions of more than 24 hours are classified as Loans to banks. The change in accounting policy results in a €5,594 million increase in cash and balances at central banks with a corresponding reduction in loans to banks. The 2019 comparative Group and Bank balance sheets have been restated to reflect the resulting €3,684 million reclassification from loans to banks to cash and balances at central banks (31 December 2018 - €2,759 million). This does not impact the consolidated cash flow statement.

Accounting policy change – securitisation of residential mortgages

As outlined in Accounting policy (o), the Bank undertakes securitisations through the transfer of interests in pools of residential mortgages to Special Purpose Entities (SPEs). During the financial year, the Bank elected to change its accounting policy in respect of transactions with these SPEs to align reporting with market peers.

Previously the Bank recognised positions with the SPEs on a gross reporting basis. These positions included assets from senior and junior debt securities and subordinated loans, and loan liabilities in respect of mortgage interests due to the SPEs. Subsequent to the change in accounting policy the Bank recognises positions with the SPEs on a net reporting basis as Amounts due from/to holding companies and fellow subsidiaries. The 2019 and 2018 comparative Bank balance sheets and the 2019 profit dealt with in the financial statements of the Bank (see Note 9) have been restated to reflect this change. There is no impact on the Group balance sheet. Further details are provided in Note 30.

b) Basis of consolidation

The consolidated accounts incorporate the financial statements of the Bank and entities (including certain structured entities) that are controlled by the Bank. The Bank controls another entity (a subsidiary) when it is exposed, or has rights, to variable returns from its involvement with that entity and has the ability to affect those returns through its power over the other entity. Power generally arises from holding a majority of voting rights.

On acquisition of a subsidiary, its identifiable assets, liabilities and contingent liabilities are included in the consolidated financial statements at their fair value. A subsidiary is included in the consolidated financial statements from the date it is controlled by the Bank until the date the Bank ceases to control it through a sale or a significant change in circumstances.

Changes in the Bank's interest in a subsidiary that do not result in the Bank ceasing to control that subsidiary are accounted for as equity transactions.

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

c) Revenue recognition

Interest income or expense relates to financial instruments measured at amortised cost and debt instruments classified as FVOCI 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. Negative effective interest on financial liabilities is presented in interest receivable.

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.

d) 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 the Group or by NatWest Group plc shares. The 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 when payable.

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

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

e) Intangible assets

Intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to profit or loss over the assets' estimated useful economic lives:

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

f) Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Where an item of property, plant and equipment comprises major components having different useful lives, these are accounted for separately.

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

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

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

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

g) Impairment of intangible assets, right of use assets and property, plant and equipment

At each balance sheet date, the Group assesses whether there is any indication that its intangible assets, right of use assets or property, plant and equipment are impaired. If any such indication exists, the Group estimates the recoverable amount of the asset and the impairment loss, if any.

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. The recoverable amount of an asset is the higher of its fair value less cost to sell and 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 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.

h) 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, the 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.

i) Provisions and contingent liabilities

The 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 the Group has a constructive obligation to restructure. An obligation exists when the 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.

The Group recognises any onerous cost of the present obligation under a contract as a provision. An onerous cost is the unavoidable cost of meeting the Group's contractual obligations that exceed the expected economic benefits. When the 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.

j) 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 the 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 Group company or on 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 judgemental and carries a degree of uncertainty because the tax law is subject to interpretation, which might be questioned by the relevant tax authority. The Group recognises the most likely current and deferred tax liability or asset assessed for uncertainty using consistent judgements 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.

k) 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 the Bank 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 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 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.

l) 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. These impairment gains or losses on reassessment are recognised 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 also change; 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 Invoice Financing 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 probability of default (PDs), exposure at default (EADs) and loss given default (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 the Group's interest in equity shares following the exchange is such that the Group controls an entity, that entity is consolidated.

The costs of loss allowances on assets held at amortised cost, fair value through comprehensive income (excluding equity shares), and in respect of financial guarantees and loan commitments are presented as impairments in the income statement.

Impaired loans are written off when the 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 the Group's collectively-assessed portfolios are:

- Retail mortgages: Write off generally occurs once a property in possession has been sold and there is a residual balance remaining outstanding which has been deemed irrecoverable.
- Credit cards: the irrecoverable amount is written off after 12 months; three years later any remaining amounts outstanding are written off.
- Overdrafts and other unsecured loans: write off occurs within six years.
- Commercial loans: write offs are determined in the light of individual circumstances; generally within five years.
- Business loans are generally written off within five years.

Provision is made for expected credit losses on loan commitments.

m) Financial guarantee contracts

Under a financial guarantee contract, the 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 (k).

Amortisation is calculated to recognise fees receivable in profit or loss over the period of the guarantee.

n) De-recognition

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 the Group retains substantially all the risks and rewards of ownership. If substantially all the risks and rewards have been neither retained nor transferred, the Group does not derecognise an asset over which it has retained control but limits its recognition to the extent of its continuing involvement. A financial liability is removed from the balance sheet when the obligation is discharged, or is cancelled, or expires.

Cancellation includes the issuance of a substitute instrument on substantially different terms.

o) Securitisation of residential mortgages

In accordance with the requirements of IFRS 10, the Group consolidates securitisation entities in which it does not hold voting rights but where it does retain the majority of the residual ownership risks and rewards. The securitisation transactions transfer the beneficial interest in mortgages initially originated by the Bank or First Active Limited to the relevant securitisation entity. The Bank retains the risks and rewards of ownership of the mortgages through ownership of junior debt securities issued by the SPEs and the provision of subordinated loans to the SPEs. The mortgages are therefore not derecognised from the balance sheet of the Bank.

The Bank recognises its positions with the securitisation SPEs, including senior and junior debt security assets, subordinated loan assets and liabilities in respect of cash flows on underlying mortgages, on a net reporting basis as Amounts due from/to holding companies and fellow subsidiaries.

As the securitisation entities are included in the Group's financial position under IFRS 10 all transactions and balances between the Bank and securitisation entities are fully eliminated on consolidation in the Group financial statements.

p) 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 the 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 the 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.

q) Netting

Financial assets and financial liabilities are offset and the net amount presented in the balance sheet when, and only when, the 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. The 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.

r) Derivatives and hedging

Derivative financial instruments are initially recognised, and subsequently measured, at fair value. The Group's approach to determining the fair value of financial instruments is set out in the Critical accounting policies section and key sources of estimation uncertainty entitled Fair value - financial instruments; further details are given in Note 11.

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 host is a financial asset or 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 and derivatives that are managed together with financial instruments designated at fair value; these gains and losses are included in Other operating income.

The Group enters into two types of hedge relationship: hedges of changes in the fair value of a recognised asset or liability or unrecognised firm commitment (fair value hedges) and hedges of the variability in cash flows from a recognised asset or liability or a highly probable forecast transaction (cash flow 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 and the hedging instrument and details 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 attributable to the hedged risk, consistent with the documented risk management strategy, hedge accounting is discontinued. Hedge accounting is also discontinued if the 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.

s) 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.

t) Investments in Group undertakings

The Bank's investments in its subsidiaries are stated at cost less any impairment losses.

u) Critical accounting policies and key sources of estimation uncertainty

The reported results of the Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. Irish company law and IFRS require the directors, in preparing the Group's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent.

In the absence of an applicable standard or interpretation, IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', requires management to develop and apply an accounting policy that results in relevant and reliable information in the light of the requirements and guidance in IFRS dealing with similar and related issues and the IASB's 'Conceptual Framework for Financial Reporting'.

The judgements and assumptions involved in the 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 the 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 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. 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 referenced in the table below (as applicable).

Critical accounting policy	Note
Pensions	6
Deferred tax	8
Fair value: financial instruments	11
Loan impairment provisions	12
Provisions for liabilities and charges	19

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 the 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).

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

2. Net interest income

	Group	
	2020	2019
	€m	€m
Interest receivable on assets:		
Loans to customers - amortised cost	491	502
Amounts due from holding company and fellow subsidiaries	-	1
Interest receivable on liabilities:		
Bank deposits - amortised cost	12	8
Customer deposits - amortised cost	6	-
Total interest receivable	509	511
Interest payable on liabilities:		
Customer deposits - amortised cost	(15)	(19)
Other liabilities	(2)	(2)
Subordinated liabilities	(5)	(5)
Amounts due to holding company and fellow subsidiaries	(5)	-
Interest payable on assets:		
Cash and balances at central banks	(18)	(14)
Other financial assets	(14)	(13)
Total interest payable	(59)	(53)
Net interest income	450	458

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. Finance lease income was recognised at a constant periodic rate of return before tax on the net investment.

3. Non-interest income

	Group	
	2020	2019
	€m	€m
Net fees and commissions (Note 5)	101	125
Other operating income:		
Profit on disposal or settlement of loans	-	4
Economic hedged and designated hedged ineffectiveness		
- Foreign exchange	(7)	4
- Interest rate	21	45
Other income	11	6
	25	59
Non-interest income	126	184

4. Operating expenses

	Group	
	2020	2019
	€m	€m
Wages, salaries and other staff costs	147	158
Temporary and contractor costs	6	10
Social security costs	16	17
Pension costs		
- defined benefit schemes (Note 6)	22	6
- defined contribution schemes	5	5
Restructure costs	4	26
Staff costs	200	222
Premises and equipment	17	26
Depreciation, impairment and amortisation (Note 16)	15	25
Other administrative expenses	330	323
Administrative expenses	362	374
	562	596

The average number of persons employed by the Group during the year, excluding temporary staff, was 2,259 (2019 - 2,429). The average number of temporary employees during 2020 was 168 (2019 - 236). The number of persons employed by the Group at 31 December, excluding temporary staff, was as follows:

	Group	
	2020	2019*
	Number	Number
Personal Banking	919	968
Commercial Banking	409	428
Other	848	945
	2,176	2,341

* 2019 data has been restated for the business re-segmentation completed during the financial year (see Note 5) and to include staff on long term leave.

Amounts paid to the auditors for the statutory audit and other services are set out below:

	Group	
	2020	2019
	€k	€k
Fees payable for:		
- the audit of the Bank's individual and Group accounts	1,749	1,635
- the audit of the Bank's subsidiaries	88	88
- audit-related assurance services	10	350
Total audit and audit related assurance service fees	1,847	2,073

Other than the amounts disclosed above, no remuneration was payable in respect of tax advisory services and other non-audit services. The figures in the auditor's remuneration table relate to fees payable to the statutory auditor, exclusive of VAT.

5. Segmental analysis

The Group operates in the financial services industry in the Republic of Ireland. The directors manage the Group primarily by class of business and present the segmental analysis on that basis. Funding charges between divisions are determined by Group Treasury, having regard to commercial demands.

The reportable operating segments are as follows:

Personal Banking: Personal Banking provides loan and deposit products through a network of branches and direct channels, including the internet, mobile and telephony.

Commercial Banking: Commercial Banking, including Business Direct, provides services to business and corporate customers, including small and medium enterprises.

Other: Other represents central functions comprising Group and corporate functions such as Treasury, Finance, Risk, Legal, Compliance, Services, Communications and Human Resources which support the Personal Banking and Commercial Banking divisions.

5. Segmental analysis continued

Effective from 1 January 2020, a number of teams were realigned from Other to Personal Banking and Commercial Banking reflecting the business areas they support. Comparatives have been restated.

	Group							
	2020				2019*			
	Personal Banking €m	Commercial Banking €m	Other €m	Total €m	Personal Banking €m	Commercial Banking €m	Other €m	Total €m
Net interest income	300	156	(6)	450	310	155	(7)	458
Net fees and commissions	46	55	-	101	60	64	1	125
Other operating income	19	8	(2)	25	43	20	(4)	59
Total income	365	219	(8)	576	413	239	(10)	642
Operating profit/(loss) before tax	141	10	(418)	(267)	323	216	(455)	84
Total assets	15,267	5,106	10,832	31,205	16,154	5,834	8,658	30,646
Total liabilities	(10,857)	(11,497)	(4,686)	(27,040)	(10,097)	(12,097)	(3,983)	(26,177)
Net assets/(liabilities)	4,410	(6,391)	6,146	4,165	6,057	(6,263)	4,675	4,469

* 2019 data has been restated for the business re-segmentation completed during the financial year.

Analysis of net fees and commissions

	Group							
	2020				2019			
	Personal Banking €m	Commercial Banking €m	Other €m	Total €m	Personal Banking €m	Commercial Banking €m	Other €m	Total €m
Fees and commissions receivable								
- Payment services	29	35	-	64	29	40	1	70
- Credit and debit card fees	20	5	-	25	26	6	-	32
- Lending (credit facilities)	1	14	-	15	2	14	-	16
- Brokerage	-	-	-	-	9	-	-	9
- Trade finance	-	2	-	2	-	2	-	2
- Investment management	2	-	-	2	4	-	-	4
- Other	-	2	-	2	-	5	-	5
Total	52	58	-	110	70	67	1	138
Fees and commissions payable	(6)	(3)	-	(9)	(10)	(3)	-	(13)
Net fees and commissions	46	55	-	101	60	64	1	125

6. Pensions

Defined contribution schemes

The Group makes contributions to a small number of NatWest Group pension schemes, the costs of which are accounted for as defined contributions, which new employees are offered the opportunity to join.

Defined benefit schemes

The Group operates the following defined benefit pension schemes, the assets of which are independent of the Group's finances:

Name of schemes

Ulster Bank Pension Scheme (Republic of Ireland) ("main scheme")
First Active Pension Scheme ("FA scheme")
Lombard Ireland Limited Non-Contributory Pension and Death Benefit Plan ("Lombard scheme")

The Group's main scheme operates under Irish trust law and is managed and administered on behalf of its members in accordance with the terms of the trust deed, scheme rules and Irish legislation (principally the Pensions Act 1990).

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 beyond 2010, although current members continue to build up additional pension benefits, generally subject to 2% maximum annual salary inflation, while they remain employed by the Group.

6. Pensions continued

The corporate trustee of the main scheme is Ulster Bank Pension Trustees (RI) Limited ("UBPTRIL"), a wholly owned subsidiary of the Bank.

UBPTRIL is the legal owner of the scheme assets which are held separately from the assets of the Group. The board of UBPTRIL comprises two trustee directors nominated by the unions and seven appointed by the Group. Under Irish legislation a defined benefit pension scheme is required to build up and maintain enough funds to pay members their pension entitlements should the scheme be wound up.

Investment strategy

The assets of the schemes are invested in a diversified portfolio as shown below.

The schemes employ derivative instruments to achieve a desired asset class exposure and to reduce the schemes' 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.

	2020			2019		
Major classes of plan assets as a percentage of total plan assets of the schemes	Quoted %	Unquoted %	Total %	Quoted %	Unquoted %	Total %
Equities	11	1	12	12	1	13
Index linked bonds	1	-	1	1	-	1
Government bonds	6	-	6	7	-	7
Corporate and other bonds	29	3	32	36	-	36
Hedge funds	-	4	4	-	3	3
Real estate	-	2	2	-	3	3
Derivatives	-	26	26	-	17	17
Cash and other assets	-	17	17	-	20	20
	47	53	100	56	44	100

	Group and Bank		
Changes in value of net pension asset	Fair value of plan assets €m	Present value of defined benefit obligations €m	Net pension surplus €m
At 1 January 2019	1,693	(1,529)	164
Income statement	(49)	43	(6)
Statement of comprehensive income	240	(199)	41
Contributions by employer	26	-	26
Contributions by plan participants	2	(2)	-
Benefits paid	(47)	47	-
At 1 January 2020	1,865	(1,640)	225
Income statement	28	(50)	(22)
Net interest cost	30	(26)	4
Current service cost	-	(23)	(23)
Expenses	-	(3)	(3)
Settlements [1]	(2)	2	-
Statement of comprehensive income	201	(120)	81
Return on plan assets above recognised interest income	201	-	201
Experience gains and losses	-	12	12
Effect of changes in actuarial financial assumptions	-	(119)	(119)
Effect of changes in actuarial demographic assumptions	-	(13)	(13)
Contributions by employer [2]	24	-	24
Contributions by plan participants	2	(2)	-
Benefits paid	(69)	69	-
At 31 December 2020	2,051	(1,743)	308

Notes:
(1) Settlements represent the impact of an Enhanced Transfer Value (ETV) offer to a cohort of members as part of a de-risking strategy. See page 96 for further details on pension risk.
(2) The Group expects to contribute €22 million to its defined benefit pension scheme in 2021.

6. Pensions continued

Amounts recognised on the balance sheet	All schemes 2020 €m	2019 €m
Fund assets at fair value	2,051	1,865
Present value of fund liabilities	(1,743)	(1,640)
Retirement benefit asset	308	225

Net pension surplus comprises	Group and Bank 2020 €m	2019 €m
Net assets of schemes in surplus (other assets)	309	225
Net liabilities of schemes in deficit (other liabilities)	(1)	-
	308	225

Amounts recognised in the income statement	Group and Bank 2020 €m	2019 €m
Operating expenses	22	6

Funding and contributions by the Group

In the Republic of Ireland, the trustees of defined benefit pension schemes are required to perform funding valuations every three years. The trustees and the Company, with the support of the Scheme Actuary, agree the assumptions used to value the liabilities and where required a Schedule of Contributions 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.

The latest funding valuation of the main scheme was at 31 December 2018, and was agreed in September 2019. Following the special contribution of €100 million paid in December 2018, no further deficit contributions are required following the completion of the funding valuation. The funding plan for the FA scheme remains in place for €2.3 million p.a. to cover future benefits; payments of €4.5 million p.a. to meet the deficit cease from 31 January 2021. For both schemes, contingent asset arrangements have been put in place to cover the Risk Reserve requirements arising under the Minimum Funding Standard framework.

The latest funding valuation for the Lombard scheme was at 1 April 2019, and was agreed in December 2019. The funding plan agreed in 2016 which requires contributions of €1.65 million p.a. until 2025 remains in place.

Critical accounting policy: Pensions

The assets of defined benefit schemes are measured at their fair value at the balance sheet date.

Scheme liabilities are measured using the projected unit method, which takes account of projected earnings increases, using actuarial assumptions that give the best estimate of the future cash flows that will arise under the scheme liabilities. These cash flows are discounted at an interest rate based on the yields of high-quality corporate bonds of appropriate duration, with high-quality almost universally understood to mean AA-rated.

The choice of discount rate is a source of estimation uncertainty, due to a lack of appropriate Euro-denominated AA-rated bonds of equivalent duration to the pension schemes' liabilities.

The approach used is to fit a yield curve to an appropriate dataset of AA bonds, and derive the discount rate from that curve.

To increase the number of reference bonds available at the end of the reporting period, equivalent AA yields were extrapolated for longer dated A and AAA rated bonds by applying a credit spread adjustment to their actual yields. These were then included in the dataset used to create the yield curve.

Assumptions

Placing a value on the Group's defined benefit pension schemes' liabilities requires the Group's management to make a number of assumptions, with the support of independent actuaries. The ultimate cost of the defined benefit obligations will depend 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.

6. Pensions continued

A year-end valuation of the Group's pension schemes was prepared to 31 December 2020 by independent actuaries, using the following assumptions:

	Principal IAS 19 actuarial assumptions		Principal assumptions of 2018 triennial valuation
	2020 %	2019 %	2018 %
Discount rate	1.25	1.60	Fixed interest Euro swap yield curve plus margin of 0.7%
Inflation assumption (CPI)	1.30	1.35	CPI Euro swap yield curve
Rate of increase in salaries	1.20	1.25	CPI curve with an allowance for the 0% per annum floor and 2% per annum cap
Rate of increase in deferred pensions	1.45	1.50	CPI curve with an appropriate cap and floor
Rate of increase in pensions in payment	0.00-1.45	0.00-1.50	0.00% per annum
Proportion of pension converted to a cash lump sum at retirement	12.00	12.00	12.00
Longevity:	years	years	years
Current pensioners, aged 70 years			
Males	18.1	18.0	18.7
Females	19.5	19.4	19.9
Future pensioners, currently aged 63 years			
Males	24.6	24.5	25.4
Females	26.3	26.2	26.8

These post-retirement mortality assumptions are derived from standard mortality tables used by the scheme actuary to value the liabilities for the main scheme.

Discount rate

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

The weighted average duration of the Group's defined benefit obligation at 31 December 2020 is 22 years (2019 - 23 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.

The table below sets out the sensitivities of the pension cost for the financial year and the present value of defined benefit obligations at the balance sheet dates if the key assumptions used were changed independently. In practice, the variables are somewhat correlated and do not move completely in isolation.

	Group and Bank			
	(Decrease)/increase in pension cost for the year		(Decrease)/increase in obligation at 31 December	
	2020 €m	2019 €m	2020 €m	2019 €m
0.25% increase in the discount rate	(4)	(4)	(93)	(86)
0.25% increase in inflation	1	1	31	29
Longevity increase of one year	1	2	56	49
0.25% additional rate of increase in pensions in payment	-	1	19	18
0.25% additional rate of increase in deferred pensions	-	-	22	22
0.25% additional rate of increase in salaries	1	1	19	18

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

Membership category	2020 %	2019 %
Active	30.4	28.3
Deferred	35.7	38.2
Pensioners and dependants	33.9	33.5
	100.0	100.0

6. Pensions continued

The experience history of the scheme is shown below:

	Group and Bank				
	2020	2019	2018	2017	2016
History of defined benefit scheme	€m	€m	€m	€m	€m
Fair value of plan assets	2,051	1,865	1,693	1,623	1,354
Present value of defined benefit obligations	(1,743)	(1,640)	(1,529)	(1,572)	(1,598)
Net surplus/(deficit)	308	225	164	51	(244)
Experience gains on plan liabilities	12	8	11	18	48
Experience gains/(losses) on plan assets	201	240	(47)	48	79
Actual return on plan assets	231	276	(11)	78	111
Actual return on plan assets	12.4%	16.3%	(0.7%)	5.8%	10.4%

7. Emoluments of directors

	2020	2019
	€	€
Emoluments for the provision of directors' services	1,960,117	2,018,062
Contributions and allowances in respect of pension schemes	107,567	107,567
Emoluments relating to long-term incentive schemes	113,558	130,516
Total emoluments received	2,181,242	2,256,145

Retirement benefits were accruing to one director under defined contribution schemes as at 31 December 2020 (2019 - one). No retirement benefits were accruing to directors under defined benefit schemes as at 31 December 2020 or 31 December 2019.

No share options were exercised during the year that resulted in gains to directors (2019 - none).

Performance related bonuses are awarded to executive directors on the basis of measuring annual performance against certain specified financial targets, which include both corporate performance objectives and key strategic objectives.

During the financial year there were no emoluments in respect of compensation payments for loss of office (2019 - nil).

During the year the highest paid director received emoluments of €969,461 (2019 - €937,218).

The executive directors may also participate in the NatWest executive share option and Sharesave schemes.

There were no amounts paid or payable to third parties during the financial year or the preceding financial year in respect of making available the services of any person as a director of the Bank or any of its subsidiaries or otherwise in connection with the management of the Group's affairs.

8. Tax

	2020	2019
	€m	€m
Corporation tax at 12.5% (2019 - 12.5%)		
Over provision in respect of prior periods	-	2
	-	2
Deferred tax		
Credit/(charge) for the financial year	1	(3)
Decrease in deferred tax asset in respect of previously recognised losses	(165)	(79)
Tax charge for the financial year	(164)	(80)

8. Tax continued

The actual tax charge differs from the expected tax credit/(charge) computed by applying the standard rate of Irish Corporation Tax of 12.5% (2019 - 12.5%) as follows:

	2020 €m	2019 €m
Expected tax credit/(charge)	33	(10)
Temporary differences	10	10
Non-deductible items	(3)	(7)
Deferred tax not recognised on current year losses	(40)	-
Losses brought forward and utilised	1	4
Decrease in deferred tax asset in respect of previously recognised losses	(165)	(79)
Adjustments in respect of prior periods	-	2
Actual tax charge for the financial year	(164)	(80)

Deferred tax

Net deferred tax asset comprised:

	Group and Bank			
	Pension €m	Accelerated capital allowances €m	Tax losses €m	Total €m
At 1 January 2019	(20)	(1)	292	271
Charge to income statement	(3)	-	(79)	(82)
Charge to other comprehensive income	(5)	-	-	(5)
At 1 January 2020	(28)	(1)	213	184
Credit/(charge) to income statement	-	1	(165)	(164)
Charge to other comprehensive income	(10)	-	-	(10)
At 31 December 2020	(38)	-	48	10

Critical accounting policy: Deferred tax

The net deferred tax assets of €10 million as at 31 December 2020 (2019 - €184 million) principally comprise deferred tax assets on tax losses and deferred tax liabilities on temporary differences. These deferred tax assets are recognised to the extent that it is probable that there will be future taxable profits to recover them.

Tax losses

Deferred tax has been recognised on tax losses of €381 million (2019 - €1,701 million) which arose principally from significant impairment losses incurred during a time of weak economic conditions in the Republic of Ireland.

Judgement - The Group has considered the carrying value of deferred tax assets on these losses and is of the view that based on management's estimates of future performance and profitability, sufficient taxable profits will be generated in future years to recover a recognised deferred tax asset of €48 million (2019 - €213 million). Therefore, €165 million of the deferred tax asset on losses carried at 1 January 2020 was derecognised during the financial year.

Estimate **-** Management's estimates are partly based on forecast performance beyond the horizon for management's detailed plans.

Management has carefully assessed the time period over which it expects to be able to recover the deferred tax assets taking into account existing and expected economic conditions.

As the Group operates in a small, open economy subject to short term volatility and extended non-performing loan realisation periods management expects in assessing its deferred tax assets on tax losses that they will be consumed by future taxable profits by the end of 2029. Set out below is the impact of some of the material sensitivities considered:

	Sensitivity	
Assumptions	Change in assumption	Consequential change in deferred tax assets
		€m
Outlook period	+/- 1 year	12
Profit outlook	+/- 5%	2

Unrecognised deferred tax

Deferred tax assets of €1,209 million (2019 - €1,007 million) have not been recognised in respect of tax losses carried forward of €9,674 million (2019 - €8,057 million). Under Republic of Ireland tax rules, tax losses can be carried forward indefinitely.

9. Loss/profit dealt with in the financial statements of the Bank

In accordance with the exemption contained within Section 304 of the Companies Act 2014 the primary financial statements of the Bank do not include an income statement or statement of comprehensive income. The Bank's loss after tax for the financial year ended 31 December 2020 was €431 million (2019 restated – €5 million profit).

10. Derivatives

The Group transacts derivatives to manage balance sheet foreign exchange, interest rate and credit risk.

The following table shows the notional amount and fair value of the Group and Bank's derivatives.

	Group and Bank					
	2020			2019		
	Notional amounts €m	Assets €m	Liabilities €m	Notional amounts €m	Assets €m	Liabilities €m
Over-the-counter derivatives						
Exchange rate contracts	810	40	49	945	59	56
Interest rate contracts	14,496	186	49	19,559	146	65
	15,306	226	98	20,504	205	121
Amounts above include:						
Due from/to fellow subsidiaries	14,809	206	59	19,842	185	65

The Group applies hedge accounting to manage interest rate risk. The Group's interest rate hedging relates to the non-trading structural interest rate risk caused by the mismatch between fixed interest rates and floating interest rates. The Group manages this risk within approved limits. Residual risk positions are hedged with derivatives, principally interest rate swaps.

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

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

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

A number of the current cash flow and fair value hedges of interest rate risk will be directly affected by interest rate benchmark reform. As at 31 December 2020 the exact transition dates of affected hedge accounting relationships is not known.

The Group is managing the process to transition to alternative benchmark rates in the following ways:

- by reviewing the fall-back language for IBOR linked instruments;
- by liaising with regulators, standard setters, industry groups and customers on other relevant matters as the transition to risk free rates progresses; and
- adjusting products, processes and information systems to deal with the expected effects of the discontinuation of IBOR most notably the transition and calculation rules.

10. Derivatives continued

Included in the tables are derivatives held for hedge accounting purposes as follows:

	Group and Bank							
	2020				2019			
	Notional amounts	Assets	Liabilities	Change in fair value used for hedge ineffectiveness[1]	Notional amounts	Assets	Liabilities	Change in fair value used for hedge ineffectiveness[1]
	€m	€m	€m	€m	€m	€m	€m	€m
Fair value hedging								
Interest rate contracts	732	10	4	5	786	-	6	(4)
Cash flow hedging								
Interest rate contracts	3,280	87	-	49	1,835	41	-	42

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

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

	2020		2019	
	Notional	Hedged adjustment	Notional	Hedged adjustment
	€m	€m	€m	€m
Fair value hedging				
LIBOR	1	-	72	1
EURIBOR	658	(3)	647	5
USD LIBOR	24	1	-	-
Cash flow hedging				
EURIBOR	1,990	(83)	1,685	(42)
ECB refinancing rate	1,290	-	150	1

The following table analyses the maturity of the hedging contracts by notional amount:

	Group and Bank					
2020	3-12 months €m	1-3 years €m	3-5 years €m	5-10 years €m	10-20 years €m	Total €m
Fair value hedging						
Hedging assets - interest rate risk	50	30	5	10	37	132
Hedging liabilities - interest rate risk	-	-	600	-	-	600
Cash flow hedging						
Hedging assets - interest rate risk	-	-	1,575	1,705	-	3,280
Average fixed interest rate (%)	-	-	(0.39)	0.24	-	(0.06)

The following table analyse assets and liabilities subject to hedging derivatives:

	Group and Bank					
	2020			2019		
	Carrying value (CV) of hedged assets and liabilities	Impact on hedged items included in CV	Change in fair value used as a basis to determine ineffectiveness	Carrying value (CV) of hedged assets and liabilities	Impact on hedged items included in CV	Change in fair value used as a basis to determine ineffectiveness
	€m	€m	€m	€m	€m	€m
Fair value hedging - interest rate						
Loans to customers - amortised cost	147	4	3	191	4	2
Other financial liabilities	603	6	(8)	602	2	2
Cash flow hedging - interest rate						
Loans to customers - amortised cost	3,280	-	(46)	1,794	-	(41)

10. Derivatives continued

The following tables shows an analysis of the cash flow reserve:

	2020 €m	2019 €m
Cash flow reserve		
Interest rate risk	84	41
Amount recognised in equity during the financial year	61	49
Amount transferred from equity to net interest income	(14)	(8)
Amount transferred from equity to non-interest income	(4)	-
Total movement during the financial year	43	41

Hedge ineffectiveness recognised in other operating income comprised:

	2020 €m	2019 €m
Fair value hedging		
(Losses)/gains on the hedged items attributable to the hedged risk	(8)	4
Gains/(losses) on the hedging instruments	8	(4)
Fair value hedging ineffectiveness	-	-
Cash flow hedging		
Cash flow hedging ineffectiveness - interest rate risk	(3)	(1)

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

- Differences in the repricing basis between the hedging instrument and hedged cash flows (cash flow hedge).
- 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).

11. Financial instruments – classification

The following tables analyse the Group's financial assets and financial 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/liabilities.

	Group					
2020	MFVTPL €m	Held-for-trading €m	FVOCI €m	Amortised cost €m	Other assets/ liabilities €m	Total €m
Assets						
Cash and balances at central banks	-	-	-	5,874	-	5,874
Derivatives	226	-	-	-	-	226
Loans to banks - amortised cost[1]	-	-	-	195	-	195
Loans to customers - amortised cost[2]	-	-	-	20,022	-	20,022
Amounts due from holding companies and fellow subsidiaries	-	-	-	1,517	-	1,517
Other financial assets	-	-	2,951	-	-	2,951
Other assets	-	-	-	-	420	420
	226	-	2,951	27,608	420	31,205
Liabilities						
Bank deposits - amortised cost[3]	-	-	-	3,092	-	3,092
Customer deposits - amortised cost	-	-	-	21,828	-	21,828
Other financial liabilities	-	-	-	270	-	270
Amounts due to holding companies and fellow subsidiaries	-	-	-	1,339	-	1,339
Derivatives	-	98	-	-	-	98
Subordinated liabilities	-	-	-	85	-	85
Other liabilities[4]	-	-	-	47	281	328
	-	98	-	26,661	281	27,040

For notes relating to this table refer to page 44.

11. Financial instruments – classification continued

2019	Group MFVTPL €m	Held-for-trading €m	FVOCI €m	Amortised cost €m	Other assets/ liabilities €m	Total €m
Assets						
Cash and balances at central banks[5]	-	-	-	4,221	-	4,221
Derivatives	205	-	-	-	-	205
Loans to banks - amortised cost[1],[5]	-	-	-	221	-	221
Loans to customers - amortised cost[2]	-	-	-	21,362	-	21,362
Amounts due from holding companies and fellow subsidiaries	-	-	-	850	-	850
Other financial assets	-	-	3,250	-	-	3,250
Other assets	-	-	-	-	537	537
	205	-	3,250	26,654	537	30,646
Liabilities	.					
Bank deposits - amortised cost[3]	-	-	-	1,975	-	1,975
Customer deposits - amortised cost	-	-	-	21,716	-	21,716
Other financial liabilities	-	-	-	550	-	550
Amounts due to holding companies and fellow subsidiaries	-	-	-	1,356	-	1,356
Derivatives	-	121	-	-	-	121
Subordinated liabilities	-	-	-	86	-	86
Other liabilities[4]	-	-	-	56	317	373
	-	121	-	25,739	317	26,177

Notes:
(1) Includes items in the course of collection from other banks of €19 million (2019 - €20 million).
(2) The Group has advances secured on residential property subject to non-recourse funding. Under IFRS 9, these mortgages qualify for full recognition on the balance sheet and are included in loans to customers. As at 31 December 2020 €9,111 million (2019 - €4,373 million) is included in loans to customers.
(3) Relates to balance from the European Central Bank's Targeted Longer-Term Refinancing Operations.
(4) Includes lease liabilities held at amortised cost of €47 million (2019 - €56 million).
(5) Restated to reflect reclassification of €3,684 million from loans to banks to cash and balances at central banks. Refer to Note 1, Accounting policy (a) for further details.
(6) There are no financial instruments that are subject to IAS 32 (on balance sheet) netting arrangements or subject to enforceable master netting instruments or similar agreement that are not set off in accordance with IAS 32.

The following tables analyse the Bank's financial assets and financial 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/liabilities.

2020	Bank MFVTPL €m	Held-for-trading €m	FVOCI €m	Amortised cost €m	Other assets/ liabilities €m	Total €m
Assets						
Cash and balances at central banks	-	-	-	5,874	-	5,874
Derivatives	226	-	-	-	-	226
Loans to banks - amortised cost[1]	-	-	-	33	-	33
Loans to customers - amortised cost[2]	-	-	-	20,022	-	20,022
Amounts due from holding companies and fellow subsidiaries	46	-	-	1,524	-	1,570
Other financial assets[3]	-	-	2,951	-	-	2,951
Investments in group undertakings	-	-	-	-	5	5
Other assets	-	-	-	-	418	418
	272	-	2,951	27,453	423	31,099
Liabilities						
Bank deposits - amortised cost[4]	-	-	-	3,092	-	3,092
Customer deposits - amortised cost	-	-	-	21,828	-	21,828
Amounts due to holding companies and fellow subsidiaries	-	-	-	1,506	-	1,506
Derivatives	-	98	-	-	-	98
Subordinated liabilities	-	-	-	85	-	85
Other liabilities[5]	-	-	-	47	281	328
	-	98	-	26,558	281	26,937

For notes relating to this table refer to page 45.

11. Financial instruments – classification continued

	Bank					
2019	MFVTPL €m	Held-for-trading €m	FVOCI €m	Amortised cost €m	Other assets/ liabilities €m	Total €m
Assets						
Cash and balances at central banks[6]	-	-	-	4,221	-	4,221
Derivatives	205	-	-	-	-	205
Loans to banks - amortised cost[1],[6]	-	-	-	37	-	37
Loans to customers - amortised cost[2]	-	-	-	21,362	-	21,362
Amounts due from holding companies and fellow subsidiaries[7]	48	-	-	861	-	909
Other financial assets[3]	-	-	3,250	-	-	3,250
Investments in group undertakings	-	-	-	-	5	5
Other assets	-	-	-	-	535	535
	253	-	3,250	26,481	540	30,524
Liabilities						
Bank deposits - amortised cost[4]	-	-	-	1,975	-	1,975
Customer deposits - amortised cost	-	-	-	21,716	-	21,716
Amounts due to holding companies and fellow subsidiaries[7]	-	-	-	1,787	-	1,787
Derivatives	-	121	-	-	-	121
Subordinated liabilities	-	-	-	86	-	86
Other liabilities[5]	-	-	-	56	317	373
	-	121	-	25,620	317	26,058

Notes:
(1) Includes items in the course of collection from other banks of €19 million (2019 - €20 million).
(2) The Bank has advances secured on residential property subject to non-recourse funding. Under IFRS 9, these mortgages qualify for full recognition on the balance sheet and are included in loans to customers. As at 31 December 2020 €9,111 million (2019 - €4,373 million) is included in loans to customers.
(3) Of the debt securities balance included in other financial assets €20 million (2019 - €20 million) was pledged as collateral to the Ulster Bank Pension Scheme and €17 million (2019 - €17 million) was pledged as collateral to the trustees of the First Active Pension Scheme under contingent asset arrangements put in place to cover the Risk Reserve requirements arising under the Minimum Funding Standard framework. The debt securities classified as loans in the Bank have been issued by limited recourse entities that are controlled by the Bank. The securities are collateralised on the cash flows of residential mortgages held by the Bank, are long term in nature and generate variable interest, typically at mark-ups over Euro Interbank Offer Rates. The carrying value of the instruments is not considered to be impaired as at 31 December 2020 and 31 December 2019 and represents the full extent of the credit risk on the instruments.
(4) Relates to balance from the European Central Bank's Targeted Longer-Term Refinancing Operations.
(5) Includes lease liabilities held at amortised cost of €47 million (2019 - €56 million).
(6) Restated to reflect reclassification of €3,684 million from loans to banks to cash and balances at central banks. Refer to Note 1, Accounting policy (a) for further details.
(7) Restated to reflect accounting policy change on securitisation of residential mortgages. Refer to Note 1, Accounting policy (a) and Note 30 for further details.
(8) There are no financial instruments that are subject to IAS 32 (on balance sheet) netting arrangements or subject to enforceable master netting instruments or similar agreements that are not set off in accordance with IAS 32.

Amounts due from/to holding companies and fellow subsidiaries comprise:

	Group		Bank	
	2020 €m	2019 €m	2020 €m	2019[1] €m
Amounts due from holding companies and fellow subsidiaries				
Loans to banks - amortised cost	1,517	850	1,517	850
Loans to customers - amortised cost	-	-	7	11
Loans to customers - MFVTPL	-	-	46	48
	1,517	850	1,570	909
Amounts due to holding companies and fellow subsidiaries				
Bank deposits - amortised cost	188	216	188	216
Customer deposits - amortised cost	11	12	178	443
Debt securities in issue	610	598	610	598
Subordinated liabilities	530	530	530	530
	1,339	1,356	1,506	1,787

Amounts due from holding companies and fellow subsidiaries that are MFVTPL are considered Level 3.

	Bank	
	2020 €m	2019[1] €m
At 1 January	48	89
Settlements	(2)	(42)
Credit to income statement	-	1
At 31 December	46	48

Note:
(1) Restated to reflect accounting policy change on securitisation of residential mortgages. Refer to Note 1, Accounting policy (a) and Note 30 for further details.

11. Financial instruments – classification continued

Interest rate benchmark reform

The Group continued to implement its LIBOR program in readiness 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 IBOR in 2023.

The regulators 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 program 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.
- Changes to processes and systems covering front-end, risk and finance systems.

The Group continued to develop new products 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 the funding, liquidity and risk management has also been conducted. This is expected to be fully implemented over the course of 2021. The Group also focused and 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.

The Group also remains engaged with regulators, standard setters and other market participants on key matters related with the IBOR reform and an open dialogue is expected throughout 2021.

The table below provides an overview of the Group'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.

	Group					
	Rate subject to IBOR reform			Balances not subject to IBOR reform	Expected credit losses	Total
	GBP LIBOR	USD IBOR*	EURO IBOR			
2020	€m	€m	€m	€m	€m	€m
Loans to banks - amortised cost	-	-	112	83	-	195
Loans to customers - amortised cost	448	72	2,852	17,534	(884)	20,022
Other financial liabilities	-	-	270	-	-	270
Amounts due to holding companies and fellow subsidiaries	-	-	1,140	199	-	1,339
Subordinated liabilities	2	-	-	83	-	85
Loan commitments	1,033	153	-	2,544	-	3,730
Derivatives notional	86	460	3,493	11,267	-	15,306

	Bank					
	Rate subject to IBOR reform			Balances not subject to IBOR reform	Expected credit losses	Total
	GBP LIBOR	USD IBOR*	EURO IBOR			
2020	€m	€m	€m	€m	€m	€m
Loans to customers - amortised cost	448	72	2,852	17,534	(884)	20,022
Amounts due to holding companies and fellow subsidiaries	-	-	1,140	366	-	1,506
Subordinated liabilities	2	-	-	83	-	85
Loan commitments	1,033	153	-	2,544	-	3,730
Derivatives notional	86	460	3,493	11,267	-	15,306

* USD IBOR is now expected to convert to alternative risk free rates in mid 2023 subject to consultation.

Critical accounting policy: Fair value - financial instruments

In accordance with accounting policies (k) and (r) financial instruments classified 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.

11. Financial instruments continued

Critical accounting policy: Fair value - financial instruments continued

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. It also uses the assumptions that market participants would use when pricing the asset or liability.

In determining fair value, the Group maximises the use of relevant observable inputs and minimises the use of unobservable inputs.

Where the 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 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.

Valuation of financial instruments carried at fair value

Fair Value Hierarchy

Financial instruments carried at fair value have been classified under the IFRS fair value hierarchy as follows:

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

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

The following tables show the external financial instruments carried at fair value by valuation method:

	Group and Bank							
	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								
Other financial assets (Note 13)								
- Debt securities	1,518	1,433	-	2,951	1,887	1,362	-	3,249
- Equity shares	-	-	-	-	-	-	1	1
Derivatives	-	226	-	226	-	205	-	205
Total	1,518	1,659	-	3,177	1,887	1,567	1	3,455
Liabilities								
Derivatives	-	98	-	98	-	121	-	121
Total	-	98	-	98	-	121	-	121

Level 3 Portfolio movement table

	Group and Bank					
	Other financial assets		Derivative assets		Derivative liabilities	
	2020 €m	2019 €m	2020 €m	2019 €m	2020 €m	2019 €m
At 1 January	1	4	-	33	-	(8)
Charge to other comprehensive income	-	(2)	-	-	-	-
(Charge)/credit to income statement	-	(1)	-	(33)	-	8
Sales	(1)	-	-	-	-	-
At 31 December	-	1	-	-	-	-

11. Financial instruments: valuation of financial instruments carried at fair value continued

The Group places reliance on the oversight of the Ring Fence Bank Valuation Committee on the Independent Price Verification (IPV) process and the Group eliminates its market risk on its portfolios by entering into hedging positions with NWB Plc.

Valuation techniques

The fair value of instruments are derived 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. This applies to some of the Group's debt securities.

Products that are priced using models range in complexity from comparatively vanilla such as interest rate swaps and options (e.g. interest rate caps and floors) through to more complex derivatives. The valuation of modelled products requires an appropriate model and inputs into this model.

Inputs to valuation models

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

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

Credit spreads - where available, these are derived from prices of credit default swaps or other credit based instruments, such as debt securities. For others, credit spreads are obtained from 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), European Interbank Offered Rate (EURIBOR), Overnight Index Swaps (OIS) rate and other quoted interest rates in the swap, bond and futures markets.

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

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

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

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

The 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.

IPV is a key element of the control environment. Such valuations may be directly from available prices, or may be derived using a model and variable model inputs. These valuations are reviewed 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 are made to the books and records to reflect the IPV valuation.

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

Valuation committees are made up of valuation specialists and senior business representatives from various functions and oversee pricing, reserving and valuations issues. These committees meet monthly to review and ratify any methodology changes.

The Ring Fenced Bank Valuation Committee meets monthly to address key material and subjective valuation issues, to review items escalated by valuation committees and to discuss other relevant matters including prudential valuation. UBIDAC Model Committee is responsible for approving model documentation, validation reports and performance monitoring for all models used by UBIDAC and monitoring compliance with the Model Risk policy standards.

Initial classification of a financial instrument is carried out following the principles in IFRS 13. These initial classifications are subject to senior management review. Particular attention is paid to instruments crossing from one level to another, new instrument classes or products, instruments that are generating significant profit and loss and instruments where valuation uncertainty is high.

In order to determine a reliable fair value, where appropriate, management applies valuation adjustments to the pricing information gathered from the above sources. The sources of independent data are reviewed for quality and are applied in the IPV processes using a formalised input quality hierarchy.

11. Financial instruments: valuation of financial instruments carried at fair value continued

These adjustments reflect the assessment of factors that market participants would consider in setting a price.

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 judgement is required. However, when the information regarding the liquidity in a particular market is not clear, a judgement 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 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 valuation is derived from the use of the independent market inputs calculated using the Group's model.

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

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

Non-modelled products

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

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

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

Valuation

Valuation of financial instruments in the banking books are made to the mid-price.

Credit valuation adjustments

Credit valuation adjustments (CVA) represent an estimate of the adjustment to fair value that a market participant would make to incorporate the counterparty credit risk inherent in derivative exposures. The CVA was nil as at 31 December 2020 and 31 December 2019.

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 the Group holds collateral against counterparty exposures, CVA is held to the extent that residual risk remains.

11. Financial instruments continued

Fair value of financial instruments measured at amortised cost

The following tables show the carrying values and the fair values of financial instruments on the balance sheet carried at amortised cost. The fair value of cash and balances at central banks have been determined using procedures consistent with the requirements of level 2 valuation methodologies. All other balances have been fair valued using procedures that fall within level 3 of the fair value methodologies.

	Group			
	2020 Carrying value €m	2020 Fair value €m	2019 Carrying value €m	2019 Fair value €m
Financial assets				
Cash & balances at central banks	5,874	5,874	4,221	4,221
Loans to banks - amortised cost	195	195	221	221
Loans to customers - amortised cost	20,022	19,663	21,362	20,504
Amounts due from holding companies and fellow subsidiaries				
- Loans to banks	1,517	1,517	850	850
Financial liabilities				
Bank deposits - amortised cost	3,092	3,083	1,975	1,999
Customer deposits - amortised cost	21,828	21,828	21,716	21,719
Other financial liabilities	270	270	550	550
Amounts due to holding companies and fellow subsidiaries				
- Bank deposits	188	188	216	216
- Customer deposits	11	11	12	12
- Subordinated liabilities	530	524	530	518
- Debt securities in issue	610	610	598	598
Subordinated liabilities	85	97	86	76

	Bank			
	2020 Carrying value €m	2020 Fair value €m	2019[1] Carrying value €m	2019[1] Fair value €m
Financial assets				
Cash & balances at central banks	5,874	5,874	4,221	4,221
Loans to banks - amortised cost	33	33	37	37
Loans to customers - amortised cost	20,022	19,663	21,362	20,504
Amounts due from holding companies and fellow subsidiaries				
- Loans to banks	1,517	1,517	850	850
- Loans to customers	53	53	59	59
Financial liabilities				
Bank deposits - amortised cost	3,092	3,083	1,975	1,999
Customer deposits - amortised cost	21,828	21,828	21,716	21,719
Amounts due to holding companies and fellow subsidiaries				
- Bank deposits	188	188	216	216
- Customer deposits	178	178	443	443
- Subordinated liabilities	530	524	530	518
- Debt securities in issue	610	610	598	598
Subordinated liabilities	85	97	86	76

Note:
(1) For details on restatements refer to Note 1, Accounting policy (a) and Note 30.

11. Financial instruments: not carried at fair value continued

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 loans to banks and 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 and customer demand deposits, notes in circulation, fair value approximates to carrying value.

Loans to banks and customers

In estimating the fair value of loans to banks and customers measured at amortised cost, the Group's loans are segregated into appropriate portfolios reflecting the characteristics of the constituent loans.

The principal method used to estimate fair value in the Group is to discount expected cash flows at the current offer rate for the same or similar products. For certain portfolios where there are very few or no recent transactions bespoke approaches are utilised.

Debt securities

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

Bank and customer deposits

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

Debt securities in issue and subordinated liabilities

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

Maturity Analysis

Remaining maturity

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

	Group					
	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	5,874	-	5,874	4,221	-	4,221
Derivatives	10	216	226	23	182	205
Loans to banks - amortised cost	195	-	195	221	-	221
Loans to customers - amortised cost	1,541	18,481	20,022	1,907	19,455	21,362
Amounts due from holding companies and fellow subsidiaries	1,517	-	1,517	850	-	850
Other financial assets	550	2,401	2,951	1,187	2,063	3,250
Liabilities						
Bank deposits - amortised cost	-	3,092	3,092	1,481	494	1,975
Customer deposits - amortised cost	21,648	180	21,828	21,290	426	21,716
Other financial liabilities	-	270	270	-	550	550
Lease liabilities	9	38	47	11	45	56
Amounts due to holding companies and fellow subsidiaries	199	1,140	1,339	229	1,127	1,356
Derivatives	14	84	98	11	110	121
Subordinated liabilities	-	85	85	-	86	86

11. Financial instruments – maturity analysis continued

	Bank					
	2020			2019[1]		
	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	5,874	-	5,874	4,221	-	4,221
Derivatives	10	216	226	23	182	205
Loans to banks - amortised cost	33	-	33	37	-	37
Loans to customers - amortised cost	1,541	18,481	20,022	1,907	19,455	21,362
Amounts due from holding companies and fellow subsidiaries	1,570	-	1,570	909	-	909
Other financial assets	550	2,401	2,951	1,187	2,063	3,250
Liabilities						
Bank deposits - amortised cost	-	3,092	3,092	1,481	494	1,975
Customer deposits - amortised cost	21,648	180	21,828	21,290	426	21,716
Lease liabilities	9	38	47	11	45	56
Amounts due to holding companies and fellow subsidiaries	366	1,140	1,506	660	1,127	1,787
Derivatives	14	84	98	11	110	122
Subordinated liabilities	-	85	85	-	86	86

(1) For details on restatements refer to Note 1, Accounting policy (a) and Note 30.

Liabilities by contractual cash flow maturity

The following tables show, by contractual maturity, the undiscounted cash flows payable from the balance sheet date, including future payments of interest. The balances in the tables do not agree directly to the Group or Bank balance sheets, as the tables include all cash outflows relating to principal and future coupon payments presented on an undiscounted basis.

	Group						
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	>20 years €m
Liabilities by contractual maturity							
Bank deposits - amortised cost	-	-	3,053	-	-	-	-
Customer deposits - amortised cost	20,661	986	162	19	-	-	-
Other financial liabilities	-	-	-	-	-	-	270
Amounts due to holding companies and fellow subsidiaries	199	-	530	610	-	-	-
Lease liabilities	3	6	13	12	9	4	-
Derivatives held for hedge accounting	-	1	1	2	-	-	-
Subordinated liabilities	-	6	10	10	25	-	85
	20,863	999	3,769	653	34	4	355
Guarantees and commitments notional amount							
Guarantees[1]	142	-	-	-	-	-	-
Commitments[2]	3,745	-	-	-	-	-	-
	3,887	-	-	-	-	-	-
2019							
Liabilities by contractual maturity							
Bank deposits - amortised cost	-	1,476	492	-	-	-	-
Customer deposits - amortised cost	19,730	1,562	408	19	-	-	-
Other financial liabilities	-	-	-	-	-	-	550
Amounts due to holding companies and fellow subsidiaries	229	-	530	-	598	-	-
Lease liabilities	3	7	14	12	14	6	-
Derivatives held for hedge accounting	-	3	1	4	(2)	-	-
Subordinated liabilities	-	6	10	10	26	-	91
	19,962	3,054	1,455	45	636	6	641
Guarantees and commitments notional amount							
Guarantees[1]	157	-	-	-	-	-	-
Commitments[2]	3,665	-	-	-	-	-	-
	3,822	-	-	-	-	-	-

For notes relating to this table refer to page 53.

11. Financial instruments – maturity analysis continued

	Bank						
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	>20 years €m
Liabilities by contractual maturity							
Bank deposits - amortised cost	-	-	3,053	-	-	-	-
Customer deposits - amortised cost	20,661	986	162	19	-	-	-
Amounts due to holding companies and fellow subsidiaries	367	-	530	610	-	-	-
Lease liabilities	3	6	13	12	9	4	-
Derivatives held for hedge accounting	-	1	1	2	-	-	-
Subordinated liabilities	-	6	10	10	25	-	85
	21,031	999	3,769	653	34	4	85
Guarantees and commitments notional amount							
Guarantees[1]	142	-	-	-	-	-	-
Commitments[2]	3,745	-	-	-	-	-	-
	3,887	-	-	-	-	-	-
2019							
Liabilities by contractual maturity							
Bank deposits - amortised cost	-	1,476	492	-	-	-	-
Customer deposits - amortised cost	19,730	1,562	408	19	-	-	-
Amounts due to holding companies and fellow subsidiaries[3]	658	-	-	530	598	-	-
Lease liabilities	3	7	14	12	14	6	-
Derivatives held for hedge accounting	-	3	1	4	(2)	-	-
Subordinated liabilities	-	6	10	10	26	-	91
	20,391	3,054	925	575	636	6	91
Guarantees and commitments notional amount							
Guarantees[1]	157	-	-	-	-	-	-
Commitments[2]	3,665	-	-	-	-	-	-
	3,822	-	-	-	-	-	-

Notes:
(1) The Bank is only called upon to satisfy a guarantee when the guaranteed party fails to meet its obligations. The Bank expects most guarantees it provides to expire unused.
(2) The Bank has given commitments to provide funds to customers under undrawn formal facilities, credit lines and other commitments to lend subject to certain conditions being met by the counterparty. The Bank does not expect all facilities to be drawn, and some may lapse before drawdown.
(3) Restated to reflect accounting policy change on securitisation of residential mortgages. Refer to Note 1, Accounting policy (a) and Note 30 for further details.

The tables above show the timing of cash outflows to settle financial liabilities. Financial liabilities are included at the earliest date on which the counterparty can require repayment regardless of whether or not such early repayment results in a penalty. If repayment is triggered by, or is subject to, specific criteria such as market price hurdles being reached, the liability is included at the earliest possible date that the conditions could be fulfilled without considering the probability of the conditions being met. For example, if a structured note automatically prepays when an equity index exceeds a certain level, the cash outflow will be included in the less than three months period whatever the level of the index at the year end.

12. Loan impairment provisions

Loan exposure and impairment metrics

The table below summarises loans and related credit impairment measures on an IFRS 9 basis.

	Group	
	2020 €m	2019* €m
Loans - amortised cost [1]		
Stage 1	16,007	18,111
Stage 2	3,676	1,930
Stage 3	1,376	2,394
Intra-NatWest Group [2]	1,517	850
Total	22,576	23,285
Loan impairment provisions		
ECL provisions		
Stage 1	50	34
Stage 2	295	63
Stage 3	548	814
Total	893	911
ECL provision coverage [3,4]		
Stage 1 (%)	0.3	0.2
Stage 2 (%)	8.0	3.3
Stage 3 (%)	39.8	34.0
Total	4.2	4.1
ECL charge/(credit)		
Stage 1	(76)	(42)
Stage 2	293	(40)
Stage 3	64	44
Third party	281	(38)
Total	281	(38)
ECL loss rate - annualised (%)	1.3	(0.2)
Amounts written off	246	97
Risk profile of loans to customers - non performing loans [5]		
Credit-impaired	1,376	2,394
Not credit-impaired	123	112
Total	1,499	2,506

*Restated to reflect reclassification of €3,684 million from loans to banks to cash and balances at central banks. Refer to Note 1, Accounting policy (a) for further details.

Notes:
(1) Refer to Note 11 for balance sheet analysis of financial assets that are classified as AC and FVOCI, the starting point for IFRS 9 ECL framework assessment. The above table relates to gross loans only and excludes amounts that are outside the scope of the ECL framework, primarily related to charge cards where the underlying risk of loss is captured within the customer's linked current account and non-credit risk assets.
(2) Amounts due from holding companies and fellow subsidiaries (Intra-NatWest Group) are all considered as Stage 1.
(3) ECL provisions coverage is ECL provisions divided by loans - amortised cost.
(4) ECL provisions coverage and ECL loss rates are calculated on third party loans and related ECL provisions and charge respectively.
(5) Non-performing as per the European Banking Authority definition.

Credit risk enhancement and mitigation

For information on credit risk enhancement and mitigation held as security, refer to risk management - credit risk on pages 83 and 84.

Critical accounting estimates

The Group's loan impairment provisions have been established in accordance with IFRS 9. Accounting policy (l) in Note 1 sets out how the expected loss approach is applied. At 31 December 2020, loan impairment provisions amounted to €893 million (2019: €911 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 discounted at the loan's original effective interest rate.

The measurement of credit impairment under the IFRS 9 expected loss model depends on management's assessment of any potential deterioration in the credit worthiness of the borrower, its modelling of expected performance and the application of economic forecasts. All three elements require judgements that are potentially significant to the estimate of impairment losses.

12. Loan impairment provisions continued

IFRS 9 ECL model design principles

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

- Unbiased – material regulatory conservatism has been removed from IFRS 9 parameters to produce unbiased estimates.
- Point-in-time – IFRS 9 parameters reflect actual economic conditions at the reporting date instead of long-run average or downturn conditions.
- Forward-looking – IFRS9 PD estimates and, where appropriate, EAD and LGD estimates reflect forward-looking economic conditions.
- For the life of the loan - all models produce a term structure 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 current probability of default over the remaining lifetime) with the equivalent lifetime PD as determined at the date of initial recognition.

The general approach for the IFRS 9 LGD models has been to build bespoke models or leverage the Basel LGD models with bespoke IFRS 9 adjustments to ensure unbiased estimates, i.e. use of effective interest rate as the discount rate and the removal of: downturn calibration, indirect costs, other conservatism and regulatory floors.

Approach for multiple economic scenarios (MES)

The determination of a base case (or central) economic scenario has the most material impact (of all forward-looking scenarios) on the measurement of loss. Further details are given in Note 23 to the accounts.

13. Other financial assets

	Group and Bank				
	Debt securities			Equity shares	
	Central and local government	Other	Total	Unlisted	Total
2020	€m	€m	€m	€m	€m
Fair value through other comprehensive income	1,518	1,433	2,951	-	2,951
2019					
Fair value through other comprehensive income	1,887	1,362	3,249	1	3,250

A net unrealised gain of €13 million (2019 - €3 million loss) was recorded during the financial year.

14. Investments in Group undertakings

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

	Bank	
	2020	2019
	€m	€m
At 1 January	5	7
Dissolution	-	(2)
At 31 December	5	5

All of the Group undertakings, as detailed in Note 29, are consolidated in the Group's financial statements. All have an accounting reference date of 31 December.

15. Other assets

	Group		Bank	
	2020	2019	2020	2019
	€m	€m	€m	€m
Prepayments	7	8	5	6
Accrued income	4	5	4	5
Retirement benefit assets (Note 6)	309	225	309	225
Deferred tax (Note 8)	10	184	10	184
Property, plant and equipment (Note 16)	81	92	81	92
Intangible assets	-	1	-	1
Other assets	9	22	9	22
	420	537	418	535

16. Property, plant and equipment

	Group and Bank					
2020	Freehold land and buildings €m	Leases of 50 years or more unexpired €m	Leases of 50 years or less unexpired €m	Computer and other equipment €m	Right of use property €m	Total €m
Cost or valuation:						
At 1 January	65	-	70	52	176	363
Additions	-	-	1	1	3	5
Disposals and write-off of fully depreciated assets	-	-	-	-	(7)	(7)
At 31 December	65	-	71	53	172	361
Accumulated depreciation, impairment and amortisation:						
At 1 January	29	-	49	40	153	271
Disposals and write-off of fully depreciated assets	-	-	-	-	(6)	(6)
Charge for the financial year	1	-	3	2	4	10
Impairment of property, plant and equipment	2	-	-	-	3	5
At 31 December	32	-	52	42	154	280
Net book value at 31 December	33	-	19	11	18	81
2019						
Cost or valuation:						
At 1 January	65	8	59	47	-	179
Implementation of IFRS16	-	-	-	-	176	176
Reclassifications	-	(8)	8	-	-	-
Additions	-	-	4	5	-	9
Disposals and write-off of fully depreciated assets	-	-	(1)	-	-	(1)
At 31 December	65	-	70	52	176	363
Accumulated depreciation, impairment and amortisation:						
At 1 January	27	4	42	38	-	111
Implementation of IFRS16	-	-	-	-	135	135
Reclassifications	-	(4)	4	-	-	-
Charge for the financial year	1	-	3	2	7	13
Impairment of property, plant and equipment	1	-	-	-	11	12
At 31 December	29	-	49	40	153	271
Net book value at 31 December	36	-	21	12	23	92

17. Other financial liabilities

	Group	
	2020 €m	2019 €m
Debt securities in issue - amortised cost	270	550

18. Subordinated liabilities

	Group and Bank	
Undated loan capital	2020 €m	2019 €m
€31 million 11.375% perpetual tier two capital	55	55
£11 million 11.75% perpetual tier two capital	28	30
£1.1 million perpetual floating rate tier two capital (6 month sterling LIBOR plus 2.55%)	2	1
	85	86

Claims in respect of the Bank's loan capital are subordinate to the claims of other creditors. None of the loan capital is secured.

Note:
(1) The table above excludes amounts due to holding company and fellow subsidiaries of €530 million (2019 - €530 million).

19. Other liabilities

	Group and Bank	
	2020	2019
	€m	€m
Accruals	25	40
Deferred income	7	8
Provisions for liabilities and charges	118	170
Retirement benefit liabilities (Note 6)	1	-
Other liabilities	130	99
Lease liabilities (Note 21)	47	56
	328	373

The following amounts are included within provisions for liabilities and charges:

	Group and Bank							
	Tracker mortgage examination	Other customer remediation	Litigation	Global Restructuring Group	Property	Restructuring	Other	Total
	€m	€m	€m	€m	€m	€m	€m	€m
At 1 January 2019	86	126	21	13	19	6	16	287
Implementation of IFRS 16 on 1 January 2019	-	-	-	-	(11)	-	-	(11)
Charge to income statement	15	-	3	3	-	25	(4)	42
Utilised in the financial year	(58)	(70)	(1)	(10)	-	(6)	(3)	(148)
At 1 January 2020	43	56	23	6	8	25	9	170
Reclassification	-	1	-	-	-	-	(1)	-
Charge/(release) to income statement	23	(5)	(6)	(3)	(3)	3	4	13
Utilised in the financial year	(15)	(32)	(5)	(2)	-	(10)	(1)	(65)
At 31 December 2020	51	20	12	1	5	18	11	118

There are uncertainties as to the eventual cost of redress in relation to certain of the provisions contained in the table above. Assumptions relating to these are inherently uncertain and the ultimate financial impact may be different from the amount provided.

Critical accounting policy: Provisions for liabilities

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

Tracker mortgage examination

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.

The CBI stated that the intended purpose of the review was to identify any cases where customers' contractual rights under the terms of their mortgage agreements were not fully honoured, or where lenders did not fully comply with various regulatory requirements and standards regarding disclosure and transparency for customers. During the financial year the Group continued to progress customer remediation.

At 31 December 2020 the Group has a provision of €51 million in respect of remediation and other associated costs (2019 - €43 million). The Group expects that the majority of this provision will be utilised within 12 months. Due to the scale and complexity of the review a number of assumptions are inherent in the calculation of the provision which represents management's best estimate of expected remediation and associated costs.

Other customer remediation

As part of an internal review of the wider personal and commercial loan portfolios, extending from the tracker mortgage examination programme, the Group identified further legacy business issues. Programmes are ongoing to identify and remediate impacted customers. Any issues relating to the tracker mortgage examination are included in the tracker mortgage examination provision as outlined above.

19. Other liabilities continued

At 31 December 2020 the Group has a provision of €20 million (2019 - €56 million) based on management's best estimate of expected remediation and project costs relating to the above internal review. Assumptions relating to these are inherently uncertain and the ultimate financial impact may be different from the amount provided.

Customer remediation across these issues has progressed in 2020. The Group expects the majority of this provision to be utilised within the next 12 months.

Global Restructuring Group (GRG)
The Group holds a provision of €1 million (2019 - €6 million) in respect of the Financial Conduct Authority (FCA) review of the treatment of SME customers, relating to the automatic refund of complex fees for SME customers that were in GRG between 2008 and 2013, additional redress costs arising from a new complaints process and the associated operational costs.

Background information in relation to the FCA review of SME customers is given in Note 24. The Group expects the majority of this provision to be utilised within the next 12 months.

Property
The property provisions principally comprise provisions relating to property closures. The timing for such payments is uncertain.

Restructuring
The restructuring provisions principally comprise redundancy costs. The Group expects the majority of these provisions to be utilised within the next 12 months.

20. Share capital presented as equity

	Group and Bank			
	Allotted, called up and fully paid		Authorised	
	2020 €m	2019 €m	2020 €m	2019 €m
Equity shares:				
Ordinary B shares of €1.27	1,612	1,612	2,223	2,223
Ordinary B shares of €1	1,745	1,745	2,400	2,400
Ordinary A shares of £1	22	22	31	34
Total share capital	3,379	3,379	4,654	4,657

	Allotted, called up and fully paid		Authorised	
Number of shares	2020 Millions	2019 Millions	2020 Millions	2019 Millions
Equity shares:				
Ordinary B shares of €1.27	1,268	1,268	1,750	1,750
Ordinary B shares of €1	1,745	1,745	2,400	2,400
Ordinary A shares of £1	15	15	25	25
Total share capital	3,028	3,028	4,175	4,175

All share classes rank pari passu in all respects.

During 2019, the Bank carried out a reduction of company capital under Section 84 of the Companies Act 2014. 168,110,236 issued and fully paid ordinary shares of €1.27 and share premium of €286,500,000 were cancelled and the reserve of €500 million arising was transferred to retained earnings.

The Bank did not pay any interim dividend during the financial year (2019 - €500 million).

21. Leases

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

Lessees

	Group and Bank	
	2020 €m	2019 €m
Amounts recognised in income statement		
Interest payable	1	2
Depreciation and impairment[1]	7	18

	Group and Bank	
	2020 €m	2019 €m
Amounts recognised on balance sheet		
Right of use assets included in property, plant and equipment (Note 16)	18	23
Lease liabilities (Note 19)	(47)	(56)

The total cash outflows in respect of leases for the financial year ended 31 December 2020 was €10 million (2019: €10 million).

Note:
(1) Includes impairment on right of use assets of €3 million (2019: €11 million).

Lessor

Acting as a lessor, the 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.

	Group and Bank	
Amounts included in income statement	2020 €m	2019 €m
Finance leases		
Finance income on the net investment in leases	15	11

Amount receivable under finance leases – IFRS16

	Group and Bank	
	2020 €m	2019 €m
1 year and under	146	154
Over 1 to 2 years	103	104
2 to 3 years	69	76
4 to 5 years	51	61
Over 5 years	5	4
Lease payments total	374	399
Unearned income	(10)	(23)
Present value of lease payments	364	376

22. Collateral and securitisations

Securities repurchase agreements and lending transactions

The Group enters into securities repurchase agreements and securities lending transactions under which it receives or transfers cash or securities as collateral in accordance with normal practice. Generally, the agreements require additional collateral to be provided if the value of the securities fall below a predetermined level.

Under standard terms for repurchase transactions in the Republic of Ireland, the recipient of the collateral has an unrestricted right to sell or repledge it, subject to returning equivalent securities on settlement of the transaction.

There were no securities transferred under repurchase transactions included within debt securities on the balance sheet at 31 December 2020 and 31 December 2019.

There were no securities received as collateral under reverse repurchase agreements at 31 December 2020 and 31 December 2019.

Securitisations and other asset transfers

The Group undertakes securitisations to fund specific portfolios of assets. In a securitisation, assets, or interests in a pool of assets, are transferred generally to a SPE which then issues liabilities to third party investors. SPEs are vehicles established for a specific, limited purpose, usually 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.

It is primarily the extent of risks and rewards assumed that determines whether these entities are consolidated in the Group's financial statements.

Assets pledged as collateral

The Group pledges other collateral with its counterparties in respect of:

	Group		Bank	
	2020	2019	2020	2019
Group assets charged as security for liabilities	€m	€m	€m	€m
Loans to customers	9,111	4,373	9,111	4,373

	Group		Bank	
	2020	2019	2020	2019
Liabilities secured by charges on assets	€m	€m	€m	€m
Other financial liabilities				
- debt securities in issue[1]	2,327	2,803	-	-
	2,327	2,803	-	-

Note:
(1) At 31 December 2020, €2,057 million (2019 - €2,253 million) of the debt securities in issue from the Group were held as assets by the Bank and consolidated in the Group accounts.

The following table sets out the asset categories together with carrying amounts for those assets that have been pledged as collateral and continue to be recognised on the balance sheet.

	Group and Bank	
	2020	2019
	€m	€m
Residential mortgages		
- securitisations	2,139	2,610
- central bank secured borrowing	6,972	1,763
	9,111	4,373

The securitisation assets relate to two SPEs formed during 2018, Ardmore Securities No. 1 Designated Activity Company and Dunmore Securities No. 1 Designated Activity Company. These limited recourse entities were controlled by the Group and included in the consolidated financial statements on that basis.

At 31 December 2020, €20 million (2019 - €20 million) of UBIDAC bonds were pledged as collateral to Ulster Bank Pension Scheme and €17 million (2019 - €17 million) of UBIDAC bonds were pledged as collateral to the trustees of the First Active Pension Scheme under contingent asset arrangements put in place to cover the Risk Reserve requirements arising under the Minimum Funding Standard framework.

23. Risk management

Risk management framework

Introduction

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

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

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

Culture

Risk culture is at the centre of both the risk management framework and risk management practice. The target culture across Ulster Bank is one in which risk is consistently part of the way employees work and think. The target risk culture behaviours are aligned to our core Values. Our Code sets out clear expectations of the behaviours required of staff through Critical People Capabilities and Conduct Rules.

Training

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

Our Code

A Code of Conduct is in place across the Group. It sets out what we expect of each other, and what our customers, suppliers, shareholders and the communities in which we're part of expect of us.

Three lines of defence

The three lines of defence model is used across the Group to articulate accountabilities and responsibilities for managing risk. The first line is accountable for managing its own risks within the appetite set by the Board. It incorporates most roles in the bank – including those in the customer-facing business units, as well as support functions such as Technology and Services.

The second line – which is responsible for the design and maintenance of the risk management framework and proactive oversight as well as advising, monitoring, approving, challenging and reporting on the first line's risk-taking activities – is the Risk function. The third line of defence is Internal Audit, which provides assurance to the Group Audit Committee on the appropriateness of the design and operational effectiveness of governance, risk management and internal controls to monitor and mitigate material risks.

Risk appetite

Risk appetite defines the level and types of risk that that the Group is willing to accept in order to achieve its strategic objectives and business plans. It links the goals and priorities to risk management in a way that guides and empowers staff to serve customers well and achieve financial targets.

The risk appetite framework – which is approved annually by the Board – supports effective risk management by promoting sound risk-taking through a structured approach, within agreed boundaries. It also ensures emerging risks and risk-taking activities that would be out of appetite are identified, assessed, escalated and addressed in a timely manner.

Risk appetite provides clarity on the scale and type of activities that can be undertaken in a manner that is easily conveyed to staff. Risk appetite is communicated across the Group through qualitative statements of appetite and quantitative measures and is set over a short, medium and long-term horizon.

The Group continues to work with each business to enhance the management information linked to their risk appetite. This is required to help ensure appropriate customer outcomes are delivered and that management information is compliant with the Basel Committee on Banking Supervision's principles for effective risk data aggregation and risk reporting.

The annual process of establishing risk appetite is completed alongside the business and financial planning process. This ensures plans and risk appetite are appropriately aligned. The Board sets risk appetite for the most material risks to help ensure the Group is well placed to meet its priorities and long-term targets even under challenging economic environments. It is the basis on which the Group remains safe and sound while implementing its strategic business objectives.

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

Risk controls and their associated limits are an integral part of the risk appetite approach and a key part of embedding risk appetite in day-to-day risk management decisions. A clear tolerance for material risk types is set in alignment with business activities. The Group policies directly support the qualitative aspects of risk appetite. They ensure that appropriate controls are set and monitored.

23. Risk management – Risk management framework continued

Identification and measurement

Identification and measurement within the risk management process comprise:

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

The financial and non-financial risks that the Group faces each day are detailed in the Risk Directory. This provides a common risk language to ensure consistent terminology is used across the Group. The Risk Directory is subject to annual review and approval by the Board. This ensures that it continues to provide a comprehensive and meaningful list of the inherent risks within the businesses.

Mitigation

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

Early identification, and effective management, of changes in legislation and regulation are critical to the successful mitigation of compliance and conduct risk. Those risks assessed as having a high or medium-high impact are managed more closely. Top and emerging risks that could affect future results and performance are reviewed and monitored. Action is taken to mitigate potential risks as and when required. Further in-depth analysis, including the stress testing of exposures relative to the risk, is also carried out.

Testing and monitoring

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

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

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

Stress testing

Stress testing – capital management

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

Stress testing includes:

- Scenario testing, which examines the impact of a hypothetical future state to define changes in risk factors.
- Sensitivity testing, which examines the impact of an incremental change to one or more risk factors.

The process for stress testing consists of four broad Stages:

Define scenarios	• Identify Group-specific vulnerabilities and risks. • Define and calibrate scenarios to examine risks and vulnerabilities. • Formal governance process to agree scenarios.
Assess impact	• Translate scenarios into risk drivers. • Assess impact to current and projected P&L and balance sheet. • Impact assessment captures input from across the business divisions.
Calculate results and assess implications	• Aggregate impacts into overall results. • Results form part of risk management process. • Scenario results are used to inform the Group's business and capital plans.
Develop and agree management actions	• Scenario results are analysed by subject matter experts and appropriate management actions are then developed. • Scenario results and management actions are reviewed and agreed by senior management through senior committees including the Asset & Liability Committee, the Board Risk Committee and the Board.

Stress testing is used widely across UBIDAC, the diagram below summarises areas of focus:

23. Risk management framework continued

Specific areas that involve capital management include:

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

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

Capital sufficiency – going concern forward-looking view

Going concern capital requirements are examined on a forward-looking basis – including as part of the annual budgeting process – by assessing the resilience of capital adequacy and leverage ratios under hypothetical future states. These assessments include assumptions about regulatory and accounting factors (such as IFRS 9). They are linked to economic variables and impairments and seek to demonstrate that the Group maintains sufficient CET1 capital. A range of future states are tested. In particular, capital requirements are assessed:

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

The examination of capital requirements under normal economic and adverse market conditions enables the Group to determine whether its projected business performance meets internal and regulatory capital requirements.

The examination of capital requirements under adverse economic and market conditions is assessed through stress testing. The results of stress tests are not only used across the Group but also by the regulators to set specific capital buffers. The Group takes part in stress tests run by regulatory authorities to test industry-wide vulnerabilities under crystallising global and domestic systemic risks.

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

Internal assessment of capital adequacy

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

The ICAAP is used to form a view of capital adequacy separately to the minimum regulatory requirements. The ICAAP is used by the regulator to assess the Group's specific capital requirements through the ICAAP framework including Internal Economic Assessment.

Capital allocation

The Group has mechanisms to allocate capital across its business divisions. These aim to optimise the use of capital resources taking into account applicable regulatory requirements; strategic and business objectives; and risk appetite.

Governance

Capital management is subject to substantial review and governance. The Board approves the capital plans as well as the results of the stress tests relating to those capital plans.

Stress testing – liquidity

Liquidity risk monitoring and contingency planning

A suite of tools is used to monitor, limit and stress test the risks on the balance sheet. Limit frameworks are in place to control the level of liquidity risk, asset and liability mismatches and funding concentrations. Liquidity risks are reviewed daily, with performance reported to the Asset & Liability Committee at least monthly. Liquidity Condition Indicators are monitored daily. This ensures any build-up of stress is detected early and the response escalated appropriately through recovery planning.

Internal assessment of liquidity

Under the liquidity risk management framework, the Group maintains its Internal Liquidity Adequacy Assessment Process (ILAAP). This includes assessment of net stressed liquidity outflows under a range of extreme but plausible stress scenarios detailed in the table below.

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

23. Risk management – Risk management framework continued

Internal assessment of liquidity continued

Type	Description
Ad-hoc scenario	Additional scenario measuring liquidity coverage based on selected vulnerabilities as part of ILAAP.

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

Stress testing – recovery and resolution planning

The Group's recovery plan explains how UBIDAC would identify and respond to a financial stress event and restore its financial position so that it remains viable on an ongoing basis.

The recovery plan ensures risks that could delay the implementation of a recovery strategy are highlighted and preparations are made to minimise the impact of these risks. Preparations include:

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

The Group recovery plan also feeds into, and forms part of, the NatWest Group recovery plan.

The plan is intended to enable the Group to maintain critical services and products it provides to its customers, maintain its core business lines and operate within risk appetite while restoring the Group's financial condition. It is assessed for appropriateness on an ongoing basis and is updated annually. The plan is reviewed and approved by the Board prior to submission to the regulators each year.

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

Under the resolution assessment part of the PRA rulebook, NatWest Group is required to carry out an assessment of its preparations for resolution, submit a report of the assessment to the PRA and publish a summary of this report. The Group also complete a resolvability assessment that is submitted to the Single Resolution Board ("SRB").

Resolution would be implemented if NatWest Group was assessed by the UK authorities to have failed and the resolution authority put it into resolution. The process of resolution is owned and implemented by the Bank of England (as the UK resolution authority). The SRB are the resolution authority for UBIDAC. Following the exit of the UK from the EU, the SRB and Bank of England signed a cooperation agreement that anticipates the continued communication of resolution decisions between the two resolution authorities. A multi-year programme is in place to further develop resolution capability in line with the requirements of the resolution authorities.

Stress testing – market risk

Non-traded market risk

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

Scenario analysis based on hypothetical adverse scenarios is performed on non-traded exposures as part of regulatory stress exercises. The Group also produces an internal scenario analysis as part of its financial planning cycles.

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

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

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

23. Risk management continued

Credit risk

Definition

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

Sources of risk

The principal sources of credit risk for the Group are lending and related undrawn commitments. Derivatives and securities financing and debt securities are also a source of credit risk, primarily related to Treasury activities.

Governance

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

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

Risk appetite

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

Personal

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

Wholesale

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

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

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

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

Identification and measurement

Credit stewardship

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

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

Asset quality

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

Counterparty credit risk

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

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

Mitigation

Risk mitigation techniques, as set out in the appropriate credit policies and transactional acceptance standards, are used in the management of credit portfolios. These techniques mitigate credit concentrations in relation to an individual customer, a borrower group or a collection of related borrowers. Where possible, customer credit balances are netted against obligations. Mitigation tools can include structuring a security interest in a physical or financial asset, the use of credit derivatives including credit default swaps, credit-linked debt instruments and securitisation structures, and the use of guarantees and similar instruments (for example, credit insurance) from related and third parties. Property is used to mitigate credit risk across a number of portfolios, in particular residential mortgage lending and commercial real estate (CRE).

23. Risk management - Credit risk continued

Mitigation continued

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

Residential mortgages – The Group takes collateral in the form of residential property to mitigate the credit risk arising from mortgages. The Group values residential property during the loan underwriting process by appraising properties individually. The Group updates portfolio residential property values monthly using the Central Statistics Office residential property price index. The current indexed value of the property is a component of capital and provisioning calculations.

Commercial real estate valuations – The Group has a panel of chartered surveying firms that cover the spectrum of geography and property sectors in which the Group takes collateral. Suitable valuers for particular assets are contracted through a single service agreement to ensure consistency of quality and advice. Valuations are generally commissioned when an asset is taken as security; a material increase in a facility is requested; or a default event is anticipated or has occurred. Assets are revalued in line with the Central Bank of Ireland threshold requirements, which permits indexation for lower value assets, but demands regular Red Book valuations for distressed higher value assets.

Assessment and monitoring

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

Personal

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

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

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

Wholesale

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

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

For lower risk transactions below specific thresholds, credit decisions can be approved through self-sanctioning within the business. This process is facilitated through an auto-decision making system, which utilises scorecards, strategies and policy rules. Such credit decisions must be within the approval authority of the relevant business underwriter.

For all other transactions credit is only granted to customers following joint approval, one from the business and the other from the credit risk function. The joint business and credit approvers act within a delegated approval authority under the Wholesale Credit Authorities Framework Policy. The level of delegated authority held by approvers is dependent on their experience and expertise with only a small number of senior executives holding the highest approval authority. Both business and credit approvers are accountable for the quality of each decision taken, although the credit risk approver holds ultimate sanctioning authority.

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

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

Problem debt management

Personal

Early problem identification

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

23. Risk management – Credit risk continued

Problem debt management continued

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

Collections

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

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

Recoveries

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

Wholesale

Early problem identification

Each segment and sector have defined early warning indicators to identify customers experiencing financial difficulty, and to increase monitoring if needed. Early warning indicators may be internal, such as a customer's bank account activity, or external, such as a customer's share price. If early warning indicators show a customer is experiencing potential or actual difficulty, or if relationship managers or credit officers identify other signs of financial difficulty, they may decide to classify the customer as Risk of Credit Loss.

Risk of Credit Loss

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

Heightened Monitoring customers are performing customers that have met certain characteristics, which have led to significant credit deterioration. Collectively, characteristics reflect circumstances that may affect the customer's ability to meet repayment obligations. Characteristics include trading issues, covenant breaches, material PD downgrades and past due facilities.

Heightened Monitoring customers require pre-emptive actions (outside the customer's normal trading patterns) to return or maintain their facilities within the Group's current risk appetite prior to maturity.

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

Once classified as either Heightened Monitoring or Risk of Credit Loss, a number of mandatory actions are taken in accordance with policies. Actions include a review of the customer's credit grade, facility and security documentation and the valuation of security. Depending on the severity of the financial difficulty and the size of the exposure, the customer relationship strategy is reassessed by credit officers, by specialist credit risk or relationship management units in the relevant business, or by the Restructuring team.

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

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

23. Risk management – Credit risk continued

Problem debt management continued

Risk of Credit loss continued

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

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

Restructuring

For the Wholesale problem debt portfolio, customer relationships are mainly managed by the Restructuring team. Restructuring protects the Group's capital by working with corporate and commercial customers in financial difficulty on their restructuring and repayment strategies and ideally restoring the customers to financial health. Restructuring will always aim to recover capital fairly and efficiently.

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

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

Forbearance

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

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

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

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

Types of forbearance

Personal

In the Personal portfolio, forbearance may involve payment concessions and loan rescheduling (including extensions in contractual maturity), capitalisation of arrears, temporary interest-only or partial capital and interest arrangements. Forbearance support is provided for both mortgages and unsecured lending.

Wholesale

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

Monitoring of forbearance

Personal

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

The incidence of the main types of Personal forbearance on the balance sheet as at 31 December, presented using the gross carrying value is analysed below. Definitions are based on those used within the CBI forbearance guidelines.

	2020 €m	2019 €m
Term extensions – capital repayment and interest only	164	234
Interest only conversions	49	76
Payment concessions/holidays	1,002	1,489
Capitalisation of arrears	577	810
Other	19	11
Total	1,811	2,620

Wholesale

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

Impact of COVID-19

Risk appetite

Personal

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

23. Risk management – Credit risk continued

Impact of COVID-19 continued

Wholesale

The Group's credit stewardship includes carrying out regular portfolio or customer reviews and problem debt identification and management. At the outset of the COVID-19 pandemic, Wholesale credit risk undertook a vulnerability assessment of sectors and conducted more frequent monitoring of these portfolios, including sub-sector and single name analysis. Additional oversight forums for both new and existing customer requests linked to sector, customer viability and transaction value were also introduced. Monitoring of government support scheme lending, including tracking customer lending journeys to prioritise resources, ensured customers could be supported in a timely manner. Risk appetite limits were reduced to reflect current risks and remain under constant review.

In line with existing credit policy parameters, relationship managers were able to defer annual reviews for a maximum of three months. During the COVID-19 pandemic this was utilised to provide capacity to focus on supporting customer payment break requests. Customer review meetings took place virtually unless a specific customer request was made, prior approval obtained and a risk assessment carried out.

Mitigation

Commercial real estate valuations

Commercial property valuations were unable to be conducted for periods across 2020, principally due to national lockdown travel restrictions, during which time physical valuations were postponed. Following these periods, government guidance in respect of local and national lockdowns, confirmed that full internal property inspections could continue subject to adopting COVID-19 secure protocols.

However, it should be noted that this required the full co-operation of occupiers and in addition, some commercial premises remained closed. Due to the limitations of some property valuations, The Royal Institute for Chartered Surveyors introduced a Material Valuation Uncertainty Clause (MVUC) for use where there is still a lot of uncertainty for a location or particular sub-sector (for example, assets valued with reference to their trading potential such as hotels).

Assessment and monitoring

Personal

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

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

Wholesale

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

Within the Wholesale portfolio, customer credit grades were reassessed as and when a request for financing was made, a scheduled customer credit review undertaken or a material event specific to that customer occurred.

- Large or complex customers were graded using financial forecasts, incorporating both the impact of COVID-19, and the length of the time to return to within credit appetite metrics.
- All other customers who were not subject to any wider significant increase in credit risk (SICR) triggers and who were assessed as having the ability in the medium-term post-crisis to be viable and meet credit appetite metrics were graded using audited accounts.
- The Group identified those customers for whom additional borrowing would require remedial action to return to within risk appetite over the medium term, and customers who were exhibiting signs of financial stress before the COVID-19 crisis. These customers were graded with reference to the impact COVID-19 had on their business.
- Tailored guidance applies to financial institutions and, where appropriate, specialist credit grading models such as CRE.

Within the Wholesale portfolio, additional monitoring was put in place to identify and monitor specific sectors which had been particularly adversely affected by the COVID-19 pandemic.

Problem debt management

Personal

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

In addition, during the period in which customers could request and obtain payment holidays, the Group suspended new formal recovery action, for Personal customers.

Wholesale

In response to the COVID-19 pandemic, a new framework was introduced to categorise clients in a consistent manner across the Wholesale portfolio, based on the impact of the pandemic on their financial position and outlook in relation to the sector risk appetite. This framework was extended to all Wholesale customers and supplemented the Risk of Credit Loss (RoCL) framework in assessing whether customers exhibit a SICR, and if support was considered to be granting forbearance.

Forbearance

Personal

In the absence of any other forbearance or credit risk triggers, customers granted COVID-19 related payment holidays were not considered forborne and were not subject to Collections team engagement.

23. Risk management – Credit risk continued

Impact of COVID-19 continued

Wholesale

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

Credit risk models

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

Credit risk models are designed to provide:

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

Impairment, provisioning and write-offs

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

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

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

Model build:

- The determination of economic indicators that have most influence on credit loss for each portfolio and the severity of impact (this leverages existing stress testing mechanisms).
- The build of term structures to extend the determination of the risk of loss beyond twelve months that will influence the impact of lifetime loss for assets in Stage 2.

Model application:

- The assessment of the significant increase in credit risk and the formation of a framework capable of consistent application.
- The determination of asset lifetimes that reflect behavioural characteristics while also representing management actions and processes (using historical data and experience).
- The determination of a base case (or central) economic scenario which has the most material impact (of all forward-looking scenarios) on the measurement of loss.

Refer to Accounting policy (l) for further details.

IFRS 9 ECL model design principles

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

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

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

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

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

PD estimates

Personal models

Personal PD models use the Exogenous, Maturity and Vintage (EMV) approach to model default rates. The EMV approach separates portfolio default risk trends into three components: vintage effects (quality of new business over time), maturity effects (changes in risk relating to time on book) and exogenous effects (changes in risk relating to changes in macro-economic conditions). The EMV methodology has been widely adopted across the industry because it enables forward-looking economic information to be systematically incorporated into PD estimates. However, the unprecedented nature of the COVID-19 pandemic required certain modelling interventions that are detailed in the Economic loss drivers' section.

Wholesale models

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

23. Risk management – Credit risk continued

Impairment, provisioning and write-offs continued

Wholesale models continued

Further detail on CCIs is detailed in the Economic loss drivers section. One-year point-in-time PDs are subsequently extended to forward-looking life-time PDs using a conditional transition matrix approach and a set of econometric models.

LGD estimates

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

Personal

Forward-looking information has only been incorporated for the secured portfolios, where changes in property prices can be readily accommodated. A bespoke IFRS 9 mortgage LGD model is used, reflecting the local market.

Analysis has shown minimal impact of economic conditions on LGDs for other Personal portfolios.

Wholesale

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

EAD estimates

Personal

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

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

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

Wholesale

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

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

Governance and post model adjustments

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

- Deferred model calibrations – ECL adjustments where model monitoring indicated that losses were being over predicted but where it was judged that an implied ECL release was not supportable. As a consequence, any potential ECL release was deferred and retained on the balance sheet.
- Economic uncertainty – ECL adjustments primarily arising from the economic uncertainty associated with COVID-19 (and Brexit for 2019) where management judged that additional ECL was required until further credit performance data is available on the effects of the various support mechanisms.
- Other adjustments – ECL adjustments where it was judged that the modelled ECL required to be amended.

	2020 €m	2019 €m
ECL post model adjustments		
Deferred model calibrations	2	2
Economic uncertainty	196	16
Other adjustments	29	29
Total	227	47

The PMA for economic uncertainty included an adjustment of €115 million in the mortgage portfolio reflecting concerns that expected losses arising from defaults in the year ahead would be significantly higher than modelled. There was an overlay of €34 million in the Wholesale portfolio to mitigate the risk of prematurely releasing ECL at a time of sustained economic uncertainty and disruption, and idiosyncratic credit outcomes. It also included adjustments of €11 million in respect of high risk payment break mortgage customers and €34 million in the SME portfolio reflective of the elevated risk for this sector.

Other judgemental overlays included a Stage 3 ECL uplift of €28 million in the mortgage portfolio to address concerns that the loss outcome under the forecast macro-economic scenarios would be higher than modelled. There was also a PMA for deferred model calibrations of €2 million in the retail unsecured and business banking portfolios.

Significant increase in credit risk

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

23. Risk management – Credit risk continued

Significant increase in credit risk continued

IFRS 9 lifetime PD assessment (the primary driver): on modelled portfolios the assessment is based on the relative deterioration in forward-looking lifetime PD and is assessed monthly. To assess whether credit deterioration has occurred, the residual lifetime PD at the balance sheet date (which PD is established at date of initial recognition (DOIR)) is compared to the current PD.

If the current lifetime PD exceeds the residual origination PD by more than a threshold amount deterioration is assumed to have occurred and the exposure transferred to Stage 2 for a lifetime loss assessment. For Wholesale, a doubling of PD would indicate a significant increase in credit risk subject to a minimum PD uplift of 0.1%.

For Personal portfolios, the criteria varies by risk band, with lower risk exposures needing to deteriorate more than higher risk exposures, as outlined in the following table:

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

In the mortgage portfolio the above risk bandings are applied to exposures originated post 1 January 2012. For mortgage exposures originated prior to 2012 the threshold applied is 2.8 x $PD^{@DOIR}$.

Qualitative high-risk backstops: the PD assessment is complemented with the use of qualitative high-risk backstops to further inform whether significant deterioration in lifetime risk of default has occurred. The qualitative high-risk backstop assessment includes the use of the mandatory 30+ days past due backstop, as prescribed by IFRS 9 guidance, and other features such as forbearance support, Wholesale exposures managed within the Risk of Credit Loss framework, and for Personal, adverse credit bureau results. Where a personal customer was granted a payment holiday (also referred to as a payment deferral) in response to the COVID-19 pandemic, they are not automatically transferred to Stage 2. However, any support provided beyond completion of the second payment holiday is considered forbearance.

Persistence (Personal and Business Banking customers only): the persistence rule ensures that accounts which have met the criteria for PD driven deterioration are still considered to be significantly deteriorated for three months thereafter. This additional rule enhances the timeliness of capture in Stage 2. It is a Personal methodology feature and is applied to PD driven deterioration only.

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

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

Provisioning for forbearance

Personal

The methodology used for provisioning in respect of Personal forborne loans will differ depending on whether the loans are performing, or non-performing and which business is managing them. Granting forbearance will only change the arrears status of the loan in specific circumstances, which can include capitalisation of principal and interest in arrears, where the loan may be returned to the performing book if the customer has demonstrated an ability to meet regular payments and is likely to continue to do so. The loan remains in forbearance until it meets the exit criteria set out by the European Banking Authority.

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

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

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

Wholesale

Provisions for forborne loans are assessed in accordance with normal provisioning policies. The customer's financial position and prospects – as well as the likely effect of the forbearance, including any concessions granted – and revised PD or LGD gradings – are considered in order to establish whether a change to impairment provision is required.

Wholesale loans granted forbearance are individually assessed in most cases. Performing loans subject to forbearance treatment are categorised as Stage 2 and subject to a lifetime loss assessment. Forbearance may result in the value of the outstanding debt exceeding the present value of the estimated future cash flows. This difference will lead to a customer being classified as non-performing.

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

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

23. Risk management - Credit risk continued

Asset lifetimes

The choice of initial recognition and asset duration is another critical judgement in determining the quantum of lifetime losses that apply. The date of initial recognition reflects the date that a transaction (or account) was first recognised on the balance sheet; the PD recorded at that time provides the baseline used for subsequent determination of significant increase in credit risk. For asset duration, the approach applied (in line with IFRS 9 requirements) is:

- Term lending – the contractual maturity date, reduced for behavioural trends where appropriate (such as, expected pre-payment and amortisation).
- Revolving facilities – for Personal portfolios (except credit cards), asset duration is based on behavioural life and this is normally greater than contractual life. For Wholesale portfolios, asset duration is based on annual counterparty review schedules and will be set to the next review date.

In the case of credit cards, the most significant judgement is to reflect the operational practice of card reissuance and the associated credit assessment as enabling a formal re-origination trigger. As a consequence, a capped lifetime approach of up to 36 months is used on credit card balances.

The approach reflects the Group's practice of a credit-based review of customers prior to credit card issuance and complies with IFRS 9. Benchmarking information indicates that UK banks use behavioural approaches in the main for credit card portfolios with average durations between three and ten years. Across Europe durations are shorter and are, in some cases, as low as one year.

Economic loss drivers

Introduction

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

The most material economic loss drivers for the Personal portfolio include consumer spending, unemployment rates, house price indices and the European Central Bank Main Refinancing Operations rate. For the Wholesale portfolio, in addition to consumer spending, unemployment rates and World/ Eurozone GDP, stock price indices and swap rates are primary loss drivers.

Economic scenarios

The scenarios primarily reflect a range of outcomes for the path of the COVID-19 virus and associated effects on labour and asset markets and are summarised as follows:

Upside – this scenario captures a more favourable outlook for the world and domestic economies relative to the base case, consistent with less negative COVID-19 outcomes, while the easing of lockdown restrictions results in a very strong recovery through 2021 and beyond in economic output, consumer spending and the labour market. This is supportive for asset prices. Notably, house prices do not fall in the short-term and medium-term price trends benefit from the strong recovery in the wider economy.

Base case – the base case assumptions feature an EU-UK Free Trade Agreement and assume that the current lockdown restrictions are gradually loosened enabling a gradual recovery which is underpinned by extensive government support for incomes and employment and an effective COVID-19 vaccine roll-out. The recovery continues over the medium-term but is incomplete, underpinning a similarly gradual but incomplete, labour market recovery. Meanwhile, a near-term decline in house prices is followed by recovery over the medium-term, which sees a gradual, but sustained, uplift in the annual growth rate.

Downside – this scenario assumes more negative COVID-19 outcomes in 2021, leading to the need for widespread and stringent containment measures for a more prolonged period. This results in additional near-term economic and labour market weakness relative to the base case, while the medium-term recoveries are also more incomplete. Asset prices underperform, with house prices recording a sizable near-term decline, while the medium-term recovery is also very partial.

Extreme downside – this scenario is a much more stressful downside scenario, featuring much greater COVID-19-related weakness and severity and disruption associated with the new EU-UK trading relationship, while the medium-term recovery is very incomplete consistent with scarring effects taking hold. There is a renewed sharp downturn in output and consumer spending, which also results in a sharp hit to the labour market, with the unemployment rate remaining at very elevated levels. House prices record sharp near-term declines, followed by a subdued recovery as house prices don't return to pre-virus levels over the five-year period.

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

23. Risk management - Credit risk continued

Economic scenarios continued

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

The main macroeconomic variables for each of the four scenarios used for ECL modelling are set out in the main macroeconomic variables table below. The compound annual growth rate (CAGR) for GDP is shown. It also shows the five-year average for unemployment and the ECB Main Refinancing Operations rate (ECB Refi rate). The house price inflation figures show the total change over five years.

	2020				2019				
Republic of Ireland	Upside %	Base case %	Downside %	Extreme downside %	Upside 2 %	Upside 1 %	Base case %	Downside 1 %	Downside 2 %
GDP - CAGR	4.2	3.5	3.0	1.6	3.8	3.6	2.8	2.5	1.9
Unemployment rate[1] - average	5.6	7.5	9.3	11.2	4.0	4.3	4.8	5.7	6.9
House price inflation - total change	21.1	13.3	6.8	(7.0)	29.3	4.7	2.9	2.2	1.0
ECB Refi rate - average	0.1	-	-	-	1.5	0.8	-	-	-
World GDP - CAGR	3.5	3.4	2.9	2.8	3.9	3.3	2.8	2.5	2.0
Probability weight	20.0	40.0	30.0	10.0	12.7	14.8	30.0	29.8	12.7

Note:
(1) The unemployment rate corresponds to the mid-point of the Irish Central Statistics Office lower and upper bound unemployment rate measures.

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

Republic of Ireland unemployment rate[1] - annual average	Upside %	Base case %	Downside %	Extreme downside %
2020	11.6	11.9	12.1	13.0
2021	7.2	9.4	11.4	14.9
2022	5.1	7.4	9.6	11.7
2023	4.4	6.5	8.6	9.6
2024	4.5	6.2	7.8	8.6
2025	4.6	6.1	7.2	8.5

Note:
(1) The unemployment rate corresponds to the mid-point of the Irish Central Statistics Office lower and upper bound unemployment rate measures.

Republic of Ireland House price inflation - annual average growth	Upside %	Base case %	Downside %	Extreme downside %
2020	0.8	0.1	-	(0.6)
2021	5.5	(2.9)	(10.0)	(18.7)
2022	2.2	1.3	(1.6)	(6.1)
2023	3.2	4.0	5.0	8.5
2024	2.8	4.4	6.8	5.7
2025	3.8	4.8	6.4	5.6

Worst points

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

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

Note:
(1) The unemployment rate corresponds to the mid-point of the Irish Central Statistics Office lower and upper bound unemployment rate measures.

23. Risk management - Credit risk continued

Economic loss drivers continued

Peak (Q3 2020) to trough

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

Probability weightings of scenarios

The Group's approach to IFRS 9 multiple economic scenarios (MES) involves selecting a suitable set of discrete scenarios to characterise the distribution of risks in the economic outlook and assigning appropriate probability weights. The scale of the economic impact of COVID-19 and the range of recovery paths necessitates a change of approach to assigning probability weights from that used in recent updates.

Previously GDP paths for the Group's scenarios were compared against a set of 1,000 model runs, following which a percentile in the distribution was established that most closely corresponded to the scenario. This approach does not produce meaningful outcomes in the current circumstances because GDP is highly volatile and highly uncertain.

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

Use of the scenarios in Personal

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

Use of the scenarios in Wholesale

The Wholesale lending methodology is based on the concept of CCIs. The CCIs represent, similar to the exogenous component in Personal, all relevant economic loss drivers for a region/industry segment aggregated into a single index value that describes the loss rate conditions in the respective segment relative to its long-run average.

A CCI value of zero corresponds to loss rates at long-run average levels, a positive CCI value corresponds to loss rates below long-run average levels and a negative CCI value corresponds to loss rates above long-run average levels.

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

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

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

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

Economic uncertainty

Treatment of COVID-19 relief mechanisms

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

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

23. Risk management - Credit risk continued

Treatment of COVID-19 relief mechanisms continued

As some of the government support mechanisms conclude and vaccine roll-out increases momentum, the Group anticipates further changes in the credit outlook for portfolios. While the overall outlook is positive in the medium term, there are a number of key factors that could drive further downside to impairments, through deteriorating economic and credit metrics and increased stage migration as credit risk increases for more customers. Key factors would be a more adverse deterioration in GDP and unemployment, but also, among others:

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

All of these will lead to changes in our ECL estimates over time.

Economic loss drivers

Model monitoring and enhancement

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

Government support

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

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

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

Extreme GDP movements – Wholesale only

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

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

Industry sector detail – Wholesale only

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

Scenario sensitivity – Personal only

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

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

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

Measurement uncertainty and ECL sensitivity analysis

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

23. Risk management- Credit risk continued

Measurement uncertainty and ECL sensitivity analysis continued

The focus of the simulations is on ECL provisioning requirements on performing exposures in Stage 1 and Stage 2. The simulations are run on a stand-alone basis and are independent of each other; the potential ECL impacts reflect the simulated impact as at 31 December 2020. Scenario impacts on SICR should be considered when evaluating the ECL movements of Stage 1 and Stage 2.

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

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

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

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

31 December 2020	Actual	Moderate Upside Scenario	Moderate Downside Scenario	Extreme Downside Scenario
Stage 1 modelled exposure (€m)	15,855	16,204	15,743	13,979
Personal	12,382	12,598	12,278	10,675
Wholesale	3,473	3,606	3,465	3,304
Stage 1 modelled ECL (€m)	47	39	50	63
Personal	30	28	32	32
Wholesale	17	11	18	31
Stage 1 coverage (%)	0.29%	0.24%	0.32%	0.45%
Personal	0.24%	0.22%	0.26%	0.30%
Wholesale	0.48%	0.31%	0.51%	0.94%
Stage 2 modelled exposure (€m)	3,702	3,353	3,814	5,578
Personal	1,935	1,719	2,039	3,642
Wholesale	1,767	1,634	1,775	1,936
Stage 2 modelled ECL (€m)	294	250	306	404
Personal	106	92	119	169
Wholesale	188	158	187	235
Stage 2 coverage (%)	7.94%	7.47%	8.02%	7.24%
Personal	5.47%	5.38%	5.84%	4.65%
Wholesale	10.65%	9.67%	10.53%	12.13%
Stage 1 and Stage 2 modelled exposure (€m)	19,557	19,557	19,557	19,557
Personal	14,317	14,317	14,317	14,317
Wholesale	5,240	5,240	5,240	5,240
Stage 1 and Stage 2 modelled ECL (€m)	341	289	356	467
Personal	136	120	151	201
Wholesale	205	169	205	266
Stage 1 and Stage 2 coverage (%)	1.74%	1.48%	1.82%	2.39%
Personal	0.95%	0.84%	1.06%	1.41%
Wholesale	3.91%	3.23%	3.91%	5.08%
Reconciliation to Stage 1 and Stage 2 ECL (€m)	343	291	358	469
ECL on modelled exposures	341	289	356	467
ECL on non-modelled exposures	2	2	2	2
Total Stage 1 and Stage 2 ECL	343	291	358	469
Variance to actual total Stage 1 and Stage 2 ECL	-	(52)	15	126

Notes:
(1) Variations in future undrawn exposure values across the scenarios are modelled, however the exposure position reported is as at 31 December 2020 and therefore does not include variation in future undrawn exposure values.
(2) Reflects ECL for all modelled exposure in scope for IFRS 9; in addition to loans this includes other financial assets. The analysis excludes non-modelled portfolios.
(3) All simulations are run on a stand-alone basis and are independent of each other, with the potential ECL impact reflecting the simulated impact as at 31 December 2020.

23. Risk management- Credit risk continued

Banking activities

Introduction

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

Refer to Accounting policy (l) and Note 12 for policies and critical judgements relating to impairment loss determination.

Financial instruments within the scope of the IFRS 9 ECL framework

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

Financial assets

	2020	2019*
	€bn	€bn
Balance sheet total gross AC/FVOCI	29.9	30.0
In scope of IFRS 9 ECL framework	29.6	29.3
% in scope	99.0%	97.7%
Loans - in scope	21.0	22.4
Stage 1	16.0	18.1
Stage 2	3.6	1.9
Stage 3	1.4	2.4
Other financial assets - in scope	8.6	6.9
Stage 1	8.5	6.9
Stage 2	0.1	-
Out of scope of IFRS 9 ECL framework	0.3	0.7

* Restated to reflect reclassification of €3,684 million from loans to banks to cash and balances at central banks. Refer to Note 1, Accounting policy (a) for further details.

Those assets outside the framework were as follows:

- Settlement balances, items in the course of collection, cash balances and other non-credit risk assets were assessed as having no ECL unless there was evidence that they were credit impaired.
- Commercial cards which operate similar to charge cards, with balances repaid monthly via mandated direct debit with the underlying risk of loss captured within the customer's linked current account.

Contingent liabilities and commitments

In addition to contingent liabilities and commitments disclosed in Note 24 – reputationally committed limits are also included in the scope of the IFRS 9 ECL framework. These are offset by out of scope balances primarily related to facilities that, if drawn would not be classified as AC or FVOCI, or undrawn limits relating to financial assets exclusions.

Asset quality

Internal asset quality ratings have ranges for the probability of default. Customers are assigned credit grades, based on various credit grading models that reflect the key drivers of default for the customer type. All credit grades map to both an asset quality scale, used for external financial reporting, and a master grading scale used for internal management reporting across portfolios. The table that follows details the relationship between internal asset quality (AQ) bands and external ratings published by Standard & Poor's (S&P), for illustrative purposes only.

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

23. Risk management – Credit risk continued

Portfolio summary - sector analysis

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

31 December 2020	Personal €m	Wholesale €m	Total €m
Loans by geography	15,502	5,557	21,059
- Republic of Ireland	15,502	5,083	20,585
- United Kingdom	-	239	239
- Other Europe	-	42	42
- Rest of the World	-	193	193
Loans by asset quality	15,502	5,557	21,059
- AQ 2	45	-	45
- AQ 3	-	182	182
- AQ 4	10,042	1,345	11,387
- AQ 5	3,343	1,674	5,017
- AQ 6	194	1,119	1,313
- AQ 7	181	592	773
- AQ 8	130	180	310
- AQ 9	383	273	656
- AQ 10	1,184	192	1,376
Loans by stage	15,502	5,557	21,059
- Stage 1	12,375	3,632	16,007
- Stage 2	1,943	1,733	3,676
- Stage 3	1,184	192	1,376
Loans - past due analysis	15,502	5,557	21,059
- Not past due	14,402	5,264	19,666
- Past due 1-30 days	240	87	327
- Past due 31-89 days	236	78	314
- Past due 90-180 days	93	6	99
- Past due > 180 days	531	122	653
Stage 2	1,943	1,733	3,676
- Not past due	1,670	1,629	3,299
- Past due 1-30 days	128	33	161
- Past due 31-89 days	145	71	216
ECL provision (total)	573	320	893
ECL provisions by geography	573	320	893
- Republic of Ireland	573	306	879
- United Kingdom	-	13	13
- Other Europe	-	1	1
ECL provisions by stage	573	320	893
- Stage 1	31	19	50
- Stage 2	106	189	295
- Stage 3	436	112	548
ECL Provision coverage (total) - ECL/loans	3.7	5.8	4.2
- Stage 1 (%)	0.3	0.5	0.3
- Stage 2 (%)	5.5	10.9	8.0
- Stage 3 (%)	36.8	58.3	39.8
ECL charge - third party	119	162	281
ECL charge/(release) by geography	119	162	281
- Republic of Ireland	119	163	282
- United Kingdom	-	(1)	(1)
ECL loss rate (%)	0.8	2.9	1.3
Amounts written off	238	8	246
Other financial assets by asset quality	-	8,520	8,520
- AQ 1-4	-	8,520	8,520
Off balance sheet	710	3,502	4,212
Loan commitments	710	3,133	3,843
Financial guarantees	-	369	369
Off balance sheet by asset quality	710	3,502	4,212
- AQ 1-4	301	1,969	2,270
- AQ 5-8	403	1,479	1,882
- AQ 9	1	12	13
- AQ 10	5	42	47
Weighted average life - ECL measurement (years)	9	7	8
Weighted average life 12 months PDs			
- IFRS 9 (%)	2.05	3.58	2.47
- Basel (%)	1.13	3.33	1.72

At 31 December 2020, AQ10 includes €429 million of exposures which are not currently considered defaulted for capital calculation purposes but are included in Stage 3.

23. Risk management – Credit risk continued

Portfolio summary - sector analysis continued

31 December 2019*	Personal €m	Wholesale €m	Total €m
Loans by geography	16,314	6,121	22,435
- Republic of Ireland	16,314	5,531	21,845
- United Kingdom	-	312	312
- Other Europe	-	48	48
- Rest of the World	-	230	230
Loans by asset quality	16,314	6,121	22,435
- AQ 2	49	75	124
- AQ 3	-	353	353
- AQ 4	7,555	1,457	9,012
- AQ 5	5,609	2,103	7,712
- AQ 6	203	1,119	1,322
- AQ 7	187	472	659
- AQ 8	199	114	313
- AQ 9	306	240	546
- AQ 10	2,206	188	2,394
Loans by stage	16,314	6,121	22,435
- Stage 1	12,762	5,349	18,111
- Stage 2	1,346	584	1,930
- Stage 3	2,206	188	2,394
Loans - past due analysis	16,314	6,121	22,435
- Not past due	14,482	5,896	20,378
- Past due 1-30 days	279	53	332
- Past due 31-89 days	291	34	325
- Past due 90-180 days	183	5	188
- Past due > 180 days	1,079	133	1,212
Stage 2	1,346	584	1,930
- Not past due	1,109	541	1,650
- Past due 1-30 days	113	10	123
- Past due 31-89 days	124	33	157
ECL provision (total)	747	164	911
ECL provisions by geography	747	164	911
- Republic of Ireland	747	147	894
- United Kingdom	-	16	16
- Other Europe	-	1	1
ECL provisions by stage	747	164	911
- Stage 1	14	20	34
- Stage 2	38	25	63
- Stage 3	695	119	814
ECL Provision coverage (total) - ECL/loans	4.6	2.7	3.5
- Stage 1 (%)	0.1	0.4	0.2
- Stage 2 (%)	2.8	4.3	3.3
- Stage 3 (%)	31.5	63.3	34.0
ECL (release) - third party	(18)	(20)	(38)
ECL (release)/charge by geography	(18)	(20)	(38)
- Republic of Ireland	(18)	(23)	(41)
- United Kingdom	-	3	3
ECL loss rate (%)	(0.1)	(0.3)	(0.2)
Amounts written off	78	19	97
Other financial assets by asset quality	-	6,932	6,932
- AQ 1-4	-	6,919	6,919
- AQ 5-8	-	13	13
Off balance sheet	752	2,893	3,645
Loan commitments	752	2,470	3,222
Financial guarantees	-	423	423
Off balance sheet by asset quality	752	2,893	3,645
- AQ 1-4	331	1,624	1,955
- AQ 5-8	414	1,221	1,635
- AQ 9	1	13	14
- AQ 10	6	35	41
Weighted average life - ECL measurement (years)	9	7	8
Weighted average life 12 months PDs			
- IFRS 9 (%)	0.88	1.85	1.09
- Basel (%)	1.09	2.59	1.52

* Restated to reflect reclassification of €3,684 million from loans to banks to cash and balances at central banks. Refer to Note 1, Accounting policy (a) for further details.

At 31 December 2019, AQ10 includes €740 million of exposures which are not currently considered defaulted for capital calculation purposes but are included in Stage 3.

23. Risk management – Credit risk continued

Portfolio summary - sector analysis continued

The table below shows an analysis of gross loans, off balance sheet positions and ECL by stage for the Personal portfolios and key sectors of the Wholesale portfolios that continue to be affected by COVID-19. Comparatives for the prior financial year end are provided on page 82.

	Loans - amortised cost				Off-balance sheet		ECL provisions			
					Loan commitments	Contingent liabilities				
31 December 2020	Stage 1 €m	Stage 2 €m	Stage 3 €m	Total €m	€m	€m	Stage 1 €m	Stage 2 €m	Stage 3 €m	Total €m
Personal	12,375	1,943	1,184	15,502	710	-	31	106	436	573
Mortgages	12,168	1,857	1,170	15,195	287	-	30	101	425	556
Cards	71	16	1	88	327	-	1	1	1	3
Other Personal	136	70	13	219	96	-	-	4	10	14
Wholesale	3,632	1,733	192	5,557	3,133	369	19	189	112	320
Property	1,072	275	41	1,388	516	27	4	19	30	53
Financial institutions	248	45	1	294	187	13	1	1	1	3
Sovereigns	34	-	-	34	6	-	2	-	-	2
Corporate	2,278	1,413	150	3,841	2,424	329	12	169	81	262
Of which:										
Airlines and aerospace	2	101	-	103	88	8	-	1	-	1
Automotive	51	57	10	118	73	17	1	6	1	8
Education	51	5	2	58	45	-	-	1	1	2
Health	291	118	8	417	54	2	2	22	6	30
Land transport & logistics	74	71	7	152	86	5	-	4	4	8
Leisure	119	531	29	679	131	2	1	78	17	96
Oil and gas	7	-	-	7	59	-	-	-	-	-
Retail	365	102	14	481	348	51	2	16	8	26
Total	16,007	3,676	1,376	21,059	3,843	369	50	295	548	893

23. Risk management – Credit risk continued

Portfolio summary - sector analysis continued

	Loans - amortised cost				Off-balance sheet		ECL provisions			
					Loan commitments	Contingent liabilities				
31 December 2019	Stage 1 €m	Stage 2 €m	Stage 3 €m	Total €m	€m	€m	Stage 1 €m	Stage 2 €m	Stage 3 €m	Total €m
Personal	12,762	1,346	2,206	16,314	752	-	14	38	695	747
Mortgages	12,497	1,265	2,190	15,952	348	-	13	35	683	731
Cards	90	20	2	112	312	-	-	1	1	2
Other Personal	175	61	14	250	92	-	1	2	11	14
Wholesale	5,349	584	188	6,121	2,470	423	20	25	119	164
Property	1,368	62	52	1,482	558	29	7	5	42	54
Financial institutions	267	7	1	275	101	13	1	-	1	2
Sovereigns	38	-	-	38	16	-	1	-	-	1
Corporate	3,676	515	135	4,326	1,795	381	11	20	76	107
Of which:										
Airlines and aerospace	125	1	-	126	57	8	-	-	-	-
Automotive	118	22	3	143	55	21	1	1	2	4
Education	59	1	2	62	4	-	-	-	-	-
Health	367	60	8	435	50	2	1	4	5	10
Land transport & logistics	150	38	2	190	52	4	-	2	2	4
Leisure	673	46	17	736	163	3	2	4	13	19
Oil and gas	6	-	-	6	63	-	-	-	-	-
Retail	372	54	12	438	263	69	2	2	10	14
Total	18,111	1,930	2,394	22,435	3,222	423	34	63	814	911

23. Risk management – Credit risk continued

Credit risk enhancement and mitigation

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

	Gross		Maximum credit risk		CREM by type			CREM coverage		Exposure post CREM	
	exposure	ECL	Total	Stage 3	Financial	Property	Other	Total	Stage 3	Total	Stage 3
31 December 2020	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Financial assets											
Loans - amortised cost	21,059	883	20,176	830	85	17,285	499	17,869	799	2,307	31
Personal	15,502	572	14,930	749	-	14,638	-	14,638	745	292	4
Wholesale	5,557	311	5,246	81	85	2,647	499	3,231	54	2,015	27
Other financial assets	2,926	1	2,925	-	-	-	-	-	-	2,925	-
Total financial assets	23,985	884	23,101	830	85	17,285	499	17,869	799	5,232	31
Contingent liabilities and commitments											
Personal	710	1	709	5	-	-	-	-	-	709	5
Wholesale	3,502	8	3,494	42	25	275	52	352	10	3,142	32
Total off-balance sheet	4,212	9	4,203	47	25	275	52	352	10	3,851	37
Total exposure	28,197	893	27,304	877	110	17,560	551	18,221	809	9,083	68

The Group holds collateral in respect of individual loans. This collateral includes mortgages over property (both personal and commercial). Property valuations are capped at the loan value.

23. Risk management – Credit risk continued

Credit risk enhancement and mitigation continued

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

	Gross		Maximum credit risk		CREM by type			CREM coverage		Exposure post CREM	
	exposure	ECL	Total	Stage 3	Financial	Property	Other	Total	Stage 3	Total	Stage 3
31 December 2019 *	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Financial assets											
Loans - amortised cost	22,435	905	21,530	1,583	68	17,770	603	18,441	1,545	3,089	38
Personal	16,314	746	15,568	1,511	-	15,218	-	15,218	1,505	350	6
Wholesale	6,121	159	5,962	72	68	2,552	603	3,223	40	2,739	32
Other financial assets	3,248	1	3,247	-	-	-	-	-	-	3,247	-
Total financial assets	25,683	906	24,777	1,583	68	17,770	603	18,441	1,545	6,336	38
Contingent liabilities and commitments											
Personal	752	-	752	6	-	-	-	-	-	752	6
Wholesale	2,893	5	2,888	32	29	339	61	429	8	2,459	24
Total off-balance sheet	3,645	5	3,640	38	29	339	61	429	8	3,211	30
Total exposures	29,328	911	28,417	1,621	97	18,109	664	18,870	1,553	9,547	68

*Restated to reflect reclassification of €3,684 million from loans to banks to cash and balances at central banks. Refer to Note 1, Accounting policy (a) for further details.

The Group holds collateral in respect of individual loans. This collateral includes mortgages over property (both personal and commercial). Property valuations are capped at the loan value.

23. **Risk management** – Credit risk continued

Personal portfolio

Disclosures in the Personal portfolio section include drawn exposure (gross of provisions). Loan-to-value (LTV) ratios are split by stage, weighted average LTVs are separated into owner-occupied and buy-to-let categories.

	2020 €m	2019 €m
Mortgages	15,226	15,982
Owner occupied	14,228	14,801
Buy-to-let	998	1,181
Interest-only - variable	177	194
Interest-only - fixed	11	11
Mixed[1]	62	72
ECL provision	556	731
Other lending	307	362
Drawn exposure	307	362
ECL provision	17	16
Total Personal lending	15,533	16,344
Mortgage LTV ratios		
- Total portfolio	59%	60%
- Stage 1/performing	57%	57%
- Stage 2/performing	65%	67%
- Stage 3/non-performing	67%	73%
- Buy to let	59%	61%
- Stage 1	55%	57%
- Stage 2	69%	69%
- Stage 3	74%	75%
Gross new mortgage lending	1,014	1,393
Owner Occupied exposure	1,011	1,381
Weighted average LTV[2]	74%	75%
Buy-to-let	3	12
Weighted average LTV[2]	54%	58%
Interest-only - variable rate	-	-
Interest-only - fixed rate	-	-
Mixed[1]	-	1
Mortgage forbearance		
Forbearance flow	141	208
Forbearance stock	1,811	2,620
Current	1,190	1,350
1-3 months in arrears	117	185
>3 months in arrears	503	1,085
Stage 3 mortgages time in default		
<1 year	6%	13%
1-3 years	18%	12%
3-5 years	23%	23%
5-10 years	36%	44%
>10 years	17%	8%

Notes:
1) Includes accounts which have an interest only sub-account and a capital and interest sub-account to provide a more comprehensive view of interest only exposures.
2) Weighted by current exposure gross of provisions.

23. Risk management – Credit risk continued

Personal portfolio

Mortgage LTV distribution by stage

The table below shows gross mortgage lending and related ECL by LTV band.

	2020												
	Drawn exposure - Total book				Of which:	ECL provisions				ECL provisions coverage [1]			
	Stage 1 €m	Stage 2 €m	Stage 3 €m	Total €m	Gross new lending €m	Stage 1 €m	Stage 2 €m	Stage 3 €m	Total €m	Stage 1 %	Stage 2 %	Stage 3 %	Total %
≤50%	4,626	561	394	5,581	87	11	27	117	155	0.2	4.8	29.7	2.8
>50% and ≤70%	3,844	504	256	4,604	216	9	26	74	109	0.2	5.2	28.9	2.4
>70% and ≤80%	1,747	259	127	2,133	385	4	14	44	62	0.2	5.4	34.6	2.9
>80% and ≤90%	1,351	212	117	1,680	320	3	12	44	59	0.2	5.7	37.6	3.5
>90% and ≤100%	414	161	97	672	1	1	10	44	55	0.2	6.2	45.4	8.2
>100% and ≤110%	133	85	82	300	4	1	6	41	48	0.8	7.1	50.0	16.0
>110% and ≤130%	59	69	72	200	1	-	6	39	45	-	8.7	54.2	22.5
>130% and ≤150%	7	9	19	35	-	-	1	12	13	-	11.1	63.2	37.1
>150%	5	5	11	21	-	-	1	9	10	-	20.0	81.8	47.6
Total	12,186	1,865	1,175	15,226	1,014	29	103	424	556	0.2	5.5	36.1	3.7

	2019												
	Drawn exposure - Total book				Of which:	ECL provisions				ECL provisions coverage [1]			
	Stage 1 €m	Stage 2 €m	Stage 3 €m	Total €m	Gross new lending €m	Stage 1 €m	Stage 2 €m	Stage 3 €m	Total €m	Stage 1 %	Stage 2 %	Stage 3 %	Total %
≤50%	4,828	362	558	5,748	127	4	9	115	128	0.1	2.5	20.6	2.2
>50% and ≤70%	3,974	322	481	4,777	271	4	9	106	119	0.1	2.8	22.0	2.5
>70% and ≤80%	1,623	178	258	2,059	419	2	5	71	78	0.1	2.8	27.5	3.8
>80% and ≤90%	1,331	170	255	1,756	569	1	5	89	95	0.1	2.9	34.9	5.4
>90% and ≤100%	448	120	221	789	4	1	3	85	89	0.2	2.5	38.5	11.3
>100% and ≤110%	196	67	177	440	2	1	2	78	81	0.5	3.0	44.1	18.4
>110% and ≤130%	96	42	179	317	1	-	2	92	94	-	4.8	51.4	29.7
>130% and ≤150%	10	4	54	68	-	-	-	35	35	-	-	64.8	51.5
>150%	8	3	17	28	-	-	-	12	12	-	-	70.6	42.9
Total	12,514	1,268	2,200	15,982	1,393	13	35	683	731	0.1	2.8	31.0	4.6

Note:
(1) ECL provisions coverage is ECL provision divided by drawn exposure.

23. Risk management – Credit risk continued

Flow statements

The flow statements that follow show the main ECL and related income statement movements. They also show the changes in ECL as well as the changes in related financial assets used in determining ECL. Due to differences in scope, exposures in this section may therefore differ from those reported in other tables, principally in relation to exposures in Stage 1 and Stage 2. These differences do not have a material ECL impact. Other points to note:

- Financial assets include treasury liquidity portfolios, comprising balances at central banks and debt securities, as well as loans. Both modelled and non-modelled portfolios are included.
- Stage transfers (for example, exposures moving from Stage 1 to Stage 2) are a key feature of the ECL movements, with the net re-measurement cost of transitioning to a worse stage being a primary driver of income statement charges. Similarly, there is an ECL benefit for accounts improving stage.
- Changes in risk parameters shows the reassessment of the ECL within a given stage, including any ECL overlays and residual income statement gains or losses at the point of write-off or accounting write-down.
- Other (income statement only) includes any subsequent changes in the value of written-down assets (for example, fortuitous recoveries) along with other direct write-off items such as direct recovery costs. Other (income statement only) affects the income statement but does not affect balance sheet ECL movements.
- Amounts written-off – represent the gross asset written-down against accounts with ECL, including the net asset write-down for debt sale activity.
- There were small ECL flows from Stage 3 to Stage 1. This does not, however, indicate that accounts returned from Stage 3 to Stage 1 directly. On a similar basis, there were flows from Stage 1 to Stage 3 including transfers due to unexpected default events. The small number of write-offs in Stage 2 reflect the effect of portfolio debt sales.
- The Group continues to hold post model adjustments (PMAs) on a temporary basis ahead of the underlying model parameter changes being implemented, as well as on certain portfolio segments where management judge additional ECL is required. The impact of any change in PMAs during the year is reported under changes in risk parameters, as are any impacts arising from changes to the underlying models.
- All movements are captured monthly and aggregated. Interest suspended post default is included within Stage 3 ECL with the movement in the value of suspended interest during the year reported under currency translation and other adjustments.

As noted earlier, interest suspended post default is now included within Stage 3 ECL.

	Stage 1		Stage 2		Stage 3		Total	
Total	Financial assets €m	ECL €m	Financial assets €m	ECL €m	Financial assets €m	ECL €m	Financial assets €m	ECL €m
At 1 January 2020	24,634	34	1,956	63	2,413	814	29,003	911
Currency translation and other adjustments	(28)	(1)	(11)	-	-	(68)	(39)	(69)
Transfers from Stage 1 to Stage 2	(5,923)	(32)	5,923	32	-	-	-	-
Transfers from Stage 2 to Stage 1	3,750	120	(3,750)	(120)	-	-	-	-
Transfers to Stage 3	(16)	-	(171)	(17)	187	17	-	-
Transfers from Stage 3	54	5	413	46	(467)	(51)	-	-
Net re-measurement of ECL on stage transfer	-	(111)	-	202	-	25	-	116
Changes in risk parameters (model inputs)	-	32	-	96	-	65	-	193
Other changes in net exposure	2,071	3	(568)	(5)	(490)	9	1,013	7
Other (income statement only)	-	-	-	-	-	(35)	-	(35)
Income statement (releases)/charges	-	(76)	-	293	-	64	-	281
Amounts written-off	-	-	(2)	(2)	(244)	(244)	(246)	(246)
Unwinding of discount	-	-	-	-	-	(19)	-	(19)
At 31 December 2020	24,542	50	3,790	295	1,399	548	29,731	893
Net carrying amount	24,492		3,495		851		28,838	
At 1 January 2019	22,841	40	2,340	128	2,803	902	27,984	1,070
2019 movements	1,793	(6)	(384)	(65)	(390)	(88)	1,019	(159)
At 31 December 2019	24,634	34	1,956	63	2,413	814	29,003	911
Net carrying amount	24,600		1,893		1,599		28,092	

2019 movements included transfers from Stage 1 to Stage 2 of €2,125 million (ECL – €10 million), transfers from Stage 2 to Stage 1 of €2,234 million (ECL – €44 million), transfers into Stage 3 of €442 million (ECL – €37 million) and transfers from Stage 3 of €392 million (ECL – €51 million). Additional ECL of €9 million was recognised as a result of these cumulative transfers. Also included were financial assets written-off of €98 million and €97 million of ECL.

23. Risk management – Credit risk continued

Flow statements continued

The following tables analyse the ECL flow for significant classes of assets in the Group.

	Stage 1		Stage 2		Stage 3		Total	
Residential mortgages	Financial assets €m	ECL €m	Financial assets €m	ECL €m	Financial assets €m	ECL €m	Financial assets €m	ECL €m
At 1 January 2020	12,463	13	1,274	35	2,204	683	15,941	731
Currency translation and other adjustments	-	-	-	-	-	(69)	-	(69)
Transfers from Stage 1 to Stage 2	(2,262)	(7)	2,262	7	-	-	-	-
Transfers from Stage 2 to Stage 1	1,873	53	(1,873)	(53)	-	-	-	-
Transfers to Stage 3	(8)	-	(73)	(7)	81	7	-	-
Transfers from Stage 3	33	2	376	39	(409)	(41)	-	-
Net re-measurement of ECL on stage transfer	-	(50)	-	52	-	12	-	14
Changes in risk parameters (model inputs)	-	18	-	31	-	82	-	131
Other changes in net exposure	56	1	(92)	(1)	(465)	(2)	(501)	(2)
Other (income statement only)	-	-	-	-	-	(27)	-	(27)
Income statement (releases)/charges	-	(31)	-	82	-	65	-	116
Amounts written-off	-	-	(2)	(2)	(230)	(230)	(232)	(232)
Unwinding of discount	-	-	-	-	-	(17)	-	(17)
At 31 December 2020	12,155	30	1,872	101	1,181	425	15,208	556
Net carrying amount	12,125		1,771		756		14,652	
At 1 January 2019	12,041	12	1,557	84	2,545	734	16,143	830
2019 movements	422	1	(283)	(49)	(341)	(51)	(202)	(99)
At 31 December 2019	12,463	13	1,274	35	2,204	683	15,941	731
Net carrying amount	12,450		1,239		1,521		15,210	

2019 movements included transfers from Stage 1 to Stage 2 of €1,516 million (ECL – €5 million), transfers from Stage 2 to Stage 1 of €1,689 million (ECL – €25 million), transfers into Stage 3 of €362 million (ECL – €33 million) and transfers from Stage 3 of €350 million (ECL – €38 million). A reduction in ECL of €13 million was recognised as a result of these cumulative transfers. Also included were amounts written-off of €67 million.

	Stage 1		Stage 2		Stage 3		Total	
Commercial	Financial assets €m	ECL €m	Financial assets €m	ECL €m	Financial assets €m	ECL €m	Financial assets €m	ECL €m
At 1 January 2020	11,663	19	549	23	176	108	12,388	150
Currency translation and other adjustments	(29)	-	(9)	-	(1)	-	(39)	-
Transfers from Stage 1 to Stage 2	(3,475)	(23)	3,475	23	-	-	-	-
Transfers from Stage 2 to Stage 1	1,763	64	(1,763)	(64)	-	-	-	-
Transfers to Stage 3	(6)	-	(83)	(8)	89	8	-	-
Transfers from Stage 3	21	1	30	3	(51)	(4)	-	-
Net re-measurement of ECL on stage transfer	-	(57)	-	142	-	-	-	85
Changes in risk parameters (model inputs)	-	13	-	66	-	(17)	-	62
Other changes in net exposure	2,044	1	(437)	(1)	(25)	11	1,582	11
Other (income statement only)	-	-	-	(1)	-	(3)	-	(4)
Income statement (releases)/charges	-	(43)	-	206	-	(9)	-	154
Amounts written-off	-	-	-	-	(7)	(7)	(7)	(7)
Unwinding of discount	-	-	-	-	-	(1)	-	(1)
At 31 December 2020	11,981	18	1,762	184	181	98	13,924	300
Net carrying amount	11,963		1,578		83		13,624	
At 1 January 2019	10,289	25	643	31	199	132	11,131	188
2019 movements	1,374	(6)	(94)	(8)	(23)	(24)	1,257	(38)
At 31 December 2019	11,663	19	549	23	176	108	12,388	150
Net carrying amount	11,644		526		68		12,238	

2019 movements included transfers from Stage 1 to Stage 2 of €460 million (ECL – €3 million), transfers from Stage 2 to Stage 1 of €432 million (ECL – €15 million), transfers into Stage 3 of €58 million (ECL – €2 million) and transfers from Stage 3 of €23 million (ECL – €6 million). Additional ECL of €11 million was recognised as a result of these cumulative transfers. Also included were amounts written-off of €18 million.

Related financial asset movements are one month in arrears relative to the balance sheet reporting dates, as these are the balances used to calculate the modelled ECL (i.e. reported financial assets at 1 January 2020 in the flow statements reflect 30 November 2019 positions, and 31 December 2020 reported figures reflect 30 November 2020 positions).

23. Risk management– Credit risk continued

Stage 2 decomposition – arrears status and contributing factors

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

	Residential mortgages		Credit cards		Other personal		Total	
	Loans	ECL	Loans	ECL	Loans	ECL	Loans	ECL
31 December 2020	€m	€m	€m	€m	€m	€m	€m	€m
Personal								
Currently In Arrears (>30DPD)	121	12	-	-	3	-	124	12
Currently Up-to-Date	1,736	89	16	1	67	4	1,819	94
- PD Deterioration	738	47	9	1	44	3	791	51
- Up-to-Date, PD Persistence	52	2	6	-	22	1	80	3
- Other Driver (Adverse credit, forbearance etc.)	946	40	1	-	1	-	948	40
Total Stage 2	1,857	101	16	1	70	4	1,943	106

	Residential mortgages		Credit cards		Other personal		Total	
	Loans	ECL	Loans	ECL	Loans	ECL	Loans	ECL
31 December 2019	€m	€m	€m	€m	€m	€m	€m	€m
Personal								
Currently In Arrears (>30DPD)	23	2	1	-	2	-	26	2
Currently Up-to-Date	1,242	33	19	1	59	2	1,320	36
- PD Deterioration	245	18	10	1	38	1	293	20
- Up-to-Date, PD Persistence	296	5	9	-	18	-	323	5
- Other Driver (Adverse credit, forbearance etc.)	701	10	-	-	3	1	704	11
Total Stage 2	1,265	35	20	1	61	2	1,346	38

23. Risk management– Credit risk continued

Stage 2 decomposition – arrears status and contributing factors

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

	Property		Corporate		Financial Institutions		Total	
	Loans	ECL	Loans	ECL	Loans	ECL	Loans	ECL
31 December 2020	€m	€m	€m	€m	€m	€m	€m	€m
Wholesale								
Currently In Arrears (>30DPD)	36	1	34	10	-	-	70	11
Currently Up-to-Date	239	18	1,379	159	45	1	1,663	178
- PD Deterioration	44	2	588	55	13	-	645	57
- Up-to-Date, PD Persistence	1	-	17	1	-	-	18	1
- Other Driver (Adverse credit, forbearance etc.)	194	16	774	103	32	1	1,000	120
Total Stage 2	275	19	1,413	169	45	1	1,733	189

	Property		Corporate		Financial Institutions		Total	
	Loans	ECL	Loans	ECL	Loans	ECL	Loans	ECL
31 December 2019	€m	€m	€m	€m	€m	€m	€m	€m
Wholesale								
Currently In Arrears (>30DPD)	8	-	18	2	6	-	32	2
Currently Up-to-Date	54	5	497	18	1	-	552	23
- PD Deterioration	16	1	204	7	-	-	220	8
- Up-to-Date, PD Persistence	-	-	8	-	-	-	8	-
- Other Driver (Adverse credit, forbearance etc.)	38	4	285	11	1	-	324	15
Total Stage 2	62	5	515	20	7	-	584	25

23. Risk management continued

Capital, liquidity and funding risk

Definitions

Regulatory capital consists of reserves and instruments issued that are available, have a degree of permanency and are capable of absorbing losses. A number of strict conditions set by regulators must be satisfied to be eligible as capital.

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

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

Funding consists of on-balance sheet liabilities that are used to provide cash to finance assets. Funding risk is the risk of not maintaining a diversified, stable and cost-effective funding base. Liquidity and funding risks arise in a number of ways, including through the maturity transformation role that banks perform. The risks are dependent on factors such as:

- Maturity profile;
- Composition of sources and uses of funding;
- The quality and size of the liquidity portfolio;
- Wholesale market conditions; and
- Depositor and investor behaviour.

Sources of risk

Capital

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

- CET1 capital - CET1 capital must be perpetual and capable of unrestricted and immediate use to cover risks or losses as soon as these occur. This includes ordinary shares issued and retained earnings.
- Additional Tier 1 (AT1) capital - This is the second type of loss absorbing capital and must be capable of absorbing losses on a going concern basis. These instruments are either written down or converted into CET1 capital when the CET1 ratio falls below a pre-specified level.
- Tier 2 capital - Tier 2 capital is the bank entity's supplementary capital and provides loss absorption on a gone concern basis. Tier 2 capital absorbs losses after Tier 1 capital. It typically consists of subordinated debt securities with a minimum maturity of five years.

Minimum requirement for own funds and eligible liabilities (MREL)

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

Liquidity

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

Liquidity resources are divided into primary and secondary liquidity as follows:

- Primary liquid assets include cash and balances at central banks and other high-quality government, supranational and agency bonds.
- Secondary liquid assets are eligible as collateral for local central bank liquidity facilities. These assets include own-issued securitisations or whole loans that are retained on balance sheet and pre-positioned with a central bank so that they may be converted into additional sources of liquidity at very short notice.

Funding

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

Capital management

Capital management is the process by which the Group ensures that it has sufficient capital and other loss absorbing instruments to operate effectively including meeting minimum regulatory requirements, operating within Board approved risk appetite, maintaining credit ratings and supporting strategic goals.

Capital planning is integrated into the Group's wider annual budgeting process and is assessed and updated at least monthly. Capital planning is one of the tools that the Group uses to monitor and manage capital risk on a going and gone concern basis, including the risk of excessive leverage.

23. Risk management - Capital, liquidity and funding risk continued

Produce capital plans	• Capital plans are produced for the Group over a five-year planning horizon under expected and stress conditions. Stressed capital plans are produced to support internal stress testing in the ICAAP for regulatory purposes. • Shorter term forecasts are developed frequently in response to actual performance, changes in internal and external business environment and to manage risks and opportunities.
Assess capital adequacy	• Capital plans are developed to maintain capital of sufficient quantity and quality to support the Group's business activity and strategic plans over the planning horizon within approved risk appetite, as determined via stress testing, and minimum regulatory requirements. • Capital resources and capital requirements are assessed across a defined planning horizon. • Impact assessment captures input from the Group's businesses.
Inform capital actions	• Capital planning informs potential capital actions including dividends. • Decisions on capital actions will be influenced by strategic and regulatory requirements, risk appetite, costs and prevailing market conditions. • As part of capital planning, the Group will monitor its portfolio of issued capital securities and assess the optimal blend and most cost-effective means of financing

Liquidity risk management

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

The Group categorises its liquidity portfolio into primary and secondary liquid assets.

The size of the liquidity portfolio is determined by referencing the Group's liquidity risk appetite. The Group retains a prudent approach to setting the composition of the liquidity portfolio, which is subject to internal policies and limits over quality of counterparty, maturity mix and currency mix.

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

Funding risk management

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

Customer deposits provide more funding than customer loans utilise.

Impact of COVID-19

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

In response to the COVID-19 pandemic, a number of relief measures to alleviate the financial stability impact have been announced and recommended by regulatory and supervisory bodies. In June 2020 the European Parliament passed amendments to the Capital Requirements Regulation (CRR) in response to the COVID-19 pandemic ("the CRR COVID-19 amendments"). The Group has applied a number of the CRR amendments for 31 December 2020 reporting. The impact on capital and leverage of the CRR amendments and other relief measures are set out below.

- IFRS 9 Transition – the Group has elected to avail of the transitional regulatory capital rules in respect of expected credit losses following the adoption of IFRS 9; it had previously had a negligible impact up to Q4 2019. The CRR COVID-19 amendments now permit a full CET1 addback for the movement in Stage 1 and Stage 2 ECL from 1 January 2020 for the next two years, before transitioning out by 2025 . The IFRS 9 transitional arrangement impact on Group CET1 regulatory capital at 31 December 2020 is €263 million.

- Capital buffers – many countries have announced reductions in their countercyclical capital buffer rates in response to COVID-19. The CBI announced a reduction of the rate from 1% to 0% effective from 1 April 2020.

- Infrastructure and SME RWA supporting factors – the CRR COVID-19 amendments allowed an acceleration of the planned changes to the SME supporting factor and the introduction of an infrastructure supporting factor. The Group has implemented these beneficial changes to supporting factors which have reduced RWAs by €80 million for SMEs and €38 million for infrastructure.

- Pillar 2 requirements were amended to permit banks to satisfy proportionally across each tier of capital.

23. Risk management - Capital, liquidity and funding risk continued

Minimum requirements

Capital adequacy ratios

The Group is subject to minimum capital requirements relative to RWAs. The table below summarises the minimum ratios of capital to RWAs that the Bank is expected to meet.

Type	CET1	Total Tier 1	Total capital
Minimum capital requirements	4.5%	6.0%	8.0%
Pillar 2 Requirement [1]	2.0%	2.6%	3.5%
Capital conservation buffer	2.5%	2.5%	2.5%
Countercyclical capital buffer [2]	0.0%	0.0%	0.0%
Other Systemically Important Institution Buffer[3]	0.5%	0.5%	0.5%
Total	9.5%	11.6%	14.5%

Notes:
1) The ECB allowed Institutions to benefit from relief in the composition of capital for Pillar 2 Requirements. Banks will be allowed to partially use capital instruments that do not qualify as Common Equity Tier 1 (CET1) capital, for example Additional Tier 1 or Tier 2 instruments, to meet the Pillar 2 Requirements (P2R). This brings forward a measure that was initially scheduled to come into effect in January 2021, as part of the latest revision of the Capital Requirements Directive (CRD V).
2) The institution specific Countercyclical Capital Buffer requirement is determined by the Central Bank of Ireland (CBI) and applicable to all Irish banks. In April 2020 the CBI reduced the requirement to zero as a response to the COVID Pandemic.
3) The Other Systemically Important Institution Buffer is calculated by the CBI and is based on a score accounting for a bank's size, interconnectedness, importance and complexity.

Contractual maturity

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

Group	Other than MFVTPL and HFT											
2020	Less than 1 month €m	1-3 months €m	3-6 months €m	6 months - 1 year €m	Subtotal €m	1-3 years €m	3-5 years €m	More than 5 years €m	Total excluding MFVTPL and HFT €m	MFVTPL and HFT €m	Customer ECL provisions €m	Total €m
Cash and balances at central banks	5,874	-	-	-	5,874	-	-	-	5,874	-	-	5,874
Derivatives	-	-	-	-	-	-	-	-	-	226	-	226
Loans to banks	195	-	-	-	195	-	-	-	195	-	-	195
Loans to customers	587	405	505	929	2,426	3,810	3,232	11,438	20,906	-	(884)	20,022
Personal	218	181	268	524	1,191	1,987	1,818	10,540	15,536	-	-	15,536
Commercial	275	224	236	403	1,138	1,819	1,321	891	5,169	-	-	5,169
Financial institutions (excluding banks)	94	-	1	2	97	4	93	7	201	-	-	201
Other financial assets	63	149	129	207	548	1,284	1,058	61	2,951	-	-	2,951
Total financial assets	6,719	554	634	1,136	9,043	5,094	4,290	11,499	29,926	226	(884)	29,268
2019												
Total financial assets	5,177	902	787	1,581	8,447	4,692	4,862	11,964	29,965	205	(911)	29,259
Bank deposits	-	-	-	-	-	3,092	-	-	3,092	-	-	3,092
Customer deposits	19,931	523	671	523	21,648	161	19	-	21,828	-	-	21,828
Personal	10,033	150	222	305	10,710	23	-	-	10,733	-	-	10,733
Commercial	8,277	264	358	107	9,006	41	-	-	9,047	-	-	9,047
Financial institutions (excluding banks)	1,621	109	91	111	1,932	97	19	-	2,048	-	-	2,048
Derivatives	-	-	-	-	-	-	-	-	-	98	-	98
Other financial liabilities	-	-	-	-	-	-	-	270	270	-	-	270
Subordinated liabilities	-	-	-	-	-	-	-	85	85	-	-	85
Total financial liabilities	19,931	523	671	523	21,648	3,253	19	355	25,275	98	-	25,373
2019												
Total financial liabilities	18,505	1,073	744	2,449	22,771	901	19	636	24,327	121	-	24,448

23. Risk management – Capital, liquidity and funding risk continued

Contractual maturity continued

Bank

	Other than MFVTPL and HFT											
2020	Less than 1 month €m	1-3 months €m	3-6 months €m	6 months - 1 year €m	Subtotal €m	1-3 years €m	3-5 years €m	More than 5 years €m	Total excluding MFVTPL and HFT €m	MFVTPL and HFT €m	Customer ECL provisions €m	Total €m
Cash and balances at central banks	5,874	-	-	-	5,874	-	-	-	5,874	-	-	5,874
Derivatives	-	-	-	-	-	-	-	-	-	226	-	226
Loans to banks	33	-	-	-	33	-	-	-	33	-	-	33
Loans to customers	587	405	505	929	2,426	3,810	3,232	11,438	20,906	-	(884)	20,022
Personal	218	181	268	524	1,191	1,987	1,818	10,540	15,536	-	-	15,536
Commercial	275	224	236	403	1,138	1,819	1,321	891	5,169	-	-	5,169
Financial institutions (excluding banks)	94	-	1	2	97	4	93	7	201	-	-	201
Other financial assets	63	149	129	207	548	1,284	1,058	61	2,951	-	-	2,951
Total financial assets	6,557	554	634	1,136	8,881	5,094	4,290	11,499	29,764	226	(884)	29,106
2019												
Total financial assets	4,993	902	787	1,581	8,263	4,691	4,862	11,965	29,781	205	(911)	29,075
Bank deposits	-	-	-	-	-	3,092	-	-	3,092	-	-	3,092
Customer deposits	19,931	523	671	523	21,648	161	19	-	21,828	-	-	21,828
Personal	10,033	150	222	305	10,710	23	-	-	10,733	-	-	10,733
Commercial	8,277	264	358	107	9,006	41	-	-	9,047	-	-	9,047
Financial institutions (excluding banks)	1,621	109	91	111	1,932	97	19	-	2,048	-	-	2,048
Derivatives	-	-	-	-	-	-	-	-	-	98	-	98
Subordinated liabilities	-	-	-	-	-	-	-	85	85	-	-	85
Total financial liabilities	19,931	523	671	523	21,648	3,253	19	85	25,005	98	-	25,103
2019												
Total financial liabilities	18,505	1,073	744	2,449	22,771	901	19	86	23,777	121	-	23,898

Encumbrance

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

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

- Already encumbered and used to support funding currently in place through own-asset securitisations, covered bonds and securities repurchase agreements.
- Pre-positioned with central banks as part of funding and Special Mortgage Bank Promissory Note schemes and those encumbered under such schemes.
- Not currently encumbered. In this category, the Group has in place an enablement programme which seeks to identify assets capable of being encumbered and to identify the actions to facilitate such encumbrance whilst not affecting customer relationships or servicing.

23. Risk management continued

Non-traded market risk

Definition

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

The Group has no trading books and no exposure to traded market risk.

Sources of risk

The key sources of non-traded market risk are interest rate risk; credit spread risk; foreign exchange risk; and accounting volatility risk. Equity risk is not material. Each of these risk types are largely managed separately.

Risk appetite

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

Its quantitative market risk appetite is expressed in terms of exposure limits for the non-trading activities that are consistent with business plans. Limits are considered for approval at Asset & Liability Committee and Board.

For each desk, a document known as dealing authority compiles details of all applicable limits and dealing restrictions.

The limit framework comprises value-at-risk (VaR), stressed value-at-risk (SVaR), sensitivity limits including basis risk and earnings-at-risk (EaR) and Economic Value of Equity (EVE) limits. The limits are reviewed to reflect changes in risk appetite, business plans, portfolio composition and the market and economic environments. To ensure approved limits are not breached and that the Group remains within its risk appetite, triggers at the Group and lower levels have been set such that if exposures exceed a specified level, action plans are developed by the front office and Market Risk.

Risk monitoring

Non-traded Market Risk exposures for the Short Term desk are monitored against limits and analysed daily by market risk reporting and control functions and monthly in the case of structural interest rate risk. The Market Risk function also prepares daily risk reports that detail exposures against a more granular set of limits and triggers. Limit reporting is supplemented with stress testing information as well as ad hoc reporting.

Governance, appetite and controls

General information on risk governance, appetite and controls in the Group is included in the Risk Management Framework section of this note.

Measurement

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

The following table presents one-day internal banking book Value-at-Risk (VaR) at a 99% confidence level, split by risk type. VaR is a statistical estimate of the potential change in the market value of a portfolio (and, thus, the impact on the income statement) over a specified time horizon at a given confidence level.

Total VaR

The total VaR for the Group's dealing is presented in the table below:

	31 December 2020 €m	Maximum €m	Minimum €m	Average €m
Value-at-Risk	2.0	3.8	1.2	2.3

	31 December 2019 €m	Maximum €m	Minimum €m	Average €m
Value-at-Risk	1.4	1.8	1.0	1.3

Interest Rate VaR

The Interest Rate VaR limit is a sub limit of the Total VaR limit and is monitored daily.
Interest Rate VaR is presented in the table below:

	31 December 2020 €m	Maximum €m	Minimum €m	Average €m
Value-at-Risk	0.5	0.7	0.1	0.4

	31 December 2019 €m	Maximum €m	Minimum €m	Average €m
Value-at-Risk	0.3	0.6	0.1	0.3

The outbreak of COVID-19 triggered exceptional volatility in non-traded market risk factors in March 2020 and a global sell-off across all asset classes. This notably affected credit spreads (the spread between bond yield and swap rates) arising from the liquidity portfolios held by Treasury and resulted in an increase in total non-traded VaR for 2020.

23. Risk management – Non-traded market risk continued

Interest rate risk

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

NTIRR comprises three primary risk types: gap risk, basis risk and option risk.

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

Structural hedging aims to reduce gap risk and the sensitivity of earnings to interest rate shocks. It also provides some protection against prolonged periods of falling rates.

Non-traded interest rate risk can be measured from either an economic value-based or earnings-based perspective, or a combination of the two. the Group uses VaR as its value-based approach and sensitivity of net interest earnings as its earnings-based approach.

Structural hedging

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

At 31 December 2020 the Group's structural hedge had a notional of €6,515 million with an average life of approximately four years.

Credit spread risk

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

Credit spread VaR is presented in the non-traded VaR table above.

Foreign exchange risk

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

- Structural foreign exchange risk – can arise from the capital deployed in foreign subsidiaries, branches and joint arrangements and related currency funding where it differs from euro.
- Non-trading book foreign exchange risk – arises from profits and losses that are in a currency other than the functional currency of the transacting operation.
- Forecast earnings or costs in foreign currencies – the Group assesses its potential exposure to forecast foreign currency income and expenses. The Group hedges forward some forecast expenses.

Accounting volatility risk

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

Calculation of regulatory capital

The Group capitalises non-traded market risk as part of the ICAAP. The approach combines both earnings based and economic value based methodologies, in accordance with regulatory guidelines. The calculation captures the principal sources of non-traded market risk – interest rate risk, credit spread risk, basis risk, structural foreign exchange risk and accounting volatility risk. Models and methodologies are reviewed by NatWest Model Risk Management and based on their review and findings the UBIDAC Models Committee considers whether a model / methodology can be approved for use. The results are approved by Group ALCO.

Pillar 1 capital must be held for non-trading book foreign exchange exposures, as outlined under CRR Articles 455 and 92(3)c. Structural foreign exchange exposures are excluded from the calculations as outlined under CRR Article 352(2); such exposures are considered under Pillar 2A.

Pension risk

Definition

Pension risk is the risk to the Group caused by its contractual or other liabilities to, or with respect to, a pension scheme (whether established for its employees or those of a related company or otherwise). It is also the risk that the Group will be required to make payments or other contributions to, or with respect to, a pension scheme because of a moral obligation or because the Group considers that it needs to do so for some other reason.

Sources of risk

The Group has exposure to pension risk through its defined benefit schemes. The Ulster Bank Pension Scheme (the main scheme) is the largest source of pension risk. Collectively the schemes have €2,051 million of assets and €1,743 million of liabilities as at 31 December 2020 (2019 – €1,865 million of assets and €1,640 million of liabilities).

Pension scheme liabilities vary with changes in long-term interest rates and inflation as well as with pensionable salaries, the longevity of scheme members and legislation. Pension scheme assets vary with changes in interest rates, inflation expectations, credit spreads, exchange rates, and equity and property prices. The Group is exposed to the risk that the schemes' assets, together with future returns and additional future contributions, are estimated to be insufficient to meet liabilities as they fall due. In such circumstances, the Group could be obliged (or might choose) to make additional contributions to the schemes or be required to hold additional capital to mitigate this risk.

Key developments in 2020

- There have been no material changes to the Group's exposure to pension risk during the year, and the positions of the main defined benefit schemes that the Group sponsors have remained resilient despite the challenges caused by the coronavirus pandemic.

23. Risk management – Pension risk continued

Key developments in 2020 continued

- The Enhanced Transfer Value offer to a cohort of members in 2019 concluded in the first half of 2020. This had a small impact on liabilities in 2020 with the main impact seen in 2019. UBIDAC provided fully funded independent advice to each member on expression of interest during this process. This advice facilitated members' decisions in the context of their own personal circumstances.

Governance

The UBIDAC Pension Committee operates under the Assets & Liability Committee and is chaired by the Chief Financial Officer. The Pension Committee considers and discusses financial strategy, risk management, balance sheet and remuneration & policy implications of the pension schemes operating in the Republic of Ireland (the UBIDAC Schemes).

Risk appetite

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

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

Monitoring and measurement

Pension risk is monitored by the Executive Risk Committee (ERC) and the Board Risk Committee by way of the monthly Risk Management Report and by the Asset & Liability Committee.

The Group also undertakes stress tests on its material defined benefit pension schemes each year. These tests are also used to satisfy the requests of regulatory bodies such as the Central Bank of Ireland and the Bank of England.

The stress testing framework includes pension risk capital calculations for the purposes of the Internal Capital Adequacy Assessment Process as well as additional stress tests for a number of internal management purposes. The results of the stress tests and their consequential impact on the Group's balance sheet, income statement and capital position are incorporated into the Group's stress test results.

Mitigation

Following risk mitigation measures taken by the Trustee in recent years, the main scheme is now well protected against interest rate and inflation risks and is being run on a low risk basis with relatively small equity risk exposure. The main scheme also uses derivatives to manage the allocation of the portfolio to different asset classes and to manage risk within asset classes.

The potential impact of climate change is one of the factors considered in managing the assets of the main scheme. The Trustee monitors the risk to its investments from changes in the global environment and invests, where return justifies the risk, in sectors that reduce the world's reliance on fossil fuels, or that may otherwise promote environmental benefits. Further details regarding the main scheme Trustee's approach to managing climate change risk can be found in its Responsible Ownership Policy.

Climate-related risk

Definition

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

Sources of risk

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

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

Risk management

Climate is one of the Group's three Purpose pillars and work will be ongoing in 2021 to integrate climate-related risk into the risk management framework and risk appetite framework, including the development of appropriate risk appetite, metrics and targets. Where climate-related risk is deemed to have a material impact on a particular risk discipline, then changes to policies and procedures will be made accordingly. Availability of data and the robustness of risk measurement methodologies will influence the timing of any proposed changes.

Following publication of the ECB's final guide on climate-related and environmental risks in November 2020 the Group is engaging with in the self-assessment and action plan process in 2021.The Group is awaiting further guidance in 2021 on the 2022 ECB supervisory stress test on climate-related risks.

23. Risk management continued

Operational risk

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

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

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

Risk and control assessments are used across all business areas and support functions to identify and assess material operational and conduct risks and key controls. All risks and controls are mapped to the Group's Risk Directory. Risk assessments are refreshed at least annually to ensure they remain relevant and capture any emerging risks as well as ensuring risks are reassessed.

The process is designed to confirm that risks are effectively managed in line with risk appetite. Controls are tested on a regular basis to ensure they operate effectively to reduce identified risks.

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

The Group manages and monitors operational resilience through its risk and control assessments methodology. This is underpinned by setting, monitoring and testing tolerances for key business services.

Model risk

Model risk is the risk that a model is specified incorrectly (not achieving the objective for which it is designed), implemented incorrectly (an error in translating the model specification into the version actually used), or being used incorrectly (correctly specified but applied inappropriately).

Many models are used across first and second line to support a variety of decisions and calculations. To mitigate the risk that models are specified, implemented or used incorrectly, independent validation and regular reviews are carried out. Oversight is provided by the UBIDAC Models Committee in accordance with relevant policies and procedures. Models Committee in turn is a sub-committee of ERC, thus ensuring executive visibility of activities and outcomes.

Reputational risk

Reputational risk is the risk to the Group's public image from a failure to meet stakeholders' expectations in relation to performance, conduct, business profile or the environment. Stakeholders include customers, investors, colleagues, suppliers, government, regulators, special interest and consumer groups, media and the general public. It can arise as a consequence of actions taken (or not taken) by the Group.

A reputational risk policy is in place to support the management of issues that could pose a threat to the Group's public image. A number of measures – including some also used in the management of operational, conduct and financial risks – are used to assess risk levels against risk appetite. Where a material reputational risk is presented, this is escalated to the Group's Reputational Risk Forum. Cases which have material reputational risk implications for the wider NatWest Group are escalated to the NatWest Group Reputational Risk Committee.

Compliance & conduct risk

Definition

Regulatory Compliance Risk is the risk of legal or regulatory sanctions, material financial loss or loss to reputation as a result of a failure to comply with laws, regulations, rules, related self-regulatory organisation standards, and codes of conduct applicable to the Group's banking activities.

Conduct Risk is the risk that the conduct of UBIDAC and its colleagues towards customers leads to damage arising from breaches of regulatory requirements, failure to adequately protect customers or meet their expectations.

Sources of risk

Compliance and conduct risks exist across all stages of UBIDAC's relationships with its customers and its banking activities, including product design, marketing and sales, complaint handling, staff training, post-sales processes and handling of confidential insider information.

Key developments in 2020

- Completed testing of key controls from Compliance End to End Risk and Control Assessment.
- Preparation and execution of Annual Compliance Plan.
- Consistent with our Purpose and regulatory expectations we undertook oversight of the delivery of payment break solutions to support our customers during COVID 19.
- Preparation for Senior Executive Accountability Regime by updating Responsibility Map and Accountability Document and development of reasonable steps documentation approach.
- Completion of customer remediation for six remediation programmes.
- Implementation of the Conduct Risk model into the Compliance Risk Framework including enhanced second line of defence oversight to provide better assurance against the full CBI Consumer Protection Risk Assessment (CPRA) model; and
- Embedded rule mapping into the bank's upstream risk process.

23. Risk management- Compliance & conduct risk continued

Governance
The Group defines appropriate standards of compliance and conduct and ensures adherence to those standards through its risk and compliance management frameworks. Relevant compliance and conduct matters are escalated through Compliance and Conduct Risk Committee and Board Risk Committee.

Risk appetite
Risk appetite for compliance and conduct risks is set at Board level. Risk appetite statements articulate the levels of risk that businesses and functions work within when pursuing their strategic objectives and business plans.

A range of controls is operated to ensure business delivers good conduct and customer outcomes and is conducted in accordance with legal and regulatory requirements. A suite of policies, addressing compliance and conduct risks, set appropriate standards across the Group. Examples of these include the Complaints Management & Errors Management Policy and Product Lifecycle Policy as well as policies relating to customers in vulnerable situations and managing conflicts of interest. Continuous monitoring and targeted assurance is carried out as appropriate.

Monitoring and measurement
Compliance and conduct risks are measured and managed through continuous assessment and reporting to the senior executive committees and at Board level as per the Compliance Risk Framework. The Group's frameworks facilitate the consistent monitoring and measurement of compliance with laws and regulations and the delivery of consistently good customer outcomes. The first line of defence is responsible for effective risk identification, reporting and monitoring, with oversight, challenge and review by the second line. Compliance and conduct risk management is also integrated into the strategic planning cycle.

Mitigation
Activity to mitigate the most material compliance and conduct risks is carried out across UBIDAC under the Group's frameworks. Examples of mitigation include consideration of customer needs in business, product planning, targeted training, complaints and errors management including analysis, as well as second line and third line assurance activity. Internal policies help support a strong customer focus across the Group. Targeted independent assessments of compliance with applicable regulations are also carried out at a legal entity level.

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

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

Key developments in 2020
- Upgrade of automated Transaction Monitoring rules delivered.
- Completed the first Enterprise Wide Financial Crime Risk Assessment that provided a consolidated picture across all four financial crime policy areas.
- Helped address the financial crime challenges of the new or amended processes and products that addressed the challenges created by the COVID-19 pandemic as well as supporting the development of a digital-first bank.

Governance
The Financial Crime Committee, which is chaired by the Financial Crime Accountable Executive, is the principal financial crime risk management forum. The committee reviews and, where appropriate, escalates material financial crime risks and issues across the Group to the Compliance and Conduct Risk Committee and the Board Risk Committee.

Risk appetite
There is no appetite to operate in an environment where systems and controls do not enable the identification, assessment, monitoring, management and mitigation of financial crime risk. The Group's systems and controls must be comprehensive and proportionate to the nature, scale and complexity of its businesses. There is no tolerance to systematically or repeatedly breach relevant financial crime regulations and laws.

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

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

Mitigation
The Group's financial crime approach employs relevant policies, systems, processes and controls to mitigate financial crime risk. This would include the use of dedicated screening and monitoring controls to identify people, organisations, transactions and behaviours which might require further investigation or other actions. The Group ensures that centralised expertise is available to detect and disrupt threats to the Group and its customers. The Group works with law enforcement, regulators and government bodies to strengthen national and international defences against those who would misuse the financial system for criminal motives.

24. 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 the 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 the Group's expectation of future losses.

	Group and Bank	
	2020	2019
	€m	€m
Contingent liabilities and commitments		
Guarantees and assets pledged as collateral security	142	157
Other contingent liabilities	223	261
Standby facilities, credit lines and other commitments	3,745	3,665
	4,110	4,083

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

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

Regulatory enquiries and investigations - in the normal course of business the Bank and its subsidiaries co-operate with regulatory authorities in their enquiries or investigations into alleged or possible breaches of regulations. 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.

Additional contingent liabilities arise in the normal course of the Group's business. It is not anticipated that any material losses will arise from these transactions.

Commitments to lend - under a loan commitment the Bank agrees to make funds available to a customer in the future. Loan commitments, which are usually for a specified term may be unconditionally cancellable or may persist, provided all conditions in the loan facility are satisfied or waived.

Commitments to lend include commercial standby facilities and credit lines, liquidity facilities to commercial paper conduits and unutilised overdraft facilities.

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

The Bank has given guarantees on the liabilities of the following subsidiary undertakings in accordance with the provision of Section 357 of the Companies Act 2014 and these entities will avail of the exemptions under Section 357 regarding the provisions of Sections 347 and 348:

The RBS Group Ireland Retirement Savings Trustee Limited
Ulster Bank Holdings (ROI) Limited
First Active Limited
Ulster Bank Pension Trustees (RI) Limited
Ulster Bank Dublin Trust Company ULC

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 financial statements at the financial year end:

	Group and Bank	
	2020	2019
	€m	€m
Capital expenditure on other property, plant and equipment	1	1
Contracts to purchase goods or services	2	4
Total	3	5

24. Memorandum items continued

Litigation, investigations and reviews

The Group is involved in litigation arising in the ordinary course of business. No material adverse effect on the net assets of the Group is expected to arise from the ultimate resolution of these claims. Material investigations and reviews involving the Group are described below. These matters could, individually or in aggregate, have a material adverse effect on the Group's consolidated net assets, operating results or cash flows in any particular period.

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.

The Group's remaining provision in relation to these matters at 31 December 2020 was €1 million.

Review and investigation of treatment of tracker mortgage customers

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. The Group has made provisions totalling €335 million, of which €284 million had been utilised by 31 December 2020 in respect of redress and compensation.

Other customer remediation

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

UBIDAC identified further legacy business issues, as an extension to the tracker mortgage review. These remediation programmes are ongoing. The Group has made provisions of €164 million, of which €144 million had been utilised by 31 December 2020 for these programmes.

25. Analysis of changes in financing during the financial year

	Group and Bank					
	Share capital and share premium		Subordinated liabilities[1]		Debt securities in issue[1]	
	2020 €m	2019 €m	2020 €m	2019 €m	2020 €m	2019 €m
At 1 January	4,236	4,736	616	616	598	-
Issue of debt securities	-	-	-	-	-	600
Net cash inflow from financing	-	-	-	-	-	600
Reduction of capital	-	(500)	-	-	-	-
Currency translation and other adjustments	-	-	(1)	-	12	(2)
At 31 December	4,236	4,236	615	616	610	598

Notes:
(1) Subordinated liabilities of €530 million and Debt securities in issue of €610 million are included in amounts due to holding companies and fellow subsidiaries (Note 11).

26. Analysis of cash and cash equivalents

	Group		Bank	
	2020 €m	2019[1] €m	2020 €m	2019[1] €m
At 1 January	5,393	4,741	5,244	4,519
Net cash inflow	2,070	638	2,099	711
Effect of exchange rate changes on cash and cash equivalents	(19)	14	(19)	14
At 31 December	7,444	5,393	7,324	5,244
Comprising:				
Cash and balances at central banks	5,874	4,221	5,874	4,221
Debt securities	-	100	-	100
Loans to banks - amortised cost[2]	1,570	1,072	1,450	923
	7,444	5,393	7,324	5,244

Notes:
(1) Restated to reflect changes in accounting policy. Refer to Note 1, Accounting policy (a) for further details.
(2) Includes: Group €1,375 million (2019 - €851 million); Bank €1,417 million (2019 restated - €886 million) of amounts due from holding companies and fellow subsidiaries (Note 11).

27. Transactions with directors

Transactions, arrangements and agreements entered into by authorised institutions in respect of loans to persons who were directors of the Bank (or persons connected with them) at any time during the financial period were as follows:

Directors

	Principal and interest				
Name of director	As at 1 January (or date of appointment if later) €	As at 31 December €	Maximum outstanding amount during the financial year €	Interest due but not yet paid €	Provision €
2020					
D O'Shea (1)	237,317	213,766	237,317	-	-
2019					
D O'Shea (1)	406,455	237,317	406,455	-	-

Note:
(1) Mortgage loans held at commercial interest rates. During the period €23,551 (2019 - €169,138) was repaid.

Connected parties

Pursuant to the provisions of the Companies Act 2014 the amounts required to be disclosed are as follows:

- the aggregate amounts outstanding as at 31 December 2020 were €2,087,520 (2019 - €1,657,803);
- the aggregate maximum amounts outstanding during the period were €2,210,082 (2019 - €1,765,811);
- the number of relevant persons for or with whom relevant transactions as at 31 December 2020 were made by the institution was 4 (2019 - 3); and
- the maximum number of relevant persons for or with whom relevant transactions, arrangements and agreements that subsisted at any time during the period were made by the institution was 4 (2019 - 4).

There were no guarantees, security or arrangements involving a guarantee or security entered into by authorised institutions in the Group in respect of guarantees to persons who were directors of the Bank (or persons connected with them) at any time during the financial period (2019 - nil).

At 31 December 2020, the total amount outstanding under any arrangement by the Bank with any director or person connected to a director was less than 10% of the Bank's total assets.

There were no amounts outstanding at 31 December 2020 (2019 - nil) in respect of loans made to directors by subsidiary undertakings which were not authorised institutions.

28. Directors' and secretary's interest in shares

At 31 December 2020, the directors and secretary did not have any interest in the shares or debentures of the ultimate holding company representing more than 1% of the nominal value of its issued share capital.

29. Related parties

The Bank's immediate parent company is NatWest Holdings. The Bank's ultimate holding company, and the parent of the largest group into which the Bank is consolidated, is NatWest Group plc which is incorporated in Great Britain and registered in Scotland.

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.

The following table details active related undertakings incorporated in the Republic of Ireland which are 100% owned by the Bank and fully consolidated for accounting purposes.

Entity name	Activity(1)
First Active Limited	OTH
The RBS Group Ireland Retirement Savings Trustee Limited	TR
Ulster Bank Holdings (ROI) Limited	OTH
Ulster Bank Pension Trustees (R.I.) Limited	TR
Ulster Bank Dublin Trust Company Unlimited Company	SC

29. Related parties continued

The following table details related undertakings incorporated in the Republic of Ireland which are 100% owned by the Bank that are in liquidation but fully consolidated.

Entity name	Activity[1]
First Active Investments No. 4 Limited	INV
First Active Insurances Services Limited	BF
Ulster Bank Group Treasury Limited	INV
UB SIG (ROI) Limited	INV

The following table details related undertakings incorporated in the Republic of Ireland. These are securitisation companies in which the Bank does not hold any of the voting rights but the activities of which are conducted on behalf of the Bank and it retains the majority of the residual ownership risks and benefits related to their activities. Therefore, in accordance with the requirements of IFRS 10 the results of these securitisation companies are included in the Group's consolidated financial statements.

Entity name	Activity [1]	Group Interest %
Ardmore Securities No.1 Designated Activity Company	BF	-
Ardmore Securities No.2 Designated Activity Company	BF	-
Dunmore Securities No.1 Designated Activity Company	BF	-
Celtic Residential Irish Mortgage Securitisation No.14 Designated Activity Company	BF	-
Celtic Residential Irish Mortgage Securitisation No.15 Designated Activity Company	BF	-

Note:
(1) Activity - Banking and Financial institution (BF), Other/non-financial (OTH), Service Company (SC), Investment (shares or property) holding company (INV), Trustee (TR)

(a) Directors and key management

At 31 December 2020, amounts advanced by the Bank were €213,802 (2019 - €237,317) in respect of loans to 2 persons (2019 - 1 person) who served as directors during the financial period.

The aggregate transactions between the Bank and its directors, key management, their close families and companies which they control were:

	Number of directors	Number of key management	Connected parties	Transaction €
Transactions during the financial year				
Loans made during the financial year:				
- at a commercial rate	-	-	1	550,000
Balances outstanding at the end of the year				
Loans:				
- at a commercial rate	2	2	5	2,575,217
- at a preferential rate	-	1	-	540
Customer accounts:				
- Savings	4	7	19	2,288,615

The amounts above are presented in accordance with the requirements of IAS 24 and therefore differ in some respects from disclosures in Note 27 which is prepared in accordance with the requirements of the Companies Act 2014.

(b) Related party transactions

Included in the Group and Bank's balance sheet are the following balances with related parties at the financial year end:

	Group		Bank	
	2020	2019	2020	2019
Assets	€m	€m	€m	€m
Loans:				
Key management	-	2	-	2
Other related parties, including fellow subsidiaries[1]	1,519	852	1,573	911
	1,519	854	1,573	913
Equity shares:				
Other	-	1	-	1
Derivatives:				
Fellow subsidiaries	206	185	206	185
Total assets	1,725	1,040	1,779	1,099

29. Related parties continued

	Group		Bank	
Liabilities	2020 €m	2019 €m	2020 €m	2019 €m
Deposits:				
Key management	2	2	2	2
Other related parties, including fellow subsidiaries[1]	199	228	366	659
	201	230	368	661
Debt securities in issue:				
Parent companies	610	598	610	598
Subordinated loans:				
Parent companies	530	530	530	530
Derivatives:				
Fellow subsidiaries	59	65	59	65
Total liabilities	1,400	1,423	1,567	1,854

(1) 2019 Bank balances have been restated to reflect an accounting policy change on securitisation of residential mortgages. Refer to Note 1, Accounting policy (a) and Note 30 for further details.

The Group recognised a fee payable for the financial year of €130k due to a fellow NatWest Group subsidiary for the provision of key management personnel services (2019 - €274k).

(c) Compensation of key management

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

	Group	
	2020 €	2019 €
Short-term benefits	4,066,104	5,068,293
Share-based benefits	1,024,997	626,894
Post-employment benefits	310,155	300,093
	5,401,256	5,995,280

30. Restatement: accounting policy change – securitisation of residential mortgages

During the financial year, the Bank elected to change its accounting policy in respect of transactions with residential mortgage securitisation SPEs that are consolidated in the Group results to align reporting with market peers. Previously the Bank recognised all transactions with the SPEs on a gross reporting basis. Subsequent to the change in accounting policy the Bank recognises positions with the SPEs on a net basis as Amounts due from/to holding companies and fellow subsidiaries.

In accordance with IAS 1 and IAS 8 the Bank has restated prior periods, as illustrated below. There has been no impact on the Group balance sheet as a result of this change in accounting policy.

Balance Sheet as at 31 December 2019 and 2018

	Bank					
	Previously reported 2019 €m	Adjustment 2019 €m	Restated 2019 €m	Previously reported 2018 €m	Adjustment 2018 €m	Restated 2018 €m
Assets						
Amounts due from holding companies and fellow subsidiaries	3,147	(2,238)	909	3,993	(2,440)	1,553
Liabilities						
Amounts due to holding companies and fellow subsidiaries	4,063	(2,276)	1,787	4,061	(2,467)	1,594
Owners' equity	4,428	38	4,466	4,872	27	4,899

31. Ultimate holding company

The Bank's ultimate holding company is NatWest Group plc which is incorporated in Great Britain and registered in Scotland and its immediate holding company is NatWest Holdings Limited which is incorporated in Great Britain and registered in England.

As at 31 December 2020, NatWest Group plc heads the largest group in which the Bank is consolidated. Copies of the consolidated accounts may be obtained from The Secretary, NatWest Group plc, Gogarburn, PO Box 1000, Edinburgh, EH12 1HQ.

The UK Government, through HM Treasury, currently holds 61.9% of the issued ordinary share capital of the ultimate holding company and is therefore the Group's ultimate controlling party.

32. Post balance sheet events

NatWest Group plc has confirmed that, as a result of a strategic review, it is seeking a phased withdrawal from the Republic of Ireland market.

NatWest Group plc and the Bank have entered into a non-binding Memorandum of Understanding ('MOU') with AIB Group plc for the sale of c. €4 billion of the Group's performing commercial loan book. Given the related risks and uncertainties outlined in the Report of the directors a reasonable estimate of the financial impacts from the proposed transaction cannot be determined at this time.

The potential transaction contemplated by the non-binding MOU remains subject to customary due diligence, further negotiation and agreement of final terms and definitive documentation, as well as obtaining appropriate regulatory approvals and other conditions precedent. No assurance can be given that the parties will reach a definitive agreement or that the proposed sale will be concluded on acceptable terms, when contemplated, or at all.

33. Date of approval

The financial statements were approved by the Board of Directors on 19 February 2021.

34. Capital resources - unaudited

Capital regulation

The EU adopted legislative package, known as CRD IV consists of the CRR which is directly applicable across firms in the EU, and the new Capital Requirements Directive (CRD), which has been implemented by member states of the European Economic Area through national law. CRD IV is designed to strengthen the regulation of the banking sector and to implement the Basel III agreement in the EU legal framework.

The Bank Recovery and Resolution Directive (BRRD) marks another step by European authorities in improving the stability of the financial system. The new framework is intended to enable resolution authorities to resolve failing banks with a lower risk of triggering contagion to the broader financial system, while sharing the costs of resolution with bank shareholders and creditors. To achieve this objective, the BRRD includes explicit provisions for the 'bail-in' of senior creditors where necessary.

Capital management

The objectives of the Group's capital management and risk appetite framework are to at all times comply with the regulatory and internal capital requirements and to ensure that the Group has sufficient capital to cover the current and future risks inherent in its business and to support its future development.

The Group achieves this through the ICAAP process. The ICAAP is an internal assessment of capital that the Group undertakes to ensure it is appropriately capitalised for its risk profile. The purpose of the ICAAP is to formalise the Group's approach to understanding its risk profile and the processes and systems it needs to have in place to assess, quantify and monitor these risks.

The primary objective of the ICAAP is to ensure the Group has adequate and appropriate capital to cover all material risks to which it is or may be exposed, at present or in the future. The Group has in place a risk management framework to ensure that the identification and evaluation of those risks is comprehensive.

In support of the ICAAP, the Group embeds risk management processes (material risk assessment, risk appetite, stress testing and capital planning), which are integrated into the wider risk management processes in the Group including ILAAP and recovery planning, ensuring effective management of the risk profile of the Group. Under CRD IV (which was enacted in Irish law by S.I. No. 158 of 2014 and S.I. No. 159 of 2014), regulators within the European Union monitor capital on a legal entity basis.

34. Capital resources - unaudited continued

Capital management continued

The capital resources for the Bank are set out below.

	Unaudited[1] 2020 €m	Unaudited[1] 2019 €m
Shareholders' equity (excluding non-controlling interests)	4,165	4,469
Regulatory adjustments and deductions		
Defined benefit pension fund adjustment	(272)	(197)
Cash flow hedge reserve	(84)	(41)
Deferred tax assets	(48)	(213)
Excess of expected losses over impairment provisions	-	(34)
Goodwill and other intangible assets	-	(1)
Adjustments under IFRS9 transition arrangements	263	-
Other adjustments for regulatory purposes	(52)	-
	(193)	(486)
Common equity tier 1 capital[2]	3,972	3,983
Total tier 1 capital	3,972	3,983
Qualifying tier 2 capital		
Paid up capital instruments and subordinated loans	251	359
Excess of impairment provisions over expected losses	71	-
Total tier 2 capital	322	359
Total regulatory capital	4,294	4,342
Key capital ratios	%	%
Common equity tier 1	28.1	26.5
Tier 1	28.1	26.5
Total capital	30.4	28.9
Risk weighted assets by risk	€m	€m
Credit risk	12,894	13,728
Counterparty risk	130	150
Market risk	69	90
Operational risk	1,041	1,054
Total risk weighted assets	14,134	15,022

Notes:

(1) The capital metrics included in the above table have not been audited for the financial years ended 31 December 2020 and 31 December 2019.

(2) The Common Equity Tier 1 capital includes the total comprehensive (loss)/income for the financial year.

In the management of capital resources, the Group is governed by the UBIDAC and NatWest Group policies which are to maintain a strong capital base, generate capital accretion 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 these policies the Group has regard to and has complied with the capital supervisory requirements of the ECB and CBI throughout the financial year.