

Company Registered Number: 00908417

COUTTS FINANCE CO.
ANNUAL REPORT AND FINANCIAL STATEMENTS
For the year ended 31 December 2020



COMPANIES HOUSE
19 MAY 2021
EDINBURGH MAILBOX

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BOARD OF DIRECTORS AND SECRETARY

Directors

Peter Gordon Flavel

Andrew Richard Kyle

Company Secretary

NatWest Group Secretarial Services Limited

Appointments and Resignations

Annabelle Katy Arber (Company Secretary) resigned on 11 March 2020

Ralph Antoine Ricks (Company Secretary) appointed on 11 March 2020 and resigned on 19 March 2021

NatWest Group Secretarial Services Limited (Company Secretary) appointed on 19 March 2021

Auditor

Ernst & Young LLP
Statutory Auditor
25 Churchill Place
London
United Kingdom
E14 5EY

Registered office

440 Strand
London
England
WC2R 0QS

Coutts Finance Co.

Registered in England and Wales No. 00908417

STRATEGIC REPORT

The directors of Coutts Finance Co. ("the Company") present the Annual Report, together with the audited financial statements of the Company for the year ended 31 December 2020. The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and in conformity with the requirements of the Companies Act 2006, which constitutes a body of generally accepted accounting principles.

Principal activities

The principal activity of the Company was the provision and administration of finance to clients for the purpose of house purchases.

Following the implementation of the Mortgage Market Review in April 2014 any new mortgage business is now conducted through the Company's immediate parent undertaking, Coutts & Company ("Coutts"). The Company will continue to operate with the legacy business diminishing over time. No new business has been conducted by the Company since February 2015.

The Company is a subsidiary of NatWest Group plc (renamed from The Royal Bank of Scotland Group plc on 22 June 2020), which provides support and access to all central resources. The Company leverages its relationship with its parent company, Coutts, and other NatWest Group companies to enable it to efficiently carry out its business. Copies of the annual report of NatWest Group plc can be obtained from Corporate Governance and Regulatory Affairs, RBS Gogarburn, Edinburgh EH12 1HQ, the Registrar of Companies or through the NatWest Group website, www.natwestgroup.com.

Business review

The directors are pleased with the progress made against the key performance indicator of the company, namely the repayment of customer loans. The reduction of 31% in the year shows good progress in the continued run down of the Company's business.

Financial performance

The Company's financial performance is presented in the Statement of comprehensive income on page 9.

As expected, total income declined by 37% from £19 million to £12 million in line with the decrease in customer loans, £620 million to £430 million. Operating expenses, which relate principally to charges from Coutts, fell by 25% from £0.4 million to £0.3 million due to the declining level of activity within the Company.

After an impairment release of £0.7 million (2019 - £1.2 million) and a tax charge of £3.4 million (2019 - £5.4 million), net profit declined from £15 million to £9 million, which was in line with expectations.

Ring-fencing

UK ring-fencing legislation required the separation of essential banking services from investment banking services from 1 January 2020. The Company forms part of the NatWest Holdings Ltd (NWH) ring-fenced banking group and is compliant with the legislation.

Accounting policies

The reported results of the Company are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. Details of the Company's critical accounting policies and key sources of estimation uncertainty are included in the accounting policies on page 14.

Risk management

The Company employs a continuous process for identifying and managing its principal risks. The risks associated with the Company's business and the Company's policies for managing each of these risks and its exposure thereto are detailed in note 8 to the accounts.

Outlook

The Company will continue to wind down the business in an orderly fashion, continuing to monitor its risk appetite. Periodically it will look for opportunities to accelerate this wind down.

As part of the Coutts group, the directors remain confident that the Company is well positioned to meet the continuing challenges of the regulatory landscape, external market and client environment. They consider the Company to be in a stable financial position and confirm that it has adequate resources to continue in business for the foreseeable future with support from its immediate parent company, Coutts.

Principal Risks and Uncertainties

Set out below are certain risk factors that could adversely affect the Company's future results, its financial condition and prospects and cause them to be materially different from what is forecast or expected. These risk factors are broadly categorised and should be read in conjunction with the Strategic report and note 8. These should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties facing the Company.

Economic and political risk

Continuing uncertainty regarding the effects of the UK's withdrawal from the European Union.

Following the 2016 EU Referendum the UK ceased to be a member of the EU and the European Economic Area ("EEA") on 31 January 2020 ("Brexit") and the transition period ended on 31 December 2020.

The direct and indirect effects of the UK's exit from the EU and the EEA are not expected to have an impact on the Company's operations.

Risks relating to the COVID-19 pandemic

The effects of the COVID-19 pandemic on the UK, global economies and financial markets, our clients, as well as our competitive environment may have an adverse effect on the Company's financial results.

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

The UK economy, as well as most countries, went into recession in 2020 as measures were introduced to reduce the spread of the virus. UK economic output fell again in November 2020, according to estimates from the Office for National Statistics, as many restrictions were re-introduced towards the end of 2020 and at the start of 2021. The COVID-19 pandemic has caused significant reductions in levels of personal and commercial activity, increased unemployment and market volatility. It has also caused physical disruption and slowdown to global supply chains and working practices, all of which have affected the Company's clients.

Further waves of infection may result in further restrictions and relaxations in affected countries and regions, at least until a vaccine or effective treatment can be widely administered. Vaccine treatments may also fail to achieve immunisation and therefore significant uncertainties remain as to how long the COVID-19 pandemic will last. Even when restrictions are relaxed, they may be re-imposed, sometimes at short notice if either immunisation is ineffective or new strains of the COVID-19 virus or other diseases develop into new epidemics or pandemics.

STRATEGIC REPORT

Risks relating to the COVID-19 pandemic continued

Throughout 2020 the Company, with support from its parent, maintained uninterrupted operations with no appreciable impact on clients.

The medium and long-term implications of the COVID-19 pandemic for the Company's clients, the UK housing market, and the UK and global economies remain uncertain and may have a material adverse effect on the Company's business and operating results.

Directors' duties and engagement with stakeholders

Section 172(1) of the Companies Act 2006 (Section 172) is one of the statutory duties that directors have and requires them to promote the success of the Company for the benefit of shareholders as a whole while taking into account the interests of other stakeholders and, in so doing, have regard to the matters set out in Section 172(1)(a) to (f). These include the long-term consequences of decisions, colleague interests, the need to foster the Company's business relationships with suppliers, customers and others; the impact on community and the environment, and the Company's reputation.

Directors are supported in the discharge of their duties by the Company Secretary. All directors receive guidance on their statutory duties, including Section 172(1), and were briefed on the reporting requirements introduced by the Companies' (Miscellaneous Reporting) Regulations 2018 in advance of the effective date. NatWest Group has introduced a new approach to board and committee papers with greater focus on ensuring relevant stakeholder interests are clearly articulated and guidance on documenting decisions has been refreshed to ensure these are recorded in a consistent manner across NatWest Group.

More details are provided in the sections below which cover the Company's different stakeholder groups.

Clients

Meeting the needs of clients is a constant feature of Board discussions and decisions. Whilst the ability of the directors to meet clients was severely curtailed on account of the pandemic, the Company intensified its client communications to support and inform clients throughout the year.

COVID-19 has inevitably had a significant impact on our clients, we are proud to have assisted our clients through this turbulent period by implementing payment deferrals for our clients where appropriate.

Suppliers

The Board recognises the key role suppliers play in ensuring the Company delivers a reliable service to its clients. During the year, the Board continued to focus on the framework for managing its intra-group suppliers. NatWest Group plc also launched a new Supplier Charter, replacing its previous Supplier Code of Conduct. The Charter sets out expectations in terms of ethical business conduct, human rights, environmental sustainability, and diversity and inclusion. In line with *Our Purpose*, it details not only what we expect from our suppliers but also outlines what our own commitments are in these key areas.

The Company also publishes, as part of NatWest Group plc's statement, an annual statement on Modern Slavery and Human Trafficking, made in accordance with section 54 of the UK's Modern Slavery Act 2015.

Shareholder

The Company recognises the benefits that being part of the wider Group provides, for example in terms of the ability to call on extensive IT and other specialist resources, including in relation to cyber-crime defences. The shareholder's perspective is provided through interactions at both management and Board levels.

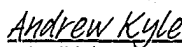
How stakeholder interests have influenced decision making

The Company recognises the importance of engaging with stakeholders to help inform the Company's strategy and board decision making. Relevant stakeholder interests are taken into account by the Board when it takes decisions.

The Company defines principal decisions as those that are material or of strategic importance to the Company and also those that are significant to any of the Company's key stakeholder groups. In making its decisions, the Board considers the outcomes of relevant stakeholder engagement, as well as the need to maintain a reputation for high standards of business conduct and to consider the long-term consequences of its decisions.

Please refer to the Annual Report and Accounts of NatWest Group plc for further information on NatWest Group's approach to stakeholder engagement.

On behalf of the Board:


Andrew Kyle (Apr 21, 2021 14:29 GMT+1)

Andrew Richard Kyle
Director

Date: Apr 21, 2021

Coutts Finance Co. is registered in England and Wales No. 00908417

REPORT OF THE DIRECTORS

The directors present their report together with the audited accounts for the year ended 31 December 2020. It should be read in conjunction with the Strategic report.

Directors and secretary

The names of the current members of the Board of Directors are shown on page 1.

From 1 January 2020 to date, changes that have taken place are shown under 'Appointments and Resignations' on page 1.

In accordance with the Articles of Association, the directors are not required to retire by rotation.

Share capital

Analysis of share capital can be found in note 7 to the financial statements.

Dividends

An interim dividend of £25 million was approved on 3 December 2020, and subsequently paid (2019 - £35 million).

The directors do not recommend the payment of a final dividend (2019 - nil).

Going concern

These financial statements are prepared on a going concern basis, see accounting policy 1 on page 13.

Post balance sheet events

There have been no significant events between the year end and the date of approval of the financial statements which would require a change or additional disclosure or amendment in the financial statements.

Directors' indemnities

In terms of Section 236 of the Companies Act 2006, all directors listed on page 1 have been granted Qualifying Third Party Indemnity Provisions by NatWest Group.

Directors' disclosure to auditor

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

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all steps they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Auditor

Ernst & Young LLP has expressed its willingness to continue in office as auditor.

A resolution to re-appoint Ernst & Young LLP as the Company's auditor will be proposed at a forthcoming Board meeting.

On behalf of the Board:

Andrew Kyle

Andrew Kyle (Apr 21, 2021 14:29 GMT+1)

Andrew Richard Kyle
Director

Date: Apr 21, 2021

Coutts Finance Co. is registered in England and Wales No. 00908417

STATEMENT OF DIRECTORS' RESPONSIBILITIES

This statement should be read in conjunction with the responsibilities of the auditor set out in their report on page 6.

The directors are responsible for the preparation of the Annual Report and Accounts. The directors are required by the Companies Act 2006 to prepare company accounts for each financial year in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. They are responsible for preparing accounts that present fairly the financial position, financial performance and cash flows of the Company. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- make an assessment of the Company's ability to continue as a going concern.

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

The directors confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the Strategic report (incorporating the Business review) and Report of the directors includes a fair review of the development and performance of the business and position of the Company.

On behalf of the Board:

Andrew Kyle

Andrew Kyle (Apr 21, 2021 14:29 GMT+1)

Andrew Richard Kyle
Director

Date: Apr 21, 2021

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF COUTTS FINANCE CO.

Opinion

We have audited the financial statements of Coutts Finance Co. ("the Company") for the year ended 31 December 2020 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement, and the related notes 1 to 11, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

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

- In conjunction with our walkthrough of the Company's financial close process, we confirmed our understanding of the director's Going Concern assessment process to ensure all key factors were considered in their assessment;
- We evaluated the directors' going concern assessment, which covered a period of 12 months from the date of our audit report up to 21 April 2022, by reviewing their evaluation of long-term business and strategic plans, capital adequacy, liquidity and funding positions. In addition, we also assessed these positions considering internal stress tests which included consideration of principal and emerging risks. The Company's risk profile and risk management practices were considered including credit risk, market risk, compliance and conduct risk, and operational risk. We also evaluated the accuracy of the group forecasts and assessed their reasonableness;
- We evaluated the director's assessment by considering the going concern basis for accounting in different scenarios considering the economic impact of COVID-19;
- We considered the Company's operational resilience and their response to the impact COVID-19 had on its business operations, including the operations of its providers and the dependencies of the Company to the Natwest Group;
- We obtained and reviewed the documentation related to the expectation of Immediate Parent Company, Coutts & Co, to continue to provide financial and operational support to the Company; and
- We reviewed the Company's going concern disclosures included in the annual report in order to assess that the disclosures were appropriate and in conformity with the reporting standards.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of 12 months from when the financial statements are authorised for issue.

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

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

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

We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF COUTTS FINANCE CO.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF COUTTS FINANCE CO.

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

Use of our report

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

Ernst & Young LLP
Ernst & Young LLP (Apr 21, 2021 18:29 GMT+1)

Michael-John Albert (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
London

Date: Apr 21, 2021

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 £'000	2019 £'000
Continuing operations			
Interest receivable from loans to customers - amortised cost		13,664	24,666
Interest payable to holding companies and fellow subsidiaries		(1,759)	(5,596)
Net interest income		11,905	19,070
Fees and commissions receivable		86	6
Non-interest income		86	6
Total income		11,991	19,076
Operating expenses	1	(268)	(359)
Profit before impairment losses		11,723	18,717
Impairment releases	5	734	1,232
Operating profit before tax		12,457	19,949
Tax charge	3	(3,401)	(5,386)
Profit and total comprehensive income for the year		9,056	14,563

The accompanying notes, on pages 15 to 27, and the accounting policies, on pages 13 to 14, form an integral part of these financial statements.

BALANCE SHEET AS AT 31 DECEMBER 2020

	Note	2020 £'000	2019 £'000
Assets			
Loans to customers - amortised cost	4	429,877	619,732
Total assets		429,877	619,732
Liabilities			
Amounts due to holding companies and fellow subsidiaries	4	405,276	573,836
Other liabilities	4,6	715	6,066
Total liabilities		405,991	579,902
Owner's Equity		23,886	39,830
Total equity		23,886	39,830
Total liabilities and equity		429,877	619,732

The accompanying notes, on pages 15 to 27, and the accounting policies, on pages 13 to 14, form an integral part of these financial statements.

The accounts were approved by the Board of Directors on 21st April 2021 and signed on its behalf by:

Andrew Kyle

Andrew Kyle (Apr 21, 2021 14:29 GMT+1)

Andrew Richard Kyle
Director

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 £'000	2019 £'000
Called-up share capital at 1 January and 31 December	7	3,250	3,250
Retained earnings at 1 January		36,580	57,017
Profit for the year		9,056	14,563
Dividends paid		(25,000)	(35,000)
At 31 December		20,636	36,580
Owner's equity at 31 December		23,886	39,830

The accompanying notes, on pages 15 to 27, and the accounting policies, on pages 13 to 14, form an integral part of these financial statements.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 £'000	2019 £'000
Operating activities			
Operating profit for the year before tax		12,457	19,949
Adjustments for:			
Impairment release	5	(734)	(1,232)
Other non cash items			
Decrease in loans and advances to customers		190,589	361,297
Decrease in other assets			
Decrease in amounts due to holding companies and fellow subsidiaries		(168,560)	(345,040)
Increase in other liabilities		79	26
Changes in operating assets and liabilities		22,108	16,283
Income taxes paid		(8,831)	
Net cash flows from operating activities ⁽¹⁾		25,000	35,000
Cash flows from financing activities			
Equity dividends paid		(25,000)	(35,000)
Net cash flows used in financing activities		(25,000)	(35,000)
Net increase in cash and cash equivalents			
Cash and cash equivalents at 1 January		-	-
Cash and cash equivalents at 31 December		-	-

The accompanying notes, on pages 15 to 27, and the accounting policies, on pages 13 to 14, form an integral part of these financial statements.

Note:

(1) Includes interest received of £13,664k (2019 - £24,666k) and interest paid of £1,759k (2019 - £5,596k).

ACCOUNTING POLICIES

1. Presentation of financial statements

The accounts, set out on pages 9 to 27, including these accounting policies on pages 13 to 14, are prepared on a going concern basis and in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

The directors have a reasonable expectation that the Company has adequate resources to meet regulatory capital requirements and continue in operational existence for the foreseeable future and have prepared the financial statements on a going concern basis. This conclusion is based on the directors' assessment of the Company's financial position, including the expectation of financial and operational support provided by the parent company. The directors, in relying on this support, have considered the parent company's ability to provide this support with no issues noted.

The significant accounting policies and relevant judgements are set out below.

The Company, a private unlimited company, is incorporated and domiciled in the UK and registered in England and Wales. The Company's accounts are presented in accordance with the Companies Act 2006.

The functional currency of the accounts is pounds sterling.

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

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

2. Income recognition

Interest income or expense relates to financial instruments measured at amortised cost using the effective interest rate method.

Net interest income in the income statement only relates to financial instruments measured at amortised cost.

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.

3. Tax

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

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

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

4. 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 Company 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.

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 models 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, managers' remuneration and the ability to monitor sales of assets from a portfolio.

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.

ACCOUNTING POLICIES

5. Impairment: expected credit losses (ECL)

At each balance sheet date each financial asset or portfolio of loans measured at amortised cost issued financial guarantee and loan commitment is assessed for impairment. 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 (SICR), allowances are recognised without a change in the expected cash flows, although typically expected cash flows do also change; and ECL are rebased from 12-month to lifetime expectations.

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 property, the exchange is accounted for as the sale of the loan and the acquisition of investment property.

The costs of loss allowances on assets held at amortised cost are presented as impairments in the income statement.

6. Derecognition

A financial asset is derecognised when the contractual right to receive cash flows from the asset has expired or when it has been transferred and the transfer qualifies for derecognition. Conversely, an asset is not derecognised by a contract under which the Company retains substantially all the risks and rewards of ownership. If substantially all the risks and rewards have been neither retained nor transferred, the Company 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, cancelled, or expires. Cancellation includes the issuance of a substitute instrument on substantially different terms.

Critical accounting policies and key sources of estimation uncertainty

The reported results of the Company are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements.

UK company law and IFRS require the directors, in preparing the Company'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 of 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 Company'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 Company would affect its reported results.

Critical accounting policy	Note
Loan impairment provisions	5

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 Company'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

- 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).

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2020

1. Operating expenses

	2020	2019
	£'000	£'000
Management recharge - Coutts & Co.	241	356
Other operating expenses	27	3
Operating expenses	268	359

The average number of persons employed during the year was nil (2019 - nil).

2. Auditor's remuneration

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

Remuneration paid to the auditor for the current year and the prior year has been borne by Coutts & Company, the immediate parent company, with the appropriate element recharged to the Company. In addition, the auditor received remuneration of £27k (2019 - £12k) for NatWest reporting audit work; this fee was borne by NatWest Group plc, the ultimate parent company of the Company.

Amount paid to the Company's auditors for statutory audit are set out below:

	2020	2019
	£'000	£'000
Auditors remuneration	27	12
	27	12

3. Tax

	2020	2019
	£'000	£'000
Current tax		
Charge for the year	3,428	5,451
	3,428	5,451
Deferred tax		
Credit for the year	(27)	(65)
Tax charge for the year	3,401	5,386

The actual tax charge differs from the expected tax charge computed by applying the UK corporation tax rate of 19% (2019 - 19%) and the Banking Surcharge rate of 8% (2019 - 8%) as follows:

	2020	2019
	£'000	£'000
Expected tax charge	2,367	3,790
Banking Surcharge	997	1,596
Deferred tax rate change	37	-
Actual tax charge	3,401	5,386

Deferred tax

	2020	2019
	£'000	£'000
Deferred tax liability	452	479

Net deferred tax liability comprised:

	IFRS transition £'000
At 1 January 2019	(544)
Credit to income statement	65
At 31 December 2019	(479)
Credit to income statement	27
At 31 December 2020	(452)

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2020

3. Tax continued

In the current period, the substantively enacted UK Corporation tax rate applicable to the company from 1 April 2020 was increased from 17% to 19%. The closing deferred tax assets and liabilities have been calculated at 19% and accordingly a rate change adjustment has arisen as the opening deferred tax balance had been calculated taking into account the previously enacted rate of 17%.

Since the balance sheet date, it was announced in the UK Government's Budget on 3 March 2021 that the main UK corporation tax rate will increase to 25% from 1 April 2023. This change has not yet been substantively enacted. As a result, existing temporary differences on which deferred tax has been provided may unwind in periods subject to the 19%/25% rates. The impact of the post balance sheet date change in tax rate is not expected to be material.

4. Financial instruments

Financial instruments – classification

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

Assets	Amortised cost £'000	Total £'000
Loans to customers - amortised cost	429,877	429,877
31 December 2020	429,877	429,877
Loans to customers - amortised cost	619,732	619,732
31 December 2019	619,732	619,732

Liabilities	Amortised cost £'000	Non financial liabilities £'000	Total £'000
Amounts due to holding companies and fellow subsidiaries	405,276	-	405,276
Other liabilities	-	715	715
31 December 2020	405,276	715	405,991
Amounts due to holding companies and fellow subsidiaries	573,836	-	573,836
Other liabilities	-	6,066	6,066
31 December 2019	573,836	6,066	579,902

Financial instruments – valuations

The following tables show the carrying values and the fair values of financial instruments carried at amortised cost on the balance sheet date:

	Items where fair value approximates carrying value £000	Carrying value £000	Fair value £000	Fair value hierarchy level		
				Level 1 £000	Level 2 £000	Level 3 £000
2020						
Financial assets						
Loans to customers - amortised cost	20,690	409,187	393,634	-	-	393,634
Financial liabilities						
Amounts due to holding companies and fellow subsidiaries	318,726	86,550	88,892	-	-	88,892
2019						
Financial assets						
Loans to customers - amortised cost	20,921	598,811	585,550	-	-	585,550
Financial liabilities						
Amounts due to holding companies and fellow subsidiaries	457,478	116,358	114,325	-	-	114,325

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2020

4. Financial instruments continued

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

The assumptions and methodologies underlying the calculation of fair values of financial instruments at the balance sheet date are set out below:

Loans to customers – amortised cost

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

- Contractual cash flows are discounted using a market discount rate that incorporates the current spread for the borrower or, where this is not observable, the spread for borrowers of a similar credit standing.
- Expected cash flows (unadjusted for credit losses) are discounted at the current offer rate for the same or similar products.

Amounts due to holding companies and fellow subsidiaries

Fair values are determined by using internal valuation models or using quoted prices for similar liabilities.

Financial instruments – maturity analysis

Remaining maturity

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

	2020		2019		Total £'000	
	Less than 12 months £'000	More than 12 months £'000	Less than Total 12 months £'000	More than 12 months £'000		
	Assets					
Loans to customers - amortised cost	119,777	310,100	429,877	199,887	419,845	619,732
Liabilities						
Amounts due to holding companies and fellow subsidiaries	324,740	80,536	405,276	490,586	83,250	573,836

5. Loan impairment provisions

	2020 £'000	2019 £'000
Loans - amortised cost		
Stage 1	398,803	578,670
Stage 2	3,832	11,947
Stage 3	31,171	35,407
Total	433,806	626,024
ECL provisions by stage		
Stage 1	16	5
Stage 2	45	6
Stage 3	3,405	5,145
Total	3,466	5,156
ECL provisions coverage		
Stage 1 (%)		
Stage 2 (%)	1.2	0.1
Stage 3 (%)	10.9	14.5
Total (%)	0.8	0.8
Total ECL release	734	1,232
ECL loss rate (basis point) ⁽¹⁾	NA	NA
Amounts written off		

Note:

- (1) No ECL loss for the current or prior year, hence ECL loss rate is not applicable.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2020

5. Loan impairment provisions continued

Critical accounting policy: loan impairment provisions

The loan impairment provisions have been established in accordance with IFRS 9. Accounting policy 5 sets out how the expected loss approach is applied. Key judgements in respect of the measurement of ECL include the selection of the most appropriate NatWest Group credit models and modelling assumptions used to calculate the Company's ECL. At 31 December 2020, customer loan impairment provisions amounted to £3 million (2019 - £5 million). A loan is impaired when there is objective evidence that the cash flows will not occur in the manner expected when the loan was advanced. Such evidence includes changes in the credit rating of a borrower; the failure to make payments in accordance with the loan agreement; significant reduction in the value of any security; breach of limits or covenants; and observable data about relevant macroeconomic measures.

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

6. Other liabilities

	2020 £'000	2019 £'000
Due within 12 months:		
Accruals and deferred income	115	36
Corporate taxation (refer note 3)	148	5,551
Due after 12 months:		
Deferred tax (refer note 3)	452	479
	715	6,066

7. Share capital

	Allotted, called up and fully paid		Authorised	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
<i>Equity shares:</i>				
Ordinary shares of £1	3,250	3,250	3,250	3,250
Total share capital	3,250	3,250	3,250	3,250

8. Risk management

Presentation of information

Risk and capital management are generally conducted on an overall basis within NatWest Group such that common policies, procedures, frameworks and models apply across NatWest Group. Therefore, for the most part, discussion on these qualitative aspects reflects those in NatWest Group as relevant for the businesses and operations in the Company.

Update on COVID-19

The unprecedented challenge posed by the global pandemic for families, businesses and governments around the world – also led to a number of significant risk management challenges. The Company remained committed to supporting its clients while operating safely and soundly in line with its strategic objectives.

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

Risk management framework

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

The framework ensures that the Company's principal risks – which are detailed in this section – are appropriately controlled and managed. In addition, there is a process to identify and manage top risks; those which could have a significant negative impact on the Company's ability to meet its strategic objectives.

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.

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

Risk governance

Three lines of defence

NatWest Group uses the industry-standard three lines of defence model to articulate accountabilities and responsibilities for managing risk. It supports the embedding of effective risk management throughout the organisation.

First line of defence

The first line of defence incorporates most roles in the Company, including those in the customer-facing franchises, Technology and Services as well as support functions such as Human Resources, Legal and Finance. It is empowered to take risks within the constraints of the risk management framework and policies as well as the risk appetite statements and measures set by the Board. It is responsible for managing its direct risks and it is also responsible for managing its consequential risks by identifying, assessing, mitigating, monitoring and reporting risks.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2020

8. Risk management continued

Risk management framework continued

Second line of defence

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

Third line of defence

The third line of defence is the Internal Audit function and is independent of the first and second lines. It is responsible for providing independent and objective assurance to the Board, and executive management on the adequacy and effectiveness of key internal controls, governance and the risk management in place to monitor, manage and mitigate the key risks to the Company. It executes its duties freely and objectively in accordance with the Institute of Internal Auditors' Code of Ethics & Standards.

Risk appetite

Risk appetite defines the level and types of risk that are acceptable, within risk capacity, in order to achieve strategic objectives and business plans. It links the goals and priorities to risk management in a way that guides and empowers staff to serve customers well and achieve financial targets.

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

Risk appetite is maintained across the Company through risk appetite statements. These provide clarity on the scale and type of activities that can be undertaken in a manner that is easily conveyed to staff.

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

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

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

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

Identification and measurement

Identification and measurement within the risk management process comprise:

- Regular assessment of the overall risk profile, incorporating market developments and trends, as well as external and internal factors.
- Monitoring of the risks associated with lending and credit exposures.

Mitigation

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

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

Testing and monitoring

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

The adequacy and effectiveness of selected key controls owned and operated by the second line of defence are also tested.

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

Model risk

The Company uses a variety of models in the course of its business activities. To mitigate the risk that decisions are made based on model results that are incorrect, misinterpreted, used inappropriately or based on an outdated model, independent validation and regular reviews are carried out. Oversight is provided by Model Risk Officers and by a NatWest Group model risk governance committee in accordance with relevant policies and procedures.

Stress testing

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

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2020

8. Risk management continued

Credit Risk

Definitions

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

Sources

The principal sources of credit risk are lending and related undrawn commitments.

Risk appetite

The Company's approach to lending is governed by comprehensive credit risk appetite frameworks. The Company no longer enters into new lending contracts and so managing credit risk is limited to the existing stock of loans.

Tools such as stress testing and economic capital are used to measure credit risk volatility and develop links between the credit risk appetite frameworks and risk appetite limits. The frameworks are supported by a suite of transaction acceptance standards that set out the risk parameters within which franchises should operate.

The credit risk appetite framework sets limits that measure and control the quality of existing business for each relevant franchise or business segment. The actual performance of each portfolio is tracked relative to these limits and management action is taken where necessary.

Credit policy standards are in place and are expressed as a set of mandatory controls.

Identification and measurement

Risks are identified through relationship management and credit stewardship of clients and portfolios. Credit risk stewardship takes place throughout the client 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 client reviews and problem debt identification and management. Additional stewardship measures were put in place in response to COVID-19. Refer to the Impact of COVID-19 section for further details.

Mitigation

Risk mitigation techniques, as set out in the appropriate credit policies and transactional acceptance standards, are used in the management of credit portfolios across the Company. These techniques mitigate credit concentrations in relation to an individual client, a borrower group or a collection of related borrowers. Where possible, client credit balances are netted against obligations. Mitigation tools can include structuring a security interest in a physical or financial asset, and the use of guarantees and similar instruments (for example, credit insurance) from related and third parties.

Problem Debt Management

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

Clients experiencing financial difficulty are managed by the Risk Management team. If the Risk Management team is unable to provide appropriate support after discussing suitable options with the client, management of that client moves to the Recoveries team.

If at any point in the collections and recoveries process the client is identified as being potentially vulnerable, the client will be separated from the regular process and supported by a specialist team to ensure the client receives appropriate support for their circumstances.

Collections

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

Recoveries

The Recoveries team will issue a notice of intention to default to the client and, if appropriate, a formal demand, while also registering the account with credit reference agencies where appropriate. Following this, the client'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 client. Exposures subject to formal debt recovery are defaulted and categorised as Stage 3 impaired.

Forbearance

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

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

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

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.

Types of forbearance

Forbearance may involve payment concessions and loan rescheduling (including extensions in contractual maturity) and capitalisation of arrears.

Impact of COVID-19

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

Risk appetite

The onset of COVID-19 resulted in a significant deterioration in the economic outlook and consequently the credit environment. In response, credit risk appetite was tightened and criteria reviewed and adapted on an ongoing basis throughout the year.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2020

8. Risk management continued

Credit risk continued

Reflecting the deteriorated economic outlook, underwriting standards were tightened.

Clients requesting a COVID-19 related payment deferral were not subject to a credit assessment for these requests.

Portfolio performance monitoring was expanded to include insight on clients accessing payment deferral support and their performance at the end of the payment deferral.

Impairment provisioning and write-offs

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

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

IFRS 9 ECL model design principles

Modelling of expected credit loss (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 probability of default (PD), loss given default (LGD) and exposure at default (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.

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.

The Group bases its calculations on the most appropriate NWB risk models

Economic scenarios

As at 31 December 2020, the range of anticipated future economic conditions was defined by a set of four internally developed scenarios and their respective probabilities. They comprised upside, base case, downside and extreme downside scenarios. The scenarios primarily reflect a range of outcomes for the path of COVID-19 and associated effects on labour and asset markets.

The following tables provide analysis of the credit quality of third-party financial assets by asset quality grade.

Asset Quality Grade	Probability of default range
AQ1	0% - 0.034%
AQ2	0.034% - 0.048%
AQ3	0.048% - 0.095%
AQ4	0.095% - 0.381%
AQ5	0.381% - 1.076%
AQ6	1.076% - 2.153%
AQ7	2.153% - 6.089%
AQ8	6.089% - 17.222%
AQ9	17.222% - 100%
AQ10	100%

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2020

8. Risk management continued

Portfolio summary

The table below summarises financial assets gross of ECL, related ECL provisions, impairment and past due by sector and asset quality.

	2020 £'000	2019 £'000
Loans and commitments by asset quality		
- AQ 1 - 4	203,281	381,118
- AQ 5 - 8	188,272	204,343
- AQ 9	11,082	5,156
- AQ 10	31,171	35,407
Loans by stage		
- Stage 1	398,803	578,670
- Stage 2	3,832	11,947
- Stage 3	31,171	35,407
Loans - past due analysis		
Total	433,806	626,024
- Not past due	402,636	581,789
- Past due 1-30 days	-	4,319
- Past due 31-90 days	317	7,879
- Past due 91-180 days	13,745	10,799
- Past due > 180 days	17,108	21,238
Stage 2		
- Not past due	3,832	3,118
- Past due 1-30 days	-	4,319
- Past due 31-90 days	-	4,510
- ECL measurement (years)	10	5
Weighted average 12 month PDs		
IFRS 9 (%)	0.0	0.3
Basel (%)	2.6	1.6
ECL provision by stage		
- Stage 1	16	5
- Stage 2	45	6
- Stage 3	3,405	5,145
ECL provisions coverage (%)		
- Stage 1 (%)	-	-
- Stage 2 (%)	1.2	0.1
- Stage 3 (%)	10.9	14.5
ECL loss rate (basis point)	NA	NA
Amounts written off	-	-
Mortgage LTV ratios		
- Total portfolio	48%	51%
- Stage 1/performing	47%	48%
- Stage 2/performing	70%	53%
- Stage 3/non-performing	57%	91%
- Buy-to-let	54%	50%
- Stage 1	53%	51%
- Stage 2	70%	32%
- Stage 3	60%	64%

Note:

- 1) No ECL loss for the current or prior year, hence ECL loss rate is not applicable.
- 2) All loans and advances to customers have collateral attached to them.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2020

Liquidity and Capital adequacy risks

Definition

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.

Liquidity risk arises in a number of ways, including through the maturity transformation role that the Company performs. The risks are dependent on factors such as:

- Maturity profile; and
- The quality and size of the liquidity portfolio.

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.

Sources of risk

Liquidity

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

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

Contractual maturity

The contractual maturity of assets and liabilities, shown in the following tables, highlight the maturity transformation which underpins the role of banks to lend longer-term but funded predominantly by short-term liabilities such as client deposits. In practice, the behavioural profile of many assets and liabilities differs from the contractual maturity.

2020	0 - 3 months £'000	3 - 12 months. £'000	1 - 3 Years £'000	3 - 5 Years £'000	5 - 10 Years £'000	10 -20 years £'000
Assets by contractual maturity						
Loans to customers - amortised cost	62,245	65,673	134,238	77,511	83,825	42,699
Liabilities by contractual maturity						
Amounts due to holding companies and fellow subsidiaries	319,088	7,085	20,809	42,316	21,750	-
Maturity gap	(256,843)	58,588	113,429	35,195	62,075	42,699
Cumulative maturity gap	(256,843)	(198,255)	(84,826)	(49,631)	12,444	55,143
Guarantees & commitments - notional amounts						
Commitments ⁽¹⁾	214	-	-	-	-	-

Risk management

Liquidity

Liquidity risk takes into account regulatory, legal and other constraints to ensure sufficient liquidity is available where required to cover liquidity stresses. The size of the liquidity portfolio held in the UK DoLSub is determined by referencing NWH's liquidity risk appetite. NWH 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.

NWH manages the majority of the UK DoLSub's liquidity portfolio under the responsibility of the NatWest Group Treasurer.

Risk measurement

Key liquidity and related metrics monitored in relation to the UK DoLSub includes:

- Liquidity coverage ratio; and
- Net stable funding ratio.

These metrics are compiled in line with regulatory guidance or industry standards, with interpretation applied where appropriate. Monitoring of these measures allows for ongoing assessment of the position of the overall UK DoLSub liquidity portfolio, and ensures regulatory targets are, at minimum met, or exceeded; the Company's Liquidity metrics are monitored at the NWH Asset and Liabilities Committee.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2020

8. Risk management continued

Contractual maturity continued

2019	0 - 3 months £'000	3 - 12 months £'000	1 - 3 Years £'000	3 - 5 Years £'000	5 - 10 Years £'000	10 - 20 years £'000
Assets by contractual maturity						
Loans to customers - amortised cost	123,315	91,529	158,104	120,525	122,884	71,714
Liabilities by contractual maturity						
Amounts due to holding companies and fellow subsidiaries	457,950	34,260	15,759	49,147	23,896	-
Maturity gap	(334,635)	57,269	142,345	71,378	98,988	71,714
Cumulative maturity gap	(334,635)	(277,366)	(135,021)	(63,643)	35,345	107,059
Guarantees & commitments - notional amounts						
Commitments ⁽¹⁾	1,882	-	-	-	-	-

Note:

- (1) The Company has given commitments to provide funds to clients under undrawn formal facilities, credit lines and other commitments to lend subject to certain conditions being met by the counterparty. The Company does not expect all facilities to be drawn, and some may lapse before drawdown.

Non-traded market risk

Definition

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

Sources of risk

The Company's non-traded market risk largely comprises interest rate risk.

Interest Rate Risk

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

Value-at-risk

The Company uses VaR as its value-based approach and sensitivity of net interest earnings as its earnings-based approach.

Governance

Responsibility for identifying, measuring, monitoring and controlling market risk arising from non-trading activities lies with the relevant business. Market risk policy statements set out the governance and risk management framework.

Risk appetite

The Company's qualitative appetite is set out in the non-traded market risk appetite statement. Its quantitative appetite is expressed in terms of exposure limits. These limits are approved and monitored by the Asset and Liability Committee.

Compliance & Conduct risk

Definition

Compliance risk is the risk that the behaviour of the Company towards clients fails to comply with laws, regulations, rules, standards and codes of conduct. Such a failure may lead to breaches of regulatory requirements, organisational standards or client expectations, and could result in legal or regulatory sanctions, material financial loss or reputational damage.

Conduct risk is the risk that the conduct of the Company leads to unfair or inappropriate client outcomes and results in reputational damage, financial loss or both.

Sources of risk

Compliance and conduct risks exist across all stages of the Company's relationships with its clients and arise from a variety of activities including complaint handling and handling of confidential insider information.

Key developments in 2020

- A client-focused COVID-19 response was mobilised, which included prioritised resource and operational capacity and forbearance.
- In-life monitoring of client outcomes was extended to ensure treatment strategies remained timely, relevant and consistent, as a result of the continued economic uncertainty arising from COVID-19.
- Specialist training was delivered to support the continuous oversight of ring-fencing embeddedness.

Governance

The Company defines appropriate standards of compliance and conduct and ensures adherence to those standards through its risk management framework. Relevant compliance and conduct matters are escalated through the Risk Committee.

Risk appetite

Risk appetite statements articulate the levels of risk that the Company works within when pursuing its strategic objectives and business plans.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2020

8. Risk management continued

Compliance & Conduct risk continued

Risk controls

The Company operates a range of controls to ensure its business is conducted in accordance with legal and regulatory requirements, as well as delivering good client outcomes. A suite of policies addressing compliance and conduct risks set appropriate standards across the Company.

Risk monitoring and measurement

Compliance and conduct risks are measured and managed through continuous assessment and reporting to the Company's Board. The compliance and conduct risk framework facilitate the consistent monitoring and measurement of compliance with laws and regulations and the delivery of consistently good client outcomes.

Risk monitoring and measurement continued

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 Company's strategic planning cycle.

Risk mitigation

Activity to mitigate the most-material compliance and conduct risks is carried out across the Company.

Operational risk

Definition

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

Sources of risk

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

Key developments in 2020

- The impact of COVID-19 led to significant disruption and heightened the operational risk profile as the NatWest Group adapted to new ways of working, particularly due to lockdown protocols. The control environment was continually monitored to ensure the resulting challenges were safely addressed.

9. 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 Company 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 Company's expectation of future losses.

	2020 £'000	2019 £'000
Commitments:		
Undrawn formal standby facilities, credit lines and other commitments to lend:		
- 1 year and over	214	1,882
- Less than 1 year		
	214	1,882

- A NatWest Group-wide response was mobilised – supported by additional reporting on client needs, people, processes and systems – to ensure the Board and senior management were regularly updated and to facilitate decision-making as COVID-19 evolved.
- Operational resilience remained a key focus. A series of scenarios – setting out the crystallisation of severe but plausible combinations of significant risks – were developed in order to support planning and appropriate forward-looking risk management strategies.
- Despite the impact of COVID-19, the security threat was not significantly changed. The potential for cyber attacks on the NatWest Group's supply chain remained a focus. Significant enhancements in managing such incidents and the broader security control environment were made.

There was also continued oversight of the Group's preparations for the end of the transition period, following the UK's exit from the EU, to ensure processes and systems were appropriate to ensure continuity of service for clients.

Risk appetite

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

Monitoring and measurement

Risk and control assessments are used across all business areas and support functions to identify and assess material operational and conduct risks and key controls. All risks and controls are mapped to the Company's Risk Directory. Risk assessments are refreshed at least annually to ensure they remain relevant and capture any emerging risks and also ensure risks are reassessed.

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

Mitigation

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

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2020

9. Memorandum items continued

Contingent liabilities and commitments continued

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

Standby facilities and credit lines – under a loan commitment the Company agrees to make funds available to a client 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 and unutilised overdraft facilities.

Litigation, investigations and reviews

As a participant in the financial services industry, the Company operates in a highly regulated environment. At any moment in time it is possible that the Company will be involved in a number of investigations and disputes. Such matters are subject to many uncertainties and their outcome is often difficult to predict, particularly in the early stages. The directors of the Company have reviewed these actual, threatened and known potential claims and proceedings and, after consulting with the relevant legal advisers are satisfied that the outcome of these claims and proceedings will not have a material adverse effect on the Company's net assets, results of operations or cash flows.

The Company records a provision for a liability in relation to such matters when it is probable that an outflow of economic benefits will be required to settle an obligation resulting from past events, and a reliable estimate can be made of the amount of the obligation.

10. Related parties

UK Government

The UK Government through HM Treasury is the ultimate controlling party of NatWest Group plc. Its shareholding is managed by UK Government Investments Limited, a company it wholly-owns and as a result, the UK Government and UK Government controlled bodies are related parties of the Company.

Transactions between the Company, the UK Government and UK Government-controlled bodies, consisted solely of Corporation Tax and Value Added Tax.

Group undertakings

The Company's ultimate holding company is NatWest Group plc which is incorporated in Great Britain and registered in Scotland. The Company's immediate parent company is Coutts & Company which is incorporated in Great Britain and registered in England and Wales.

Group undertakings continued

As at 31 December 2020, NatWest Group plc heads the largest group in which the Company is consolidated and Coutts & Company heads the smallest group in which the Company is consolidated. Copies of the consolidated accounts of the ultimate holding company may be obtained from Corporate Governance and Regulatory Affairs, RBS Gogarburn, PO Box 1000, Edinburgh EH12 1HQ. Copies of the consolidated accounts of the immediate parent can be obtained from The Company Secretary, Coutts & Company, 440 Strand, London WC2R 0QS.

In many proceedings and investigations, it is not possible to determine whether any loss is probable or to estimate reliably the amount of any loss, either as a direct consequence of the proceedings and investigations or as a result of adverse impacts or restrictions on the Company's reputation, business and operations.

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

Capital Support Deed

The Company, together with other members of NWH Ltd, is party to a Capital Support Deed (CSD). Under the terms of the CSD, the Company may be required, if compatible with its legal obligations, to make distributions on, or repurchase or redeem, its ordinary shares. The amount of this obligation is limited to the Company's capital resources in excess of the capital and financial resources needed to meet its regulatory requirements. The Company may also be obliged to make onward distribution to its ordinary shareholders of dividends or other capital distributions received from subsidiaries that are party to the CSD. The CSD also provides that, in certain circumstances, funding received by the Company from other parties to the CSD becomes immediately repayable, such repayment being limited by the Company's available resources.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2020

10. Related parties continued

(a) Directors and key management

For the purposes of IAS 24 'Related Party Disclosure', key management comprise directors of the Company and members of the Couitts Executive Committee. The amounts attributable, in aggregate, to key management were nil (2019 - nil).

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

(b) Related party transactions

	2020	2019
	£'000	£'000
Interest payable	1,759	5,596

Amounts due to holding companies and fellow subsidiaries at 31 December 2020 totalled £405 million (2019 - £574 million).

(c) Compensation of key management

	2020	2019
	£'000	£'000
Short term employee benefits	39	45
Post-employment benefits	3	4
Long term benefits ⁽¹⁾	10	36
	52	85

Note:

(1) Long term benefits consist of Long-Term Incentive Plans (LTIPs) and deferred pay awards.

The total emoluments of the highest paid director were £18,434 (2019 - £30,047). The accrued pension attributable to that director was £854 (2019 - £1,143). These costs for the current and prior year have been borne by Couitts & Company, the immediate parent company and form part of the management recharge.

11. Transactions with directors

At 31 December 2020, the amounts outstanding in relation to transactions, arrangements and agreements entered across NatWest Group were nil (2019 - nil).