NatWest

2021 Annual Report
and Accounts

National Westminster Bank Plc

Strategic report

Presentation of information

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

NWB Plc publishes its financial statements in pounds sterling ('£' or 'sterling'). The abbreviations '£m' and '£bn' represent millions and thousands of millions of pounds sterling ('GBP'), respectively, and references to 'pence' represent pence where amounts are denominated in sterling. Reference to 'dollars' or '$' are to United States of America ('US') dollars. The abbreviations '$m' and '$bn' represent millions and thousands of millions of dollars, respectively. The abbreviation '€' represents the 'euro', and the abbreviations '€m' and '€bn' represent millions and thousands of millions of euros, respectively.

Description of business

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

Principal activities and operating segments

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

The reportable operating segments are as follows:
Retail Banking serves personal customers in the UK and includes Ulster Bank customers.

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

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

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

Performance overview

Financial performance in a challenging environment

NWB Group profit for the year was £2,907 million compared with £536 million in 2020, driven by net impairment releases reflecting the continued low levels of realised losses, together with increased income, partly offset by additional operating expenses. Total income increased by £314 million compared with 2020 reflecting strong growth in mortgage balances and margin improvement, combined with a recovery in transactional banking fee income, partly offset by reduced commercial lending volumes.

Operating expenses increased by £15 million compared with 2020 reflecting increased litigation and conduct costs, and a non-repeat of PPI provision releases in 2020, offset by a reduction in strategic costs. The cost income ratio decreased from 69.1% to 66.9%. Net impairment release of £813 million reflects the continued low level of realised losses. Total impairment provisions reduced by £1.2 billion to £2.5 billion in the year, which resulted in a reduction in the ECL coverage ratio from 1.33% at 31 December 2020 to 0.85%.

Robust balance sheet with strong capital levels

Total assets increased by £45.0 billion to £434.6 billion compared with £389.5 billion at 31 December 2020. This included net increases in loans to customers of £15.4 billion primarily driven by growth in retail mortgages, together with increases of £38.2 billion in cash and balances at central banks, partly offset by decrease in corporate lending due to targeted sector reductions and UK Government support scheme repayments.

Customer deposits increased by £35.8 billion as COVID-19 related restrictions resulted in lower customers spend.

The CET1 ratio decreased by 170 basis points in the year to 16.1% due to a £1.5 billion decrease in CET1 capital and a £0.7 billion decrease in RWAs. The CET1 decrease reflects the attributable profit in the period of £2.6 billion, offset by the following items: dividends paid of £1.6 billion; foreseeable charges of £1.4 billion; a £0.6 billion decrease in the IFRS 9 transitional adjustment on expected credit losses; and other reserve movements.

Stakeholder engagement and s.172(1) statement

This statement describes how the directors have had regard to the matters set out in section 172(1) (a) to (f) of the Companies Act 2006 (section 172) when performing their duty to promote the success of the company.

Board engagement with stakeholders

The Board reviews and confirms its key stakeholder groups for the purposes of section 172 annually. For 2021, they remained customers, colleagues, communities, investors, regulators and suppliers. Examples of how the Board has engaged with key stakeholders, including the impact on principal decisions, can be found in this statement and on page 80 (corporate governance statement).

Supporting effective Board discussions and decision-making

NatWest Group's purpose – *championing potential, helping people, families and businesses to thrive* - continues to influence Board discussions and decision-making.

Board and Committee terms of reference reinforce the importance of considering both NatWest Group's purpose and the matters set out in section 172. The Board and Committee paper template includes a section for authors to explain how the proposal or update aligns with NatWest Group's purpose and a separate section for them to include an assessment of the relevant stakeholder impacts for the directors to consider.

Directors are mindful that it is not always possible to achieve an outcome which meets the requirements, needs and/or expectations of all stakeholders who are, or may be, impacted. For decisions which are particularly challenging or complex, an additional page was introduced to the Board and Committee paper template in 2021 which provides directors with further information to support purposeful decision-making. This additional page uses Blueprint for Better Business as a base and is aligned to NatWest Group's broader purpose framework.

Principal decisions

Principal decisions are those decisions taken by the Board that are material, or of strategic importance, to the company, or are significant to the company's key stakeholders.

This statement describes an example of a principal decision taken by the Board during 2021. Further information on the Board's principal activities can be found in the corporate governance statement on pages 76 to 81.

Key
A – Likely long-term consequences
B – Employee interests
C – Relationships with customers, suppliers and others
D – The impact on community and environment
E – Maintaining a reputation for high standards of business conduct
F – Acting fairly between members of the company

Case Study – Approving capital distributions

Factors considered: A C

What was the decision-making process?
During 2021, the Board approved an interim dividend. The Board received comprehensive papers from management and its decision was informed by 2021 capital plans as well as regular updates on NWB Plc's financial and capital positions.

The Board Risk Committee also reviewed all capital distributions proposals in advance of Board consideration and recommended them to the Board for approval

How did the directors fulfil their duties under section 172? How were stakeholder interests considered?
In taking decisions, the directors were mindful of their duties under section 172. The dividend proposal included a stakeholder overview which set out relevant stakeholder impacts and considerations.

How was NatWest Group's purpose considered as part of the decision?
The Board is aware that in taking decisions on capital distributions, it also needs to consider the financial implications of those decisions in terms of continuing to support customers and maintaining financial stability.

Actions and outcomes
The Board approved an interim dividend of £1.6 billion which was paid on 30 July 2021, payable to NWH Ltd as the sole shareholder.

Further details on how NatWest Group engages with its stakeholders can be found in the NatWest Group 2021 Annual Report and Accounts and at natwestgroup.com.

Board of directors and secretary

Approval of Strategic report
The Strategic report for the year ended 31 December 2021 set out on pages 2 to 75 was approved by the Board of directors on 17 February 2022.

Jan Cargill

By order of the Board
Jan Cargill
Chief Governance Officer and Company Secretary
17 February 2022

Chairman
Howard Davies

Executive directors
Alison Rose (CEO)
Katie Murray (CFO)

Non-executive directors

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

Board and committees

Chairman
Howard Davies
Nominations (Chairman)

Executive directors
Alison Rose
Katie Murray

Independent non-executive directors
Francesca Barnes

Graham Beale
Senior Independent Director
Audit, Nominations, Risk

Ian Cormack
Audit, Remuneration, Risk

Patrick Flynn
Audit (Chairman), Nominations, Risk

Morten Friis
Risk (Chairman), Audit, Nominations

Robert Gillespie
Remuneration (Chairman), Audit, Nominations, Risk

Yasmin Jetha

Mike Rogers
Remuneration

Mark Seligman
Audit, Nominations, Remuneration

Lena Wilson
Remuneration, Risk

Chief Governance Officer and Company Secretary
Jan Cargill

Auditor
Ernst & Young LLP
Chartered Accountants and Statutory Auditor
25 Churchill Place
London E14 5EY

Registered office and Head office
250 Bishopsgate
London, EC2M 4AA
Telephone: +44 (0)20 7085 5000

Other principal offices
Ulster Bank Limited
11-16 Donegall Square East, Belfast, Co Antrim, BT1 5UB, Northern Ireland

Coutts & Company
440 Strand
London WC2R 0QS

Lombard North Central PLC
250 Bishopsgate
London EC2M 4AA

National Westminster Bank Plc
Registered in England No. 929027

For additional detail on the activities of the Committees above, refer to the Report of the directors

Key:

Audit	member of the Audit Committee
Nominations	member of the Nominations Committee
Remuneration	member of the Performance and Remuneration Committee
Risk	member of the Board Risk Committee

Top and emerging risks

A continuous process is used to identify and manage NatWest Bank's top and emerging risks. These are risks that could have a significant negative impact on the ability to operate or meet strategic objectives.

External	
Climate Related Risks	NatWest Bank and its customers may face significant climate-related risks, including those arising from the transition to a net zero economy. These risks are receiving increasing regulatory, political and societal scrutiny, both in the UK and internationally. There are significant uncertainties as to the extent and timing of the manifestation of the physical risks of climate change, such as more extreme and frequent weather events and reductions in biodiversity. Embedding climate risk into the risk framework and adapting NatWest Bank's operations and business strategy to address the risks is in line with the purpose-led strategy.
Competitive Environment	NatWest Bank operates in markets that are highly competitive, raising the threat of a loss of market share, reduced revenue and lower profitability. The risks mainly relate to changes in regulation, developments in financial technology (including digital currency), new entrants to the market and changes in customer behaviour. NatWest Bank closely monitors the competitive environment and adapts strategy as appropriate to deliver innovative and compelling propositions for customers.
COVID-19	The COVID-19 crisis could impede NatWest Bank's ability to meet its targets and deliver its purpose-led strategy. Despite delivery of a mass vaccination programme in the UK, uncertainty remains around the future evolution of the virus and the ultimate impact of the pandemic on NatWest Bank and its customers. Key mitigation measures to manage the uncertainty include scenario analysis, stress testing and active portfolio management including the adjustment of risk appetite.
Cyber Threats	The threat from cyber attacks is constant both directly to businesses such as NatWest Bank and to others in the supply chain. As cyber attacks evolve and become more sophisticated, NatWest Bank continues to invest in additional capability and controls designed to defend against the evolving threats. There is a sustained focus on managing the impact of the attacks and maintaining the availability of services for NatWest Bank's customers.
Economic and Political Risks	NatWest Bank is exposed to economic and political risks in the markets in which it operates. Economic uncertainty remains high due to a combination of inflationary pressures including supply chain frictions and disruption due to new COVID-19 variants. A range of complementary approaches is used to mitigate these risks including scenario analysis and stress testing. NatWest Bank continues to monitor geopolitical risks alongside domestic political risk including those in relation to the UK's withdrawal from the European Union and a Scottish independence referendum. In the longer term, demographic change, high levels of debt and inequality could all have financial impacts. As a result, these risks are closely monitored and strategic plans are adapted as appropriate.
Regulatory, Legal & Conduct Risks	NatWest Bank is subject to extensive laws and regulations and expects government and regulatory intervention in the financial services industry to remain high for the foreseeable future. NatWest Bank implements new regulatory requirements, where applicable, and incorporates the implications of related changes in its strategic and financial plans. However, changes in laws or regulations, or failure by NatWest Bank to comply with these, may adversely affect NatWest Bank's business, results of operations and outlook.
Internal	
Data Management	NatWest Bank's operations and strategy are highly dependent on the accuracy and effective use of data. Failure to have current, high-quality data and/or the ineffective use of such data could result in a failure to deliver NatWest Bank's strategy including reducing costs and meeting customer expectations. NatWest Bank is focused on delivering a long-term data strategy alongside control and policy framework enhancements governing data usage.
Internal Change Risk	The implementation of NatWest Bank's purpose-led strategy involves execution, operational and people risks. NatWest Bank continues to manage and implement change in line with its strategic plans while assessing execution risks and taking appropriate mitigating action. In addition, NatWest Bank continues to monitor and strengthen its control environment including in relation to financial crime, through robust governance and controls frameworks.
People risk	NatWest Bank's success depends on its ability to attract, retain and develop highly skilled and qualified personnel, including senior management, directors and key employees in a highly competitive market and under internal cost reduction pressures. A combination of strategic workforce planning, including in relation to critical role resource and retention of specific skills, and close monitoring of staff turnover levels and colleague wellbeing are key mitigants.
Third-party suppliers	Operational risks arise from NatWest Bank's reliance on third-party suppliers to provide a range of services, including information technology. While the ineffective management of these risks could adversely affect NatWest Bank, significant resources and planning have been devoted to mitigate the risks including the implementation of robust risk controls.

Financial review

Summary consolidated income statement for the year ended 31 December 2021

	Retail Banking £m	Private Banking £m	Commercial Banking £m	Central items & other £m	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m	Variance £m	Variance %
Net interest income	3,541	461	2,171	(171)	6,002	5,810	*192*	*3*
Non-interest income	345	263	1,040	1,619	3,267	3,145	*122*	*4*
Total income	3,886	724	3,211	1,448	9,269	8,955	*314*	*4*
Operating expenses	(1,917)	(513)	(1,892)	(1,877)	(6,199)	(6,184)	*(15)*	*—*
Profit/(loss) before impairment releases/(losses)	1,969	211	1,319	(429)	3,070	2,771	*299*	*11*
Impairment releases/(losses)	23	53	737	—	813	(2,169)	*2,982*	*(137)*
Operating profit/(loss)	1,992	264	2,056	(429)	3,883	602	*3,281*	*545*
Tax charge					(976)	(66)	*(910)*	*1,379*
Profit for the year					2,907	536	*2,371*	*442*

Key metrics and ratios	2021	2020
Cost:income ratio (%)	66.9	69.1
Loan impairment rate (1)	(0.28)	0.79
CET1 ratio (%)	16.1	17.8
Leverage ratio (%)	3.8	4.7
Risk weighted assets (RWAs) (£bn)	86.2	86.9
Loan:deposit ratio (%)	83	89

(1) Loan impairment rate is the loan impairment charge divided by gross customer loans.

NWB Group reported a profit of £2,907 million compared with £536 million in 2020, driven by a net impairment release of £813 million, reflecting the continued low levels of realised losses, together with an increase in total income of £314 million, partly offset by an increase in operating expenses of £15 million.

Total income increased by £314 million, or 4%, to £9,269 million compared with £8,955 million in 2020.

Net interest income increased by £192 million, or 3%, to £6,002 million compared with £5,810 million in 2020, reflecting strong growth in mortgage balances and margin improvement, partially offset by reduced commercial lending volumes.

Non-interest income increased by £122 million, or 4%, to £3,267 million compared with £3,145 million in 2020.

Net fees and commissions increased by £98 million to £1,482 million, primarily reflecting a recovery in transactional banking fee income driven by the UK economy and one off intragroup fees received.

Other operating income increased by £24 million to £1,785 million compared with £1,761 million in 2020, reflecting:
- £94 million higher income from hedging activities, reflecting interest rate volatility and fair value movements;
- non-repeat of a £58 million loss on the acquisition of a mortgage portfolio from Metro Bank plc in 2020;
- an increase of £7 million in gain from bonds disposal to £120 million; and
- an additional £30 million of income from the recharging of costs to other NatWest Group entities, principally reflecting the impact of organisational restructure activity; offset by
- losses of £117 million incurred upon the partial redemption of debt instruments and a £44 million incurred upon sale of properties.

Operating expenses increased by £15 million to £6,199 million, compared with £6,184 million in 2020, reflecting:
- a non-repeat PPI provision releases in 2020 of £171 million;
- an overall increase in conduct and litigation charges in 2021; offset by,
- overall cost reductions in 2021 following property exits.

Net impairment release of £813 million reflected the continued low levels of realised losses. Total impairment provisions reduced by £1.2 billion to £2.5 billion in the year, which resulted in a reduction in the ECL coverage ratio from 1.33% at 31 December 2020 to 0.85%.

Segmental performance

Retail Banking

Operating profit was £1,992 million, compared with £653 million in 2020.

Net interest income increased by £427 million to £3,541 million compared with £3,114 million in 2020, reflecting a £11.8 billion balance growth in mortgages and margin improvement.

Non-interest income increased by £73 million to £345 million, compared with £272 million in 2020, primarily driven by the non-repeat of losses on the acquisition of a mortgage portfolio from Metro Bank plc and one-off other non-interest income in 2020. Net fees and commissions remained stable, as higher transactional-related fee income was offset by the annualised impact of regulatory changes on fee income.

Operating expenses decreased by £147 million to £1,917 million compared with £2,064 million in 2020, primarily reflecting a reduced headcount resulting from continued digitalisation and automation, combined with lower property and technology related costs. A PPI net provision release of £171 million in 2020 was partly offset by an overall reduction of £155 million in conduct provision charges in 2021.

An impairment release of £23 million primarily reflected ECL provision releases in the non-default portfolio.

Loans to customers increased by £12.1 billion to £164.5 billion, reflecting strong gross new mortgage lending.

Customer deposits increased by £13.4 billion to £152.1 billion as UK Government schemes combined with Covid 19 related restrictions resulted in lower customer spend.

Private Banking

Operating profit was £264 million compared with £159 million in 2020.

Net interest income decreased by £5 million to £461 million in 2021, as strong balance growth was offset by reduced deposit returns in a low interest rate environment.

Non-interest income increased by £12 million to £263 million in 2021, reflecting a £4 million increase in net fees and commissions driven by growth in assets, combined with a non-repeat of a £6 million loss in other non-interest income in 2020.

Operating expenses increased by £61 million to £513 million in 2021, principally due to investment in digital infrastructure and growth propositions, and the non-repeat of a conduct provision release in 2020.

A net impairment release of £53 million in 2021 mainly reflected ECL provision releases in non-default portfolios.

Loans to customers increased by £1.4 billion to £17.7 billion, driven by continued strong mortgage lending growth.

Customer deposits increased by £6.8 billion to £37.1 billion, reflecting strong personal and commercial inflows as UK Government restrictions resulted in clients continuing to build and retain liquidity.

Commercial Banking

Operating profit was £2,056 million, compared with a loss of £153 million in 2020.

Net interest income decreased by £131 million to £2,171 million, compared with £2,302 million in 2020, due to reduced deposits returns in a low interest rate environment and lower lending volumes.

Non-interest income increased by £106 million to £1,040 million, primarily reflecting an increase in net fees and commissions, due to a recovery in transactional banking fee income in the second half of 2021 driven by the UK economy and £30 million of one-off intragroup fees received.

Operating expenses decreased by £119 million to £1,892 million, compared with £2,011 million primarily reflecting cost efficiencies and headcount reduction. Litigation and conduct costs increased by £38 million.

An impairment release of £737 million primarily reflects ECL provision releases related to the improved economic outlook with Stage 3 defaults remaining at low levels.

Loans to customers decreased by £2.5 billion to £77.1 billion, reflecting net revolving credit facility repayments of £0.6 billion and UK Government support scheme repayments of £1.0 billion. The remaining decrease is primarily due to targeted sector reductions, partially offset by £0.9 billion reduction in impairment provisions.

Customer deposits increased by £6.3 billion to £124.5 billion as customers continued to build and retain liquidity.

Central items & other

Operating loss was £429 million in 2021 compared with £57 million in 2020.

Total income decreased by £168 million to £1,448 million in 2021, compared with £1,616 million in 2020. Losses of £117 million incurred upon the partial redemption of debt instruments and £44 million incurred upon the sale of properties, were partially offset by higher treasury related income.

Operating expenses increased by £220 million to £1,877 million, compared with £1,657 million in 2020, primarily reflecting litigation and conduct charges. In 2021, £1,463 million of the total expenses were recovered through service charges which are presented within non-interest income.

Segmental performance continued

Summary consolidated balance sheet as at 31 December 2021

	2021 £m	2020 £m	Variance £m	%
Assets				
Cash and balances at central banks	**101,213**	62,983	38,230	61
Derivatives	**2,460**	3,288	(828)	(25)
Loans to banks - amortised cost	**4,182**	3,344	838	25
Loans to customers - amortised cost	**286,971**	271,581	15,390	6
Amounts due from holding companies and fellow subsidiaries	**3,519**	3,305	214	6
Other financial assets	**29,031**	37,995	(8,964)	(24)
Other assets	**7,187**	7,043	144	2
Total assets	**434,563**	389,539	45,024	12
Liabilities				
Bank deposits	**22,831**	14,871	7,960	54
Customer deposits	**329,440**	293,605	35,835	12
Amounts due to holding companies and fellow subsidiaries	**45,136**	37,559	7,577	20
Derivatives	**4,119**	6,552	(2,433)	(37)
Other financial liabilities	**7,251**	10,383	(3,132)	(30)
Subordinated liabilities	**211**	1,230	(1,019)	(83)
Notes in circulation	**904**	1,012	(108)	(11)
Other liabilities	**3,934**	4,435	(501)	(11)
Total liabilities	**413,826**	369,647	44,179	12
Total equity	**20,737**	19,892	845	4
Total liabilities and equity	**434,563**	389,539	45,024	12

Total assets increased by £45.0 billion to £434.6 billion at 31 December 2021, compared with £389.5 billion at 31 December 2020.

Cash and balances at central banks increased by £38.2 billion to £101.2 billion, compared with £63.0 billion at 31 December 2020, driven by a strong deposit growth and £7.0 billion net drawdown on the Term Funding Scheme with additional incentives for SMEs (TFSME). This was offset by £2.8 billion payment to Metro Bank plc for acquisition of loan portfolio.

Loans to banks – amortised cost increased by £0.8 billion to £4.2 billion, compared with £3.3 billion at 31 December 2020, mainly representing an increase in USD balances as part of treasury activities.

Loans to customers increased by £15.4 billion to £287.0 billion, compared with £271.6 billion at 31 December 2020, driven by:
- £13.0 billion mortgage growth as a result of strong gross new lending;
- £4.3 billion net increase in relation to Treasury repo activity;
- £1.2 billion decrease in impairment provisions; offset by
- £2.4 billion decrease in commercial lending primarily reflecting targeted sector reductions and UK Government support scheme repayments of £0.6 billion.

Amounts due from holding companies and fellow subsidiaries increased by £0.2 billion to £3.5 billion, compared with £3.3 billion at 31 December 2020, reflecting a increase of inter-company balances with entities outside the ring-fenced bank.

Other financial assets decreased by £9.0 billion to £29.0 billion, primarily reflecting bond maturities of £6.9 billion and reduced fair value of the remaining bond portfolio of £2.0 billion due to changes in interest and FX rates.

Bank deposits increased by £8.0 billion to £22.8 billion, driven by a net £7.0 billion drawdown of the TFSME facility and £0.9 billion increase in repo balances.

Customer deposits increased by £35.8 billion to £329.4 billion, reflecting:
- £26.4 billion growth in deposits as customers continued to build and retain liquidity in light of economic uncertainty; and
- £9.4 billion increase in repos facing customers.

Amounts due to holding companies and fellow subsidiaries increased by £7.6 billion to £45.1 billion, compared with £37.5 billion at 31 December 2020, reflecting debt issuance.

Derivative liabilities decreased by £2.4 billion to £4.1 billion, compared with £6.6 billion at 31 December 2020, driven by interest rate changes and sterling FX rate appreciation.

Other financial liabilities decreased by £3.1 billion to £7.3 billion, compared with £10.4 billion at 31 December 2020, driven by settlement of amount payable to Metro Bank plc for the acquisition of its mortgage book in December 2020.

Subordinated liabilities decreased by £1.0 billion to £0.2 billion, compared with £1.2 billion at 31 December 2020, driven by maturities of debt instruments.

Other liabilities decreased by £0.5 billion to £3.9 billion, compared with £4.4 billion at the 31 December 2020, due to £0.4 billion in leasing liabilities reflecting surrender of property leasehold.

Total equity increased by £0.8 billion to £20.7 billion, compared with £19.9 billion at 31 December 2020. The increase reflects attributable profit of £2.9 billion, offset by dividends paid to NW Holdings and decrease in cash flow hedging reserve.

Risk and capital management

Presentation of information

Where marked as audited in the section header, certain information in the Risk and capital management section (pages 9 to 75) is within the scope of the Independent auditor's report. Risk and capital management is 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 NWB Group.

Update on COVID-19

While the immediate disruption diminished during the year, the ongoing impacts of the global pandemic remained a significant focus for risk management in 2021 and uncertainty in the operating environment continued. NWB Group remained committed to supporting its customers while operating safely and soundly in line with its strategic objectives.

Against the backdrop of a slowly-recovering economy, the credit risk profile remains heightened and there is an expectation that the impacts of the pandemic will continue to be seen in the performance of NWB Group's portfolios for some time. NWB Group anticipates increased default levels in 2022 as a result.

While the direct impact on NWB Group's operational risk profile reduced, NWB Group continued to closely monitor the second-order impacts on its transformation agenda, with a significant focus on managing resource to protect key regulatory deliveries. The continued evolution of NWB Group's ways of working – to include large-scale working from home – also required significant operational risk focus, particularly in terms of business resilience.

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

Risk management framework
Introduction

NWB Group 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 NWB Group's principal risks – which are detailed in this section – are appropriately controlled and managed. It sets out the standards and objectives for risk management as well as defining the division of roles and responsibilities.

This seeks to ensure a consistent approach to risk management across NWB Group. It aligns risk management with NWB Group's overall strategic objectives.

The framework, which is designed and maintained by NatWest Group's independent Risk function, is owned by the NatWest Group Chief Risk Officer. It is reviewed and approved annually by the NatWest Group Board. The framework incorporates risk governance, NatWest Group's three lines of defence operating model and the Risk function's mandate.

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.

While all NWB Group colleagues are responsible for managing risk, the Risk function provides oversight and monitoring of risk management activities, including the implementation of the framework and adherence to its supporting policies, standards and operational procedures. The Chief Risk Officer plays an integral role in providing the Board with advice on NWB Group's risk profile, the performance of its controls and in providing challenge where a proposed business strategy may exceed risk tolerance.
In addition, there is a process to identify and manage top risks, which are those that could have a significant negative impact on NWB Group's ability to meet its strategic objectives. A complementary process operates to identify emerging risks. Both top and emerging risks may incorporate aspects of – or correlate to – a number of principal risks and are reported alongside them to the Board on a regular basis.

Risk management framework continued
Culture

Risk culture is at the heart of NWB Group's risk management framework and its risk management practice. The risk culture target is to make risk part of the way employees work and think.

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

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

The target risk culture behaviours are embedded in NatWest Group's Critical People Capabilities and are clearly aligned to the core values of "serving customers", "working together", "doing the right thing" and "thinking long term". These act as an effective basis for a strong risk culture because the Critical People Capabilities form the basis of all recruitment and selection processes.

Training

Enabling employees to have the capabilities and confidence to manage risk is core to NatWest Group's learning strategy. NatWest Group offers a wide range of learning, both technical and behavioural, across the risk disciplines. This training can be mandatory, role-specific or for personal development. Mandatory learning for all staff is focused on keeping employees, customers and NatWest Group safe. This is easily accessed online and is assigned to each person according to their role and business area. The system allows monitoring at all levels to ensure completion.

Our Code

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

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

Where appropriate, if conduct falls short of NatWest Group's required standards, the accountability review process is used to assess how this should be reflected in pay outcomes for the individuals concerned. The NatWest Group remuneration policy ensures that the remuneration arrangements for all employees reflect the principles and standards prescribed by the PRA rulebook and the FCA handbook. Any employee falling short of the expected standards would also be subject to internal disciplinary policies and procedures. If appropriate, the relevant authority would be notified.

Risk management framework continued
Governance
Committee structure
The diagram shows NWB Group's risk committee structure in 2021 and the main purposes of each committee.

NWB Plc Board
Considers material risks and approves, as appropriate, actions recommended by the Board Risk Committee. Monitors performance against risk appetite. Reviews and approves risk appetite measures for capital adequacy, liquidity & funding, earnings volatility, cyber security and strategic and operational resilience.

Board Risk Committee
Provides oversight and advice to the Board on current and future risk exposures, future risk profile and risk appetite. Oversees the effectiveness of the risk management framework within NWB Plc and (with the Audit Committee) the system of internal controls required to manage risk.

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

Executive Risk Committee[4]
Supports the CEO in reviewing and challenging all material risk and control matters. Approves the risk management framework and oversees its implementation. Reviews and recommends the cascade of material risk appetite to subsidiary businesses.

Executive Committee[5]
Supports the CEO in discharging her individual accountabilities, reflecting the authority delegated to her by the NWB Plc Board. Reviews, challenges and debates all aspects of NWB Plc, including strategic, financial, capital, risk and operational issues. Supports the CEO in forming recommendations to the Board and committees.

Asset & Liability Management Committee[6]
Supports the CFO in overseeing the effective management of NWB Plc's current and future balance sheets, ensuring they operate within risk appetite, policies and chosen business strategy as well as comply with regulatory and legal requirements.

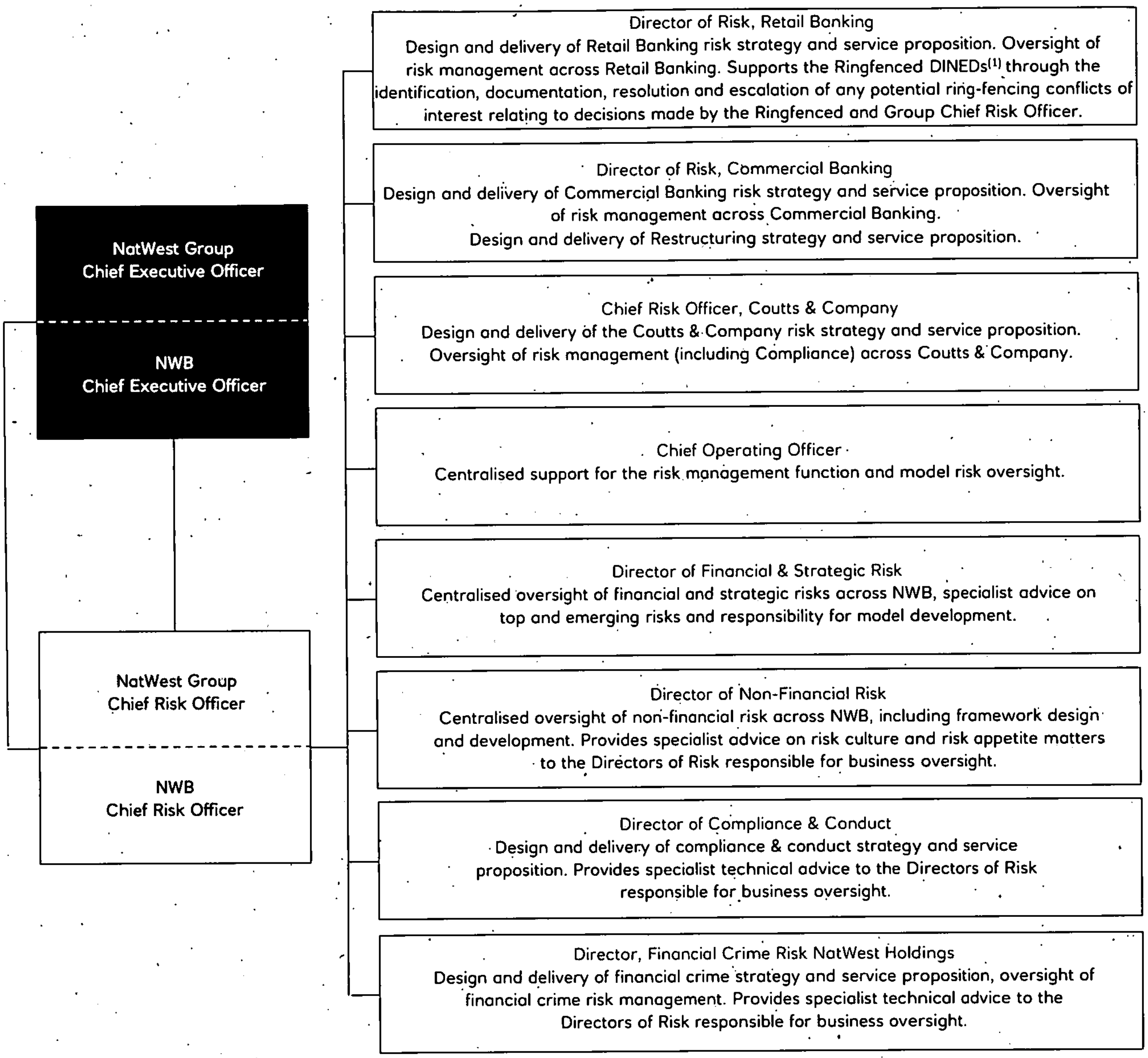
Business and function risk committees
Risk committees review and monitor all risks, providing guidance, recommendations and decisions on risks affecting the businesses and functions.

(1) The NatWest Group Chief Executive Officer also performs the role of NWB Plc Chief Executive Officer.
(2) The NatWest Group Chief Risk Officer also performs the role of NWB Plc Chief Risk Officer.
(3) The NatWest Group Chief Financial Officer also performs the role of NWB Plc Chief Financial Officer.
(4) The Executive Risk Committee is chaired by the NWB Plc Chief Executive Officer and supports her in discharging risk management accountabilities.
(5) The Executive Committee is chaired by the NWB Plc Chief Executive Officer and supports her in discharging her individual accountabilities in accordance with the authority delegated to her by the NWB Plc Board.
(6) The Asset & Liability Management Committee is chaired by the NWB Plc Chief Financial Officer and supports her in discharging her individual accountabilities relating to treasury and balance sheet management.

Risk management framework continued

Risk management structure

The diagram shows NWB Group's risk management structure in 2021 and key risk management responsibilities.



(1) Double Independent Non-Executive Directors.
(2) The NatWest Group Chief Executive Officer also performs the role of NWB Chief Executive Officer.
(3) The NatWest Group Chief Risk Officer also performs the role of NWB Chief Risk Officer.
(4) The NWB Chief Risk Officer reports directly to the NWB Chief Executive Officer. There is a further secondary reporting line to the chair of the Board Risk Committee and a right of access to the Committee, including the deputy chair.
(5) The Risk function is independent of the customer-facing franchises and support functions. Its structure is divided into three parts (Directors of Risk, Specialist Risk Directors and Chief Operating Officer) to facilitate effective management of the risks facing NWB. Risk committees in the customer businesses and key functional risk committees oversee risk exposures arising from management and business activities and focus on ensuring that these are adequately monitored and controlled. The directors of Risk (Retail Banking; Commercial Banking; Financial & Strategic Risk; Non-Financial Risk and Compliance & Conduct) as well as the Director, Financial Crime Risk NatWest Holdings; the Chief Risk Officer, Coutts & Company and the Chief Operating Officer report to the NWB Chief Risk Officer.

Risk management framework continued

Three lines of defence

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

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

The first line of defence is empowered to take risks within the constraints of the risk management framework and policies as well as the risk appetite statements set by NatWest Group and measures set by the Board.

The first line of defence is responsible for managing its direct risks. With the support of specialist functions such as Legal, Human Resources and Technology, it is also responsible for managing its consequential risks by identifying, assessing, mitigating, monitoring and reporting risks.

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

The second line of defence is empowered to design and maintain the risk management framework and its components. It undertakes proactive risk oversight and continuous monitoring activities to confirm that NatWest Group engages in permissible and sustainable risk-taking activities.

The second line of defence advises on, monitors, challenges, approves, escalates and reports on the risk-taking activities of the first line, ensuring that these are within the constraints of the risk management framework and policies as well as the risk appetite statements set by NatWest Group and measures set by the Board.

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

The third line of defence is responsible for providing independent and objective assurance to the Board, its subsidiary legal entity boards and executive management on the adequacy and effectiveness of key internal controls, governance and the risk management in place to monitor, manage and mitigate the key risks to NatWest Group and its subsidiary companies achieving their objectives.

The third line of defence executes its duties freely and objectively in accordance with the Chartered Institute of Internal Auditors' Code of Ethics and International Standards.

Risk appetite

Risk appetite defines the type and aggregate level of risk NWB Group is willing to accept in pursuit of its strategic objectives and business plans. Risk appetite supports sound risk taking, the promotion of robust risk practices and risk behaviours, and is calibrated annually.

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

Risk appetite framework

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

To facilitate this, a detailed annual review of the framework is carried out. The review includes:
- Assessing the adequacy of the framework when compared to internal and external expectations.
- Ensuring the framework remains effective and acts as a strong control environment for risk appetite.
- Assessing the level of embedding of risk appetite across the organisation.

The Board approves the risk appetite framework annually.

Establishing risk appetite

In line with NatWest Group's risk appetite framework, risk appetite is maintained across NWB Group through risk appetite statements. These are in place for all principal risks and describe the extent and type of activities that can be undertaken.

Risk appetite statements consist of qualitative statements of appetite supported by risk limits and triggers that operate as a defence against excessive risk-taking. Risk measures 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 each principal risk is set in alignment with business activities.

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

The Board sets risk appetite for all principal risks to help ensure NWB Group is well placed to meet its priorities and long-term targets even in challenging economic environments. This supports NWB Group in remaining resilient and secure as it pursues its strategic business objectives.

NWB Group's risk profile is frequently reviewed and monitored. Management focus is concentrated on all principal risks as well as the top and emerging risk issues which may correlate to them. Risk profile relative to risk appetite is reported regularly to senior management and the Board.

NatWest Group policies directly support the qualitative aspects of risk appetite. They define the qualitative expectations, guidance and standards that stipulate the nature and extent of permissible risk taking and are consistently applied across NatWest Group and its subsidiaries.

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

The financial and non-financial risks that NWB Group faces are detailed in its Risk Directory. This provides a common risk language to ensure consistent terminology is used across NWB Group. The Risk Directory is subject to annual review to ensure it continues to fully reflect the risks that NWB Group faces.

Mitigation
Mitigation is a critical aspect of ensuring that risk profile remains within risk appetite. Risk mitigation strategies are discussed and agreed within NWB Group.

When evaluating possible strategies, costs and benefits, residual risks (risks that are retained) and secondary risks (those that arise from risk mitigation actions themselves) are also 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. Emerging risks that could affect future results and performance are also closely monitored. Action is taken to mitigate potential risks as and when required. Further in-depth analysis, including the stress testing of exposures, is also carried out.

Testing and monitoring
Targeted risk processes and controls – including controls within the scope of Section 404 of the Sarbanes-Oxley Act 2002 – are subject to independent testing and monitoring.

This activity is carried out to confirm to both internal and external stakeholders – including the Board, senior management, the customer-facing franchises, Internal Audit and NWB Group's regulators – that such processes and controls are being correctly implemented and operate adequately and effectively. A consistent testing and monitoring methodology is in place across NWB Group.

Testing and monitoring activity focuses on processes and controls relating to credit risk, financial crime risk, operational resilience, and compliance and conduct risk. However, a range of controls and processes relating to other risk types is also subject to testing and monitoring activity as deemed appropriate within the context of a robust control environment.

The NatWest Group Risk Testing & Monitoring Forum assesses and validates the annual plan as well as the ongoing programme of reviews.

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

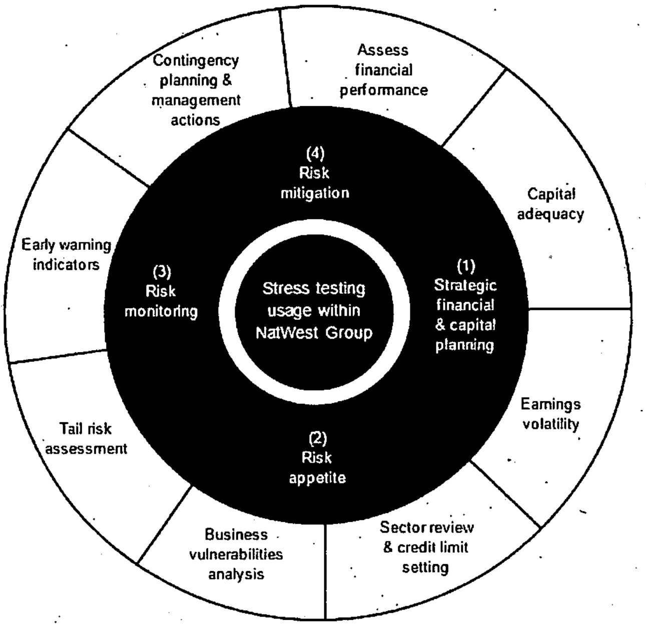
Stress testing includes:
- Scenario testing, which examines the impact of a hypothetical future state to define changes in risk factors.
- Sensitivity testing, which examines the impact of an incremental change to one or more risk factors.

The process for stress testing consists of four broad stages:

Define scenarios	– Identify macro and NatWest Group-specific vulnerabilities and risks. – Define and calibrate scenarios to examine risks and vulnerabilities. – Formal governance process to agree scenarios.
Assess impact	– Translate scenarios into risk drivers. – Assess impact to current and projected P&L and balance sheet across NatWest Group.
Calculate results and assess implications	– Aggregate impacts into overall results. – Results form part of the risk management process. – Scenario results are used to inform NatWest Group's business and capital plans.
Develop and agree management actions	– Scenario results are analysed by subject matter experts. Appropriate management actions are then developed. – Scenario results and management actions are reviewed by the relevant Executive Risk Committees and Board Risk Committees, and agreed by the relevant Boards.

Risk management framework continued

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



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

Capital sufficiency – going concern forward-looking view
Going concern capital requirements are examined on a forward-looking basis – including as part of the annual budgeting process – by assessing the resilience of capital adequacy and leverage ratios under hypothetical future states. These assessments include assumptions about regulatory and accounting factors (such as IFRS 9). They incorporate economic variables and key assumptions on balance sheet and P&L drivers, such as impairments, to demonstrate that NatWest Group and its operating subsidiaries maintain sufficient capital. A range of future states are tested. In particular, capital requirements are assessed:
- Based on a forecast of future business performance, given expectations of economic and market conditions over the forecast period.
- Based on a forecast of future business performance under adverse economic and market conditions over the forecast period. Scenarios of different severity may be examined.

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

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

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

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

The ICAAP is used to form a view of capital adequacy separately to the minimum regulatory requirements. The ICAAP is used by the PRA to assess NatWest Group's specific capital requirements through the Pillar 2 framework.

Capital allocation
NatWest Group has mechanisms to allocate capital across its legal entities and businesses. These aim to optimise the use of capital resources taking into account applicable regulatory requirements, strategic and business objectives and risk appetite. The framework for allocating capital is approved by the CFO with support from the Asset & Liability Management Committee.

Governance
Capital management is subject to substantial review and governance. The Board approves the capital plans, including those for key legal entities and businesses as well as the results of the stress tests relating to those capital plans.

Stress testing – liquidity
Liquidity risk monitoring and contingency planning
A suite of tools is used to monitor, limit and stress test the risks on the balance sheet. Limit frameworks are in place to control the level of liquidity risk, asset and liability mismatches and funding concentrations. Liquidity risks are reviewed at significant legal entity and business levels daily, with performance reported to the Asset & Liability Management Committee on a regular basis. Liquidity Condition Indicators are monitored daily. This ensures any build-up of stress is detected early and the response escalated appropriately through recovery planning.

Risk management framework continued

Internal assessment of liquidity

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

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

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

Stress testing – recovery and resolution planning

The NatWest Group recovery plan explains how NatWest Group and its subsidiaries – as a consolidated group – would identify and respond to a financial stress event and restore its financial position so that it remains viable on an ongoing basis.

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

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

The plan is intended to enable NatWest Group to maintain critical services and products it provides to its customers, maintain its core business lines and operate within risk appetite while restoring NatWest Group's financial condition. It is assessed for appropriateness on an ongoing basis and is updated annually. The plan is reviewed and approved by the Board prior to submission to the PRA each year. Individual recovery plans are also prepared for NatWest Holdings Limited, NatWest Markets Plc, RBS International (Holdings) Limited, Ulster Bank Ireland DAC and NatWest Markets N.V.. These plans detail the recovery options, recovery indicators and escalation routes for each entity.

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

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

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

Stress testing – market risk

Non-traded market risk

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

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

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

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

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

Risk management framework continued

Internal scenarios

During 2021, NatWest Group continuously refined and reviewed a series of internal scenarios – benchmarked against the Bank of England's illustrative scenario – as the impact of COVID-19 evolved, including actual and potential effects on economic fundamentals. These scenarios included:

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

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

Internal scenarios were also used to assess the potential impacts of severe weather events on NatWest Group's operations in the UK and India.

Regulatory stress testing

In 2021, NatWest Group participated in the regulatory stress tests conducted by the Bank of England following their suspension in 2020 as a result of COVID-19. The scenario was hypothetical in nature and does not represent a forecast of NatWest Group's future business or profitability. The results of regulatory stress tests are carefully assessed and form part of the wider risk management of NatWest Group. Following the UK's exit from the European Union on 31 December 2020, only relevant European subsidiaries of NatWest Group will take part in the European Banking Authority stress tests going forward. NatWest Group itself will not participate.

NatWest Group also took part in the Bank of England's Climate Biennial Exploratory Scenario (CBES). This exercise was designed to assess the resilience of the largest UK banks and insurers to the physical and transition risks associated with climate change. The CBES used three 30-year scenarios to explore the risks – Early Action (in which the transition to a net-zero emissions economy gets underway with carbon taxes and associated policies intensifying gradually), Late Action (in which the transition is delayed until 2031, with a sudden increase in the intensity of carbon taxes and climate policy leading to a recession) and No Additional Action (in which no new climate policies are introduced and the physical impacts of climate change are most severe). The Bank of England is expected to publish aggregate findings in 2022 though, given the exploratory nature of the exercise, it will not use CBES to set capital requirements.

Credit risk

Definition (audited)

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

Sources of risk (audited)

The principal sources of credit risk for NWB Group are lending and related undrawn commitments. Derivatives and securities financing and debt securities are also a source of credit risk, primarily related to Treasury activities for NWB Group. NWB Group is also exposed to settlement risk through foreign exchange and payments activities.

Governance (audited)

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

- Defining credit risk appetite measures for the management of concentration risk and credit policy to establish the key causes of risk in the process of providing credit and the controls that must be in place to mitigate them.
- Approving and monitoring operational limits for business segments and credit limits for customers.
- Oversight of the first line of defence to ensure that credit risk remains within the appetite set by the Board and that controls are being operated adequately and effectively.
- Assessing the adequacy of expected credit loss (ECL) provisions including approving key IFRS 9 inputs (such as significant increase in credit risk (SICR) thresholds) and any necessary in-model and post model adjustments through NatWest Group and business unit provisions and model committees.
- Development and approval of credit grading models.

Risk appetite

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

Personal

The Personal credit risk appetite framework sets limits that control the quality and concentration of both existing and new business for each relevant business segment. These risk appetite measures consider the segments' ability to grow sustainably and the level of losses expected under stress. Credit risk is further controlled through operational limits specific to customer or product characteristics.

Wholesale

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

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

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

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

Identification and measurement

Credit stewardship (audited)

Risks are identified through relationship management and credit stewardship of customers and portfolios. Credit risk stewardship takes place throughout the customer relationship, beginning with the initial approval. It includes the application of credit assessment standards, credit risk mitigation and collateral, ensuring that credit documentation is complete and appropriate, carrying out regular portfolio or customer reviews and problem debt identification and management.

Asset quality (audited)

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

Counterparty credit risk

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

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

Mitigation

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

The valuation methodologies for collateral in the form of residential mortgage property and CRE are detailed below.

Residential mortgages – NWB Group takes collateral in the form of residential property to mitigate the credit risk arising from mortgages. NWB Group values residential property individually during the loan underwriting process, either by obtaining an appraisal by a suitably qualified appraiser (for example Royal Institution of Chartered Surveyors (RICS)) or using a statistically valid model. In both cases, a sample of the valuation outputs are periodically reviewed by an independent RICS qualified appraiser. NWB Group updates residential property values quarterly using the Office for National Statistics House Price Index.

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

Credit risk continued

Commercial real estate valuations – NWB Group has an actively managed panel of chartered surveying firms that cover the spectrum of geography and property sectors in which NWB Group takes collateral. Suitable RICS registered valuers for particular assets are typically contracted through a service agreement to ensure consistency of quality and advice. Valuations are generally commissioned when an asset is taken as security; a material increase in a facility is requested; or a default event is anticipated or has occurred. In the UK, an independent third-party market indexation is applied to update external valuations once they are more than a year old and every three years, a formal independent valuation review is commissioned.

Assessment and monitoring

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

Personal

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

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

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

The actual performance of each portfolio is tracked relative to operational limits. The limits apply to a range of credit risk-related measures including projected credit default rates across products and the loan-to-value (LTV) ratio of the mortgage portfolios. Where operational limits identify areas of concern management action is taken to adjust credit or business strategy.

Wholesale

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

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

In response to COVID-19, a new framework was introduced to categorise clients in a consistent manner across the Wholesale portfolio, based on the effect of COVID-19 on their financial position and outlook in relation to the sector risk appetite. This framework has been retained and updated to consider viability impacts beyond those directly related to COVID-19 and classification via the framework is now mandatory and must be refreshed annually. The framework extends to all Wholesale borrowing customers and supplements the Risk of Credit Loss framework in assessing whether customers exhibit a SICR, if support is considered to be granting forbearance and the time it would take for customers to return to operating within transactional acceptance standards. Tailored approaches were also introduced for business banking, commercial real estate and financial institution customers.

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

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

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

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

Problem debt management

Personal

Early problem identification

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

Credit risk continued

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

Collections

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

Recoveries

The Recoveries team will issue a notice of intention to default to the customer and, if appropriate, a formal demand, while also registering the account with credit reference agencies where appropriate. Following this, the customer's debt may then be placed with a third-party debt collection agency, or alternatively a solicitor, in order to agree an affordable repayment plan with the customer. An option that may also be considered, is the sale of unsecured debt. Exposures subject to formal debt recovery are defaulted and, under IFRS 9, categorised as Stage 3.

Wholesale

Early problem identification

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

Risk of Credit Loss framework

The framework focuses on Wholesale customers whose credit profiles have deteriorated materially since origination. Expert judgment is applied by experienced credit risk officers to classify cases into categories that reflect progressively deteriorating credit risk to NWB Group. There are two classifications in the framework that apply to non-defaulted customers – Heightened Monitoring and Risk of Credit Loss. For the purposes of provisioning, all exposures subject to the framework are categorised as Stage 2 and subject to a lifetime loss assessment. The framework also applies to those customers that have met NWB Group's default criteria (AQ10 exposures). Defaulted exposures are categorised as Stage 3 impaired for provisioning purposes.

Heightened Monitoring customers are performing customers that have met certain characteristics, which have led to significant credit deterioration. Collectively, characteristics reflect circumstances that may affect the customer's ability to meet repayment obligations. Characteristics include trading issues, covenant breaches, material PD downgrades and past due facilities. Heightened Monitoring customers require pre-emptive actions (outside the customer's normal trading patterns) to return or maintain their facilities within NWB Group's current risk appetite prior to maturity.

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

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

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

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

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

The Risk of Credit Loss framework does not apply to problem debt management for business banking customers. These customers are, where necessary, managed by specialist problem debt management teams, depending on the size of exposure or by the business banking recoveries team where a loan has been impaired.

Restructuring

Where customers are categorised as Risk of Credit Loss and the lending exposure is above £1 million, relationships are supported by the Restructuring team. The objective of Restructuring is to protect NWB Group's capital. Restructuring does this by working with corporate and commercial customers in financial difficulty to help them understand their options and how their restructuring or repayment strategies can be delivered.

Credit risk continued

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

Restructuring will always aim to recover capital fairly and efficiently. Throughout Restructuring's involvement, the mainstream relationship manager will remain an integral part of the customer relationship. Restructuring's work helps NWB Group remain safe and sustainable, contributing to its ability to champion potential.

Forbearance (audited)

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

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

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

Loans are reported as forborne until they meet the exit criteria as detailed in the appropriate regulatory guidance. 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

Personal

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

Wholesale

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

Monitoring of forbearance

Personal

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

Wholesale

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

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

Credit grading models

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

Credit grading models are designed to provide:
- An assessment of customer and transaction characteristics.
- A meaningful differentiation of credit risk.
- Accurate internal default rate, loss and exposure estimates that are used in the capital calculation or wider risk management purposes.

Impairment, provisioning and write-offs (audited)

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

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

Five key areas may materially influence the measurement of credit impairment under IFRS 9 – two of these relate to model build and three relate to model application:
- Model build:
  - The determination of economic indicators that have most influence on credit loss for each portfolio and the severity of impact (this leverages existing stress testing models which are reviewed annually).
  - The build of term structures to extend the determination of the risk of loss beyond 12 months that will influence the impact of lifetime loss for exposures in Stage 2.
- Model application:
  - The assessment of the SICR and the formation of a framework capable of consistent application.
  - The determination of asset lifetimes that reflect behavioural characteristics while also representing management actions and processes (using historical data and experience).
  - The choice of forward-looking economic scenarios and their respective probability weights

Refer to Accounting policies 11 for further details.

IFRS 9 ECL model design principles (audited)

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

To meet IFRS 9 requirements, the PD, LGD and EAD parameters differ from their Pillar 1 internal ratings based counterparts in the following aspects:
- Unbiased – material regulatory conservatism has been removed from IFRS 9 parameters to produce unbiased estimates.
- Point-in-time – IFRS 9 parameters reflect actual economic conditions at the reporting date instead of long-run average or downturn conditions.
- Forward-looking – IFRS 9 PD estimates and, where appropriate, EAD and LGD estimates reflect forward-looking economic conditions.
- Lifetime measurement – IFRS 9 PD, LGD and EAD are provided as multi-period term structures up to exposure lifetimes instead of over a fixed one-year horizon.

Credit risk continued

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) and the equivalent lifetime PD as determined at the date of initial recognition.

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

PD estimates

Personal models

Personal PD models use the Exogenous, Maturity and Vintage (EMV) approach to model default rates. The EMV approach separates portfolio default risk trends into three components: vintage effects (quality of new business over time), maturity effects (changes in risk relating to time on book) and exogenous effects (changes in risk relating to changes in macro-economic conditions). The EMV methodology has been widely adopted across the industry because it enables forward-looking economic information to be systematically incorporated into PD estimates.

Wholesale models

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

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

LGD estimates

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

Personal

Forward-looking information has only been incorporated for the secured portfolios, where changes in property prices can be readily accommodated. Analysis has shown minimal impact of economic conditions on LGDs for the other Personal portfolios.

Wholesale

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

EAD estimates

Personal

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

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

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

Wholesale

For Wholesale, EAD values are projected using product specific credit conversion factors (CCFs), closely following the product segmentation and approach of the respective Basel model. However, the CCFs are estimated over multi-year time horizons and contain no regulatory conservatism or downturn assumptions.

No explicit forward-looking information is incorporated, on the basis of analysis showing the temporal variation in CCFs is mainly attributable to changes in exposure management practices rather than economic conditions.

Governance and post model adjustments (audited)

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

- Deferred model calibrations – ECL adjustments where PD model monitoring indicated that actual defaults were below estimated levels but where it was judged that an implied ECL release was not supportable due to the influence of government support schemes. As a consequence, any potential ECL release was deferred and retained on the balance sheet.
- Economic uncertainty – ECL adjustments primarily arising from uncertainties associated with multiple economic scenarios (also for 2020) and credit outcomes as a result of the effect of COVID-19 and the consequences of government support schemes. In both cases, management judged that additional ECL was required until further credit performance data became available on the behavioural and loss consequences of COVID-19.
- Other adjustments – ECL adjustments where it was judged that the modelled ECL required to be amended.

Post model adjustments will remain a key focus area of NWB Group's ongoing ECL adequacy assessment process. A holistic framework has been established including reviewing a range of economic data, external benchmark information and portfolio performance trends, particularly with more observable outcomes from the unwinding of COVID-19 support schemes. A key part of the assessment is also understanding the current levels of ECL coverage (portfolio by portfolio) against pre-COVID-19 levels, recognising changes in franchise portfolio/sector mix.

Credit risk continued

ECL post model adjustments (audited)

The table below shows ECL post model adjustments.

	Retail Banking		Wholesale		
	Mortgages	Other	Commercial	Other	Total
2021	£m	£m	£m	£m	£m
Deferred model calibrations	48	80	51	—	179
Economic uncertainty	46	80	285	5	416
Other adjustments	26	—	2	—	28
Total	120	160	338	5	623
Of which:					
- Stage 1	*8*	*5*	*10*	—	*23*
- Stage 2	*99*	*134*	*328*	*5*	*566*
- Stage 3	*13*	*21*	—	—	*34*
2020					
Deferred model calibrations	19	8	11	—	38
Economic uncertainty	62	64	387	9	522
Other adjustments	12	—	15	—	27
Total	93	72	413	9	587
Of which:					
- Stage 1	*17*	*6*	*28*	—	*51*
- Stage 2	*70*	*64*	*385*	*9*	*528*
- Stage 3	*6*	*2*	—	—	*8*

- While in aggregate the post model adjustments have only seen a modest increase since 31 December 2020, the shifts across and within categories are more notable. These reflect:
- A modest reduction in the judgmental uncertainty post model adjustments in the Wholesale portfolios, which was directionally in line with the portfolio quality and some reduction in uncertainty about recovery in affected sectors in the economy.
- In the Retail Banking portfolio, to reflect a risk that default levels were being unsustainably suppressed due to the various temporary government led support schemes (with the sustainability requiring further outcome data), management effected a hold back of further modelled releases judgmentally through the deferred model calibrations category.
- Retail Banking – The post model adjustment for deferred model calibrations increased to £128 million from £27 million at 31 December 2020. This reflected management's continued judgment that the implied ECL decreases that continued to manifest themselves through the standard PD model monitoring process during the year, were not fully supportable. Management retained this view on the basis that underlying portfolio performance is believed to be underpinned by government support schemes and further outcome data is required on the level of default suppression.
- The post model adjustment for economic uncertainty remained elevated at £126 million. The total included an ECL uplift of £22 million on a subset of customers who had accessed payment holiday support where their risk profile was identified as relatively high risk. In addition, NWB Group continued to retain a holdback of a modelled ECL release of £55 million, again due to the delayed default emergence reflective of the various customer support schemes (£12 million related to mortgages and £43 million related to unsecured lending). The year end overlay position also included an ECL uplift on buy-to-let mortgages of £10 million to mitigate the risk of a disproportionate credit deterioration in challenging economic circumstances.
- Other judgmental overlays increased due to the introduction of a new post model adjustment of £11 million to capture the impact of potential cladding risk in the portfolio.
- Commercial Banking – The post model adjustment for economic uncertainty reduced from £387 million to £285 million during the year. It included an overlay of £251 million reflecting continued concern that the unprecedented nature of COVID-19 might indicate that default level may be higher in future periods above that currently expected. In addition, it reflected a risk that government support schemes during COVID-19 could have suppressed defaults that may materialise in future periods above expected default levels. The reduction during the year was mainly due to a sustained improvement in underlying credit metrics which resulted in a decrease in Stage 2 assets and reduced levels of uncertainty around economic outcome.
- The post model adjustment for deferred model calibrations on the business banking portfolio increased to £51 million during the year. This reflected management's judgment that the continued beneficial modelling impact, and implied ECL decrease, remained unsupportable while portfolio performance was being underpinned by the various support schemes.
- Other – The post model adjustments held in other businesses were for similar reasons as those described above.

Credit risk continued

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

The framework comprises the following elements:

- IFRS 9 lifetime PD assessment (the primary driver) – on modelled portfolios, the assessment is based on the relative deterioration in forward-looking lifetime PD and is assessed monthly. To assess whether credit deterioration has occurred, the residual lifetime PD at balance sheet date (which PD is established at date of initial recognition (DOIR)) is compared to the current PD. If the current lifetime PD exceeds the residual origination PD by more than a threshold amount, deterioration is assumed to have occurred and the exposure transferred into Stage 2 for a lifetime loss assessment. For Wholesale, a doubling of PD would indicate a SICR subject to a minimum PD uplift of 0.1%. For Personal portfolios, the criteria vary by risk band, with lower risk exposures needing to deteriorate more than higher risk exposures, as outlined in the following table:

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

- Qualitative high-risk backstops – the PD assessment is complemented with the use of qualitative high-risk backstops to further inform whether significant deterioration in lifetime risk of default has occurred. The qualitative high-risk backstop assessment includes the use of the mandatory 30+ days past due backstop, as prescribed by IFRS 9 guidance, and other features such as forbearance support, Wholesale exposures managed within the Risk of Credit Loss framework, and adverse credit bureau results for Personal customers. Where a Personal customer was granted a payment holiday (also referred to as a payment deferral) in response to COVID-19, they were not automatically transferred into Stage 2. However, a subset of Personal customers who had accessed payment holiday support, and where their risk profile was identified as relatively high risk, were collectively migrated to Stage 2 (if not in Stage 2 already). Any support provided beyond completion of the second payment holiday was considered forbearance.
- Persistence (Personal and business banking customers only) – the persistence rule ensures that accounts which have met the criteria for PD driven deterioration are still considered to be significantly deteriorated for three months thereafter. This additional rule enhances the timeliness of capture in Stage 2. The persistence rule is applied to PD driven deterioration only.

Significant increase in credit risk (SICR)

(audited)

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

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

Provisioning for forbearance (audited)

Personal

The methodology used for provisioning in respect of Personal forborne loans will differ depending on whether the loans are performing or non-performing and which business is managing them due to local market conditions.

Granting forbearance will only change the arrears status of the loan in specific circumstances, which can include capitalisation of principal and interest in arrears, where the loan may be returned to the performing book if the customer has demonstrated an ability to meet regular payments and is likely to continue to do so.

The loan would continue to be reported as forborne until it meets the exit criteria set out by the appropriate regulatory guidance.

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

For ECL provisioning, all forborne but performing exposures are categorised as Stage 2 and are subject to a lifetime loss provisioning assessment. Where the forbearance treatment includes the cessation of interest on the customer balance (i.e. non-accrual), this will be treated as a Stage 3 default.

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

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

Wholesale

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

Wholesale loans granted forbearance are individually credit assessed in most cases. Performing loans subject to forbearance treatment are categorised as Stage 2 and subject to a lifetime loss assessment.

Credit risk continued

Forbearance may result in the value of the outstanding debt exceeding the present value of the estimated future cash flows. This difference will lead to a customer being classified as non-performing.

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

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

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

Asset lifetimes (audited)

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

- The date of initial recognition reflects the date that a transaction (or account) was first recognised on the balance sheet; the PD recorded at that time provides the baseline used for subsequent determination of SICR as detailed above.
- For asset duration, the approach applied (in line with IFRS 9 requirements) is:
- Term lending – the contractual maturity date, reduced for behavioural trends where appropriate (such as, expected prepayment and amortisation).
- Revolving facilities – for Personal portfolios (except credit cards), asset duration is based on behavioural life and this is normally greater than contractual life (which would typically be overnight). For Wholesale portfolios, asset duration is based on annual customer review schedules and will be set to the next review date.

In the case of credit cards, the most significant judgment is to reflect the operational practice of card reissuance and the associated credit assessment as enabling a formal re-origination trigger. As a consequence, a capped lifetime approach of up to 36 months is used on credit card balances. If the approach was uncapped the ECL impact is estimated at approximately £60 million (2020 – £85 million). However, credit card balances originated under the 0% balance transfer product, and representing approximately 13% of performing card balances, have their ECL calculated on a behavioural lifetime approach as opposed to being capped at a maximum of three years.

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

Economic loss drivers (audited)

Introduction

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

The most material economic loss drivers are shown in the table below.

Portfolio	Economic loss drivers
UK retail mortgages	UK unemployment rate, sterling swap rate, UK house price index, UK household debt to income
UK retail unsecured	UK unemployment rate, sterling swap rate, UK household debt to income
UK large corporates	World GDP, UK unemployment rate, sterling swap rate, stock price index
UK commercial	UK GDP, UK unemployment rate, sterling swap rate
UK commercial real estate	UK GDP, UK commercial property price index, sterling swap rate, stock price index

(1) This is not an exhaustive list of economic loss drivers but shows the most material drivers for the most significant portfolios.

Economic scenarios

At 31 December 2021, the range of anticipated future economic conditions was defined by a set of four internally developed scenarios and their respective probabilities. In addition to the base case, they comprised upside, downside and extreme downside scenarios. The scenarios primarily reflected a range of outcomes for the path of COVID-19 as well as recovery, and the associated effects on labour and asset markets.

The four scenarios were deemed appropriate in capturing the uncertainty in economic forecasts and the non-linearity in outcomes under different scenarios. The scenarios were developed to provide sufficient coverage across potential changes in unemployment, asset price and the degree of permanent damage to the economy, around which there are pronounced levels of uncertainty at this stage.

Upside – This scenario assumes a very strong recovery through 2022 as consumers dip into excess savings built up over the last two years. The labour market remains resilient, with the unemployment rate falling below pre-COVID-19 levels. Inflation is higher than the base case but eventually comes back close to the target. The strong economic recovery enables tightening to be quicker than the base case. The housing market continues its recent strong performance.

Base case – COVID-19 related risks remain contained. After a strong recovery in 2021, the growth moderates in 2022. Most of the furloughed workers can go back to their existing job or find a new job very quickly, with the unemployment rate reaching 4.1% by the end of 2022. Inflation initially increases but retreats over 2022. Interest rates are raised, starting in early 2022. There is a gradual cool down in the housing market but activity is still at healthy levels.

Credit risk continued

Downside – This scenario assumes a reversal in recovery as inflation build up leads to a lessening of expectations. Interest rates are raised aggressively to counter the inflation risks. However, starting in 2023, the interest hikes are reversed to assist the recovery. Unemployment is higher than the base case and there is a modest decline in house prices.

Extreme downside – This scenario assumes a resurgence of COVID-19 related risks. There is a renewed downturn with declines in consumer spending and business investment. Interest rates are reduced into negative territory to -0.5%. There is wide-spread job shedding in the labour market while asset prices see deep corrections, with housing market falls higher than those seen during previous episodes. The recovery is tepid throughout the five-year period, meaning only a gradual decline in joblessness.

The approach of using four scenarios is similar to that as at 31 December 2020. Previously, NWB Group used five discrete scenarios to characterise the distribution of risks in the economic outlook. For 2021, the four scenarios were deemed appropriate in capturing the uncertainty in economic forecasts and the non-linearity in outcomes under different scenarios. These four scenarios were developed to provide sufficient coverage across potential rises in unemployment, inflation, asset price falls and the degree of permanent damage to the economy, around which there remains pronounced levels of uncertainty.

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

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

Economic loss drivers (audited)

Main macroeconomic variables

	2021				2020			
	Upside	Base case	Downside	Extreme downside	Upside	Base case	Downside	Extreme downside
Five-year summary	%	%	%	%	%	%	%	%
UK								
GDP - CAGR	**2.4**	**1.7**	**1.4**	**0.6**	3.6	3.1	2.8	1.3
Unemployment - average	**3.5**	**4.2**	**4.8**	**6.7**	4.4	5.7	7.1	9.7
House price index - total change	**22.7**	**12.1**	**4.3**	**(5.3)**	12.5	7.6	4.4	(19.0)
Bank of England base rate - average	**1.5**	**0.8**	**0.7**	**(0.5)**	0.2	—	(0.1)	(0.5)
Commercial real estate price - total change	**18.2**	**7.2**	**5.5**	**(6.4)**	4.3	0.7	(12.0)	(31.5)
World GDP - CAGR	**3.5**	**3.2**	**2.6**	**0.6**	3.5	3.4	2.9	2.8
Probability weight	**30.0**	**45.0**	**20.0**	**5.0**	20.0	40.0	30.0	10.0

(1) The five year period starts after Q3 2021 for 2021 and Q3 2020 for 2020.

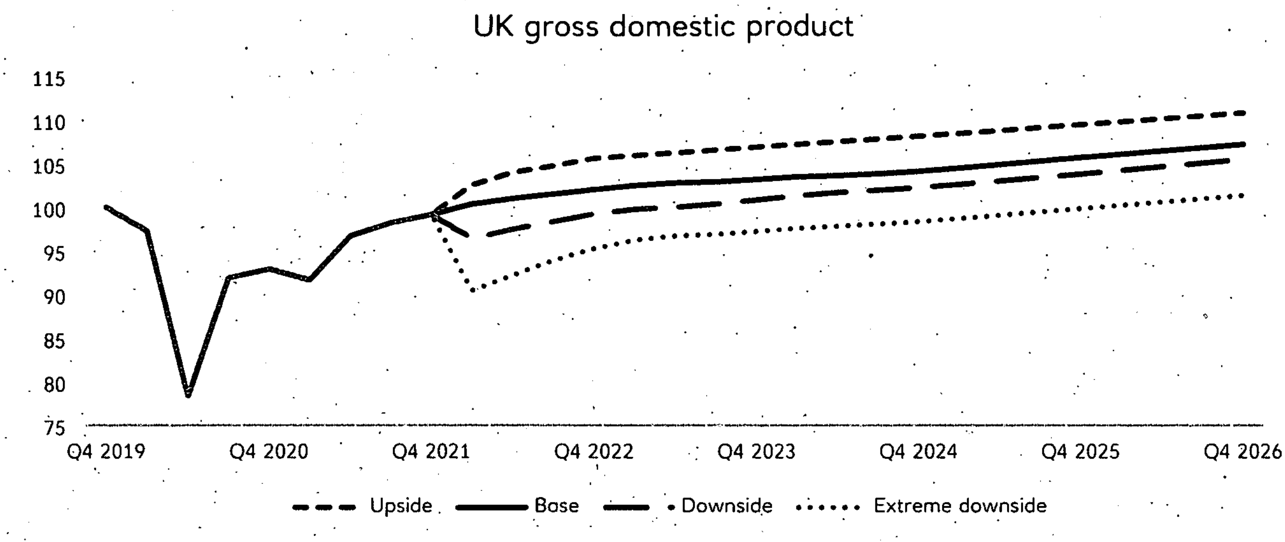
Probability weightings of scenarios

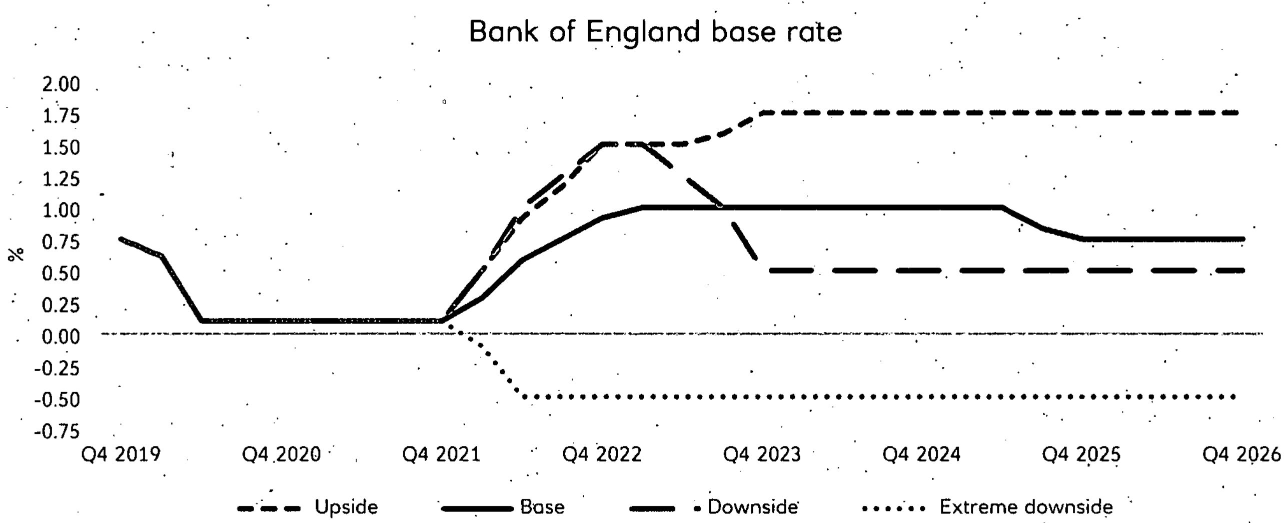
NWB Group's approach to IFRS 9 multiple economic scenarios (MES) involves selecting a suitable set of discrete scenarios to characterise the distribution of risks in the economic outlook and assigning appropriate probability weights. The scale of the economic impact of COVID-19 and the range of recovery paths necessitates a change of approach to assigning probability weights from that used in recent updates. Prior to 2020, GDP paths for NWB Group's scenarios were compared against a set of 1,000 model runs, following which a percentile in the distribution was established that most closely corresponded to the scenario.

Instead, NWB Group has subjectively applied probability weights, reflecting expert views within NWB Group. The probability weight assignment was judged to present good coverage to the central scenarios and the potential for a robust recovery on the upside and exceptionally challenging outcomes on the downside. A 30% weighting was applied to the upside scenario, a 45% weighting applied to the base case scenario, a 20% weighting applied to the downside scenario and a 5% weighting applied to the extreme downside scenario. NWB Group assessed the downside risk posed by COVID-19 to be diminishing over the course of 2021, with the vaccination roll-out and positive economic data being observed since the gradual relaxing of lockdown restrictions. NWB Group therefore judged it was appropriate to apply a higher probability to upside-biased scenarios than at 31 December 2020. However, compared to 31 December 2020, the base case has a higher weight reflecting reduction in uncertainty as the path of economy recovery became clearer.

The 25% weighting to the two downside scenarios gives appropriate consideration to the threats posed to the recovery, including inflation, supply and COVID-19-related risks. Balanced against that is the adaptability of the UK economy to successive waves of COVID-19, and the resilience of labour and asset markets. The potential for further better than expected outcomes is reflected in the 30% probability weighting applied to the upside scenario.

Credit risk continued
Economic loss drivers





Credit risk continued
Economic loss drivers (audited)
Annual figures

GDP - annual growth

	Upside %	Base case %	Downside %	Extreme downside %
2021	7.0	7.0	7.0	7.0
2022	8.1	5.0	1.5	(3.6)
2023	2.1	1.6	2.4	4.1
2024	1.2	0.9	1.6	1.2
2025	1.2	1.3	1.4	1.4
2026	1.2	1.5	1.6	1.5

Unemployment rate - annual average

	Upside %	Base case %	Downside %	Extreme downside %
2021	4.6	4.6	4.6	4.6
2022	3.5	4.1	5.1	8.3
2023	3.3	4.0	5.2	8.8
2024	3.4	4.1	4.7	6.6
2025	3.4	4.2	4.5	5.2
2026	3.6	4.2	4.5	4.9

House price index - four quarter growth

	Upside %	Base case %	Downside %	Extreme downside %
2021	6.9	6.9	6.9	6.9
2022	7.9	1.6	(2.9)	(20.4)
2023	4.2	1.6	(0.2)	(2.6)
2024	3.1	2.9	1.7	13.0
2025	3.0	2.7	3.0	4.7
2026	3.0	2.7	3.0	3.6

Commercial real estate price - four quarter growth

	Upside %	Base case %	Downside %	Extreme downside %
2021	8.4	8.4	8.4	8.4
2022	10.2	4.4	(2.7)	(29.8)
2023	3.4	1.9	4.2	17.2
2024	1.7	0.2	1.7	5.2
2025	0.6	(0.8)	0.3	3.5
2026	(0.8)	(0.8)	(0.2)	3.2

Bank of England base rate - annual average

	Upside %	Base case %	Downside %	Extreme downside %
2021	0.10	0.10	0.10	0.10
2022	1.02	0.63	1.06	(0.40)
2023	1.58	1.00	1.06	(0.50)
2024	1.75	1.00	0.50	(0.50)
2025	1.75	0.90	0.50	(0.50)
2026	1.75	0.75	0.50	(0.50)

Worst points

	31 December 2021				31 December 2020			
	Downside %	Quarter	Extreme downside %	Quarter	Downside %	Quarter	Extreme downside %	Quarter
GDP	(1.8)	Q1 2022	(7.9)	Q1 2022	(5.1)	Q1 2021	(10.4)	Q1 2021
Unemployment rate (peak)	5.4	Q1 2023	9.4	Q4 2022	9.4	Q4 2021	13.9	Q3 2021
House price index	(3.0)	Q3 2023	(26.0)	Q2 2023	(11.2)	Q2 2021	(32.0)	Q4 2021
Commercial real estate price	(2.5)	Q1 2022	(29.8)	Q3 2022	(28.9)	Q2 2021	(40.4)	Q2 2021
Bank of England base rate	1.5	Q4 2022	(0.5)	Q2 2022	(0.1)	Q3 2021	(0.5)	Q1 2021

(1) For the unemployment rate, the figures show the peak levels. For the Bank of England base rate, the figures show highest or lowest levels. For other parameters, the figures show falls relative to the starting period. The calculations are performed over five years, with a starting point of Q3 2021 for 31 December 2021 scenarios.

Credit risk continued

Use of the scenarios in Personal lending

Personal lending follows a discrete scenario approach. The PD and LGD values for each discrete scenario are calculated using product specific econometric models. Each account has a PD and LGD calculated as probability weighted averages across the suite of economic scenarios.

Use of the scenarios in Wholesale lending

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

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

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

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

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

UK economic uncertainty

Treatment of COVID-19 relief mechanisms

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

For Wholesale customers, NWB Group continues to provide support, where appropriate, to existing customers. Those who are deemed either (a) to require a prolonged timescale to return to within NWB Group's risk appetite, (b) not to have been viable pre-COVID-19, or (c) not to be able to sustain their debt once COVID-19 is over, will trigger a SICR and, if concessions are sought, be categorised as forborne, in line with regulatory guidance. Payment holiday extensions beyond an aggregate of 12 months in an 18 month period to cover continuing COVID-19 business interruption are categorised as forbearance, including for customers where no other SICR triggers are present.

In February 2021, the British Business Bank announced details of Pay As You Grow (PAYG) options for borrowers of BBLS. The scheme options include the extension of lending terms, periods of reduced repayments and six month payment holidays. PAYG options are a feature of BBLS rather than a concession granted by NWB Group. It is therefore not automatically considered significant credit deterioration and a Stage 2 trigger. NWB Group relies on both customer attestations and existing credit monitoring procedures to identify significant financial difficulty. Should signs of financial stress be identified, a review is performed. If credit deterioration is confirmed, existing problem debt management journeys are followed and forbearance (if a concession is granted) is marked in line with existing processes. This will result in Stage 2 transfer.

Model monitoring and enhancement

The severe economic impact from COVID-19 and the ensuing government support schemes have disrupted the normal relationships between key economic loss drivers and credit outcomes. While most government support schemes have now been phased out and economic conditions are normalising, the effect of this disruption is still evident in model monitoring and accounted for in judgments applied to the use and recalibrations of models.

Most significantly, latest PD model monitoring shows general overprediction across all key portfolios, i.e., observed default rates still at or even below pre-COVID-19 levels despite increased PD estimates from a deterioration in several key economic variables. Model recalibrations to adjust for this overprediction have been deferred based on the judgment that default rate actuals are distorted due to government support.

In addition, to account for residual model uncertainty and the risk of eventual default emergence hitherto supressed by government support, lag assumptions of up to 12 months are applied in the models. These assumptions are consistent with and unchanged from previous disclosures in 2021, although their effective impact gradually reduces over time.

Industry sector detail – Wholesale only

The economic impact of COVID-19 is highly differentiated by industry sector, with hospitality and other contact-based leisure, service, travel and passenger transport activities significantly more affected than the overall economy. On the other hand, the corporate and commercial econometric forecasting models used in Wholesale are sector agnostic. Sector performance was monitored throughout the year and additional post model adjustments were recognised where a risk of higher than expected future default levels, including their timing and value, was identified.

Scenario sensitivity – Personal only

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

Additionally, post model ECL adjustments were made in Personal to account for known model weaknesses pre-dating COVID-19, pending the systematic re-development of the underlying models.

Credit risk continued

Government guarantees

In April 2021, the UK government launched the Recovery Loan Scheme, replacing previous support schemes which are now closed. Consistent with CBILS and the Coronavirus Large Business Interruption Loan Scheme (CLBILS), the government guarantee is 80%. NWB Group recognises lower LGDs for these lending products as a result, with 0% applied to the government-guaranteed part of the exposure. NWB Group does not directly adjust the measurement of PD due to the government guarantee and continues to move exposures into Stage 2 and Stage 3 where a significant deterioration in credit risk or a default is identified.

Measurement uncertainty and ECL sensitivity analysis (audited)

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

The focus of the simulations is on ECL provisioning requirements on performing exposures in Stage 1 and Stage 2. The simulations are run on a stand-alone basis and are independent of each other; the potential ECL impacts reflect the simulated impact at 31 December 2021. Scenario impacts on SICR should be considered when evaluating the ECL movements of Stage 1 and Stage 2. In all scenarios the total exposure was the same but exposure by stage varied in each scenario.

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

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

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

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

Credit risk continued
Measurement uncertainty and ECL sensitivity analysis (audited)

2021	Actual	Base case	Upside	Downside	Extreme downside
Stage 1 modelled exposure (£m)					
Retail Banking - mortgages	143,958	144,252	145,324	139,977	117,222
Retail Banking - unsecured	5,830	5,869	6,051	5,467	4,739
Wholesale - property	17,911	17,955	17,988	17,861	16,500
Wholesale - non-property	75,807	76,213	76,396	75,931	66,891
Stage 1 modelled ECL (£m)					
Retail Banking - mortgages	11	10	9	12	19
Retail Banking - unsecured	92	89	89	86	77
Wholesale - property	17	16	20	16	15
Wholesale - non-property	85	87	85	87	74
Stage 2 modelled exposure (£m)					
Retail Banking - mortgages	8,676	8,382	7,310	12,657	35,412
Retail Banking - unsecured	2,345	2,306	2,123	2,707	3,435
Wholesale - property	2,082	2,038	2,006	2,133	3,494
Wholesale - non-property	13,466	13,060	12,877	13,342	22,382
Stage 2 modelled ECL (£m)					
Retail Banking - mortgages	122	120	106	141	323
Retail Banking - unsecured	356	356	339	388	454
Wholesale - property	70	67	62	70	126
Wholesale - non-property	546	524	517	529	776
Stage 1 and Stage 2 modelled exposure (£m)					
Retail Banking - mortgages	152,634	152,634	152,634	152,634	152,634
Retail Banking - unsecured	8,175	8,175	8,174	8,174	8,174
Wholesale - property	19,993	19,993	19,994	19,994	19,994
Wholesale - non-property	89,273	89,273	89,273	89,273	89,273
Stage 1 and Stage 2 modelled ECL (£m)					
Retail Banking - mortgages	133	130	115	153	342
Retail Banking - unsecured	448	445	428	474	531
Wholesale - property	87	83	82	86	141
Wholesale - non-property	631	611	602	616	850
Stage 1 and Stage 2 coverage (%)					
Retail Banking - mortgages	0.09%	0.09%	0.08%	0.10%	0.22%
Retail Banking - unsecured	5.48%	5.44%	5.24%	5.80%	6.50%
Wholesale - property	0.44%	0.42%	0.41%	0.43%	0.71%
Wholesale - non-property	0.71%	0.68%	0.67%	0.69%	0.95%
Reconciliation to Stage 1 and Stage 2 ECL (£m)					
ECL on modelled exposures	1,299	1,269	1,227	1,329	1,864
ECL on non-modelled exposures	37	37	37	37	37
Total Stage 1 and Stage 2 ECL	1,336	1,306	1,264	1,366	1,901
Variance – (lower)/higher to actual total Stage 1 and Stage 2 ECL		(30)	(72)	30	565

(1) Variations in future undrawn exposure values across the scenarios are modelled, however the exposure position reported is that used to calculate modelled ECL as at 31 December 2021 and therefore does not include variation in future undrawn exposure values.
(2) Reflects ECL for all modelled exposure in scope for IFRS 9. The analysis excludes non-modelled portfolios and exposure relating to bonds and cash.
(3) All simulations are run on a stand-alone basis and are independent of each other, with the potential ECL impact reflecting the simulated impact as at 31 December 2021. The simulations change the composition of Stage 1 and Stage 2 exposure but total exposure is unchanged under each scenario as the loan population is static.
(4) Refer to the Economic loss drivers section for details of economic scenarios.
(5) Refer to the NWB Group 2020 Annual Report and Accounts for 2020 comparatives.

- During 2021, both the Stage 2 size and overall modelled ECL reduced as a result of the improved economic outlook and scenario weightings, together with stable portfolio performance. Judgmental ECL post model adjustments, although reduced, continued to reflect residual economic uncertainty with the expectation of increased defaults later in 2022 and beyond, now representing 25% of total ECL (2020 – 10%). These combined factors, in conjunction with a less severe suite of economics in the 2021 extreme downside scenario, contributed to a smaller range of ECL sensitivities at 31 December 2021 compared to the 2020 year end.
- If the economics were as negative as observed in the extreme downside, total Stage 1 and Stage 2 ECL was simulated to increase by £0.6 billion (approximately 42%). In this scenario, Stage 2 exposure increased significantly and was the key driver of the simulated ECL rise. The movement in Stage 2 balances in the other simulations was less significant.
- In the Wholesale portfolios, the outcome range of scenarios, except for the extreme downside, was relatively narrow. This was due to the combined effect of the assumption that government support schemes will delay defaults, mean reversion of CCIs and that only in the extreme downside CCIs do credit conditions deteriorate beyond their year-end starting point

Credit risk continued

Single factor sensitivity

In addition to scenario sensitivity, NWB Group uses single factor analysis to support its evaluation and governance. This covers changes such as the variation of an individual input parameter (economic or credit) or a change of scenario weightings. The application of single factor analysis recognises the limitation that it is not normal for one single factor to vary in isolation, but can help identify possible risks in the credit portfolios.

At 31 December 2021, NWB Group considered the effect of moving the unemployment peak in the base case from 4.1% to 7.5% in 2022 but without changing expectations in subsequent years. This had the effect of increasing ECL requirement by approximately 4.5% and 2.5% for the UK Retail and Wholesale portfolios respectively. The lower effect on Wholesale portfolio reflected that unemployment is not a significant loss driver for property exposures nor some of NWB Group's specialised lending areas.

Measurement uncertainty and ECL adequacy

The improvement in the economic outlook and scenarios used in the IFRS 9 MES framework in 2021 resulted in a release of modelled ECL. Given that continued uncertainty remains due to COVID-19 despite the improved economic outlook, NWB Group utilised a framework of quantitative and qualitative measures to support the directional change and levels of ECL coverage, including economic data, credit performance insights and problem debt trends. This was particularly important for consideration of post model adjustments.

As government support schemes continued to conclude during 2021, NWB Group anticipates further credit deterioration in the portfolios. However, the income statement effect of this will be mitigated by the forward-looking provisions retained on the balance sheet at 31 December 2021.

There are a number of key factors that could drive further downside to impairments, through deteriorating economic and credit metrics and increased stage migration as credit risk increases for more customers.

A key factor would be a more adverse deterioration in GDP and unemployment in the economies in which NWB Group operates, but also, among others:

- The ongoing trajectory of lockdown restrictions within the UK and any future repeated lockdown requirements.
- The progress of the COVID-19 vaccination roll-out and its effectiveness against new variants.
- The long-term efficacy of the various government support schemes in terms of their ability to defray customer defaults is yet to be proven over an extended period.
- The impact on customer affordability in the event of sustained inflationary pressures.
- The level of revenues lost by corporate clients and pace of recovery of those revenues may affect NWB Group's clients' ability to service their borrowing, especially in those sectors most exposed to the effects of COVID-19.

Credit risk – Banking activities
Introduction

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

Refer to Accounting policies note 11 and Note 13 to the financial statements for policies and critical judgments relating to impairment loss determination.

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

Financial assets

	31 December 2021			31 December 2020		
	Gross £bn	ECL £bn	Net £bn	Gross £bn	ECL £bn	Net £bn
Balance sheet total gross amortised cost and FVOCI	**423.6**			379.0		
In scope of IFRS 9 ECL framework	**422.4**			377.8		
% in scope	**100%**			100%		
Loans to customers - in scope - amortised cost	**289.2**	**2.4**	**286.8**	275.4	3.7	271.7
Loans to customers - in scope - FVOCI	**0.2**	**—**	**0.2**	—	—	—
Loans to banks - in scope - amortised cost	**4.2**	**—**	**4.2**	3.3	—	3.3
Total loans - in scope	**293.6**	**2.4**	**291.2**	278.7	3.7	275.0
Stage 1	**264.6**	**0.2**	**264.4**	217.6	0.4	217.2
Stage 2	**26.0**	**1.0**	**25.0**	57.9	2.0	55.9
Stage 3	**3.0**	**1.2**	**1.8**	3.2	1.3	1.9
Other financial assets - in scope - amortised cost	**102.9**	**—**	**102.9**	65.2	—	65.2
Other financial assets - in scope - FVOCI	**25.9**	**—**	**25.9**	33.9	—	33.9
Total other financial assets - in scope	**128.8**	**—**	**128.8**	99.1	—	99.1
Stage 1	**128.6**	**—**	**128.6**	98.1	—	98.1
Stage 2	**0.2**	**—**	**0.2**	1.0	—	1.0
Stage 3	**—**	**—**	**—**	—	—	—
Out of scope of IFRS 9 ECL framework	**1.2**	**na**	**1.2**	1.2	na	1.2
Loans to customers - out of scope - amortised cost	**0.1**	**na**	**0.1**	(0.2)	na	(0.2)
Loans to banks - out of scope - amortised cost	**—**	**na**	**—**	—	na	—
Other financial assets - out of scope - amortised cost	**1.1**	**na**	**1.1**	1.4	na	1.4
Other financial assets - out of scope - FVOCI	**—**	**na**	**—**	—	na	—

na = not applicable

The assets outside the scope of IFRS 9 ECL framework were as follows:

- Settlement balances, items in the course of collection, cash balances and other non-credit risk assets of £0.7 billion (2020 – £0.6 billion). These were assessed as having no ECL unless there was evidence that they were defaulted.
- Fair value adjustments on loans hedged by interest rate swaps, where the underlying loan was within the IFRS 9 ECL scope of £0.1 billion (2020 – £0.1 billion).
- NWB Group originated securitisations, where ECL was captured on the underlying loans of £0.4 billion (2020 – £0.4 billion).

In scope assets also include an additional £2.6 billion (2020 – £2.7 billion) of inter-Group assets not shown in table above.

Contingent liabilities and commitments
In addition to contingent liabilities and commitments disclosed in Note 27 to the financial statements, reputationally-committed limits are also included in the scope of the IFRS 9 ECL framework. Total contingent liabilities (including financial guarantees) and commitments within IFRS 9 ECL scope of £84.6 billion (2020 – £81.5 billion) comprised Stage 1 £78.5 billion (2020 – £65.1 billion); Stage 2 £5.6 billion (2020 – £15.7 billion); and Stage 3 £0.5 billion (2020 – £0.7 billion).

The ECL relating to off balance sheet exposures was £0.1 billion (2020 – £0.1 billion). The total ECL in the remainder of the credit risk section of £2.5 billion included ECL for both on and off balance sheet exposures.

Credit risk – Banking activities continued
Segment analysis – portfolio summary
(audited)

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

2021	Retail Banking £m	Private Banking £m	Commercial Banking £m	Central items & other £m	Total £m
Loans - amortised cost and FVOCI					
Stage 1	153,151	16,969	63,325	31,211	264,656
Stage 2	11,019	942	13,951	91	26,003
Stage 3	1,385	263	1,337	—	2,985
Inter-Group (1)				2,555	2,555
	165,555	18,174	78,613	33,857	296,199
ECL provisions (2)					
Stage 1	112	11	95	13	231
Stage 2	479	27	588	11	1,105
Stage 3	641	37	489	—	1,167
Inter-Group				1	1
	1,232	75	1,172	25	2,504
ECL provisions coverage (3)					
Stage 1 (%)	0.07	0.06	0.15	0.04	0.09
Stage 2 (%)	4.35	2.87	4.21	12.09	4.25
Stage 3 (%)	46.28	14.07	36.57	—	39.10
Inter-Group (%)				0.04	0.04
	0.74	0.41	1.49	0.08	0.85
Impairment (releases)/losses					
ECL (release)/charge (4)					
Stage 1	(329)	(45)	(619)	(2)	(995)
Stage 2	144	(15)	(162)	3	(30)
Stage 3	162	7	44	—	213
Inter-Group				(1)	(1)
	(23)	(53)	(737)	—	(813)
Amounts written-off	170	6	212	—	388

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

Credit risk – Banking activities continued
Segment analysis – portfolio summary (audited)

2020	Retail Banking £m	Private Banking £m	Commercial Banking £m	Central items & other £m	Total £m
Loans - amortised cost and FVOCI					
Stage 1	124,894	14,682	52,291	25,708	217,575
Stage 2	27,860	1,880	28,014	110	57,864
Stage 3	1,336	285	1,633	—	3,254
Inter-Group (1)				2,685	2,685
	154,090	16,847	81,938	28,503	281,378
ECL provisions (2)					
Stage 1	111	30	214	10	365
Stage 2	731	67	1,247	15	2,060
Stage 3	596	37	652	—	1,285
Inter-Group				2	2
	1,438	134	2,113	27	3,712
ECL provisions coverage (3)					
Stage 1 (%)	0.09	0.20	0.41	0.04	0.17
Stage 2 (%)	2.62	3.56	4.45	13.64	3.56
Stage 3 (%)	44.61	12.98	39.93	—	39.49
Inter-Group (%)				0.07	0.07
	0.93	0.80	2.58	0.10	1.33
Impairment (releases)/losses					
ECL (release)/charge (4)					
Stage 1	(28)	25	(75)	9	(69)
Stage 2	526	60	1,242	11	1,839
Stage 3	169	15	211	2	397
Third party (6)	667	100	1,378	22	2,167
Inter-Group				2	2
	667	100	1,378	24	2,169
Amounts written-off	282	4	231	—	517

(1) NWB Group's intercompany assets are classified in Stage 1.
(2) Includes £3 million (2020 – £5 million) related to assets classified as FVOCI.
(3) ECL provisions coverage is calculated as ECL provisions divided by loans - amortised cost and FVOCI. It is calculated on third party loans and total ECL provisions.
(4) Includes a £1 million charge (2020 – £9 million charge) related to other financial assets, of which a £2 million release (2020 – £2 million charge) related to assets classified as FVOCI; and a £13 million release (2020 – £13 million charge) related to contingent liabilities
(5) The table shows gross loans only and excludes amounts that are outside the scope of the ECL framework. Refer to the Financial instruments within the scope of the IFRS 9 ECL framework section for further details. Other financial assets within the scope of the IFRS 9 ECL framework were cash and balances at central banks totalling £100.6 billion (2020 – £62.0 billion) and debt securities of £28.2 billion (2020 – £37.1 billion).
(6) The stage allocation of the ECL charge was aligned to the stage transition approach that underpins the analysis in the Flow statement section.
(7) Intercompany impairment charges are shown in Central items & other. In Note 4 to the financial statements - Segmental analysis - they are shown in the segments where the charges are booked.

- Stage 1 and Stage 2 ECL reduced significantly during 2021, with sustained improvement in underlying risk metrics mainly due to the improved economic outlook and underpinned by various government support schemes.
- The Stage 2 population reduced reflecting lower underlying PDs, resulting in migration of cases back into Stage 1. However, the Stage 2 population remained above pre-COVID-19 levels.
- Stage 3 loans and ECL balances reduced, mainly due to write-off, repayment of defaulted debt and portfolio sale of defaulted debt. To date, the various COVID-19 related government support schemes have mitigated new flows into default. It is expected that defaults will increase as the effect of the various government support schemes unwinds.

Credit risk – Banking activities continued
Segmental loans and impairment metrics (audited)
The table below shows gross loans and ECL provisions, by days past due, by segment and stage, within the scope of the ECL framework.

	Gross loans							ECL provisions (2)						
		Stage 2 (1)							Stage 2 (1)					
2021	Stage 1 £m	Not past due £m	1-30 DPD £m	>30 DPD £m	Total £m	Stage 3 £m	Total £m	Stage 1 £m	Not past due £m	1-30 DPD £m	>30 DPD £m	Total £m	Stage 3 £m	Total £m
Retail Banking	**153,151**	**9,967**	**691**	**361**	**11,019**	**1,385**	**165,555**	**112**	**419**	**31**	**29**	**479**	**641**	**1,232**
Private Banking	**16,969**	**880**	**26**	**36**	**942**	**263**	**18,174**	**11**	**27**	**—**	**—**	**27**	**37**	**75**
Personal	***13,753***	***136***	***23***	***11***	***170***	***225***	***14,148***	***5***	***1***	***—***	***—***	***1***	***19***	***25***
Wholesale	***3,216***	***744***	***3***	***25***	***772***	***38***	***4,026***	***6***	***26***	***—***	***—***	***26***	***18***	***50***
Commercial Banking	**63,325**	**13,015**	**384**	**552**	**13,951**	**1,337**	**78,613**	**95**	**558**	**20**	**10**	**588**	**489**	**1,172**
Central items & other	**31,211**	**91**	**—**	**—**	**91**	**—**	**31,302**	**13**	**11**	**—**	**—**	**11**	**—**	**24**
Total loans	**264,656**	**23,953**	**1,101**	**949**	**26,003**	**2,985**	**293,644**	**231**	**1,015**	**51**	**39**	**1,105**	**1,167**	**2,503**
Of which:														
Personal	***166,904***	***10,103***	***714***	***372***	***11,189***	***1,610***	***179,703***	***117***	***420***	***31***	***29***	***480***	***660***	***1,257***
Wholesale	***97,752***	***13,850***	***387***	***577***	***14,814***	***1,375***	***113,941***	***114***	***595***	***20***	***10***	***625***	***507***	***1,246***
2020														
Retail Banking	124,894	26,536	845	479	27,860	1,336	154,090	111	624	55	52	731	596	1,438
Private Banking	14,682	1,851	17	12	1,880	285	16,847	30	66	—	1	67	37	134
Personal	*12,176*	*113*	*17*	*11*	*141*	*250*	*12,567*	*6*	*2*	*—*	*—*	*2*	*18*	*26*
Wholesale	*2,506*	*1,738*	*—*	*1*	*1,739*	*35*	*4,280*	*24*	*64*	*—*	*1*	*65*	*19*	*108*
Commercial Banking	52,291	27,274	494	246	28,014	1,633	81,938	214	1,196	35	16	1,247	652	2,113
Central items & other	25,708	110	—	—	110	—	25,818	10	15	—	—	15	—	25
Total loans	217,575	55,771	1,356	737	57,864	3,254	278,693	365	1,901	90	69	2,060	1,285	3,710
Of which:														
Personal	*137,070*	*26,649*	*862*	*490*	*28,001*	*1,586*	*166,657*	*117*	*626*	*55*	*52*	*733*	*614*	*1,464*
Wholesale	*80,505*	*29,122*	*494*	*247*	*29,863*	*1,668*	*112,036*	*248*	*1,275*	*35*	*17*	*1,327*	*671*	*2,246*

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

Credit risk – Banking activities continued

Segmental loans and impairment metrics (audited)

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

	ECL provisions coverage							ECL	
		Stage 2 (1,2)						Total	
		Not		>30				(release) /	Amounts
	Stage 1	past due	1-30 DPD	DPD	Total	Stage 3	Total	charge	written-off
2021	%	%	%	%	%	%	%	£m	£m
Retail Banking	0.07	4.20	4.49	8.03	4.35	46.28	0.74	(23)	170
Private Banking	0.06	3.07	—	—	2.87	14.07	0.41	(53)	6
Personal	*0.04*	*0.74*	—	—	*0.59*	*8.44*	*0.18*	*2*	*3*
Wholesale	*0.19*	*3.49*	—	—	*3.37*	*47.37*	*1.24*	*(55)*	*3*
Commercial Banking	0.15	4.29	5.21	1.81	4.21	36.57	1.49	(737)	212
Central items & other	0.04	12.09	—	—	12.09	—	0.08	1	—
Total loans	0.09	4.24	4.63	4.11	4.25	39.10	0.85	(812)	388
Of which:									
Personal	*0.07*	*4.16*	*4.34*	*7.80*	*4.29*	*40.99*	*0.70*	*(21)*	*173*
Wholesale	*0.12*	*4.30*	*5.17*	*1.73*	*4.22*	*36.87*	*1.09*	*(791)*	*215*
2020									
Retail Banking	0.09	2.35	6.51	10.86	2.62	44.61	0.93	667	282
Private Banking	0.20	3.57	—	8.33	3.56	12.98	0.80	100	4
Personal	*0.05*	*1.77*	—	—	*1.42*	*7.20*	*0.21*	*(5)*	—
Wholesale	*0.96*	*3.68*	—	*100.00*	*3.74*	*54.29*	*2.52*	*105*	*4*
Commercial Banking	0.41	4.39	7.09	6.50	4.45	39.93	2.58	1,378	231
Central items & other	0.04	13.64	—	—	13.64	—	0.10	22	—
Total loans	0.17	3.41	6.64	9.36	3.56	39.49	1.33	2,167	517
Of which:									
Personal	*0.09*	*2.35*	*6.38*	*10.61*	*2.62*	*38.71*	*0.88*	*662*	*282*
Wholesale	*0.31*	*4.38*	*7.09*	*6.88*	*4.44*	*40.23*	*2.00*	*1,505*	*235*

(1) 30 DPD – 30 days past due, the mandatory 30 days past due backstop as prescribed by IFRS 9 for a SICR.
(2) ECL provisions on contingent liabilities and commitments are included within the Financial assets section so as not to distort ECL coverage ratios.

- Retail Banking – Balance sheet growth during 2021 was mainly due to mortgages. In line with the market, mortgage demand was strong during the year, supported by the extension of the stamp duty holiday and overall improvements in economic conditions. The improved economic outlook captured in the updated MES scenarios, including a more positive forecast on unemployment levels, resulted in reduced account level PDs. Unsecured lending balances decreased as customer spend and demand for borrowing were subdued as a result of COVID-19 restrictions, particularly in the first quarter of 2021. Lending criteria were cautiously relaxed during 2021 to support growing demand as lockdown restrictions eased.
- Portfolio performance remained stable, for further details refer to the Personal portfolio section. Arrears levels in both the mortgage and unsecured portfolios remained low overall. However, a small number of customers who utilised their full payment holiday, did migrate into late arrears during the second half of the year. With COVID-19 payment holidays complete, this trend stabilised by the year end and new inflows to arrears were below pre-COVID-19 levels.
- ECL in Stage 2 decreased due to migrations back into Stage 1, following the effects of improving economic scenarios during 2021 and continued stable portfolio performance supporting improved risk metrics. However, the ECL coverage on remaining Stage 2 exposures increased simply due to the relative underlying risk profile of the remaining Stage 2 exposures. The various COVID-19 related customer support schemes (for example, loan repayment holidays, government job retention scheme) mitigated actual portfolio deterioration in the short-term, with the arrears levels and flows into Stage 3 yet to be materially affected. Total ECL coverage reduced further in the fourth quarter of 2021, overall mirroring the positive trajectory of the COVID-19 vaccinations, labour market trends and portfolio performance, whilst maintaining coverage for the key portfolios above pre-COVID-19 levels given the persisting sources of uncertainty, including the Omicron variant and inflationary pressures on customers.
- Commercial Banking – Balance sheet reduction was mainly as a result of repayments of both COVID-19 government lending schemes and conventional borrowing where demand was lower, particularly in the second half of the year. Strategic reduction was achieved in high risk sectors.
- The improved economic outlook, including significant increases in GDP and commercial real estate valuations, resulted in lower IFRS 9 PDs. Consequently, compared to 2020, a smaller proportion of the exposures exhibited a SICR, which resulted in a migration of assets from Stage 2 into Stage 1. As a result, the ECL requirement reduced.
- Reflecting the continued level of uncertainty caused by COVID-19, management judged that certain ECL post model adjustments remained necessary, refer to the Governance and post model adjustments section for further details. The increase in Stage 2 exposures that were past due greater than 30 days was mainly due to the commencement of repayments of government scheme debt with some borrowers failing to meet scheduled repayments. The lower coverage of this population was driven by the guaranteed nature of government support schemes. Conventional bank debt did not result in a significant increase in past due balances.
- The various COVID-19 related customer support schemes and economic recovery continued to mitigate against flows into default. The reduction in coverage in Stage 1 and Stage 2 was mainly due to the decrease in ECL during 2021, primarily as a result of the improved economic outlook. There was a reduction in Stage 3 coverage as balances reduced and were not replaced by new flows, write-offs of existing debt were also higher in the year. Coverage remained above pre-COVID-19 levels. The loss rate was significantly lower than in the prior year.
- Other – The reasons for the increased ECL requirement were similar to those described above.

Credit risk – Banking activities continued
Sector analysis – portfolio summary (audited)

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

	Personal				Wholesale					Total
2021	Mortgages (1) £m	Credit cards £m	Other personal £m	Total £m	Property £m	Corporate £m	FI £m	Sovereign £m	Total £m	£m
Loans by geography	169,181	3,016	7,506	179,703	21,074	55,148	33,302	4,417	113,941	293,644
- UK	*169,181*	*3,016*	*7,506*	*179,703*	*20,479*	*49,974*	*29,056*	*3,446*	*102,955*	*282,658*
- RoI	—	—	—	—	*5*	*578*	*112*	—	*695*	*695*
- Other Europe	—	—	—	—	*237*	*2,642*	*1,026*	*479*	*4,384*	*4,384*
- RoW	—	—	—	—	*353*	*1,954*	*3,108*	*492*	*5,907*	*5,907*
Loans by stage and asset quality (2)	169,181	3,016	7,506	179,703	21,074	55,148	33,302	4,417	113,941	293,644
Stage 1	159,228	2,215	5,461	166,904	18,645	42,018	32,710	4,379	97,752	264,656
- AQ1	*3,010*	—	*374*	*3,384*	*764*	*828*	*2,166*	*2,324*	*6,082*	*9,466*
- AQ2	—	—	—	—	*1,789*	*643*	*25,150*	*401*	*27,983*	*27,983*
- AQ3	*2,037*	—	—	*2,037*	*2,074*	*2,885*	*631*	*1,506*	*7,096*	*9,133*
- AQ4	*80,144*	*37*	*339*	*80,520*	*2,925*	*8,266*	*3,527*	*36*	*14,754*	*95,274*
- AQ5	*67,170*	*664*	*878*	*68,712*	*4,512*	*12,515*	*635*	-	*17,662*	*86,374*
- AQ6	*3,151*	*751*	*2,441*	*6,343*	*4,517*	*10,942*	*430*	*16*	*15,905*	*22,248*
- AQ7	*3,260*	*693*	*1,017*	*4,970*	*1,735*	*5,184*	*112*	*89*	*7,120*	*12,090*
- AQ8	*177*	*66*	*365*	*608*	*308*	*686*	*57*	*7*	*1,058*	*1,666*
- AQ9	*279*	*4*	*47*	*330*	*21*	*69*	*2*	-	*92*	*422*
Stage 2	8,921	734	1,534	11,189	2,038	12,172	567	37	14,814	26,003
- AQ1	*5*	—	—	*5*	*56*	*46*	—	—	*102*	*107*
- AQ2	—	—	—	—	*113*	—	—	—	*113*	*113*
- AQ3	*14*	—	—	*14*	-	*94*	—	—	*94*	*108*
- AQ4	*2,541*	*1*	*78*	*2,620*	*31*	*723*	*14*	*35*	*803*	*3,423*
- AQ5	*3,463*	*54*	*89*	*3,606*	*247*	*2,143*	*287*	—	*2,677*	*6,283*
- AQ6	*977*	*179*	*667*	*1,823*	*643*	*3,553*	*163*	—	*4,359*	*6,182*
- AQ7	*556*	*375*	*288*	*1,219*	*583*	*3,590*	*36*	*1*	*4,210*	*5,429*
- AQ8	*941*	*97*	*299*	*1,337*	*258*	*1,509*	*65*	*1*	*1,833*	*3,170*
- AQ9	*424*	*28*	*113*	*565*	*107*	*514*	*2*	—	*623*	*1,188*
Stage 3	1,032	67	511	1,610	391	958	25	1	1,375	2,985
- AQ10	1,032	67	511	1,610	391	958	25	1	1,375	2,985
Loans past due analysis (3,4)	169,181	3,016	7,506	179,703	21,074	55,148	33,302	4,417	113,941	293,644
- Not past due	*167,180*	*2,932*	*6,868*	*176,980*	*20,211*	*53,632*	*33,267*	*4,414*	*111,524*	*288,504*
- Past due 1-30 days	*877*	*21*	*96*	*994*	*427*	*653*	*32*	*2*	*1,114*	*2,108*
- Past due 31-89 days	*377*	*19*	*59*	*455*	*212*	*390*	*1*	*1*	*604*	*1,059*
- Past due 90-180 days	*245*	*16*	*51*	*312*	*67*	*174*	—	—	*241*	*553*
- Past due >180 days	*502*	*28*	*432*	*962*	*157*	*299*	*2*	—	*458*	*1,420*
Loans - Stage 2	8,921	734	1,534	11,189	2,038	12,172	567	37	14,814	26,003
- Not past due	*7,989*	*709*	*1,405*	*10,103*	*1,719*	*11,532*	*563*	*36*	*13,850*	*23,953*
- Past due 1-30 days	*626*	*12*	*76*	*714*	*112*	*272*	*3*	—	*387*	*1,101*
- Past due 31-89 days	*306*	*13*	*53*	*372*	*207*	*368*	*1*	*1*	*577*	*949*

For the notes to this table refer to page 41.

Credit risk – Banking activities continued
Sector analysis – portfolio summary (audited)

	Personal				Wholesale					Total
2021	Mortgages (1) £m	Credit cards £m	Other personal £m	Total £m	Property £m	Corporate £m	FI £m	Sovereign £m	Total £m	£m
Weighted average life*										
- ECL measurement (years)	8	2	5	5	5	6	3	—	6	6
Weighted average 12 months PDs*										
- IFRS 9 (%)	0.11	5.14	2.77	0.30	0.88	1.91	0.16	0.15	1.13	0.64
- Basel (%)	0.70	3.28	3.29	0.85	1.34	1.81	0.14	0.16	1.16	0.97
ECL provisions by geography	311	209	737	1,257	218	973	43	12	1,246	2,503
- UK	*311*	*209*	*737*	*1,257*	*201*	*846*	*38*	*12*	*1,097*	*2,354*
- RoI	—	—	—	—	—	*9*	*3*	—	*12*	*12*
- Other Europe	—	—	—	—	*17*	*68*	*1*	—	*86*	*86*
- RoW	—	—	—	—	—	*50*	*1*	—	*51*	*51*
ECL provisions by stage	311	209	737	1,257	218	973	43	12	1,246	2,503
- Stage 1	*22*	*48*	*47*	*117*	*17*	*79*	*6*	*12*	*114*	*231*
- Stage 2	*123*	*115*	*242*	*480*	*70*	*520*	*35*	—	*625*	*1,105*
- Stage 3	*166*	*46*	*448*	*660*	*131*	*374*	*2*	—	*507*	*1,167*
ECL provisions coverage (%)	0.18	6.93	9.82	0.70	1.03	1.76	0.13	0.27	1.09	0.85
- Stage 1 (%)	*0.01*	*2.17*	*0.86*	*0.07*	*0.09*	*0.19*	*0.02*	*0.27*	*0.12*	*0.09*
- Stage 2 (%)	*1.38*	*15.67*	*15.78*	*4.29*	*3.43*	*4.27*	*6.17*	—	*4.22*	*4.25*
- Stage 3 (%)	*16.09*	*68.66*	*87.67*	*40.99*	*33.50*	*39.04*	*8.00*	—	*36.87*	*39.10*
ECL (release)/charge - Third party	(45)	(8)	32	(21)	(278)	(513)	(1)	1	(791)	(812)
Amounts written-off	5	55	113	173	111	99	5	—	215	388
Other financial assets by asset quality (2)	—	—	—	—	—	10	6,502	122,284	128,796	128,796
- AQ1-AQ4	—	—	—	—	—	*10*	*6,342*	*122,282*	*128,634*	*128,634*
- AQ5-AQ8	—	—	—	—	—	—	*160*	*2*	*162*	*162*
Off-balance sheet	13,481	11,809	6,907	32,197	10,175	38,097	3,390	734	52,396	84,593
Loan commitments	*13,481*	*11,809*	*6,851*	*32,141*	*9,888*	*36,326*	*3,310*	*734*	*50,258*	*82,399*
Financial guarantees	—	—	*56*	*56*	*287*	*1,771*	*80*	—	*2,138*	*2,194*
Off-balance sheet by asset quality (2)	13,481	11,809	6,907	32,197	10,175	38,097	3,390	734	52,396	84,593
- AQ1-AQ4	*12,165*	*207*	*5,485*	*17,857*	*7,276*	*21,673*	*2,487*	*586*	*32,022*	*49,879*
- AQ5-AQ8	*1,313*	*11,366*	*1,411*	*14,090*	*2,882*	*16,180*	*902*	*148*	*20,112*	*34,202*
- AQ9	—	*4*	*3*	*7*	*4*	*37*	*1*	—	*42*	*49*
- AQ10	*3*	*232*	*8*	*243*	*13*	*207*	—	—	*220*	*463*

*Not within audit scope.

For the notes to this table refer to page 41.

Credit risk – Banking activities continued
Sector analysis – portfolio summary (audited)

	Personal				Wholesale					Total
2020	Mortgages (1) £m	Credit cards £m	Other personal £m	Total £m	Property £m	Corporate £m	FI £m	Sovereign £m	Total £m	£m
Loans by geography	156,005	2,908	7,744	166,657	22,980	56,647	28,812	3,597	112,036	278,693
- UK	*156,005*	*2,908*	*7,744*	*166,657*	*22,344*	*50,947*	*24,896*	*2,828*	*101,015*	*267,672*
- RoI	—	—	—	—	*6*	*774*	*232*	—	*1,012*	*1,012*
- Other Europe	—	—	—	—	*231*	*2,973*	*997*	*318*	*4,519*	*4,519*
- RoW	—	—	—	—	*399*	*1,953*	*2,687*	*451*	*5,490*	*5,490*
Loans by stage and asset quality (2)	156,005	2,908	7,744	166,657	22,980	56,647	28,812	3,597	112,036	278,693
Stage 1	130,738	1,772	4,560	137,070	14,665	34,846	27,444	3,550	80,505	217,575
- AQ1	*2,937*	—	*634*	*3,571*	*1,227*	*1,017*	*59*	*1,633*	*3,936*	*7,507*
- AQ2	*5,780*	—	—	*5,780*	*1,697*	*216*	*23,007*	*845*	*25,765*	*31,545*
- AQ3	*267*	—	—	*267*	*1,495*	*2,726*	*243*	*912*	*5,376*	*5,643*
- AQ4	*88,586*	*17*	*522*	*89,125*	*2,382*	*7,073*	*2,998*	*105*	*12,558*	*101,683*
- AQ5	*26,323*	*653*	*783*	*27,759*	*2,797*	*8,346*	*636*	*1*	*11,780*	*39,539*
- AQ6	*1,528*	*579*	*1,879*	*3,986*	*2,287*	*5,985*	*256*	*2*	*8,530*	*12,516*
- AQ7	*4,978*	*483*	*531*	*5,992*	*1,257*	*4,603*	*205*	*42*	*6,107*	*12,099*
- AQ8	*110*	*37*	*161*	*308*	*1,305*	*4,150*	*38*	*8*	*5,501*	*5,809*
- AQ9	*229*	*3*	*50*	*282*	*218*	*730*	*2*	*2*	*952*	*1,234*
Stage 2	24,244	1,058	2,699	28,001	7,748	20,707	1,361	47	29,863	57,864
- AQ1	*14*	—	*8*	*22*	*54*	*46*	—	—	*100*	*122*
- AQ2	*41*	—	—	*41*	—	—	—	—	—	*41*
- AQ3	*13*	—	—	*13*	*103*	*176*	*1*	—	*280*	*293*
- AQ4	*5,221*	*3*	*38*	*5,262*	*894*	*1,825*	*350*	*39*	*3,108*	*8,370*
- AQ5	*15,232*	*106*	*198*	*15,536*	*2,458*	*5,684*	*484*	*1*	*8,627*	*24,163*
- AQ6	*1,616*	*247*	*1,288*	*3,151*	*2,490*	*5,688*	*242*	*7*	*8,427*	*11,578*
- AQ7	*471*	*531*	*465*	*1,467*	*1,383*	*5,390*	*236*	—	*7,009*	*8,476*
- AQ8	*840*	*140*	*422*	*1,402*	*242*	*1,472*	*46*	—	*1,760*	*3,162*
- AQ9	*796*	*31*	*280*	*1,107*	*124*	*426*	*2*	—	*552*	*1,659*
Stage 3	1,023	78	485	1,586	567	1,094	7	—	1,668	3,254
- AQ10	1,023	78	485	1,586	567	1,094	7	—	1,668	3,254
Loans past due analysis (3,4)	156,005	2,908	7,744	166,657	22,980	56,647	28,812	3,597	112,036	278,693
- Not past due	*153,825*	*2,819*	*7,058*	*163,702*	*22,172*	*55,410*	*28,797*	*3,562*	*109,941*	*273,643*
- Past due 1-30 days	*992*	*20*	*134*	*1,146*	*294*	*722*	*8*	*35*	*1,059*	*2,205*
- Past due 31-89 days	*479*	*19*	*98*	*596*	*94*	*164*	*4*	—	*262*	*858*
- Past due 90-180 days	*274*	*14*	*53*	*341*	*152*	*14*	—	—	*166*	*507*
- Past due >180 days	*435*	*36*	*401*	*872*	*268*	*337*	*3*	—	*608*	*1,480*
Loans - Stage 2	24,244	1,058	2,699	28,001	7,748	20,707	1,361	47	29,863	57,864
- Not past due	*23,150*	*1,029*	*2,470*	*26,649*	*7,528*	*20,191*	*1,356*	*47*	*29,122*	*55,771*
- Past due 1-30 days	*711*	*18*	*133*	*862*	*128*	*362*	*4*	—	*494*	*1,356*
- Past due 31-89 days	*383*	*11*	*96*	*490*	*92*	*154*	*1*	—	*247*	*737*

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

Credit risk – Banking activities continued
Sector analysis – portfolio summary (audited)

	Personal				Wholesale					Total
2020	Mortgages (1) £m	Credit cards £m	Other personal £m	Total £m	Property £m	Corporate £m	FI £m	Sovereign £m	Total £m	£m
Weighted average life*										
- ECL measurement (years)	8	2	5	5	4	6	4	—	5	5
Weighted average 12 months PDs*										
- IFRS 9 (%)	0.56	6.58	4.95	0.85	4.19	3.83	0.34	0.06	2.85	1.67
- Basel (%)	0.77	3.34	3.87	0.95	1.96	2.65	0.18	0.14	1.78	1.28
ECL provisions by geography	353	277	834	1,464	626	1,566	47	7	2,246	3,710
- UK	*353*	*277*	*834*	*1,464*	*595*	*1,384*	*39*	*7*	*2,025*	*3,489*
- RoI	—	—	—	—	—	*13*	*1*	—	*14*	*14*
- Other Europe	—	—	—	—	*23*	*93*	*2*	—	*118*	*118*
- RoW	—	—	—	—	*8*	*76*	*5*	—	*89*	*89*
ECL provisions by stage	353	277	834	1,464	626	1,566	47	7	2,246	3,710
- Stage 1	*21*	*42*	*54*	*117*	*86*	*144*	*11*	*7*	*248*	*365*
- Stage 2	*181*	*180*	*372*	*733*	*304*	*989*	*34*	—	*1,327*	*2,060*
- Stage 3	*151*	*55*	*408*	*614*	*236*	*433*	*2*	—	*671*	*1,285*
ECL provisions coverage (%)	0.23	9.53	10.77	0.88	2.72	2.76	0.16	0.19	2.00	1.33
- Stage 1 (%)	*0.02*	*2.37*	*1.18*	*0.09*	*0.59*	*0.41*	*0.04*	*0.20*	*0.31*	*0.17*
- Stage 2 (%)	*0.75*	*17.01*	*13.78*	*2.62*	*3.92*	*4.78*	*2.50*	—	*4.44*	*3.56*
- Stage 3 (%)	*14.76*	*70.51*	*84.12*	*38.71*	*41.62*	*39.58*	*28.57*	—	*40.23*	*39.49*
ECL (release)/charge - Third party	147	155	360	662	410	1,049	41	5	1,505	2,167
Amounts written-off	9	69	204	282	21	213	1	—	235	517
Other financial assets by asset quality (2)	—	—	—	—	—	10	6,585	92,507	99,102	99,102
- AQ1-AQ4	—	—	—	—	—	*10*	*6,484*	*92,502*	*98,996*	*98,996*
- AQ5-AQ8	—	—	—	—	—	—	*101*	*5*	*106*	*106*
Off-balance sheet	10,707	10,632	8,506	29,845	9,370	38,580	2,858	891	51,699	81,544
- Loan commitments	*10,704*	*10,632*	*8,468*	*29,804*	*9,073*	*36,762*	*2,762*	*890*	*49,487*	*79,291*
- Financial guarantees	*3*	—	*38*	*41*	*297*	*1,818*	*96*	*1*	*2,212*	*2,253*
Off-balance sheet by asset quality (2)	10,707	10,632	8,506	29,845	9,370	38,580	2,858	891	51,699	81,544
- AQ1-AQ4	*10,570*	*118*	*6,901*	*17,589*	*6,590*	*20,958*	*2,083*	*714*	*30,345*	*47,934*
- AQ5-AQ8	*133*	*10,288*	*1,580*	*12,001*	*2,737*	*17,175*	*774*	*177*	*20,863*	*32,864*
- AQ9	—	*5*	*10*	*15*	*7*	*62*	*1*	—	*70*	*85*
- AQ10	*4*	*221*	*15*	*240*	*36*	*385*	—	—	*421*	*661*

*Not within audit scope.

(1) Includes a portion of Private Banking lending secured against residential real estate, in line with ECL calculation methodology. Private Banking mortgages are reported in UK, reflecting the country of lending origination.

(2) AQ bandings are based on Basel PDs and mapping is as follows:

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

£0.2 billion (2020 – £0.2 billion) AQ10 Personal balances primarily relate to loan commitments, the drawdown of which is effectively prohibited.

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

(4) Days past due – Personal products: at a high level, for amortising products, the number of days past due is derived from the arrears amount outstanding and the monthly repayment instalment. For credit cards, it is based on payments missed, and for current accounts the number of continual days in excess of borrowing limit. Wholesale products: the number of days past due for all products is the number of continual days in excess of borrowing limit.

Credit risk – Banking activities continued
Sector analysis – portfolio summary (audited)
The table below shows ECL by stage, for the Personal portfolios and key sectors of the Wholesale portfolios that continue to be affected by COVID-19.

	Loans - amortised cost and FVOCI				Off-balance sheet		ECL provisions			
	Stage 1	Stage 2	Stage 3	Total	Loan commitments	Contingent liabilities	Stage 1	Stage 2	Stage 3	Total
2021	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Personal	166,904	11,189	1,610	179,703	32,141	56	117	480	660	1,257
Mortgages	159,228	8,921	1,032	169,181	13,481	—	22	123	166	311
Credit cards	2,215	734	67	3,016	11,809	—	48	115	46	209
Other personal	5,461	1,534	511	7,506	6,851	56	47	242	448	737
Wholesale	97,752	14,814	1,375	113,941	50,258	2,138	114	625	507	1,246
Property	18,645	2,038	391	21,074	9,888	287	17	70	131	218
Financial institutions	32,710	567	25	33,302	3,310	80	6	35	2	43
Sovereign	4,379	37	1	4,417	734	—	12	—	—	12
Corporate	42,018	12,172	958	55,148	36,326	1,771	79	520	374	973
Of which:										
Airlines and aerospace	*584*	*471*	*36*	*1,091*	*1,107*	*52*	*1*	*30*	*8*	*39*
Automotive	*4,640*	*1,206*	*31*	*5,877*	*2,617*	*48*	*8*	*28*	*8*	*44*
Health	*2,503*	*864*	*78*	*3,445*	*449*	*2*	*6*	*38*	*22*	*66*
Land transport and logistics	*3,183*	*663*	*35*	*3,881*	*2,322*	*59*	*4*	*42*	*10*	*56*
Leisure	*2,747*	*3,036*	*199*	*5,982*	*1,192*	*46*	*8*	*159*	*87*	*254*
Oil and gas	*916*	*110*	*33*	*1,059*	*610*	*419*	*1*	*6*	*23*	*30*
Retail	*4,562*	*1,057*	*142*	*5,761*	*3,676*	*297*	*7*	*23*	*51*	*81*
Total	264,656	26,003	2,985	293,644	82,399	2,194	231	1,105	1,167	2,503
2020										
Personal	137,070	28,001	1,586	166,657	29,804	41	117	733	614	1,464
Mortgages	130,738	24,244	1,023	156,005	10,704	3	21	181	151	353
Credit cards	1,772	1,058	78	2,908	10,632	—	42	180	55	277
Other personal	4,560	2,699	485	7,744	8,468	38	54	372	408	834
Wholesale	80,505	29,863	1,668	112,036	49,487	2,212	248	1,327	671	2,246
Property	14,665	7,748	567	22,980	9,073	297	86	304	236	626
Financial institutions	27,444	1,361	7	28,812	2,762	96	11	34	2	47
Sovereign	3,550	47	—	3,597	890	1	7	—	—	7
Corporate	34,846	20,707	1,094	56,647	36,762	1,818	144	989	433	1,566
Of which:										
Airlines and aerospace	*518*	*831*	*30*	*1,379*	*1,160*	*49*	*2*	*24*	*17*	*43*
Automotive	*3,804*	*1,601*	*147*	*5,552*	*2,998*	*49*	*15*	*51*	*13*	*79*
Health	*1,512*	*1,905*	*76*	*3,493*	*386*	*6*	*8*	*90*	*26*	*124*
Land transport and logistics	*2,218*	*1,465*	*99*	*3,782*	*2,406*	*83*	*6*	*81*	*26*	*113*
Leisure	*2,393*	*4,288*	*205*	*6,886*	*1,023*	*55*	*16*	*270*	*91*	*377*
Oil and gas	*919*	*85*	*32*	*1,036*	*1,041*	*255*	*3*	*5*	*22*	*30*
Retail	*4,411*	*1,870*	*142*	*6,423*	*4,063*	*390*	*13*	*81*	*75*	*169*
Total	217,575	57,864	3,254	278,693	79,291	2,253	365	2,060	1,285	3,710

Wholesale forbearance (audited)
The table below shows Wholesale forbearance, Heightened Monitoring and Risk of Credit Loss by sector. Personal forbearance is disclosed in the Personal portfolio section. This table show current exposure but reflects risk transfers where there is a guarantee by another customer

2021	Property £m	FI £m	Other corporate £m	Total £m
Forbearance (flow)	373	25	2,816	3,214
Forbearance (stock)	562	32	4,279	4,873
Heightened Monitoring and Risk of Credit Loss	646	65	3,410	4,121
2020				
Forbearance (flow)	678	48	3,153	3,879
Forbearance (stock)	724	48	3,447	4,219
Heightened Monitoring and Risk of Credit Loss	748	109	3,663	4,520

Credit risk – Banking activities continued
Sector analysis – portfolio summary (audited)

- Loans by geography – In Personal, exposures continued to be concentrated in the UK and heavily weighted to mortgages. Balance sheet growth during the year was mainly in mortgages. Unsecured lending balances were subdued as noted previously. In Wholesale, exposures were mainly in the UK. Balance sheet reduction was primarily due to repayments of both COVID-19 government lending schemes and conventional borrowing where demand was lower. Strategic reduction was achieved in high risk sectors.
- Loans by asset quality (based on Basel II PD) – In the Personal portfolio, the majority of exposures were in AQ4 and AQ5 within mortgages. Overall, Personal asset quality improved slightly, with migration in assets from AQ4 to AQ5 in mortgages offset by migration from AQ9 into better quality bands. As expected, mortgage exposures had a higher proportion in AQ1-AQ4 than unsecured borrowing. In other Personal, the relatively high level of exposures in AQ10 reflected that impaired assets can be held on the balance sheet, with commensurate ECL provision, for up to six years after default. Across the Wholesale portfolio, the asset quality band distribution differed, reflecting the diverse nature of the sectors. Asset quality improvement was observed across most sectors as the economy recovered from the effects of COVID-19. The reduction in AQ10 exposure in property was largely due to a portfolio sale of commercial real estate exposure.
- Loans by stage – In both Wholesale and Personal, the improved economic outlook resulted in reduced IFRS 9 PDs compared to 2020. This, alongside continued benign credit performance of the portfolio, resulted in a smaller proportion of accounts exhibiting a SICR and thereby an associated migration of exposures from Stage 2 into Stage 1. In the absence of any other forbearance or SICR triggers, customers granted COVID-19 related payment holidays were not considered forborne and did not result in an automatic trigger into Stage 2. However, a subset of Personal customers who had accessed payment holiday support, and where their risk profile was identified as relatively high, continued to be collectively migrated into Stage 2. In Wholesale, BBLS customers granted PAYG options, including the extension of lending terms, periods of reduced repayments and six month payment holidays, were not automatically considered significantly credit deteriorated. PAYG options are a feature of BBLS rather than a concession granted by NWB Group.
- Loans – Past due analysis – The various COVID-19 related customer support schemes (capital repayment holidays, government job retention scheme, government supported lending schemes) are mitigating actual portfolio deterioration in the short-term, although there have been some small increases in past due exposures.
- Weighted average 12 months PDs – In Personal, the Basel II point-in-time PDs improved slightly during 2021. The forward-looking IFRS 9 PDs reduced significantly during 2021 reflecting the improved economics. PD reductions were most evident in Personal mortgages due to benign arrears performance (catalysed by COVID-19 support schemes) combined with the improved economic outlook, which is connected to the need for collective SICR migration and judgmental post model adjustments. In Wholesale, the Basel II PDs were based on a through-the-cycle approach and decreased less than the forward-looking IFRS 9 PDs which reduced, reflecting the improved economic outlook.
- ECL provision by geography – In line with the point relating to loans by geography above, the vast majority of ECL related to exposures in the UK.
- ECL provisions by stage – Stage 1 and Stage 2 provisions reduced reflecting the improved economic outlook. As outlined above, Stage 3 provisions have yet to be materially affected, underpinned by the various customer support schemes noted previously.
- ECL provisions coverage – Overall provisions coverage reduced, mainly due to the improvement in economic outlook and scenario weightings. The base economic scenario improved reflecting the faster than expected vaccination roll-out, better than expected actual economic data and strong government support. Stage 2 coverage increased during the period for some portfolios and notably on certain Wholesale sectors due to the inclusion of the recovery risk overlay and lower Stage 2 balances.
- The ECL charge and loss rate – Reflecting the improved economic outlook, the impairment charge was significantly lower, with a material reduction in the annualised loss rate.
- Loans by residual maturity – In mortgages, as expected, the vast majority of exposures were greater than five years. In unsecured lending – cards and other – exposures were concentrated in less than five years. In Wholesale, with the exception of financial institutions where lending was concentrated in less than one year, the majority of lending was for residual maturity of one to five years, with some greater than five years in line with lending under the government support schemes.
- Other financial assets by asset quality – Consisting almost entirely of cash and balances at central banks and debt securities, held in the course of treasury related management activities, these assets were mainly within the AQ1-AQ4 bands.
- Off-balance sheet exposures by asset quality – In Personal, undrawn exposures were reflective of available credit lines in credit cards and current accounts. Additionally, the mortgage portfolio had undrawn exposures, where a formal offer had been made to a customer but had not yet drawn down; the value increased in line with the pipeline of offers. There was also a legacy portfolio of flexible mortgages where a customer had the right and ability to draw down further funds. The asset quality was aligned to the wider portfolio. In Wholesale, undrawn exposures declined in line with muted credit demand, with customers repaying revolving credit and working capital facilities to optimise liquidity. In addition, sector appetite adjustments in high risk sectors reduced off-balance sheet exposures to these sectors.
- Wholesale forbearance – Customers seeking COVID-19 related support, including payment holidays, who were not subject to any wider SICR triggers and who were assessed as having the ability in the medium term post-COVID-19 to be viable and meet credit appetite metrics, were not considered to have been granted forbearance. Customers seeking a payment holiday extension beyond an aggregate of 12 months in an 18 month period were considered to have been granted forbearance and were classed as heightened monitoring. This classification did not apply to customers with BBLS taking a PAYG payment holiday option. For Wholesale, forbearance flow decreased in the second half of 2021 following the lifting of most COVID-19 restrictions. The leisure sector represented the largest share of forbearance flow throughout 2021 due to disruption caused by the periodic presence of COVID-19 restrictions and resultant consumer uncertainty. Payment holidays and covenant waivers were the most common forms of forbearance granted.
- Heightened Monitoring and Risk of Credit Loss – Inflows decreased during 2021 compared to 2020. The reduction in value was mainly due to the lower number of inflows as well as a small number of high value customers who moved out of the framework as economic conditions improved. While noting the reduced flows into Heightened Monitoring and Risk of Credit Loss and the improved stock position, the volume and value of cases remained higher than pre-COVID-19 levels. The sector breakdown of exposures remained consistent with prior periods.

Credit risk – Banking activities continued

Credit risk enhancement and mitigation (audited)

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

	Gross		Maximum credit risk		CREM by type			CREM coverage		Exposure post CREM	
	exposure	ECL	Total	Stage 3	Financial (1)	Property	Other (2)	Total	Stage 3	Total	Stage 3
2021	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Financial assets											
Cash and balances at central banks	100.6	—	100.6	—	—	—	—	—	—	100.6	—
Loans - amortised cost (3)	293.6	2.4	291.2	1.9	37.3	195.1	19.0	251.4	1.7	39.8	0.2
Personal (4)	*179.7*	*1.2*	*178.5*	*1.0*	*1.0*	*168.2*	—	*169.2*	*0.9*	*9.3*	*0.1*
Wholesale (5)	*113.9*	*1.2*	*112.7*	*0.9*	*36.3*	*26.9*	*19.0*	*82.2*	*0.8*	*30.5*	*0.1*
Debt securities	28.2	—	28.2	—	—	—	—	—	—	28.2	—
Total financial assets	422.4	2.4	420.0	1.9	37.3	195.1	19.0	251.4	1.7	168.6	0.2
Contingent liabilities and commitments											
Personal (6,7)	32.2	0.1	32.1	0.2	0.5	2.1	—	2.6	—	29.5	0.2
Wholesale	52.4	—	52.4	0.3	1.3	4.7	3.1	9.1	—	43.3	0.3
Total off-balance sheet	84.6	0.1	84.5	0.5	1.8	6.8	3.1	11.7	—	72.8	0.5
Total exposure	507.0	2.5	504.5	2.4	39.1	201.9	22.1	263.1	1.7	241.4	0.7
2020											
Financial assets											
Cash and balances at central banks	62.0	—	62.0	—	—	—	—	—	—	62.0	—
Loans - amortised cost (3)	278.6	3.6	275.0	2.0	33.8	181.6	18.4	233.8	1.7	41.2	0.3
Personal (4)	*166.6*	*1.4*	*165.2*	*1.0*	*0.3*	*155.7*	—	*156.0*	*0.9*	*9.2*	*0.1*
Wholesale (5)	*112.0*	*2.2*	*109.8*	*1.0*	*33.5*	*25.9*	*18.4*	*77.8*	*0.8*	*32.0*	*0.2*
Debt securities	37.1	—	37.1	—	—	—	—	—	—	37.1	—
Total financial assets	377.7	3.6	374.1	2.0	33.8	181.6	18.4	233.8	1.7	140.3	0.3
Contingent liabilities and commitments											
Personal (6,7)	29.8	—	29.8	0.2	—	0.9	—	0.9	—	28.9	0.2
Wholesale	51.7	0.1	51.6	0.5	1.1	4.0	3.6	8.6	—	43.0	0.5
Total off-balance sheet	81.5	0.1	81.4	0.7	1.1	4.9	3.6	9.5	—	71.9	0.7
Total exposure	459.2	3.7	455.5	2.7	34.9	186.5	22.0	243.3	1.7	212.2	1.0

(1) Includes cash and securities collateral.
(2) Includes guarantees, charges over trade debtors, other asset finance related physical collateral as well as the amount by which credit risk exposure is reduced through netting arrangements, mainly cash management pooling, which give NWB Group a legal right to set off the financial asset against a financial liability due to the same counterparty.
(3) NWB Group holds collateral in respect of individual loans – amortised cost to banks and customers. This collateral includes mortgages over property (both personal and commercial); charges over business assets such as plant and equipment, inventories and trade debtors; and guarantees of lending from parties other than the borrower. NWB Group obtains collateral in the form of securities in reverse repurchase agreements. Collateral values are capped at the value of the loan.
(4) Stage 3 mortgage exposures have relatively limited uncovered exposure reflecting the security held. On unsecured credit cards and other personal borrowing, the residual uncovered amount reflects historical experience of continued cash recovery post default through ongoing engagement with customers.
(5) Stage 3 exposures post credit risk enhancement and mitigation in Wholesale mainly represent enterprise value and the impact of written down collateral values; an individual assessment to determine ECL will consider multiple scenarios and in some instances allocate a probability weighting to a collateral value in excess of the written down value.
(6) £0.2 billion (2020 – £0.2 billion) Personal Stage 3 balances primarily relate to loan commitments, the draw down of which is effectively prohibited.
(7) The Personal gross exposure value includes £11.4 billion (2020 – £9.5 billion) in respect of pipeline mortgages where a committed offer has been made to a customer but where the funds have not yet been drawn down. When drawn down, the exposure would be covered by a security over the borrower's property

Credit risk – Banking activities continued
Personal portfolio (audited).
Disclosures in the Personal portfolio section include drawn exposure (gross of provisions).

	2021			2020		
	Retail Banking	Private Banking	Total	Retail Banking	Private Banking	Total
Personal lending	£m	£m	£m	£m	£m	£m
Mortgages	**157,027**	**12,210**	**169,237**	145,275	10,345	155,620
Of which:						
Owner occupied	**143,969**	**10,712**	**154,681**	132,564	9,091	141,655
Buy-to-let	**13,058**	**1,498**	**14,556**	12,711	1,253	13,964
Interest only - variable	**2,427**	**4,714**	**7,141**	2,816	4,203	7,019
Interest only - fixed	**12,471**	**5,707**	**18,178**	11,879	4,509	16,388
Mixed (1)	**7,447**	**—**	**7,447**	5,979	—	5,979
Impairment provisions (2)	**303**	**7**	**310**	343	5	348
Other personal lending (3)	**8,585**	**1,937**	**10,522**	8,610	1,546	10,156
Impairment provisions (2)	**927**	**18**	**945**	1,091	18	1,109
Total personal lending	**165,612**	**14,147**	**179,759**	153,885	11,891	165,776
Mortgage LTV ratios						
- Total portfolio	**55%**	**59%**	**55%**	58%	58%	58%
- Stage 1	***55%***	***59%***	***55%***	*56%*	*58%*	*56%*
- Stage 2	***54%***	***59%***	***54%***	*68%*	*62%*	*68%*
- Stage 3	***50%***	***64%***	***53%***	*55%*	*64%*	*56%*
- Buy-to-let	**51%**	**57%**	**52%**	53%	56%	53%
- Stage 1	***51%***	***58%***	***52%***	*52%*	*56%*	*52%*
- Stage 2	***52%***	***55%***	***52%***	*61%*	*59%*	*61%*
- Stage 3	***52%***	***53%***	***52%***	*57%*	*53%*	*56%*
Gross new mortgage lending (4)	**34,161**	**2,790**	**36,951**	29,734	2,078	31,812
Of which:						
Owner occupied	**32,555**	**2,509**	**35,064**	28,827	1,860	30,687
Weighted average LTV	**66%**	**65%**	**66%**	69%	66%	69%
Buy-to-let	**1,606**	**281**	**1,887**	907	218	1,125
Weighted average LTV	**62%**	**65%**	**63%**	63%	62%	63%
Interest only - variable rate	**12**	**811**	**823**	69	1,053	1,122
Interest only - fixed rate	**2,284**	**1,532**	**3,816**	1,439	675	2,114
Mixed (1)	**2,186**	**—**	**2,186**	1,600	—	1,600
Mortgage forbearance						
Forbearance flow	**229**	**16**	**245**	393	46	439
Forbearance stock	**789**	**3**	**792**	876	15	891
Current	***495***	***—***	***495***	*423*	*13*	*436*
1-3 months in arrears	***110***	***2***	***112***	*277*	*—*	*277*
>3 months in arrears	***184***	***1***	***185***	*176*	*2*	*178*

(1) Includes accounts which have an interest only sub-account and a capital and interest sub-account to provide a more comprehensive view of interest only exposures.
(2) Retail Banking excludes a non-material amount of provisions held on relatively small legacy portfolios.
(3) Comprises unsecured lending except for Private Banking, which includes both secured and unsecured lending. It excludes loans that are commercial in nature.
(4) Retail Banking excludes additional lending to existing customers.

- The mortgage portfolio grew strongly during 2021, assisted by the UK stamp duty reduction.
- LTV ratios improved as high demand increased house prices during the year.
- The existing mortgage stock and new business were closely monitored against agreed risk appetite parameters. These included LTV ratios, buy-to-let concentrations, new-build concentrations and credit quality. Lending criteria were cautiously relaxed during the year as demand returned and economic conditions improved.
- Demand for mortgages was mostly within owner occupier mortgages, consequently there has been a reduction in the proportion of interest only and buy-to-let mortgages.
- In the Retail Banking mortgage portfolio, 38% of the stock of lending was in Greater London and the South East (2020 – 38%). The weighted average LTV for these regions was 54% (2020 – 55%) compared to all regions 55%.
- Forbearance flows and arrears levels remained low relative to historic norms, with customers able to utilise payment holidays during the first half of the year.
- Unsecured lending overall reduced during the year as demand was subdued with lower levels of consumer spending.
- As noted previously, the improved economic outlook including a more positive forecast on unemployment and house prices, resulted in reduced ECL.

Credit risk – Banking activities continued

Personal portfolio (audited)

Mortgage LTV distribution by stage

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

	Mortgages						ECL provisions				ECL provisions coverage (2)			
2021	Stage 1 £m	Stage 2 £m	Stage 3 £m	Not within IFRS 9 ECL scope £m	Total £m	Of which: gross new lending £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total (1) £m	Stage 1 %	Stage 2 %	Stage 3 %	Total %
≤50%	**52,817**	**3,390**	**421**	**—**	**56,628**	**5,521**	**6**	**42**	**85**	**133**	**—**	**1.2**	**20.2**	**0.2**
>50% and ≤70%	**64,362**	**3,919**	**353**	**—**	**68,634**	**12,024**	**10**	**49**	**56**	**115**	**—**	**1.3**	**15.9**	**0.2**
>70% and ≤80%	**23,260**	**1,167**	**72**	**—**	**24,499**	**10,716**	**3**	**17**	**10**	**30**	**—**	**1.5**	**13.9**	**0.1**
>80% and ≤90%	**5,822**	**236**	**18**	**60**	**6,136**	**4,846**	**—**	**8**	**3**	**11**	**—**	**3.4**	**16.7**	**0.2**
>90% and ≤100%	**1,080**	**55**	**8**	**—**	**1,143**	**1,053**	**—**	**5**	**2**	**7**	**—**	**9.1**	**25.0**	**0.6**
>100%	**13**	**17**	**5**	**—**	**35**	**—**	**—**	**2**	**2**	**4**	**—**	**11.8**	**40.0**	**11.4**
Total with LTVs	**147,354**	**8,784**	**877**	**60**	**157,075**	**34,160**	**19**	**123**	**158**	**300**	**—**	**1.4**	**18.0**	**0.2**
Other	**10**	**1**	**1**	**—**	**12**	**1**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total	**147,364**	**8,785**	**878**	**60**	**157,087**	**34,161**	**19**	**123**	**158**	**300**	**—**	**1.4**	**18.0**	**0.2**
2020														
≤50%	42,193	3,585	348	112	46,238	4,026	3	29	63	95	—	0.8	18.2	0.2
>50% and ≤70%	50,853	6,102	334	31	57,320	8,845	6	49	50	105	—	0.8	14.9	0.2
>70% and ≤80%	18,979	8,922	99	8	28,008	10,835	7	47	16	70	—	0.5	16.0	0.2
>80% and ≤90%	7,669	5,326	36	6	13,037	5,037	3	46	7	56	—	0.9	18.5	0.4
>90% and ≤100%	363	122	9	2	496	832	—	4	2	6	0.1	3.3	24.8	1.3
>100%	47	92	17	2	158	—	—	6	5	11	—	6.5	29.4	7.0
Total with LTVs	120,104	24,149	843	161	145,257	29,575	19	181	143	343	—	0.7	16.9	0.2
Other	14	3	1	—	18	159	—	—	—	—	—	1.3	20.7	1.0
Total	120,118	24,152	844	161	145,275	29,734	19	181	143	343	—	0.7	16.9	0.2

(1) Excludes a non-material amount of provisions held on relatively small legacy portfolios.
(2) ECL provisions coverage is ECL provisions divided by mortgages.

- ECL coverage rates increased through the LTV bands with Retail Banking having only limited exposures in the highest LTV bands. The relatively high coverage level in the lowest LTV band for Retail Banking included the effect of time-discounting on expected recoveries and reflects a modelling approach that captures losses expected from both repossession and also other recovery action.
- The improved economic outlook resulted in decreased account level IFRS 9 PDs. Consequently, compared to the 2020 year end, a lower proportion of accounts exhibited a SICR with an associated migration of exposures from Stage 2 into Stage 1.

Credit risk – Banking activities continued
Personal portfolio (audited)
Mortgage LTV distribution by region
The table below shows gross mortgage lending by LTV band for Retail Banking, by geographical region.

2021	≤50% £m	50%≤80% £m	80%≤100% £m	>100% £m	Total £m	Weighted average LTV %	Other £m	Total £m
South East	**11,897**	**17,824**	**879**	**1**	**30,601**	**53**	**3**	**30,604**
Greater London	**11,891**	**16,248**	**1,463**	**1**	**29,603**	**54**	**3**	**29,606**
Scotland	**2,026**	**4,462**	**428**	**1**	**6,917**	**58**	**—**	**6,917**
North West	**5,215**	**8,408**	**633**	**2**	**14,258**	**54**	**1**	**14,259**
South West	**5,566**	**8,364**	**495**	**1**	**14,426**	**53**	**2**	**14,428**
West Midlands	**3,797**	**7,127**	**546**	**1**	**11,471**	**56**	**1**	**11,472**
East of England	**6,678**	**11,365**	**814**	**1**	**18,858**	**55**	**1**	**18,859**
Rest of the UK	**9,559**	**19,336**	**1,961**	**24**	**30,880**	**57**	**2**	**30,882**
Total	**56,629**	**93,134**	**7,219**	**32**	**157,014**	**55**	**13**	**157,027**
2020								
South East	9,608	16,523	2,333	3	28,467	56	4	28,471
Greater London	11,444	14,006	1,617	2	27,069	53	4	27,073
Scotland	1,371	4,124	836	—	6,331	62	—	6,331
North West	3,625	8,532	1,320	1	13,478	59	2	13,480
South West	4,512	8,140	873	3	13,528	56	3	13,531
West Midlands	2,869	6,605	1,242	4	10,720	60	1	10,721
East of England	5,630	9,869	1,569	2	17,070	57	1	17,071
Rest of the UK	7,178	17,529	3,744	143	28,594	61	3	28,597
Total	46,237	85,328	13,534	158	145,257	58	18	145,275

Commercial real estate (CRE)*
The CRE portfolio comprises exposures to entities involved in the development of, or investment in, commercial and residential properties (including house builders but excluding housing associations, construction and the building materials sub-sector). The sector is reviewed regularly by senior executive committees. Reviews include portfolio credit quality, capital consumption and control frameworks.

By sub-sector	2021 £m	2020 £m
Investment		
Residential (1)	**2,980**	2,790
Office (2)	**1,664**	1,886
Retail (3)	**2,144**	2,253
Industrial (4)	**1,718**	1,689
Mixed/other (5)	**936**	1,924
	9,442	10,542
Development		
Residential (1)	**1,295**	1,796
Office (2)	**68**	82
Retail (3)	**21**	93
Industrial (4)	**35**	67
Mixed/other (5)	**15**	20
	1,434	2,058
Total (6)	**10,876**	12,600

*Not within audit scope

(1) Properties including houses, flats and student accommodation.
(2) Properties including offices in central business districts, regional headquarters and business parks.
(3) Properties including high street retail, shopping centres, restaurants, bars and gyms.
(4) Properties including distribution centres, manufacturing and warehouses.
(5) Properties that do not fall within the other categories. Mixed generally relates to a mixture of retail/office with residential.
(6) 99% (2020 = 99%) of the total exposure relates to the UK

Credit risk – Banking activities continued
Commercial real estate (audited)
CRE LTV distribution by stage
The table below shows CRE current exposure and related ECL by LTV band.

	Current exposure (gross of provisions) (1,2)					ECL provisions				ECL provisions coverage (4)			
2021	Stage 1 £m	Stage 2 £m	Stage 3 £m	Not within IFRS 9 ECL scope (3) £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 %	Stage 2 %	Stage 3 %	Total %
≤50%	3,955	232	13	—	4,200	1	4	3	8	—	1.7	23.1	0.2
>50% and ≤70%	2,851	108	29	—	2,988	2	1	17	20	0.1	0.9	58.6	0.7
>70% and ≤100%	266	21	25	—	312	1	—	11	12	0.4	—	44.0	3.9
>100%	205	4	19	—	228	—	1	12	13	—	25.0	63.2	5.7
Total with LTVs	7,277	365	86	—	7,728	4	6	43	53	0.1	1.6	50.0	0.7
Total portfolio average LTV (%)	50%	49%	76%	—	50%	—	—	—	—	—	—	—	—
Other (5)	1,485	194	35	—	1,714	3	9	13	25	0.2	4.7	37.1	1.5
Development (6)	1,271	125	38	—	1,434	2	2	20	24	0.2	1.6	52.6	1.7
Total	10,033	684	159	—	10,876	9	17	76	102	0.1	2.5	47.8	0.9
2020													
≤50%	2,824	2,505	19	—	5,348	29	80	5	114	1.0	3.2	26.3	2.1
>50% and ≤70%	1,658	1,466	130	—	3,254	25	48	47	120	1.5	3.3	36.2	3.7
>70% and ≤100%	110	116	52	—	278	1	7	26	34	0.9	6.0	50.0	12.2
>100%	34	37	60	—	131	2	2	23	27	5.9	5.4	38.3	20.6
Total with LTVs	4,626	4,124	261	—	9,011	57	137	101	295	1.2	3.3	38.7	3.3
Total portfolio average LTV (%)	47%	47%	80%	—	47%	—	—	—	—	—	—	—	—
Other (5)	1,163	307	39	22	1,531	3	28	32	63	0.3	9.1	82.1	4.2
Development (6)	735	1,207	111	5	2,058	11	41	47	99	1.5	3.4	42.3	4.8
Total	6,524	5,638	411	27	12,600	71	206	180	457	1.1	3.7	43.8	3.6

(1) Comprises gross lending, interest rate hedging derivatives and other assets carried at fair value that are managed as part of the overall CRE portfolio.
(2) The exposure in Stage 3 mainly relates to legacy assets.
(3) Includes exposures relating to non-modelled portfolios and other exposures carried at fair value, including derivatives.
(4) ECL provisions coverage is ECL provisions divided by current exposure.
(5) Relates mainly to business banking, rate risk management products and unsecured corporate lending.
(6) Relates to the development of commercial and residential properties. LTV is not a meaningful measure for this type of lending activity.

- Overall – The majority of the CRE portfolio was located and managed in the UK. Business appetite and strategy was aligned across NWB Group.

- 2021 trends – The continued reduction in the real estate exposure was a consequence of active portfolio management to rebalance the size and composition of the CRE portfolio. In addition, customer appetite to borrow was muted, particularly amongst larger customers. At a sub-sector level, the residential market had a positive out-turn over the year; the retail sector exhibited mixed performance in line with changing consumer habits; the industrial market performed very strongly; with uncertainty continuing in the office sub-sector as occupiers moved to a more flexible way of working.

- Credit quality – NWB Group entered the COVID-19 period with a conservatively positioned CRE portfolio, which helped to mitigate the effect of COVID-19. The majority of the defaults during 2021 were in the retail sector, particularly in the fashion-led shopping centre sub-sector. NWB Group completed a strategic sale of a portfolio of these loans during 2021. Customers experienced reduced rent collections during COVID-19 albeit rental payments have now normalised. Outside of retail, there was limited distress as noted, uncertainty still remains, particularly in relation to the office sub-sector and the portfolio continues to be actively reviewed and managed.

- Risk appetite – Lending appetite was gradually and selectively increased by sub-sector, particularly towards the end of 2021, albeit these remain below pre-COVID-19 levels.

Credit risk – Banking activities continued

Flow statements (audited)

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

- Financial assets include treasury liquidity portfolios, comprising balances at central banks and debt securities, as well as loans. Both modelled and non-modelled portfolios are included.
- Stage transfers (for example, exposures moving from Stage 1 into Stage 2) are a key feature of the ECL movements, with the net re-measurement cost of transitioning to a worse stage being a primary driver of income statement charges. Similarly, there is an ECL benefit for accounts improving stage.
- Changes in risk parameters shows the reassessment of the ECL within a given stage, including any ECL overlays and residual income statement gains or losses at the point of write-off or accounting write-down.
- Other (P&L only items) includes any subsequent changes in the value of written-down assets (for example, fortuitous recoveries) along with other direct write-off items such as direct recovery costs. Other (P&L only items) affects the income statement but does not affect balance sheet ECL movements.
- Amounts written-off represent the gross asset written-down against accounts with ECL, including the net asset write-down for any debt sale activity.
- There were flows from Stage 1 into Stage 3 including transfers due to unexpected default events. The small number of write-offs in Stage 1 and Stage 2 reflect the effect of portfolio debt sales and also staging at the start of the analysis period.
- The effect of any change in post model adjustments during the year is typically reported under changes in risk parameters, as are any effects arising from changes to the underlying models. Refer to the section on Governance and post model adjustments for further details.
- All movements are captured monthly and aggregated. Interest suspended post default is included within Stage 3 ECL with the movement in the value of suspended interest during the year reported under currency translation and other adjustments.

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
NWB Group total	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2021	303,032	365	60,326	2,060	3,272	1,285	366,630	3,710
Currency translation and other adjustments	(1,635)	—	(89)	—	99	(8)	(1,625)	(8)
Inter-Group transfers	105	—	—	—	—	—	105	—
Transfers from Stage 1 to Stage 2	(27,543)	(125)	27,543	125	—	—	—	—
Transfers from Stage 2 to Stage 1	47,879	971	(47,879)	(971)	—	—	—	—
Transfers to Stage 3	(268)	(1)	(1,841)	(197)	2,109	198	—	—
Transfers from Stage 3	110	15	895	120	(1,005)	(135)	—	—
Net re-measurement of ECL on stage transfer		(816)		704		256		144
Changes in risk parameters		(250)		(404)		93		(561)
Other changes in net exposure	67,273	72	(11,617)	(331)	(940)	(81)	54,716	(340)
Other (P&L only items)		(1)		1		(55)		(55)
Income statement (releases)/charges		(995)		(30)		213		(812)
Amounts written-off	—	—	(1)	(1)	(388)	(388)	(389)	(389)
Unwinding of discount		—		—		(53)		(53)
At 31 December 2021	388,953	231	27,337	1,105	3,147	1,167	419,437	2,503
Net carrying amount	388,722		26,232		1,980		416,934	
At 1 January 2020	270,693	223	19,954	518	3,184	1,281	293,831	2,022
2020 movements	32,339	142	40,372	1,542	88	4	72,799	1,688
At 31 December 2020	303,032	365	60,326	2,060	3,272	1,285	366,630	3,710
Net carrying amount	302,667		58,266		1,987		362,920	

Credit risk – Banking activities continued
Flow statements (audited)

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
Retail Banking - mortgages	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2021	118,490	21	24,415	181	849	143	143,754	345
Currency translation and other adjustments	—	—	—	—	8	8	8	8
Transfers from Stage 1 to Stage 2	(9,662)	(3)	9,662	3	—	—	—	—
Transfers from Stage 2 to Stage 1	23,063	143	(23,063)	(143)	—	—	—	—
Transfers to Stage 3	(15)	—	(454)	(15)	469	15	—	—
Transfers from Stage 3	10	—	248	17	(258)	(17)	—	—
Net re-measurement of ECL on stage transfer		(138)		104		7		(27)
Changes in risk parameters		(1)		(3)		38		34
Other changes in net exposure	14,564	—	(2,116)	(21)	(189)	(12)	12,259	(33)
Other (P&L only items)		(2)		1		(19)		(20)
Income statement (releases)/charges		(141)		81		14		(46)
Amounts written-off	—	—	—	—	(4)	(4)	(4)	(4)
Unwinding of discount		—		—		(20)		(20)
At 31 December 2021	146,450	22	8,692	123	875	158	156,017	303
Net carrying amount	146,428		8,569		717		155,714	
At 1 January 2020	118,299	11	7,697	58	816	128	126,812	197
2020 movements	191	10	16,718	123	33	15	16,942	148
At 31 December 2020	118,490	21	24,415	181	849	143	143,754	345
Net carrying amount	118,469		24,234		706		143,409	

- Despite the strong portfolio growth during 2021, ECL levels for mortgages reduced during the same period. The decrease in ECL was primarily a result of reduced PDs and LGDs reflecting the improved economic outlook and stable portfolio performance. This resulted in lower levels of SICR identification and ECL requirement.
- More specifically, the reduced PDs alongside muted portfolio deterioration resulted in a net migration of assets from Stage 2 into Stage 1, with an associated decrease from lifetime ECL to a 12 month ECL.
- With various customer support schemes available and the revised economic outlook, Stage 3 ECL remained stable as new inflows remaining subdued. The relatively small ECL cost for net re-measurement on stage transfer included the effect of risk targeted ECL adjustments, when previously in Stage 2. Refer to the Governance and post model adjustments section for further details.
- Write-off occurs once the repossessed property has been sold and there is a residual shortfall balance remaining outstanding. This would typically be within five years from default but can be longer. Given the moratorium on repossession activity until later in 2021, write-offs remained at a subdued level.

Credit risk – Banking activities continued
Flow statements (audited)

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
Retail Banking - Personal cards	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2021	1,676	41	1,071	178	83	55	2,830	274
Currency translation and other adjustments	—	—	—	—	(1)	—	(1)	—
Transfers from Stage 1 to Stage 2	(747)	(39)	747	39	—	—	—	—
Transfers from Stage 2 to Stage 1	867	118	(867)	(118)	—	—	—	—
Transfers to Stage 3	(13)	—	(64)	(28)	77	28	—	—
Transfers from Stage 3	—	—	7	4	(7)	(4)	—	—
Net re-measurement of ECL on stage transfer		(73)		151		20		98
Changes in risk parameters		(16)		(53)		6		(63)
Other changes in net exposure	313	16	(143)	(59)	(28)	(1)	142	(44)
Other (P&L only items)		1		(1)		2		2
Income statement (releases)/charges		(72)		38		27		(7)
Amounts written-off	—	—	—	—	(55)	(55)	(55)	(55)
Unwinding of discount		—		—		(4)		(4)
At 31 December 2021	2,096	47	751	114	69	45	2,916	206
Net carrying amount	2,049		637		24		2,710	
At 1 January 2020	2,108	31	907	99	90	64	3,105	194
2020 movements	(432)	10	164	79	(7)	(9)	(275)	80
At 31 December 2020	1,676	41	1,071	178	83	55	2,830	274
Net carrying amount	1,635		893		28		2,556	

- The overall decrease in ECL was mainly due to the reduction in Stage 2 ECL reflecting the improved economic outlook and stable portfolio performance, causing PDs to decrease. This resulted in reduced levels of SICR identification and ECL requirement.
- More specifically, the reduced PDs alongside muted portfolio deterioration resulted in a net migration of assets from Stage 2 into Stage 1, with an associated decrease from lifetime ECL to a 12 month ECL.
- Cards balances remained broadly consistent with the 2020 year end. In line with industry trends in the UK, credit card balances decreased during the first half of the year but then increased as lockdown restrictions eased and borrowing demand increased.
- With various customer support schemes available and the improved economic outlook, Stage 3 inflows remained subdued and therefore Stage 3 ECL movement was minimal.
- Charge-off (analogous to partial write-off) typically occurs after 12 missed payments.

Credit risk – Banking activities continued
Flow statements (audited)

Retail Banking - other personal unsecured	Stage 1 Financial assets £m	Stage 1 ECL £m	Stage 2 Financial assets £m	Stage 2 ECL £m	Stage 3 Financial assets £m	Stage 3 ECL £m	Total Financial assets £m	Total ECL £m
At 1 January 2021	2,668	49	2,802	372	479	398	5,949	819
Currency translation and other adjustments	—	—	—	—	2	2	2	2
Transfers from Stage 1 to Stage 2	(1,376)	(33)	1,376	33	—	—	—	—
Transfers from Stage 2 to Stage 1	1,640	137	(1,640)	(137)	—	—	—	—
Transfers to Stage 3	(7)	—	(280)	(100)	287	100	—	—
Transfers from Stage 3	3	5	78	49	(81)	(54)	—	—
Net re-measurement of ECL on stage transfer		(112)		135		90		113
Changes in risk parameters		(15)		(40)		50		(5)
Other changes in net exposure	708	12	(762)	(70)	(65)	(22)	(119)	(80)
Other (P&L only items)		1		—		3		4
Income statement (releases)/charges		(114)		25		121		32
Amounts written-off	—	—	—	—	(112)	(112)	(112)	(112)
Unwinding of discount		—		—		(14)		(14)
At 31 December 2021	3,636	43	1,574	242	510	438	5,720	723
Net carrying amount	3,593		1,332		72		4,997	
At 1 January 2020	4,295	53	1,792	206	476	405	6,563	664
2020 movements	(1,627)	(4)	1,010	166	3	(7)	(614)	155
At 31 December 2020	2,668	49	2,802	372	479	398	5,949	819
Net carrying amount	2,619		2,430		81		5,130	

- The overall decrease in ECL was mainly due to the reduction in Stage 2 ECL reflecting the improved economic outlook and stable portfolio performance, causing PDs to decrease. This resulted in reduced levels of SICR identification and ECL requirement.
- More specifically, the reduced PDs alongside muted portfolio deterioration resulted in a net migration of assets from Stage 2 into Stage 1, with an associated decrease from lifetime ECL to a 12 month ECL.
- In line with industry trends in the UK, unsecured balances reduced, amplifying the ECL reductions within the portfolio. This has stabilised as UK lockdown restrictions have eased and borrowing demand increased.
- With various customer support schemes available and the improved economic outlook, Stage 3 inflows remained subdued and therefore Stage 3 ECL movement was minimal.
- Write-off occurs once recovery activity with the customer has been concluded or there are no further recoveries expected, but no later than six years after default.

Credit risk – Banking activities continued
Flow statements (audited)

Commercial Banking - commercial real estate	Stage 1 Financial assets £m	Stage 1 ECL £m	Stage 2 Financial assets £m	Stage 2 ECL £m	Stage 3 Financial assets £m	Stage 3 ECL £m	Total Financial assets £m	Total ECL £m
At 1 January 2021	10,675	66	6,721	241	499	195	17,895	502
Currency translation and other adjustments	(4)	—	(3)	—	—	(11)	(7)	(11)
Inter-group transfers	—	—	—	—	—	—	—	—
Transfers from Stage 1 to Stage 2	(1,929)	(12)	1,929	12	—	—	—	—
Transfers from Stage 2 to Stage 1	4,993	144	(4,993)	(144)	—	—	—	—
Transfers to Stage 3	(14)	—	(237)	(12)	251	12	—	—
Transfers from Stage 3	15	2	63	6	(78)	(8)	—	—
Net re-measurement of ECL on stage transfer		(115)		27		20		(68)
Changes in risk parameters (model inputs)		(88)		(53)		(11)		(152)
Other changes in net exposure	823	15	(1,926)	(42)	(318)	(5)	(1,421)	(32)
Other (P&L only items)		—		—		—		—
Income statement (releases)/charges		(188)		(68)		4		(252)
Amounts written-off	—	—	—	—	(106)	(106)	(106)	(106)
Unwinding of discount		—		—		(1)		(1)
At 31 December 2021	14,559	12	1,554	35	248	85	16,361	132
Net carrying amount	14,547		1,519		163		16,229	
At 1 January 2020	14,714	20	1,456	17	403	157	16,573	194
2020 movements	(4,039)	46	5,265	224	96	38	1,322	308
At 31 December 2020	10,675	66	6,721	241	499	195	17,895	502
Net carrying amount	10,609		6,480		304		17,393	

- Stage 1 and Stage 2 ECL reduced significantly due to the improvement in the economic outlook, causing both PDs and LGDs to decrease.
- The updated economics also resulted in a migration of assets from Stage 2 into Stage 1 as improved underlying PDs meant assets no longer met Stage 2 criteria.
- Flows into Stage 3 remained low as government support schemes combined with the economic recovery, suppressed a higher level of flows into Stage 3.
- The reduction in Stage 3 balances was largely a result of a portfolio sale of non-performing exposure.
- Performing exposure reduced due to repayments of existing borrowing with lower appetite for new lending to replace it.

Credit risk – Banking activities continued
Flow statements (audited)

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
Commercial Banking - business banking	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2021	10,164	34	1,764	121	189	132	12,117	287
Currency translation and other adjustments	—	—	—	—	—	1	—	1
Transfers from Stage 1 to Stage 2	(2,856)	(11)	2,856	11	—	—	—	—
Transfers from Stage 2 to Stage 1	2,142	121	(2,142)	(121)	—	—	—	—
Transfers to Stage 3	(63)	—	(402)	(24)	465	24	—	—
Transfers from Stage 3	10	2	28	7	(38)	(9)	—	—
Net re-measurement of ECL on stage transfer		(113)		141		31		59
Changes in risk parameters		(9)		(19)		6		(22)
Other changes in net exposure	(75)	(2)	(383)	(23)	(27)	(4)	(485)	(29)
Other (P&L only items)		—		—		(30)		(30)
Income statement (releases)/charges		(124)		99		3		(22)
Amounts written-off	—	—	—	—	(27)	(27)	(27)	(27)
Unwinding of discount		—		—		(8)		(8)
At 31 December 2021	9,322	22	1,721	93	562	146	11,605	261
Net carrying amount	9,300		1,628		416		11,344	
At 1 January 2020	5,123	24	623	37	188	147	5,934	208
2020 movements	5,041	10	1,141	84	1	(15)	6,183	79
At 31 December 2020	10,164	34	1,764	121	189	132	12,117	287
Net carrying amount	10,130		1,643		57		11,830	

- At a total level, exposure decreased with reduction mainly due to the repayment of government scheme debt.
- The updated economics resulted in an improvement in underlying credit metrics resulting in migration of exposure from Stage 2 into Stage 1 with a consequential reduction from lifetime ECL to a 12 month ECL calculation. However, the transfer of exposure from Stage 1 into Stage 2 outweighed the positive migration and was largely related to customers with government scheme borrowing.
- Flows of defaulted exposure into Stage 3, although relatively low, were mainly a result of government scheme lending rather than conventional debt. This was reflected in the lower ECL associated with the Stage 3 transfers.
- The portfolio continued to benefit from cash recoveries post write-off, which are reported as other (P&L only items). Write-off occurs once recovery activity with the customer has been concluded or there are no further recoveries expected, but no later than five years after default.

Credit risk – Banking activities continued
Flow statements (audited)

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
Commercial Banking - other	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2021	30,382	114	20,576	885	917	325	51,875	1,324
Currency translation and other adjustments	(221)	—	(60)	—	62	9	(219)	9
Inter-group transfers	105	—	—	—	—	—	105	—
Transfers from Stage 1 to Stage 2	(5,446)	(23)	5,446	23	—	—	—	—
Transfers from Stage 2 to Stage 1	10,820	273	(10,820)	(273)	—	—	—	—
Transfers to Stage 3	(76)	—	(350)	(20)	426	20	—	—
Transfers from Stage 3	27	6	468	37	(495)	(43)	—	—
Net re-measurement of ECL on stage transfer		(239)		129		88		(22)
Changes in risk parameters		(97)		(217)		(16)		(330)
Other changes in net exposure	1,736	27	(3,480)	(104)	(219)	(41)	(1,963)	(118)
Other (P&L only items)		2		(1)		6		7
Income statement (releases)/charges		(307)		(193)		37		(463)
Amounts written-off	—	—	—	—	(79)	(79)	(79)	(79)
Unwinding of discount		—		—		(5)		(5)
At 31 December 2021	37,327	61	11,780	460	612	258	49,719	779
Net carrying amount	37,266		11,320		354		48,940	
At 1 January 2020	39,836	73	6,926	95	1,033	354	47,795	522
2020 movements	(9,454)	41	13,650	790	(116)	(29)	4,080	802
At 31 December 2020	30,382	114	20,576	885	917	325	51,875	1,324
Net carrying amount	30,268		19,691		592		50,551	

- The decrease in ECL across Stage 1 and Stage 2 was primarily due to improvement in the economic outlook, causing both PDs and LGDs to reduce.
- The updated economics also resulted in the migration of assets from Stage 2 into Stage 1 with a consequential decrease from a lifetime ECL to a 12 month ECL calculation.
- For flows into Stage 3, defaults remained suppressed, reflecting both the effect of increased liquidity from government customer support schemes and the improving economic environment.
- Other changes in net exposure decreased following the commencement of repayments of government scheme debt and strategic reduction in high-risk sectors.

Credit risk – Banking activities continued
Stage 2 decomposition – arrears status and contributing factors

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

	UK mortgages		Credit cards		Other		Total	
	Loans	ECL	Loans	ECL	Loans	ECL	Loans	ECL
2021	£m	£m	£m	£m	£m	£m	£m	£m
Personal								
Currently >30 DPD	298	7	8	4	39	12	345	23
Currently <=30 DPD	8,623	116	726	111	1,495	230	10,844	457
- PD deterioration	*1,760*	*41*	*433*	*80*	*765*	*137*	*2,958*	*258*
- PD persistence	*2,476*	*30*	*214*	*18*	*605*	*75*	*3,295*	*123*
- Other driver (adverse credit, forbearance etc)	*4,387*	*45*	*79*	*13*	*125*	*18*	*4,591*	*76*
Total Stage 2	8,921	123	734	115	1,534	242	11,189	480
2020								
Personal								
Currently >30 DPD	298	14	8	4	57	21	363	39
Currently <=30 DPD	23,946	167	1,050	176	2,642	351	27,638	694
- PD deterioration	*11,165*	*127*	*685*	*133*	*1,784*	*291*	*13,634*	*551*
- PD persistence	*9,106*	*21*	*277*	*26*	*761*	*47*	*10,144*	*94*
- Other driver (adverse credit, forbearance etc)	*3,675*	*19*	*88*	*17*	*97*	*13*	*3,860*	*49*
Total Stage 2	24,244	181	1,058	180	2,699	372	28,001	733

- The improved economic outlook, including forecast increases in unemployment, resulted in decreased account level IFRS 9 PDs during the year. Consequently, compared to 2020, a smaller proportion of accounts exhibited significant PD deterioration causing Stage 2 exposures to decrease significantly and increase the proportion of cases in Stage 2 for other reasons.
- During the year, a subset of customers who had accessed payment holiday support and where their risk profile was identified as relatively high risk, were collectively migrated into Stage 2. For mortgages, in Retail Banking, approximately £0.7 billion of exposures were collectively migrated from Stage 1 into Stage 2. The impact of collective migrations on unsecured lending was much more limited.

	Property		Corporate		Financial institutions		Other		Total	
	Loans	ECL	Loans	ECL	Loans	ECL	Loans	ECL	Loans	ECL
2021	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Wholesale										
Currently >30 DPD	198	2	346	7	1	—	1	—	546	9
Currently <=30 DPD	1,840	68	11,826	513	566	35	36	—	14,268	616
- PD deterioration	*585*	*38*	*8,421*	*412*	*489*	*33*	*1*	—	*9,496*	*483*
- PD persistence	*107*	*7*	*426*	*28*	*5*	—	*1*	—	*539*	*35*
- Other driver (forbearance, RoCL etc)	*1,148*	*23*	*2,979*	*73*	*72*	*2*	*34*	—	*4,233*	*98*
Total Stage 2	2,038	70	12,172	520	567	35	37	—	14,814	625
2020										
Wholesale										
Currently >30 DPD	89	4	148	11	1	—	—	—	238	15
Currently <=30 DPD	7,659	300	20,559	978	1,360	34	47	—	29,625	1,312
- PD deterioration	*6,921*	*268*	*17,697*	*878*	*1,279*	*32*	*7*	—	*25,904*	*1,178*
- PD persistence	*131*	*4*	*493*	*16*	*6*	—	—	—	*630*	*20*
- Other driver (forbearance, RoCL etc)	*607*	*28*	*2,369*	*84*	*75*	*2*	*40*	—	*3,091*	*114*
Total Stage 2	7,748	304	20,707	989	1,361	34	47	—	29,863	1,327

- The improved economic outlook, including upgrades in GDP and commercial real estate valuations, resulted in a reduction of IFRS 9 PDs. Consequently, compared to 2020, a large proportion of exposure no longer exhibited a SICR and migrated back into Stage 1 resulting in a reduction in Stage 2 exposure.
- PD deterioration remained the primary trigger for identifying a SICR and Stage 2 treatment, although there was also an increase in arrears and other drivers.
- The increase in arrears was partially a result of the commencement of payments on government scheme debt.

Credit risk – Banking activities continued
Stage 2 decomposition by a significant increase in credit risk trigger

	UK mortgages		Credit cards		Other		Total	
2021	£m	%	£m	%	£m	%	£m	%
Personal trigger (1)								
PD movement	2,010	22.5	440	59.9	796	51.9	3,246	29.0
PD persistence	2,486	27.9	214	29.2	606	39.5	3,306	29.5
Adverse credit bureau recorded with credit reference agency	3,124	35.0	45	6.1	58	3.8	3,227	29.0
Forbearance support provided	134	1.5	2	0.3	22	1.4	158	1.4
Customers in collections	67	0.8	2	0.3	12	0.8	81	0.7
Collective SICR and other reasons (2)	1,065	11.9	31	4.2	36	2.3	1,132	10.1
Days past due >30	35	0.4	—	—	4	0.3	39	0.3
	8,921	100	734	100	1,534	100	11,189	100
2020								
Personal trigger (1)								
PD movement	11,455	47.2	692	65.4	1,838	68.1	13,985	50.0
PD persistence	9,106	37.6	277	26.2	762	28.2	10,145	36.2
Adverse credit bureau recorded with credit reference agency	2,420	10.0	37	3.5	37	1.4	2,494	8.9
Forbearance support provided	100	0.4	1	0.1	7	0.3	108	0.4
Customers in collections	113	0.5	1	0.1	11	0.4	125	0.4
Collective SICR and other reasons (2)	1,045	4.3	50	4.7	44	1.6	1,139	4.1
Days past due >30	5	—	—	—	—	—	5	—
	24,244	100	1,058	100	2,699	100	28,001	100

- The improved economic outlook, including a more optimistic forecast for unemployment, resulted in decreased account level IFRS 9 PDs. Consequently, compared to 2020, a smaller proportion of accounts exhibited significant PD deterioration at 31 December 2021.
- Since the 2020 year end, large populations of Stage 2 were migrated into Stage 1 reflecting continued reductions in PDs as a result of the improved economic outlook alongside stable portfolio performance during the year.
- However, a subset of customers who had accessed payment holiday support, and where their risk profile was identified as relatively high risk, were collectively migrated into Stage 2. In Retail Banking (primarily mortgages), approximately £0.7 billion of exposures were collectively migrated from Stage 1 into Stage 2. The effect of collective migrations on unsecured lending was much more limited. PD movement made up a smaller proportion of Stage 2 for UK mortgages than at the 2020 year end, supporting the use of the collective SICR migration approach described above.

	Property		Corporate		FI		Other		Total	
2021	£m	%	£m	%	£m	%	£m	%	£m	%
Wholesale trigger (1)										
PD movement	622	30.6	8,548	70.3	491	86.6	1	2.7	9,662	65.3
PD persistence	107	5.3	426	3.5	5	0.9	1	2.7	539	3.6
Risk of Credit Loss	544	26.7	1,920	15.8	53	9.3	34	91.9	2,551	17.2
Forbearance support provided	68	3.3	346	2.8	4	0.7	—	—	418	2.8
Customers in collections	21	1.0	66	0.5	—	—	—	—	87	0.6
Collective SICR and other reasons (2)	539	26.4	767	6.3	14	2.5	1	2.7	1,321	8.9
Days past due >30	137	6.7	99	0.8	—	—	—	—	236	1.6
	2,038	100	12,172	100	567	100	37	100	14,814	100
2020										
Wholesale trigger (1)										
PD movement	6,993	90.3	17,778	85.8	1,280	94.1	7	14.9	26,058	87.3
PD persistence	131	1.7	494	2.4	6	0.4	—	—	631	2.1
Risk of Credit Loss	220	2.8	1,461	7.1	53	3.9	40	85.1	1,774	5.9
Forbearance support provided	22	0.3	71	0.3	3	0.2	—	—	96	0.3
Customers in collections	24	0.3	94	0.5	—	—	—	—	118	0.4
Collective SICR and other reasons (2)	341	4.4	746	3.6	19	1.4	—	—	1,106	3.7
Days past due >30	17	0.2	63	0.3	—	—	—	—	80	0.3
	7,748	100	20,707	100	1,361	100	47	100	29,863	100

(1) The table is prepared on a hierarchical basis from top to bottom, for example, accounts with PD deterioration may also trigger backstop(s) but are only reported under PD deterioration.
(2) Includes customers where a PD assessment cannot be undertaken due to missing PDs.

- PD deterioration continued to be the primary trigger of migration of exposures from Stage 1 into Stage 2. As the economic outlook improved during 2021, there was a reduction in cases triggered into Stage 2 exposure.
- Moving exposures on to the Risk of Credit Loss framework remained an important backstop indicator of a SICR.
- There was a decrease in flows on to the Risk of Credit Loss framework. However, the exposures classified under Stage 2 other driver increased over the period as less exposures were captured under the Stage 2 PD deterioration. At a total level, exposure on the Risk of Credit Loss framework remained above pre-COVID-19 levels.
- PD persistence related to the business banking portfolio only.

Capital, liquidity and funding risk

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

Definitions (audited)

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

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

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

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

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

Sources of risk (audited)

Capital

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

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

Minimum requirement for own funds and eligible liabilities (MREL)

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

Liquidity

Liquidity risk within NWB Plc is managed as part of the UK Domestic Liquidity Sub-Group (UK DoLSub), which is regulated by the PRA and comprises NWH Group's four licensed deposit taking UK banks: National Westminster Bank Plc, The Royal Bank of Scotland plc, Coutts & Company, and Ulster Bank Limited. On 3 May 2021, the Ulster Bank Limited business transferred to National Westminster Bank Plc. Ulster Bank Limited was removed from the UK DoLSub effective 1 January 2022. The planned removal of the Ulster Bank Limited license remains subject to regulatory applications and approvals.

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

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

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

Funding

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

For further details on capital constituents and the regulatory framework covering capital, liquidity and funding requirements, please refer to the NatWest Group Pillar 3 Report 2021 on page 8. For MREL refer to page 10.

Managing capital requirements: regulated entities

In line with paragraph 135 of IAS 1 'Presentation of Financial Statements', NWB Group manages capital having regard to regulatory requirements. Regulatory capital is monitored and reported on an individual regulated bank legal entity basis ('bank entities'), as relevant in the jurisdiction for large subsidiaries of NatWest Group. NatWest Group itself is monitored and reported on a consolidated basis.

Capital, liquidity and funding risk continued

Capital management

Capital management is the process by which the bank entities ensure that they have sufficient capital and other loss-absorbing instruments to operate effectively including meeting minimum regulatory requirements, operating within Board-approved risk appetite, maintaining credit ratings and supporting strategic goals.

Capital management is critical in supporting the bank entities' businesses and is also considered at Group level. It is enacted through a NatWest Group-wide end to end framework.

Capital planning is integrated into NWB Group's wider annual budgeting process and is assessed and updated at least monthly. This is summarised below. Other elements of capital management, including risk appetite and stress testing, are set out on pages 13 and 14.

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

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

Liquidity risk management

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

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

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

Funding risk management

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

The asset and liability types broadly match. Customer deposits provide more funding than customer loans utilise.

Capital, liquidity and funding risk continued
Key points

CET1 Ratio

2021	16.1%
2020	17.8%

The CET1 ratio decreased 170 basis points over the period due to a £1.5 billion decrease in CET1 capital and a £0.7 billion decrease in RWAs. The CET1 decrease reflects the attributable profit in the period of £2.6 billion, offset by the following items:

- dividends paid of £1.6 billion;
- foreseeable charges of £1.4 billion;
- a £0.6 billion decrease in the IFRS 9 transitional adjustment on expected credit losses; and
- other reserve movements.

RWA

2021	£86.2bn
2020	£86.9bn

Total RWAs decreased by £0.7 billion during 2021 driven by a £0.7 billion reduction in credit risk due to repayments and expired facilities of £2.4 billion in Commercial Banking. The transfer-in of Ulster Bank limited business in Q2 2021 resulted in the offsetting increases in credit risk of £1.6 billion.

Leverage

2021	3.8%
2020	4.7%

CRR leverage ratio decreased by c.90 basis points driven by a £50.1 billion increase in the leverage exposure due to an increase in cash and balances at central banks and a £1.6 billion decrease in Tier 1 capital.

Liquidity portfolio

2021	£192.6bn
2020	£179.0bn

The liquidity portfolio increased by £13.6 billion to £192.6 billion with primary liquidity increasing by £23.6 billion to £123.7 billion. The increase in primary liquidity was mainly driven by customer deposits, TFSME funding received and cash proceeds from new issuances. This is offset by the TFSME repayment, buy back of shares owned by the UK Government, pension fund contributions, liability management exercise, increase in lending and the purchase of additional mortgages. Secondary liquidity is lower due to TFSME funding received, monthly repayments on underlying assets offset with new England & Wales Pool creation.

Liquidity coverage ratio

2021	169%
2020	152%

The DoLSub Liquidity Coverage Ratio (LCR) increased during the year to 169% driven by an increase in the liquidity portfolio offset by a lower level of increased net outflows. The increased liquidity portfolio was primarily driven by significant growth in customer deposits which outstripped growth in customer lending during the year.

NSFR

2021	151%
2020	144%

The net stable funding ratio (NSFR) for FY 2021 was 151% compared to 144% in prior year. The increase is mainly due to deposits growth.

Capital, liquidity and funding risk continued
Minimum requirements
Capital adequacy ratios
The bank entities are subject to minimum capital requirements relative to RWAs. The table below summarises the minimum ratios of capital to RWAs that the UK bank entities are expected to have to meet.

Type	CET1	Total Tier 1	Total capital
Minimum capital requirements	4.5%	6.0%	8.0%
Capital conservation buffer	2.5%	2.5%	2.5%
Countercyclical capital buffer (1)	—	—	—
Total (2)	7.0%	8.5%	10.5%

(1) In response to COVID-19, many countries reduced their CCyB rates. In December 2021, the Financial Policy Committee announced an increase in the UK CCyB rate from 0% to 1%. This rate will come into effect from December 2022 in line with the 12 month implementation period. The CBI continues to maintain the rate at 0% with an announcement of a gradual increase of the CCyB expected in 2022.
(2) The minimum requirements do not include any capital that the bank entities may be required to hold as a result of the Pillar 2 assessment.

Leverage ratio
Following the publication of the new UK leverage ratio framework on 8 October 2021, NWB Plc will be expected to manage their leverage ratio at the same level as firms in scope from 1 January 2022 and will be subject to the minimum requirement from 1 January 2023.

Liquidity and funding ratios
The table below summarises the minimum requirements for key liquidity and funding metrics, under the relevant legislative framework. NWB Plc is a member of the UK DoLSub which is presented below.

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

(1) Net Stable Funding ratio (NSFR) reported in line with CRR2 regulations finalised in June 2019. Following the publication of PS22/21 on 14 October 2021 a binding NSFR minimum requirement of 100% will be effective from 1 January 2022.

Measurement
Capital, RWAs and leverage
The table below sets out the key Capital and leverage ratios on a PRA transitional basis. Refer to Note 26 on the consolidated accounts for a more detailed breakdown of regulatory capital.

	2021	2020
Capital adequacy ratios	%	%
CET1 (1)	16.1	17.8
Tier 1	18.6	20.2
Total	22.0	23.9
Capital	£m	£m
CET1 (1)	13,924	15,424
Tier 1	16,039	17,590
Total	18,945	20,765
Risk-weighted assets		
Credit risk	72,716	73,445
Counterparty credit risk	574	576
Market risk	53	18
Operational risk	12,874	12,843
Total RWAs	86,217	86,882
Leverage		
Tier 1 capital (£m)	16,039	17,590
Leverage exposure (£m) (2)	426,681	376,527
Leverage ratio (%) (1)	3.8	4.7

(1) Includes an IFRS 9 transitional adjustment of £0.4 billion (2020 - £1.0 billion). Excluding this adjustment, the CET1 ratio would be 15.7% (2020 – 16.6%) and the leverage ratio would be 3.7% (2020 – 4.4%). The amended article for the prudential treatment of software assets was implemented in December 2020. Excluding this adjustment, the CET1 ratio would be 15.8% (2020 – 17.3%) and the leverage ratio would be 3.7% (2020 – 4.5%).
(2) Leverage exposure is broadly aligned to the accounting value of on and off-balance sheet exposures albeit subject to specific adjustments for derivatives, securities financing positions and off-balance sheet exposures.

Capital, liquidity and funding risk continued

Liquidity key metrics

Liquidity within NWB Plc is managed and regulated as part of the UK DoLSub. The table below sets out the key liquidity and related metrics for the UK DoLSub.

2021	UK DoLSub
Liquidity coverage ratio (1)	**169%**
Stressed outflow coverage (2)	**195%**
Net stable funding ratio (3)	**151%**
2020	
Liquidity coverage ratio (1)	152%
Stressed outflow coverage (2)	168%
Net stable funding ratio (3)	144%

(1) The published LCR excludes Pillar 2 add-ons. NatWest Group calculates the LCR using its own interpretations of the EU LCR Delegated Act, which may change over time and may not be fully comparable with those of other financial institutions.
(2) NatWest Group's stressed outflow coverage (SOC) is an internal measure calculated by reference to liquid assets as a percentage of net stressed contractual and behavioural outflows over three months under the worst of three severe stress scenarios of a market-wide stress, an idiosyncratic stress and a combination of both as per ILAAP. This assessment is performed in accordance with PRA guidance.
(3) Following the publication of PS 22/21 on 14 October 2021, a binding Net Stable Funding Ratio (NSFR) minimum requirement of 100% will be effective from January 2022.

Leverage exposure

The leverage exposure is based on the CRR delegated act.

Leverage	2021 £m	2020 £m
Cash and balances at central banks	**101,210**	62,878
Derivatives	**2,547**	3,438
Financial assets	**314,852**	306,946
Other assets	**7,502**	7,341
Total assets	**426,111**	380,603
Derivatives		
- netting and variation margin	**(2,782)**	(3,882)
- potential future exposures	**1,405**	1,386
Securities financing transactions gross up	**146**	191
Undrawn commitments	**25,448**	22,857
Regulatory deductions and other adjustments	**(1,769)**	(666)
Exclusion of core UK-group exposure	**(21,878)**	(23,962)
Leverage exposure	**426,681**	376,527

Liquidity portfolio (audited)

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

	31 December 2021		31 December 2020	
	UK DoLSub (1) £m	NWB Plc £m	UK DoLSub £m	NWB Plc £m
Cash and balances at central banks	**136,154**	**100,934**	86,575	61,944
AAA to AA- rated governments	**21,123**	**21,123**	35,875	35,875
A+ and lower rated governments	**—**	**—**	—	—
Government guaranteed issuers, PSEs and GSEs	**174**	**174**	141	141
International organisations and MDBs	**1,466**	**1,466**	2,154	2,154
Level 1 bonds	**22,763**	**22,763**	38,170	38,170
LCR level 1 eligible assets	**158,917**	**123,697**	124,745	100,114
LCR level 2 eligible assets	**—**	**—**	—	—
Non-LCR eligible assets	**—**	**—**	—	—
Primary liquidity	**158,917**	**123,697**	124,745	100,114
Secondary liquidity (2)	**76,573**	**68,939**	88,774	78,916
Total liquidity value	**235,490**	**192,636**	213,519	179,030

(1) The UK DoLSub comprises NatWest Holdings Group's four licensed deposit-taking UK banks: NWB Plc, RBS plc, Coutts and Company and Ulster Bank Limited. Ulster Bank Limited was removed from the UK DoLSub effective 1 January 2022.
(2) Comprises assets eligible for discounting at the Bank of England and other central banks.

Capital, liquidity and funding risk continued

Funding sources (audited)

	2021 Short-term less than 1 year £m	2021 Long-term more than 1 year £m	2021 Total £m	2020 Short-term less than 1 year £m	2020 Long-term more than 1 year £m	2020 Total £m
Bank deposits						
Repos	7,132	—	7,132	6,270	—	6,270
Other bank deposits	3,699	12,000	15,699	3,601	5,000	8,601
	10,831	12,000	22,831	9,871	5,000	14,871
Customer deposits						
Repos	14,541	—	14,541	5,167	—	5,167
Personal	176,510	674	177,184	157,157	942	158,099
Corporate	116,983	18	117,001	110,459	21	110,480
Non-bank financial institutions	20,714	—	20,714	19,848	11	19,859
	328,748	692	329,440	292,631	974	293,605
Other financial liabilities (1)						
Debt securities in issue						
Commercial papers and certificates of deposit	3,399	—	3,399	3,291	—	3,291
Covered bonds	53	2,833	2,886	53	2,967	3,020
Securitisations	—	867	867	—	772	772
	3,452	3,700	7,152	3,344	3,739	7,083
Subordinated liabilities	88	123	211	313	917	1,230
Amounts due to holding company and fellow subsidiaries (2)						
Bank and customer deposits	35,749	525	36,274	29,940	401	30,341
Internal MREL	33	5,654	5,687	26	3,882	3,908
Subordinated liabilities	13	3,060	3,073	18	3,291	3,309
	35,795	9,239	45,034	29,984	7,574	37,558
Total funding	378,914	25,754	404,668	336,143	18,204	354,347
Of which: available in resolution (3)			*8,761*			*8,138*

(1) Excludes settlement balances of nil (2020 – £3,297 million) and derivative cash collateral of £99 million (2020 – £3 million).
(2) Amounts due to holding companies and fellow subsidiaries relating to non-financial instruments of £102 million (2020 - £1 million) have been excluded from the table.
(3) Eligible liabilities (as defined in the Banking Act 2009 as amended from time to time) that meet the eligibility criteria set out in the regulations, rules, policies, guidelines, or statements of the Bank of England including the Statement of Policy published by the Bank of England in June 2018.

Capital, liquidity and funding risk continued

Contractual maturity (audited)

The table shows the residual maturity of third party financial instruments, based on contractual date of maturity of NWB Group's banking activities, including third party and intercompany hedging derivatives. Mandatory fair value through profit or loss (MFVTPL) assets and held-for-trading (HFT) liabilities have been excluded from the maturity analysis due to their short-term nature and are shown in total in the table below.

	Banking activities										
2021	Less than 1 month £m	1-3 months £m	3-6 months £m	6 months - 1 year £m	Subtotal £m	1-3 years £m	3-5 years £m	More than 5 years £m	Total £m	MFVTPL and HFT £m	Total £m
Cash and balances at central banks	101,213	—	—	—	101,213	—	—	—	101,213	—	101,213
Derivatives	3	1	4	10	18	72	17	6	113	2,347	2,460
Loans to banks - amortised cost	2,646	183	1,338	6	4,173	9	—	—	4,182	—	4,182
Loans to customers - amortised cost (1)	35,774	17,651	13,310	13,977	80,712	37,905	29,182	141,597	289,396	—	289,396
Personal	3,536	1,941	2,758	5,222	13,457	19,370	18,011	128,497	179,335	—	179,335
Corporate	21,894	6,814	3,771	4,859	37,338	18,214	10,781	12,949	79,282	—	79,282
NBFI	10,344	8,896	6,781	3,896	29,917	321	390	151	30,779	—	30,779
Other financial assets	780	1,056	356	2,322	4,514	4,693	6,075	13,523	28,805	226	29,031
Total financial assets	140,416	18,891	15,008	16,315	190,630	42,679	35,274	155,126	423,709	2,573	426,282
2020											
Total financial assets	89,911	15,432	15,621	16,853	137,817	47,488	39,034	154,680	379,019	3,763	382,782
2021											
Bank deposits excluding repos	3,699	—	—	—	3,699	—	12,000	—	15,699	—	15,699
Bank repos	5,671	1,461	—	—	7,132	—	—	—	7,132	—	7,132
Customer repos	3,532	11,009	—	—	14,541	—	—	—	14,541	—	14,541
Customer deposits excluding repos	307,014	4,256	1,611	1,326	314,207	674	4	14	314,899	—	314,899
Personal	173,293	1,055	1,351	811	176,510	674	—	—	177,184	—	177,184
Corporate	113,622	2,655	245	461	116,983	—	4	14	117,001	—	117,001
NBFI	20,099	546	15	54	20,714	—	—	—	20,714	—	20,714
Derivatives	1	1	—	8	10	31	14	16	71	4,048	4,119
Other financial liabilities	840	1,442	1,019	151	3,452	2,833	289	578	7,152	99	7,251
CPs and CDs	790	1,442	1,016	151	3,399	—	—	—	3,399	—	3,399
Covered bonds	50	—	3	—	53	2,833	—	—	2,886	—	2,886
Securitisations	—	—	—	—	—	—	289	578	867	—	867
Bank deposits	—	—	—	—	—	—	—	—	—	66	66
Customer deposits	—	—	—	—	—	—	—	—	—	33	33
Subordinated liabilities	—	—	2	86	88	—	—	123	211	—	211
Notes in circulation	904	—	—	—	904	—	—	—	904	—	904
Lease liabilities	24	42	63	74	203	170	128	507	1,008	—	1,008
Total financial liabilities	321,685	18,211	2,695	1,645	344,236	3,708	12,435	1,238	361,617	4,147	365,764
2020											
Total financial liabilities	296,027	7,851	4,316	2,454	310,648	2,096	7,751	2,174	322,669	6,382	329,051

(1) Loans to customers excludes £2,425 million (2020 - £3,591 million) of impairment provisions.

Capital, liquidity and funding risk continued

Encumbrance (audited)

NWB Group evaluates the extent to which assets can be financed in a secured form (encumbrance), but certain asset types lend themselves more readily to encumbrance. The typical characteristics that support encumbrance are an ability to pledge those assets to another counterparty or entity through operation of law without necessarily requiring prior notification, homogeneity, predictable and measurable cash flows, and a consistent and uniform underwriting and collection process. Retail assets including residential mortgages and credit card receivables display many of these features.

NWB Group categorises its assets into four broad groups, those that are:

- Already encumbered and used to support funding currently in place through own-asset securitisations, covered bonds and securities repurchase agreements.
- Pre-positioned with central banks as part of funding schemes and those encumbered under such schemes.
- Ring-fenced to meet regulatory requirements, where NWB Group has in place an operational continuity in resolution (OCIR) investment mandate wherein the PRA requires critical service providers to hold segregated liquidity buffers covering at least 50% of their annual fixed overheads.
- Not currently encumbered. In this category, NWB Group has in place an enablement programme which seeks to identify assets capable of being encumbered and to identify the actions to facilitate such encumbrance whilst not affecting customer relationships or servicing

Balance sheet encumbrance - third party

	Encumbered as a result of transactions with counterparties other than central banks			Pre-positioned	Collateral	Unencumbered assets not pre-positioned with central banks				
2021	Covered bonds and securitisations (1) £bn	SFT, Derivatives & similar (2) £bn	Total (3) £bn	& encumbered assets held at central bank (4) £bn	ring-fenced to meet reg requirement (5) £bn	Readily available (6) £bn	Other available (7) £bn	Cannot be used (8) £bn	Total £bn	Total third party (9) £bn
Cash and balances at central banks	—	2.6	2.6	—	—	98.6	—	—	98.6	101.2
Derivatives	—	—	—	—	—	—	—	2.5	2.5	2.5
Loans to banks - amortised cost	—	0.1	0.1	—	—	3.8	0.1	0.2	4.1	4.2
Loans to customers - amortised cost	8.3	1.8	10.1	109.6	—	47.9	76.6	42.8	167.3	287.0
- residential mortgages	8.3	—	8.3	109.6	—	38.9	11.3	—	50.2	168.1
- credit cards	—	—	—	—	—	2.7	0.3	—	3.0	3.0
- personal loans	—	—	—	—	—	3.9	2.2	1.1	7.2	7.2
- other	—	1.8	1.8	—	—	2.4	62.8	41.7	106.9	108.7
Other financial assets	—	13.2	13.2	—	2.0	13.2	0.2	0.4	13.8	29.0
Other assets	—	—	—	—	—	—	1.7	5.5	7.2	7.2
Total assets	8.3	17.7	26.0	109.6	2.0	163.5	78.6	51.4	293.5	431.1
Amounts due from holding companies and fellow subsidiaries										3.5
										434.6
2020										
Total assets	10.0	17.0	27.0	114.6	2.1	113.5	78.8	50.2	242.5	386.2
Amounts due from holding companies and fellow subsidiaries										3.3
										389.5

(1) Covered bonds and securitisations include securitisations, conduits and covered bonds.
(2) Repos and other secured deposits, cash, coin and nostro balance held with the Bank of England as collateral against deposits and notes in circulation are included here rather than within those positioned at the central bank as they are part of normal banking operations. Securities financing transactions (SFT) include collateral given to secure derivative liabilities.
(3) Total assets encumbered as a result of transactions with counterparties other than central banks are those that have been pledged to provide security and are therefore not available to secure funding or to meet other collateral needs.
(4) Assets pre-positioned at the central banks include loans provided as security as part of funding schemes and those encumbered under such schemes.
(5) Ring-fenced to meet regulatory requirement includes assets ring fenced to meet operational continuity in resolution (OCIR) investment mandate.
(6) Readily available for encumbrance: including assets that have been enabled for use with central banks but not pre-positioned; cash and high quality debt securities that form part of NWB Group's liquidity portfolio and unencumbered debt securities.
(7) Other assets that are capable of being encumbered are those assets on the balance sheet that are available for funding and collateral purposes but are not readily realisable in their current form. These assets include loans that could be prepositioned with central banks but have not been subject to internal and external documentation review and diligence work.
(8) Cannot be used includes:
a. Derivatives, reverse repurchase agreements and trading related settlement balances.
b. Non-financial assets such as intangibles, prepayments and deferred tax.
c. Loans that cannot be pre-positioned with central banks based on criteria set by the central banks, including those relating to date of origination and level of documentation.
d. Non-recourse invoice financing balances and certain shipping loans whose terms and structure prohibit their use as collateral
(9) In accordance with market practice, NWB Group employs securities recognised on the balance sheet, and securities received under reverse repo transactions as collateral for repos.

Non-traded market risk

Definition (audited)

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 (audited)

The key sources of NWB Group's non-traded market risk are interest rate risk, credit spread risk and foreign exchange risk.

Each of these risk types are largely managed separately. For detailed qualitative and quantitative information on each of them, refer to the separate sub-sections following the VaR table below.

Key developments in 2021

- As inflationary pressures increased in 2021, market expectations regarding the future path of interest rates changed. The five-year sterling overnight index interest rate swap rate rose from -0.01% at 31 December 2020 to 1.05% at 31 December 2021. The corresponding ten-year rate rose from 0.16% to 0.95%. At 31 December 2021 market rates implied several increases in the UK base rate from 0.25%; at 31 December 2020 they had implied potential cuts to the rate from 0.1%.
- Sterling strengthened against the euro to 1.19 at 31 December 2021 from 1.11 at 31 December 2020. Structural foreign currency exposures decreased, in sterling equivalent terms, over the year.

Governance (audited)

Responsibility for identifying, measuring, monitoring and controlling market risk arising from non-trading activities lies with the relevant business. Oversight is provided by the independent Risk function.

Risk positions are reported regularly to the NatWest Holdings Executive Risk Committee and the NatWest Holdings Board Risk Committee, as well as to the NatWest Holdings Asset & Liability Management Committee. Market risk policy statements set out the governance and risk management framework.

Risk appetite

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

Its quantitative appetite is expressed in terms of exposure limits. NWB Group's limit framework comprises value-at-risk (VaR), stressed value-at-risk (SVaR), sensitivities and earnings-at-risk limits. The limits are reviewed to reflect changes in risk appetite, business plans, portfolio composition and the market and economic environments.

To ensure approved limits are not breached and that NWB Group remains within its risk appetite, triggers have been set such that if exposures exceed a specified level, action plans are developed and implemented.

For further information on risk appetite and risk controls, refer to page 13.

Measurement (audited)

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

The following table presents one-day internal banking book VaR at a 99% confidence level, split by risk type. VaR values for each year are calculated based on one-day values for each of the 12 month-end reporting dates.

VaR metrics are explained on page 67. Each of the key risk types are discussed in greater detail in their individual sub-sections following this table.

	2021				2020			
	Average £m	Maximum £m	Minimum £m	Period end £m	Average £m	Maximum £m	Minimum £m	Period end £m
Interest rate	11.2	16.6	4.1	11.9	14.4	19.2	10.5	11.1
Credit spread	80.6	89.4	74.2	79.5	96.2	114.8	60.7	93.6
Structural foreign exchange risk	25.7	26.4	24.4	24.4	—	—	—	—
Equity	0.9	1.0	0.4	1.0	—	—	—	—
Pipeline risk (1)	0.5	1.1	0.3	1.1	0.4	0.7	0.2	0.4
Diversification (2)	(35.6)			(38.3)	(9.8)			(10.3)
Total	83.3	93.8	75.5	79.6	101.2	116.8	64.3	94.8

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

- The year-on-year reduction in credit spread VaR and total non-traded VaR was driven by a smaller FVOCI bond portfolio.
- Period-end VaR reflects the completion of the transition from LIBOR to risk-free benchmarks.
- During 2021 structural foreign exchange risk was included in the calculation of non-traded VaR.

Non-traded market risk continued
Interest rate risk

Non-traded interest rate risk (NTIRR) arises from the provision to customers of a range of banking products with differing interest rate characteristics. When aggregated, these products form portfolios of assets and liabilities with varying degrees of sensitivity to changes in market interest rates. Mismatches can give rise to volatility in net interest income as interest rates vary.

NTIRR comprises the following three primary risk types:
- Gap risk – arises from the timing of rate changes in non-trading book instruments. The extent of gap risk depends on whether changes to the term structure of interest rates occur consistently across the yield curve (parallel risk) or differentially by period (non-parallel risk).
- Basis risk – captures the impact of relative changes in interest rates for financial instruments that have similar tenors but are priced using different interest rate indices, or on the same interest rate indices but with different tenors.
- Option risk – arises from option derivative positions or from optional elements embedded in assets, liabilities and/or off-balance sheet items, where NWB Group or its customer can alter the level and timing of their cash flows. Option risk also includes pipeline risk.

To manage exposures within its risk appetite, NWB Group aggregates its interest rate positions and hedges its residual exposure, primarily with interest rate swaps.

Structural hedging aims to reduce gap risk and the sensitivity of earnings to interest rate shocks. It also provides some protection against prolonged periods of falling rates. Structural hedging is explained in greater detail below, followed by information on how NWB Group measures NTIRR from both an economic value-based and an earnings-based perspective.

Structural hedging

NWB Group has a significant pool of stable, non and low interest-bearing liabilities, principally comprising equity and money transmission accounts. NatWest Group has a policy of hedging these balances, either by investing directly in longer-term fixed-rate assets (primarily fixed-rate mortgages) or by using interest rate swaps, in order to provide a consistent and predictable revenue stream from these balances.

At 31 December 2021, NWB Group's structural hedge had a notional of £152 billion (compared to £122 billion at 31 December 2020) with an average life of approximately three years.

Interest rate risk measurement

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.

NWB Group uses VaR as its value-based approach and sensitivity of net interest earnings as its earnings-based approach.

These two approaches provide complementary views of the impact of interest rate risk on the balance sheet at a point in time. The scenarios employed in the net interest earnings sensitivity approach may incorporate assumptions about how NWB Group and its customers will respond to a change in the level of interest rates. In contrast, the VaR approach measures the sensitivity of the balance sheet at a point in time. Capturing all cash flows, VaR also highlights the impact of duration and repricing risks beyond the one-to-three-year period shown in earnings sensitivity calculations.

Value-at-risk

VaR is a statistical estimate of the potential change in the market value of a portfolio (and, thus, the impact on the income statement) over a specified time horizon at a given confidence level. NWB Group's standard VaR metrics – which assume a time horizon of one trading day and a confidence level of 99% – are based on interest rate repricing gaps at the reporting date. Daily rate moves are modelled using observations from the last 500 business days. These incorporate customer products plus associated funding and hedging transactions as well as non-financial assets and liabilities. Behavioural assumptions are applied as appropriate.

The non-traded interest rate risk VaR metrics for NWB Group's retail and commercial banking activities are included in the banking book VaR table above. The VaR captures the risk resulting from mismatches in the repricing dates of assets and liabilities.

It also includes any mismatch between the maturity profile of external hedges and NWB Group's target maturity profile for the hedge.

Sensitivity of net interest earnings

Net interest earnings are sensitive to changes in the level of interest rates, mainly because maturing structural hedges are replaced at higher or lower rates and changes to coupons on managed rate customer products do not match changes in market rates of interest or central bank policy rates.

Earnings sensitivity is derived from a market-implied forward rate curve, which will incorporate expected changes in central bank policy rates such as the Bank of England base rate. A simple scenario is shown that projects forward earnings over a 12-month period based on the 31 December 2021 balance sheet. An earnings projection is derived from the market-implied rate curve, which is then subject to interest rate shocks. The difference between the market-implied projection and the shock gives an indication of underlying sensitivity to interest rate movements.

Non-traded market risk continued

The sensitivity of net interest earnings table below shows the expected impact of an immediate upward or downward change of 25 basis points and an upward change of 100 basis points to all interest rates.

Reported sensitivities should not be considered a forecast of future performance in these rate scenarios. Actions that could reduce interest earnings sensitivity include changes in pricing strategies on customer loans and deposits as well as hedging. Management action may also be taken to stabilise total income also taking into account non-interest income.

	2021			2020		
Shifts in yield curve	+25 basis points £m	-25 basis points with no floor £m	+100 basis points £m	+25 basis points £m	-25 basis points with floor at 0% £m	+100 basis points £m
12-month interest earnings sensitivity	207	(196)	767	229	(21)	771

- The increase in sensitivity to the downward 25-basis-point rate shift mainly relates to the removal of the assumed 0% floor (or prevailing negative rate). At 31 December 2020, interest rates were low or even negative in some cases. Flooring interest rates meant that the impact of the downward shock was significantly reduced.
- The reduction in sensitivity to the upward 25-basis-point and 100-basis-point rate shifts reflects the higher level of interest rates at 31 December 2021 compared to 31 December 2020. As interest rates rise from very low levels, the expected pass-through to customer savings rates increases. Thus, the income benefit associated with rate rises is reduced.

Sensitivity of fair value through other comprehensive income (FVOCI) to interest rate movements.

NWB Group holds most of the bonds in its liquidity portfolio at fair value. Valuation changes that are not hedged (or not in effective hedge accounting relationships) are recognised in FVOCI reserves.

Interest rate swaps are used to implement the structural hedging programme and to hedge some personal and commercial lending portfolios, primarily fixed-rate mortgages. Changes in the valuation of swaps that are in effective cash flow hedge accounting relationships are recognised in cash flow hedge reserves.

The table below shows the sensitivity of FVOCI reserves and cash flow hedge reserves to a parallel shift in all rates. In this analysis, interest rates have not been floored at zero. Cash flow hedges are assumed to be fully effective and interest rate hedges of bonds in the liquidity portfolio are also assumed to be subject to fully effective hedge accounting. Hedge accounting ineffectiveness would result in some deviation from the results below, with some gains or losses recognised in P&L instead of reserves. Hedge ineffectiveness P&L is monitored, and the effectiveness of cash flow and fair value hedge relationships is regularly tested in accordance with IFRS requirements. Note that a movement in the FVOCI reserve would have an impact on CET1 capital but a movement in the cash flow hedge reserve would not be expected to do so. Volatility in both reserves affects tangible net asset value.

	2021				2020			
Parallel shifts in yield curve	+25 basis points £m	-25 basis points £m	+100 basis points £m	-100 basis points £m	+25 basis points £m	-25 basis points £m	+100 basis points £m	-100 basis points £m
FVOCI reserves	(28)	27	(116)	102	(27)	25	(114)	86
Cash flow hedge reserves	(10)	11	(33)	53	129	(129)	512	(521)
Total	(38)	38	(149)	155	102	(104)	398	(435)

- The main driver of change in NWB Group's cash flow hedge reserve sensitivity is the increase in interest rate swaps that form part of the structural hedge. The increase in the hedge was driven by higher customer deposits during the COVID-19 pandemic.

Non-traded market risk continued
Credit spread risk
Credit spread risk arises from the potential adverse economic impact of a change in the spread between bond yields and swap rates, where the bond portfolios are accounted at FVOCI.

NWB Group's bond portfolios primarily comprise high-quality securities maintained as a liquidity buffer to ensure it can continue to meet its obligations in the event that access to wholesale funding markets is restricted. Additionally, other high-quality bond portfolios are held for collateral purposes and to support payment systems.

Credit spread risk is monitored daily through sensitivities and VaR measures. The dealing authorities in place for the bond portfolios further mitigate the risk by imposing constraints by duration, asset class and credit rating. Exposures and limit utilisations are reported to senior management on a daily basis.

Foreign exchange risk
Non-traded foreign exchange risk arises from three main sources:
- Structural foreign exchange rate risk – arises from the capital deployed in foreign subsidiaries, branches and joint arrangements and related currency funding where it differs from sterling.
- Non-trading book foreign exchange rate risk – arises from customer transactions and profits and losses that are in a currency other than the functional currency.
- Forecast earnings or costs in foreign currencies – NWB Group hedges forward some foreign currency forecast expenses.

Structural foreign exchange exposures arise from investments in foreign subsidiaries, branches and associates and their related currency funding. These exposures are assessed and managed to predefined risk appetite levels under delegated authority agreed by the CFO with support from the Asset & Liability Management Committee. NatWest Group seeks to limit the potential volatility impact on its CET1 ratio from exchange rate movements by maintaining a structural open currency position. Gains or losses arising from the retranslation of net investments in overseas operations are recognised in equity reserves and reduce the sensitivity of capital ratios to foreign exchange rate movements primarily arising from the retranslation of non-sterling denominated RWAs. Sensitivity is minimised where, for a given currency, the ratio of the structural open position to RWAs equals the CET1 ratio.

The sensitivity of the NatWest Group ratio to exchange rates is monitored monthly and reported to the Asset & Liability Management Committee at least quarterly. NWB Plc also monitors the sensitivity of its CET1 ratio to exchange rate movements against a risk limit monthly.

Foreign exchange exposures arising from customer transactions are sold down by businesses on a regular basis in line with NatWest Group policy.

Foreign exchange risk (audited)
The table below shows structural foreign currency exposures.

	2021			2020		
	Net investments in foreign operations £m	Net investment hedges £m	Structural foreign currency exposures £m	Net investments in foreign operations £m	Net investment hedges £m	Structural foreign currency exposures £m
Euro	473	(470)	3	295	(275)	20
Other non-sterling	449	(159)	290	437	(129)	308
Total	922	(629)	293	732	(404)	328

- The increases in net investments in foreign operations and net investment hedges mainly related to an increased investment in NatWest Bank Plc's Frankfurt branch.
- Changes in foreign currency exchange rates affect equity in proportion to structural foreign currency exposure. For example, a 5% strengthening or weakening in foreign currencies against sterling would result in a gain or loss of £15 million in equity, respectively.

Pension risk

Definition
Pension risk is the risk to NWB Group caused by its contractual or other liabilities to, or with respect to, a pension scheme (whether established for its employees or those of a related company or otherwise). It is also the risk that NWB Group will make payments or other contributions to, or with respect to, a pension scheme because of a moral obligation or because NatWest Group considers that it needs to do so for some other reason.

Sources of risk
NWB Group has exposure to pension risk through its defined benefit schemes worldwide. The Main section of The NatWest Group Pension Fund (the Main section) is the largest source of pension risk as NatWest Bank Plc is the principal employer to the Main section with £52.0 billion of assets and £42.0 billion of liabilities at 31 December 2021 (2020 – £51.3 billion of assets and £43.9 billion of liabilities). Refer to Note 5 to the financial statements, for further details on NWB Group's pension obligations, including sensitivities to the main risk factors.

Pension scheme liabilities vary with changes in long-term interest rates and inflation as well as with pensionable salaries, the longevity of scheme members and legislation. Pension scheme assets vary with changes in interest rates, inflation expectations, credit spreads, exchange rates, and equity and property prices. NWB Group is exposed to the risk that the schemes' assets, together with future returns and additional future contributions, are estimated to be insufficient to meet liabilities as they fall due. In such circumstances, NWB Group could be obliged (or might choose) to make additional contributions to the schemes or be required to hold additional capital to mitigate this risk.

Key developments in 2021
- There were no material changes to NWB Group's exposure to pension risk during the year, and the overall position of the main defined benefit schemes that NWB Group sponsors has improved.
- The triennial actuarial valuation for the Main section, with an effective date of 31 December 2020, was completed on 14 December 2021. As the Main section was in surplus at this date, no deficit repair contributions were required, although there was a small increase in the level of contributions in relation to ongoing accrual of benefits.
- In line with the Memorandum of Understanding signed with the Trustee of the Main section in April 2018, a £500 million lump sum contribution was paid into the Main section, following the share buyback in 2021.
- Following the changes to Ulster Bank Limited, it no longer participates in any of NWB Group's defined benefit pension schemes. In particular, NatWest Bank Plc assumed responsibility as Principal Employer and the only participating employer in The Ulster Bank Pension Scheme in Northern Ireland. This will not affect NWB Group's overall exposure to the Scheme.
- As part of the transition of framework components to align to the requirements of the NatWest Group enterprise-wide risk management framework, an updated pension risk policy and risk appetite statement were developed in 2021.

Governance
Chaired by the Chief Financial Officer, the NatWest Group Asset & Liability Management Committee is a key component of NatWest Group's approach to managing pension risk. It considers the pension impact of the capital plan for NatWest Group and reviews performance of NatWest Group's material pension funds (including those sponsored by NWB Group) and other issues material to NatWest Group's pension strategy. It also considers investment strategy proposals from the Trustee of the Main section.

For further information on governance, refer to page 11.

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

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

Monitoring and measurement
Pension risk is monitored by the NWH Group Executive Risk Committee and the NatWest Group Board Risk Committee by way of the monthly Risk Management Report.

NatWest Group also undertakes stress tests on its material defined benefit pension schemes each year. These tests are also used to satisfy the requests of regulatory bodies such as the Bank of England.

The stress testing framework includes pension risk capital calculations for the purposes of the Internal Capital Adequacy Assessment Process as well as additional stress tests for a number of internal management purposes. The results of the stress tests and their consequential impact on NWB Group's balance sheet, income statement and capital position are incorporated into NWB Group's and overall NatWest Group stress test results.

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

Mitigation
Following risk mitigation measures taken by the Trustee in recent years, the Main section is now well protected against interest rate and inflation risks and is being run on a low investment risk basis with relatively small equity risk exposure. The Main section also uses derivatives to manage the allocation of the portfolio to different asset classes and to manage risk within asset classes.

The potential impact of climate change is one of the factors considered in managing the assets of the Main section. The Trustee monitors the risk to its investments from changes in the global economy and invests, where return justifies the risk, in sectors that reduce the world's reliance on fossil fuels, or that may otherwise promote environmental benefits. Further details regarding the Main section Trustee's approach to managing climate change risk can be found in its Responsible Ownership Policy and its net zero commitment. The Trustee has reported in line with the Task Force on Climate-related Financial Disclosures in its Annual Report and Accounts.

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

Conduct risk is the risk that the conduct of NatWest Group and its subsidiaries and its staff towards customers – or in the markets in which it operates – leads to unfair or inappropriate customer outcomes and results in reputational damage, financial loss or both.

Sources of risk
Compliance and conduct risks exist across all stages of NatWest Group's relationships with its customers and arise from a variety of activities including product design, marketing and sales, complaint handling, staff training, and handling of confidential inside information.

Key developments in 2021
- Risk appetite statements and measures were updated with an enhanced focus to provide better visibility of key risks across NatWest Group.
- Delivered a digital platform to facilitate risk-based rules mapping to regulatory obligations. This will enable more efficient management of regulatory compliance matters and support intelligent risk taking.
- Continued collaboration across NatWest Group to deliver good customer outcomes with a focus on enhancing forbearance strategies.
- There was ongoing monitoring and mitigation of elevated conduct risks resulting from the phased withdrawal from the Republic of Ireland including data-driven risk profile reporting.
- Oversight and management of major compliance programmes including work to upgrade NatWest Group's internal ratings based approach for credit risk in order to build better outcomes for customers.

Governance
NatWest Group defines appropriate standards of compliance and conduct and ensures adherence to those standards through its risk management framework. Relevant compliance and conduct matters are escalated through Executive Risk Committee and Board Risk Committee.

Risk appetite
Risk appetite for compliance and conduct risks is set at Board level. Risk appetite statements articulate the levels of risk that legal entities, businesses and functions work within when pursuing their strategic objectives and business plans.

A range of controls is operated to ensure the business delivers good customer outcomes and is conducted in accordance with legal and regulatory requirements. A suite of policies addressing compliance and conduct risks set appropriate standards across NatWest Group. Examples of these include the Complaints Management Policy, Client Assets & Money Policy, and Product Lifecycle Policy as well as policies relating to customers in vulnerable situations, cross-border activities and market abuse. Continuous monitoring and targeted assurance is carried out as appropriate.

Monitoring and measurement
Compliance and conduct risks are measured and managed through continuous assessment and reporting to NatWest Group's senior risk committees and at Board level. The compliance and conduct risk framework facilitates the consistent monitoring and measurement of compliance with laws and regulations and the delivery of consistently good customer outcomes. The first line of defence is responsible for effective risk identification, reporting and monitoring, with oversight, challenge and review by the second line. Compliance and conduct risk management is also integrated into NatWest Group's strategic planning cycle.

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

Financial crime risk
Definition
Financial crime risk is presented by criminal activity in the form of money laundering, terrorist financing, bribery and corruption, sanctions and tax evasion, as well as fraud risk management.

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

Key developments in 2021
- While work continues to enhance the control environment relating to financial crime risk, operational weaknesses between 2012 and 2016 resulted in the inadequate monitoring of a UK incorporated customer. NatWest Group co-operated fully with the regulator's investigation into this case and, in October 2021, NWB Plc pleaded guilty to three breaches of the Money Laundering Regulations 2007.
- Significant investment continued to be made to support delivery of the multi-year transformation plan across financial crime risk management.
- Enhancements were made to technology and data analytics to improve the effectiveness of systems used to monitor customers and transactions.
- A new financial crime and fraud goal was introduced for NatWest Group's most senior 150 employees to further embed financial crime risk management culture, behaviours, and accountabilities.

Governance
The NatWest Group Financial Crime Executive Steering Group, which is jointly chaired by the NatWest Group Chief Risk Officer and the NatWest Group Chief Administrative Officer, is the core governance committee for financial crime (excluding fraud). It oversees financial crime risk management, operational performance, and transformation matters including decision-making and escalations to NatWest Group Executive Risk Committee, NatWest Group Board Risk Committee and NatWest Group Executive Committee.

Financial crime risk continued

Risk appetite

There is no appetite to operate in an environment where systems and controls do not enable the identification, assessment, monitoring, management and mitigation of financial crime risk. NWB Group's systems and controls must be comprehensive and proportionate to the nature, scale and complexity of its businesses. There is no tolerance to systematically or repeatedly breach relevant financial crime regulations and laws.

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

Monitoring and measurement

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

Mitigation

Through the financial crime framework, relevant policies, systems, processes and controls are used to mitigate and manage financial crime risk. This includes the use of dedicated screening and monitoring systems and controls to identify people, organisations, transactions and behaviours that may require further investigation or other actions. Centralised expertise is available to detect and disrupt threats to NWB Group and its customers. Intelligence is shared with law enforcement, regulators and government bodies to strengthen national and international defences against those who would misuse the financial system for criminal motives.

Climate risk

Definition

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

Sources of risk

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

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

Key developments in 2021

- A principles-based climate risk policy was approved by the NatWest Group Board Risk Committee and introduced in April 2021.
- In December 2021, the NatWest Group Board approved a number of first-generation quantitative climate risk appetite measures. These will enable reporting of climate risk appetite and link business-as-usual risk management to NatWest Group's strategic goals and priorities.
- NatWest Group participated in the Bank of England's Climate Biennial Exploratory Scenario (CBES) exercise. In doing so, NatWest Group's capabilities regarding climate scenario analysis were strengthened in 2021 with increased coverage across the balance sheet.
- A new Climate Centre of Excellence was established to provide strategic horizon scanning, guidance and specialist climate expertise across NatWest Group.
- Wholesale credit risk: qualitative assessment of climate risk was made mandatory for the majority of the Wholesale portfolio. This was supported by enhancements to Transaction Acceptance Standards (TAS) criteria, with the inclusion of sector-specific climate considerations for the heightened risk sectors and generic climate considerations for all other TAS documents.
- Personal credit risk: operational measures were developed. These will help to monitor the performance of the Personal mortgage portfolio.

Governance

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

The NatWest Group Chief Risk Officer shares accountability with the NatWest Group CEO under the Senior Managers and Certification Regime for identifying and managing the financial risks arising from climate change. This includes ensuring that the financial risks from climate change are adequately reflected in risk management frameworks, and that NatWest Group can identify, measure, monitor, manage, and report on its exposure to these risks.

The Climate Change Executive Steering Group is responsible for overseeing the direction of and progress against NatWest Group's climate-related commitments. During 2021, the Executive Steering Group focused on overseeing the NatWest Group Climate Change Programme (GCCP), which was tasked with continuing to deliver both NatWest Group's climate strategy and the climate-related mandatory change agenda. The GCCP will close and transition activity into business-as-usual operations across NatWest Group's franchises and functions. The Executive Steering Group will continue to supervise strategic implementation and delivery, supported by the Climate Centre of Excellence.

Risk appetite

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

Climate risk continued

Work continued in 2021 to integrate climate-related risk into the risk management framework, including the development of appropriate risk appetite metrics. In December 2021, the NatWest Group Board approved the adoption of three first-generation climate risk appetite measures into the enterprise-wide risk management framework, for integration into business-as-usual risk management.

Combined with franchise specific operational limits, this suite of metrics will enable reporting of climate risk appetite to senior risk management forums and links risk management to NatWest Group's strategic goals and priorities.

Monitoring and measurement

NatWest Group has focused on developing the capabilities to use scenario analysis to identify the most material climate risks and opportunities for its customers, seeking to harness insights to inform risk management practices and maximise the opportunities arising from a transition to a low carbon economy.

Scenario analysis allows NatWest Group to test a range of possible future climate pathways and understand the nature and magnitude of the risks they present. The purpose of scenario analysis is not to forecast the future but to understand and prepare to manage risks that could arise.

In 2021, activity was dominated by the Bank of England's CBES exercise. NatWest Group applied three climate scenarios to quantify climate risk across its balance sheet, including the full portfolio of wholesale customers and its entire UK commercial real estate and residential (retail) mortgage portfolio.

NatWest Group regularly considers existing and emerging regulatory requirements related to climate change. It continues to participate in several industry-wide initiatives to develop consistent risk measurement methodologies. NatWest Group is a founding signatory of the United Nations Environment Programme Finance Initiative Principles for Responsible Banking, which aims to promote sustainable finance around the globe. In addition, NatWest Group is also represented on the Climate Financial Risk Forum established by the PRA and FCA to shape the financial service industry's response to the challenges posed by climate risk.

Operational risk

Definition

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

Sources of risk

Operational risk may arise from a failure to manage operations, systems, transactions and assets appropriately. This can take the form of human error, an inability to deliver change adequately or on time, the non-availability of technology services, or the loss of customer data. Systems failure, theft of NWB Group property, information loss and the impact of natural, or man-made, disasters – as well as the threat of cyber attacks – are sources of operational risk. 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 2021

- Aligned to the implementation of the enterprise-wide risk management framework, a new operational risk policy was approved in April 2021. The new policy sets out the qualitative expectations, guidance and standards that stipulate the nature and extent of permissible risk-taking for operational risk.
- Operational risk appetite was enhanced using a quantitative modelling approach to determine a meaningful quantitative expression of the maximum level of operational risk NWB Group is willing to accept.
- Oversight of NWB Group's transformation agenda – particularly in relation to the second-order impacts of COVID-19 – remained a significant area of focus with activity being closely monitored and managed to protect key regulatory deliveries.
- There was also a continued focus on operational resilience to ensure planning, controls and operational activities remained robust and appropriate, with continuing attention on the potential operational risks arising from changes in working practices.
- The security threat and the potential for cyber-attacks on NWB Group and its supply chain continue to be closely monitored. During 2021, there was further investment in NWB Group's defences in response to the evolving threat. There was also continuing focus on assuring the security of the supply chain.
- There was sustained focus on reducing the risks associated with data use, particularly in terms of assuring data quality. This was aligned to the NWB Group data strategy, designed to identify and implement enhancements to the effective use of data across NWB Group.

Governance

The risk governance arrangements in place for operational risk are aligned to the requirements set out in the Board approved enterprise-wide risk management framework and are consistent with achieving safety, soundness and sustainable risk outcomes.

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

Risk appetite

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

Mitigation

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

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

Operational risk continued

The CEC process helps to ensure compliance with the NatWest Group Policy Framework, Sarbanes-Oxley 404 requirements concerning internal control over financial reporting, and certain requirements of the UK Corporate Governance Code.

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

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 NWB Group's Risk Directory. Risk assessments are refreshed at least annually to ensure they remain relevant and capture any emerging risks and also ensure risks are reassessed.

The process is designed to confirm that risks are effectively managed in line with risk appetite. Controls are tested at the appropriate frequency to verify that they remain fit-for-purpose and operate effectively to reduce identified risks.

NWB Group uses the standardised approach to calculate its Pillar 1 operational risk capital requirement. This is based on multiplying three years' average historical gross income by coefficients set by the regulator based on business line. As part of the wider Internal Capital Adequacy Assessment Process an operational risk economic capital model is used to assess Pillar 2A, which is a risk-sensitive add-on to Pillar 1. The model uses historical loss data (internal and external) and forward-looking scenario analysis to provide a risk-sensitive view of NWB Group's Pillar 2A capital requirement.

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

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

Operational resilience

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

Event and loss data management

The operational risk event and loss data management process ensures NWB Group captures and records operational risk financial and non-financial events that meet defined criteria. Loss data is used for regulatory and industry reporting and is included in capital modelling when calculating economic capital for operational risk. The most serious events are escalated in a simple, standardised process to all senior management, by way of a Group Notifiable Event Process.

All financial impacts associated with an operational risk event are reported against the date they were recorded in NWB Group's financial accounts. A single event can result in multiple losses (or recoveries) that may take time to crystallise. Losses and recoveries with a financial accounting date in 2021 may relate to events that occurred, or were identified in, prior years. NWB Group purchases insurance against specific losses and to comply with statutory or contractual requirements.

Model risk

Definition

Model risk is the potential for adverse consequences arising from inaccurate financial assessments or decisions made as a result of incorrect or misused model outputs and reports. NWB Group defines a model as a quantitative method, system, or approach that applies statistical, economic, financial, accounting, mathematical or data science theories, techniques and assumptions to process input data into quantitative estimates.

Sources of risk

NWB Group uses a variety of models in the course of its business activities. Examples include the use of model outputs to support customer decisioning, measuring and assessing risk exposures (including credit, market, and climate risk), as well as calculating regulatory capital and liquidity requirements.

Key developments in 2021

- Improvements to models were made in 2021 resulting in a reduction of out-of-appetite models across NWB Group. Enhancements to models will continue in 2022.
- Embedding and enhancement of the Model Risk frameworks.

Governance

A governance framework is in place to ensure policies and processes relating to models are appropriate and effective. Two roles are key to this – Model Risk Owners and Model Risk Officers. Model Risk Owners are responsible for model approval and ongoing performance monitoring. Model Risk Officers, in the second line, are responsible for oversight, including ensuring that models are independently validated prior to use and on an ongoing basis aligned to the model's risk rating.

The NatWest Group Model Risk Oversight Committee provides a direct escalation route to the NatWest Group Executive Risk Committee and, where applicable, onwards to the NatWest Group Board Risk Committee.

Risk appetite

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

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

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

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

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

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

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

Key developments in 2021
- Reputation risk registers were introduced at NatWest Group level in order to enhance monitoring of the most material reputational risks.
- An updated reputational risk appetite statement was introduced with a specific focus on public trust.
- The correlation between reputational risk and climate change issues remained a significant area of focus during 2021. Enhancements were made to the Environmental, Social &-Ethical risk management framework to mitigate reputational risk arising from exposure to carbon-intensive sectors and to support the transition to a lower carbon economy.

Governance
A reputational risk policy supports reputational risk management across NWB Group. Reputational risk committees review relevant issues at an individual business or entity level, while the Reputational Risk Committee – which has delegated authority from the Executive Risk Committee – opines on cases, issues, sectors and themes that represent a material reputational risk. The NatWest Group Board Risk Committee oversees the identification and reporting of reputational risk. The NatWest Group Sustainable Banking Committee has a specific focus on environmental, social and ethical issues.

Risk appetite
NWB Group manages and articulates its appetite for reputational risk through a qualitative reputational risk appetite statement and quantitative measures. NWB Group seeks to identify, measure and manage risk exposures arising from internal actions and external events. This is designed to ensure that stakeholder trust is retained. However, reputational risk is inherent in NWB Group's operating environment and public trust is a specific factor in setting reputational risk appetite.

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

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

External events that could cause reputational damage are identified and mitigated through NatWest Group's top and emerging risks process as well as through the NatWest Group and franchise-level risk registers.

NatWest Group has in recent years been the subject of investigations and reviews by a number of regulators and governmental authorities, some of which have resulted in past fines, settlements and public censure. Refer to the Litigation and regulatory matters section of Note 27 to the consolidated financial statements for details of material matters currently affecting NatWest Group.

Report of the directors

The directors present their report together with the audited accounts for the year ended 31 December 2021.

Other information incorporated into this report by reference can be found at:

NWB Group structure

National Westminster Bank Plc ('NWB Plc') is a wholly-owned subsidiary of NatWest Holdings Limited ('NWH Ltd' or 'the intermediate holding company'). NatWest Bank Group ('NWB Group') comprises NWB Plc and its subsidiary and associated undertakings. NatWest Holdings Group ('NWH Group') comprises NWH Ltd and its subsidiary and associated undertakings. NatWest Group plc is 'the ultimate holding company'. The term 'NatWest Group' comprises NatWest Group plc and its subsidiary and associated undertakings. NatWest Group plc is incorporated in the United Kingdom and has its registered office at 36 St Andrew Square, Edinburgh, EH2 2YB.

Details of NWB Plc's principal subsidiary undertakings and their activities are shown in Note 33 on the accounts. A full list of NWB Plc's related undertakings is shown in Note 36 on the accounts.

The financial statements of NatWest Group plc can be obtained from Legal, Governance & Regulatory Affairs, Gogarburn, Edinburgh, EH12 1HQ, the Registrar of Companies or at natwestgroup.com.

Activities

NWB Group is engaged principally in providing a wide range of banking and other financial services.

Results and dividends

The profit attributable to the ordinary shareholders of NWB Plc for the year ended 31 December 2021 was £2,793 million compared with a profit of £380 million for the year ended 31 December 2020, as set out in the consolidated income statement on page 95.

No ordinary shares were issued during 2021 or 2020.

In 2021, NWB Plc paid an ordinary dividend of £1.6 billion to NWH Ltd (2020 – nil).

Employees

At 31 December 2021, NWB Group employed 51,900 people (excluding temporary staff). Details of related costs are included in Note 3 on the consolidated accounts. NWB Plc employs the majority of NWB Group UK customer-facing staff, with costs recharged. NWB Plc also provides the majority of shared services (including technology) and operational processes under Intra-Group Agreements.

References to 'colleagues' in this report mean all members of the workforce (for example, contractors, agency workers).

Corporate Governance statement

For the financial year ended 31 December 2021 NWB Plc has again chosen to report against the Wates Corporate Governance Principles for Large Private Companies, published by the Financial Reporting Council (FRC) in December 2018 and available on the FRC website (the Wates Principles).

The disclosures below explain how NWB Plc has applied the Wates Principles in the context of its corporate governance arrangements.

1. Purpose and leadership

NatWest Group's purpose is established by the NatWest Group plc Board, promoted across NatWest Group and cascaded to subsidiaries including NWB Plc. In February 2020, and following an extensive period of stakeholder engagement, the NatWest Group plc Board approved NatWest Group's purpose and strategy.

NatWest Group's purpose is 'we champion potential, helping people, families and businesses to thrive'. It has continued to inform and drive NatWest Group's response to the COVID-19 pandemic, acting as an important point of reference during Board discussions, debate and decision-making.

The Board received its annual purpose update in December 2021 which summarised progress in becoming a purpose-led bank against the three purpose focus areas of Enterprise, Learning and Climate. It highlighted the progress to date on embedding purpose and delivering against public commitments and the key areas of focus for 2022 as well as an update on stakeholders' perception of NatWest Group and its purpose aligned to the Blueprint for Better Business framework.

NatWest Group's strategy is set and approved by the NatWest Group plc Board. The board of directors of NWH Ltd (the Board) reviews and sets the strategic direction of the NWH Group and, as appropriate, the strategies for each of its businesses, within the parameters set by the NatWest Group plc Board. The Board also oversees the execution of NWH Group strategy and holds executive management to account for its delivery.

Further information on NatWest Group's progress against its purpose and strategy can be found in the NatWest Group 2021 Annual Report and Accounts.

The Board assesses and monitors culture in several ways. During 2021 it received:

- a presentation on the Banking Standards Board (now the Financial Services Culture Board) 2020 Survey Annual Report and its review of the embedding of purpose in NatWest Group;
- Colleague Advisory Panel reports which provided feedback on topics discussed in meetings. These included wellbeing support for colleagues, Retail Banking strategy, purpose, remuneration and the wider workforce, climate and ways of working;
- One Bank Transformation Programme spotlights on Organisation, Skills & Culture which covered new ways of working, colleague journeys, colleague experience, career development, skills and capability, learning, wellbeing and inclusion;
- Insights from the colleague opinion surveys conducted in April and September 2021. Key measures included culture, purpose, building capability, inclusion, engagement and leadership;
- a Culture Spotlight which provided an update on work to refresh the NatWest Group's values as well as an overview of cultural strengths, behavioural weaknesses, operating model and future culture;
- Culture measurement reports which included insights and metrics to allow the Board to assess culture and understand future priorities. The reports used the Blueprint for Better Business framework to report progress highlighting both positive trends and areas for improvement; and
- Board Business Insights Packs which included metrics on culture, purpose and inclusion

The activities described above have supported the Board in meeting the Wates Principle 1 requirement to ensure that purpose, values, strategy and culture are aligned, within the wider NatWest Group governance structure.

2. Board composition
The Board has 13 directors comprising the Chairman, two executive directors and 10 independent non-executive directors, one of whom is the Senior Independent Director.

The names of the current directors and secretary are shown on page 4.

The Board considers that the Chairman was independent on appointment and that all the non-executive directors are independent. Non-executive director independence and individual directors' continuing contribution to NWB Plc are considered at least annually.

The Board operates a Boardroom Inclusion Policy which reflects the most recent industry targets and is aligned to the Inclusion Policy and Principles applying to the wider NatWest Group. The Boardroom Inclusion policy currently applies to the Boards of NatWest Group plc, NWH Ltd, RBS plc and NWB Plc. A copy of the Boardroom Inclusion Policy is available at natwestgroup.com.

The Boardroom Inclusion Policy's objectives ensure that the Board, and any Committee to which it delegates nomination responsibilities, follows an inclusive process when making nomination decisions. That includes ensuring that the nomination process is based on the principles of fairness, respect and inclusion, that all nominations and appointments are made on the basis of individual competence, skills and expertise measured against identified objective criteria and that searches for Board candidates are conducted with due regard to the benefits of diversity and inclusion.

Throughout 2021 the Board met the recommendation of the Parker Review with at least one member of the Board being of Black, Asian or Minority Ethnic background and it intends to continue to meet that recommendation.

At the end of 2021 the Board exceeded the recommendation of the FTSE Women Leaders Review (formerly the Hampton-Alexander Review) of 33% female representation on the boards), with 38% of the Board being female.

The role of the Chairman is to lead the Board and ensure its overall effectiveness. This is distinct and separate from that of the Chief Executive Officer (CEO) who manages the business day-to-day.

All directors receive accurate, timely and clear information on all relevant matters and have access to the advice and services of the Chief Governance Officer and Company Secretary. In addition, all directors are able, if necessary, to obtain independent professional advice at NWB Plc's expense.

The Senior Independent Director acts as a sounding board for the Chairman and as an intermediary for other directors when necessary.

NWH Ltd is the holding company for NatWest Group's ring-fenced operations, which include the retail, commercial and private banking businesses. A common board structure is operated such that directors of NWH Ltd are also directors of RBS plc and NWB Plc. Known collectively as the NWH Sub Group, the boards of these three entities meet concurrently. The common board structure also applied to Ulster Bank Limited (UBL) until 29 July 2021 when a change in governance arrangements was implemented following a transfer of UBL's business to NWB Plc. The Chairman, CEO and CFO remain directors of UBL to facilitate certain transitional arrangements.

An integral part of NatWest Group's governance arrangements is the appointment of three double independent non-executive directors (DINEDs) to the Boards and Board Committees, of the NWH Sub Group. They are Francesca Barnes, Graham Beale and Ian Cormack.

The DINEDs are independent in two respects: (i) independent of management as non-executives; and (ii) independent of the rest of NatWest Group by virtue of their NWH Sub Group only directorships.

The DINEDs play a critical role in NatWest Group's ring-fencing governance structure, and are responsible for exercising appropriate oversight of the independence and effectiveness of the NWH Sub Group's governance arrangements, including the ability of each board to take decisions independently. The DINEDs also have an enhanced role in managing any conflicts which may arise between the interests of NWB Plc and other members of NatWest Group.

All NWH Sub Group directors who are not DINEDs are directors of NatWest Group plc. All DINEDs attend NatWest Group plc Board meetings in an observer capacity.

The governance arrangements for the Boards and Board Committees of NatWest Group plc and the NWH Sub Group have been designed to enable NatWest Group plc to exercise appropriate oversight and to ensure that, as far as is reasonably practicable, the NWH Sub Group is able to take decisions independently of the wider Group.

The Board is structured to ensure that the directors provide NWB Plc with the appropriate balance of skills, experience, knowledge and diversity, as well as independence. Given the nature of NWH Group's businesses, experience of banking and financial services is clearly of benefit and the Board has a number of directors with substantial experience in those areas.

In December the Nominations Committee reviewed, and the Board approved, a refreshed version of the NatWest Group plc and NWH Sub Group Board skills matrix.

The Board skills matrix reflects directors' self-assessment of the skills and experience they bring to Board discussions, in line with pre-determined criteria aligned to current and future strategic priorities, including CEO/senior executive management; CFO/accountancy; Retail, Commercial and Private Banking; Financial Markets and Investment Banking; Environmental, Social and Governance (including climate); Customer Experience; Technology (infrastructure, cyber); Digital and Innovation; Transformation; Government / regulatory / public sector; Risk Management and Broad Financial Services. The Board skills matrix will continue to be considered by the Nominations Committee and the Board, at least once a year.

Board Committees also comprise directors with a variety of skills and experience so that no undue reliance is placed on any one individual.

The independent non-executive directors combine broad business and commercial experience with independent and objective judgment. They provide constructive challenge, strategic guidance and specialist advice to the executive directors and the executive management team and hold management to account. The balance between non-executive and executive directors enables the Board to provide clear and effective leadership across NWH Group's business activities and ensures no one individual or small group of individuals dominates the Board's decision-making.

The Board monitors the commitments of the Chairman and directors and is satisfied that they are able to allocate sufficient time to enable them to discharge their duties and responsibilities effectively. Any additional external appointments require prior Board approval.

Each new director receives a formal induction programme on joining the Board, which is co-ordinated by the Chief Governance Officer and Company Secretary and tailored to suit the requirements of the individual concerned. This includes visits to NatWest Group's major businesses and functions and meetings with directors and senior management. Meetings with external auditors, counsel and stakeholders are also arranged as appropriate. No new directors were appointed during 2021.

All new directors receive a copy of the Director Handbook. The Handbook operates as a consolidated governance support manual for directors of NatWest Group plc and the NWH Sub Group, providing both new and current directors with a single source of information relevant to their role. It covers a range of topics including NatWest Group's corporate structure; the Board and Board Committee operating model; Board policies and processes and a range of technical guidance on relevant matters including directors' duties, conflicts of interest, and the UK Senior Managers and Certification Regime. The Handbook forms part of a wider library of reference materials available via a resources portal.

The Board is supported in its succession planning activities, including the recruitment of non-executive directors, by the Nominations Committee, which is responsible for considering and making recommendations to the Board in respect of Board appointments. The Nominations Committee reviews the structure, size and composition of the Board, and makes recommendations to the Board in relation to any necessary changes, having regard to the overall balance of skills, knowledge, experience and diversity on the Board, the length of service of the Board as a whole; and the requirement to keep membership regularly refreshed. The Nominations Committee considers Board composition and succession planning at least annually. The NatWest Group plc Group Nominations and Governance Committee also approves all appointments to the Board, reflecting NWB Plc's position as a subsidiary within NatWest Group.

Evaluation
A review of the effectiveness of the Board, including the Chairman, individual directors and Board Committees, is conducted at least annually.

Progress following the 2020 evaluation
A number of actions were progressed during 2021 in response to the findings of the 2020 internal performance evaluation.

In December 2021 the directors noted the progress made against the 2020 evaluation actions, which were consistent across the NatWest Group plc and NWH Sub Group Boards and are described in more detail on page 110 of the NatWest Group 2021 Annual Report and Accounts.

2021 Performance evaluation
In 2021, the Board and Committee evaluation was externally facilitated by Independent Board Evaluation (IBE).

Key findings, recommendations and actions were aligned across NatWest Group plc and the NWH Sub Group and a summary of the outcomes and actions arising from the 2021 evaluation can be found on page 111 of the NatWest Group 2021 Annual Report and Accounts.

Implementation of the 2021 Board evaluation actions will be overseen by the Nominations Committee during 2022.

The Chairman met each director individually to discuss their own performance and continuing professional development and establish whether each director continues to contribute effectively to the company's long-term sustainable success. The Chairman also shared peer feedback provided to IBE as part of the evaluation process.

Separately, the Senior Independent Director sought feedback on the Chairman's performance from the non-executive directors, executive directors and other key internal and external stakeholders and discussed it with the Chairman. This included peer feedback provided to IBE by directors as part of the evaluation process.

Directors have access to a wide range of briefing and training sessions and other professional development opportunities. Directors undertake the training they consider necessary to assist them in carrying out their duties and responsibilities. The non-executive directors discuss professional development annually with the Chairman and they participate in scheduled Board training sessions and other external sessions, as appropriate. During 2021 the Board training programme included dedicated sessions on operational resilience, consumer protection, directors' duties in resolution, cyber security, financial crime and climate.

3. Director responsibilities
All directors receive guidance on their statutory duties under the Companies Act and are supported in the discharge of their duties by the Chief Governance Officer and Company Secretary.

Each director has a role profile which clearly articulates their responsibilities and accountabilities and any additional regulatory responsibilities and accountabilities are set out in their statement of responsibilities.

NatWest Group also produces and maintains a document called 'Our Governance' which sets out the governance, systems and controls applicable to NatWest Group plc and the NWH Sub Group. Our Governance is made available to all directors and is reviewed and approved by the Board at least annually.

The Directors' Conflicts of Interest policy sets out procedures to ensure that the Board's management of conflicts of interest and its powers for authorising certain conflicts are operating effectively. This includes the management of conflicts that may arise during Board decisions where the interests of NWB Plc conflict with the interests of other members of NatWest Group.

Each director is required to notify the Board of any actual or potential situational or transactional conflict of interest and to update the Board with any changes to the facts and circumstances surrounding such conflicts.

Situational conflicts can be authorised by the Board in accordance with the Companies Act 2006 and the company's Articles of Association. The Board considers each request for authorisation on a case by case basis and has the power to impose conditions or limitations on any authorisation granted as part of the process.

NWB Plc maintains a register of directors' interests and appointments, which is reviewed annually by the Board, and there is discussion of directors' conflicts in Board meetings, as required.

The Board
The Board is the main decision-making forum for NWB Plc. The Board is collectively responsible for the long-term success of NWB Plc and the delivery of sustainable value to its shareholders. The Board's role is to provide leadership of NWB Plc. It monitors and maintains the consistency of NWB Plc's activities within the strategic direction of NatWest Group; it reviews and approves risk appetite measures (including limits and triggers) in accordance with the Risk Appetite Framework and it monitors performance against risk appetite for NWB Plc. It approves NWB Plc's key financial objectives and keeps the capital and liquidity positions of NWB Plc under review. The Board's terms of reference include a formal schedule of matters specifically reserved for the Board's decision and are reviewed at least annually. An internal review confirmed the Board had fulfilled its remit as set out in its terms of reference during 2021.

The Board held eight scheduled meetings and continued to meet largely virtually during 2021. A hybrid meeting was held in July and in September the full Board was able to meet in person for the first time since the start of the pandemic.

At each scheduled Board meeting the directors receive reports from the Chairman, Board Committee Chairmen, CEO, CFO, Chief Risk Officer and other members of the executive management team, as appropriate. Other senior executives attended Board meetings throughout the year to present reports to the Board. This provided the Board with an opportunity to engage directly with management on key issues and supports succession planning.

The Board and Committee paper template includes a section for authors to explain how the proposal or update aligns with NatWest Group's purpose and a separate section for them to include an assessment of the relevant stakeholder impacts for the directors to consider.

Directors are mindful that it is not always possible to achieve an outcome which meets the requirements, needs and/or expectations of all stakeholders who are, or may be, impacted. For decisions which are particularly challenging or complex, an additional page was introduced to the Board and Committee paper template in 2021 which provides directors with further information to support purposeful decision making. This additional page uses Blueprint for Better Business as a base and is aligned to NatWest Group's broader purpose framework.

Board priorities in 2021 included oversight of strategy and transformation, customer experience, capital management, financial crime and brand strategy. COVID-19 also remained a key area of focus for the Board, particularly the support being provided to customers and colleagues.

Board Committees
The Board has established a number of Board Committees with particular responsibilities. The Audit, Risk, Performance & Remuneration, and Nominations Committees of NWH Ltd operate as committees of each of NWH Ltd, NWB Plc and RBS plc, with meetings running concurrently. These Board Committees also held delegated authorities for UBL until 29 July 2021 when a change in governance arrangements was implemented following a transfer of UBL's assets to NWB Plc. On that date each Committee's authority for UBL was revoked

The Audit Committee comprises at least three independent non-executive directors, two of whom are DINEDs. The Committee assists the Board in discharging its responsibilities in relation to the disclosure of financial affairs.

It also reviews accounting and financial reporting and regulatory compliance practices of NWB Plc, NWB Plc's system of standards of internal controls, and monitors NWB Plc's processes for internal audit and external audit.

The Board Risk Committee comprises at least four independent non-executive directors, one of whom is the Chairman of the Audit Committee and two of whom are DINEDs. It provides oversight and advice to the Board in relation to current and potential future risk exposures, future risk profile, and the approval and effectiveness of NWB Plc's Risk Management Framework and (in conjunction with the Audit Committee) internal controls required to manage risk.

The Performance and Remuneration Committee (RemCo) comprises at least four independent non-executive directors, one of whom is a DINED. It assists the NatWest Group plc Group Performance and Remuneration Committee with the oversight and implementation of NatWest Group's remuneration policy and also considers and makes recommendations on remuneration arrangements for senior executives of NWB Plc.

The Nominations Committee comprises the Chairman, Senior Independent Director and at least three further independent non-executive directors. It is responsible for assisting the Board in the formal selection and appointment of directors. It reviews the structure, size and composition of the Board, and membership and chairmanship of Board Committees.

Executive Committee
The Executive Committee comprises NWB Plc's most senior executives and supports the CEO to discharge her individual accountabilities including matters relating to strategy, financials, capital, risk, customer and operational issues, and culture and values.

4. Opportunity and risk
The role of the Board is to promote the long-term sustainable success of NWB Plc.

The Board held a strategy session with the executive management team in June 2021. Within the context of a wider discussion at NatWest Group level, this provided an opportunity for the Board to assess opportunities and risks to the future success of the business, the sustainability of the business model and how its governance contributes to the delivery of its strategy.

The Board reviews the effectiveness of the risk management and internal control systems – including the nature and extent of the risks taken in pursuit of strategic objectives. The Board also reviews and approves risk appetite for NWB Plc's principal risks in accordance with the NatWest Group risk appetite framework; monitors performance against risk appetite for NWB Plc; and considers any material risks and approves, as appropriate, recommended actions escalated by the Board Risk Committee.

NWB Plc's risk strategy is informed and shaped by an understanding of the risk landscape including the principal risks it takes in carrying out business activities as well as the risks and uncertainties arising from the external economic, political and regulatory environments.

NWB Plc complies with NatWest Group's risk appetite framework, which is approved annually by the NatWest Group plc Board. NatWest Group risk appetite is set in line with overall strategy.

NWB Plc operates within NatWest Group's integrated risk management framework. This is centred around the embedding of a strong risk culture and is designed to ensure the tools and capability are in place to facilitate sound risk management and decision-making.

During 2021, ongoing work to enhance the enterprise-wide risk management framework continued. The increasing significance of climate risk, which is categorised as a principal risk, remained a critical area of focus. Alignment with climate change regulation is also reported to the NatWest Group Executive Risk Committee and the NatWest Group Board Risk Committee.

NWB Plc also complies with the NatWest Group policy framework. The purpose of the policy framework is to ensure that NatWest Group establishes and maintains policies that adequately address the risks inherent in its business activities.

Further information on the NWB Plc risk management framework including risk culture, risk governance, risk appetite, risk controls and limits, and risk identification and measurement can be found in the risk and capital management section of this report (pages 9 to 75).

5. Remuneration
The NatWest Group remuneration policy provides a consistent policy across all NatWest Group companies and ensures compliance with regulatory requirements. The remuneration policy is aligned with the business strategy, objectives, values and long-term interests of NWB Plc. The policy supports a culture where individuals are rewarded for delivering sustained performance in line with risk appetite and for demonstrating the right conduct and behaviours.

RemCo reviews remuneration for executives of NWB Plc and considers reports on the wider workforce including annual pay outcomes and diversity information. The RemCo helps to ensure that the remuneration policies, procedures and practices being applied are appropriate for NWB Plc.

Executive remuneration structures incentivise individuals to deliver sustainable performance based on strategic objectives for NatWest Group and the relevant business area.

Performance is assessed against a balanced scorecard of financial and non-financial measures and variable pay is subject to deferral as well as malus and clawback provisions to ensure rewards are justified in the long-term.

The approach to performance management provides clarity for colleagues on how their contribution links to NatWest Group's purpose and colleagues set goals across a balanced scorecard of measures. NatWest Group continues to ensure employees are paid fairly for the work they do and are supported by simple and transparent pay structures in line with industry best practices. NatWest Group keeps policies and processes under review to ensure it does so.

This clarity and certainty on how pay is delivered is also helping to improve colleagues' financial wellbeing, which is a core priority in NatWest Group's wellbeing plans. In the UK, NatWest Group's rates of pay continue to exceed the Living Wage Foundation benchmarks and NatWest Group ensures employees performing the same role are paid fairly.

NatWest Group ensures that colleagues have an awareness of the financial and economic factors affecting its performance through quarterly 'Results Explained' communications and Workplace Live events with the Group CEO and Group CFO.

Further information on the remuneration policy, pay ratios and employee share plans can be found in the Directors' remuneration report of the NatWest Group 2021 Annual Report and Accounts. Gender and Ethnicity Pay Gap information can be found in the Strategic report section of the NatWest Group 2021 Annual Report and Accounts and at natwestgroup.com, along with the steps being taken to build an inclusive and engaged workforce.

6. Stakeholder relationships and engagement
In February 2021 the Board approved its annual objectives and confirmed the Board's key stakeholder groups – customers, colleagues, communities, investors, regulators and suppliers. The Board's agenda and engagement plans were structured to enhance the Board's understanding of these stakeholders' views and interests. This in turn has informed Board discussions and decision-making.

For further information on stakeholder engagement activities undertaken within NatWest Group which impacted NWH Group, see pages 14 to 17 and pages 52 to 63 of the NatWest Group 2021 Annual Report and Accounts

Engagement with Colleagues, Suppliers, Customers and Others

For further details on the Board's engagement with colleagues, customers, suppliers and others, and how these stakeholders' interests have influenced Board discussions and principal decisions, see page 3 of the Strategic report which includes a section 172(1) statement and signposts to further information contained in the NatWest Group 2021 Annual Report and Accounts.

Additional colleague-related disclosures

Informing and consulting colleagues
The pandemic has drastically altered the working landscape for everyone, accelerating the evolving relationship between colleagues and employers. It is now more important than ever that NatWest Group listens to colleagues and uses this insight to attract, engage and retain the talent it needs for the future. The 'Colleague Listening Strategy' – which includes colleague opinion surveys; a Colleague Advisory Panel that connects colleagues directly with the Board; the 'Colleague Experience Squad', a group of colleagues who volunteer to provide feedback on colleague products and services; and 'Workplace', NatWest Group's social media platform – contributes to a deeper understanding of colleague sentiment. NatWest Group also tracks metrics and key performance indicators which can be benchmarked with sector and high-performing comparisons.

A total of 46,700 colleagues (81%) participated in the September 2021 'Our View' survey. The results show that colleague sentiment remains strong, despite the pandemic. Lead measures in culture, purpose, inclusion and building capability showed continued and sustained year-on-year improvement (+1 percentage point each). Across all 15 measured categories, NatWest Group sits an average of 11 percentage points above the Global Financial Services Norm (GFSN) and five percentage points above the Global High Performance Norm (GHPN).

Regular interactions with employee representatives such as trade unions, elected employee bodies and works councils are a vital means of transparency and engagement for NatWest Group. These sessions are frequently used to discuss developments and updates on the progress of strategic priorities: in 2021, for example, topics included 'ways of working' and 'health and safety in the context of the pandemic'. NatWest Group is also committed to respecting employees' rights of freedom of association across all of its business.

In addition, through the Colleague Advisory Panel (CAP) established in 2018, colleagues can engage directly with senior management and the Board on topics which are important to them, thereby strengthening the voice of colleagues in the Boardroom. The CAP is made up of 28 colleagues who represent employee-led networks, talent programmes, employee representative bodies or are self-nominated. In this way NatWest Group ensures the panel is diverse, inclusive and representative of the workforce.

The CAP met with representatives from the Board three times in 2021 to discuss issues such as wellbeing, remuneration (including executives and the wider workforce), climate, retail banking strategy, sustainability and purpose. The CAP continues to be highly regarded by those who attend and has proven to be an effective way of establishing two-way dialogue between colleagues and Board members. In 2022 the Board intends to review its approach to how the Board engages with the workforce.

Disability Smart

NatWest Group makes workplace adjustments to support colleagues with disabilities to succeed. If a colleague becomes disabled NatWest Group will, wherever possible, make adjustments to support them in their existing role or re-deploy them to a more suitable alternative role.

The NatWest Group Careers site gives comprehensive insights into NatWest Group jobs, culture, locations and application processes. It also hosts a variety of blog content to portray stories of what it is like to work at NatWest Group. The company also makes sure that candidates can easily request adjustments or help to complete their application or assessment.

Internal control over financial reporting

The internal controls over financial reporting for NWB Group are consistent with those at NatWest Group level. NWB Group has designed and assessed the effectiveness of its internal control over financial reporting as of 31 December 2021 based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in the 2013 publication of 'Internal Control – Integrated Framework'. Any deficiencies identified are reported to NWB Plc's Audit Committee along with management's remediation plans.

NatWest Group's auditors have audited the effectiveness of NatWest Group's internal control over financial reporting and have given an unqualified opinion.

Directors' interests

Where directors of NWB Plc are also directors of NatWest Group plc, their interests in the shares of the ultimate holding company at 31 December 2021 are shown in the Corporate governance, Annual report on remuneration section of the NatWest Group 2021 Annual Report and Accounts. None of the directors held an interest in the loan capital of the ultimate holding company or in the shares or loan capital of NWB Plc or any of its subsidiaries, during the period from 1 January 2021 to 17 February 2022.

Directors' indemnities

In terms of section 236 of the Companies Act 2006 (the 'Companies Act'), Qualifying Third Party Indemnity Provisions have been issued by the ultimate holding company to its directors, members of NWB Plc's Executive Committee, individuals authorised by the PRA/FCA and certain directors and/or officers of NatWest Group's subsidiaries and trustees of NatWest Group's pension scheme.

Going concern

NWB Group's business activities and financial position, the factors likely to affect its future development and performance and its objectives and policies in managing the financial risks to which it is exposed, and its capital are discussed in the Business review. NWB Group's regulatory capital resources and significant developments in 2021, and anticipated future developments are detailed in the Capital, liquidity and funding section on pages 58 to 65. This section also describes NWB Group's funding and liquidity profile, including changes in key metrics and the build up of liquidity reserves.

Having reviewed NWB Plc's principal risks, forecasts, projections, the potential impact of COVID-19 and other relevant evidence, the directors have a reasonable expectation that NWB Plc will continue in operational existence for a period of 12 months from the date of this report. Accordingly, the financial statements of NWB Plc have been prepared on a going concern basis.

Political donations

During 2021, no political donations were made in the UK or EU, nor any political expenditure incurred in the UK or EU.

Directors' disclosure to auditors

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

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

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

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

Auditors

Ernst & Young LLP (EY LLP) are NWB Plc's auditors and have indicated their willingness to continue in office. A resolution to re-appoint EY LLP as NWB Plc's auditors will be proposed at the forthcoming Annual General Meeting.

By order of the Board

Jan Cargill

Jan Cargill
Chief Governance Officer and Company Secretary
17 February 2022

National Westminster Bank Plc
Is registered in England No. 929027

Statement of directors' responsibilities

This statement should be read in conjunction with the responsibilities of the auditor set out in their report on pages 84 to 94.

The directors are responsible for the preparation of the Annual Report and Accounts. The directors are required to prepare Group financial statements, and as permitted by the Companies Act 2006 have elected to prepare company financial statements, for each financial year in accordance with UK adopted International Accounting Standards. They are responsible for preparing financial statements that present fairly the financial position, financial performance and cash flows of NWB Group and NWB Plc. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable, relevant and reliable; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company and Group will continue in business.

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

Under applicable law and regulations, the directors are also responsible for preparing a Strategic report and Directors' report, that comply with that law and those regulations. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website.

The directors confirm that to the best of their knowledge:

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

By order of the Board

Howard Davies
Chairman

Alison Rose-Slade
Chief Executive Officer

Katie Murray
Chief Financial Officer

17 February 2022

Board of directors

Chairman
Howard Davies

Executive directors
Alison Rose-Slade
Katie Murray

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

Financial statements

Independent auditor's report to the members of National Westminster Bank Plc

Opinion

In our opinion:

- the financial statements of National Westminster Bank Plc's (the 'Bank') and its subsidiaries (together the 'Group') give a true and fair view of the state of the Group's and of the Bank's affairs as at 31 December 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the Bank financial statements have been properly prepared in accordance with UK adopted international accounting standards as applied in accordance with section 408 of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements (see table below) of the Bank and the Group for the year ended 31 December 2021 which comprise:

Group	Bank
– Consolidated balance sheet as at 31 December 2021; – Consolidated income statement for the year then ended; – Consolidated statement of comprehensive income for the year then ended; – Consolidated statement of changes in equity for the year then ended; – Consolidated cash flow statement for the year then ended; – Accounting policies; – Related Notes 1 to 36 to the financial statements; and – Risk and capital management section of the Strategic report identified as 'audited'.	– Balance sheet as at 31 December 2021; – Statement of changes in equity for the year then ended; – Cash flow statement for the year then ended; and – Related Notes 1 to 36 to the financial statements including a summary of the significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards and as regards to the group financial statements, as applied in accordance with section 408 of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

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

- In conjunction with our walkthrough of the Group's financial close process, we confirmed our understanding of management's Going Concern assessment process and also engaged with management early to ensure all key factors were considered in their assessment;
- We evaluated management's going concern assessment which included reviewing their evaluation of long-term business and strategic plans, capital adequacy, liquidity and funding positions. It also assessed these positions considering internal stress tests which included consideration of principal and emerging risks. The Group's risk profile and risk management practices were considered including credit risk, market risk, compliance and conduct risk, and operational risk;
- We evaluated management's assessment by considering the Group's ability to continue in operation and meets its liabilities in different scenarios considering the economic impact of COVID-19. We used economic specialists in assessing the macroeconomic assumptions in the forecast through benchmarking to institutional forecasts, HMT consensus and peer comparative economic forecasts;
- Considered the results of the Bank's stress testing and Bank of England 2021 solvency stress test, as well as the Group's results in the Bank of England Climate Biennial Exploratory Scenario (CBES)*; and*
- We reviewed the Group's going concern disclosures included in the annual report in order to assess that the disclosures were appropriate and in conformity with the reporting standards.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and Bank's ability to continue as a going concern over the twelve months from the date 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 Group's ability to continue as a going concern.

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

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

Component	Scope	Key locations
Retail Banking	Full	United Kingdom
Commercial Banking	Full	United Kingdom
Private Banking	Specific	United Kingdom
Central items and other*	Full	United Kingdom, India

including Services, and Treasury

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

	Full scope (1)	Specific scope (2)	Other procedures (3)	Total
Total assets	89%	11%	-	100%
Total equity	86%	12%	2%	100%
Total income	94%	5%	1%	100%

(1) Full scope: audit procedures on all significant accounts.
(2) Specific scope: audit procedures on selected accounts.
(3) Other procedures: considered in analytical procedures and specified procedures, as appropriate.

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

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

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

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

Climate change
There has been increasing interest from stakeholders as to how climate change will impact companies. The Group has determined that the most significant future impacts from climate change on its operations will be from credit risk, operational risk, reputational risk, conduct risk and regulatory compliance risk. These are explained in the required Task Force for Climate related Financial Disclosures in the Strategic Report, and in the Climate Risk section within the Risk and capital management section, which form part of the "Other information". Our procedures on these disclosures consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated.

As explained in the Accounting Policy note, the Group makes use of reasonable and supportable information to make accounting judgments and estimates, including the observable effect of the physical and transition risks of climate change on the current creditworthiness of borrowers, asset values and market indicators, as well as their effect on the Group's competitiveness and profitability. Many of the impacts arising will be longer term in nature, with an inherent level of uncertainty, and have limited effect on accounting judgments and estimates for the current period under the requirements of UK adopted international accounting standards. In the Accounting Policy note, explanation of the impact of certain transition and physical risks were provided for the key assumptions and significant judgments and estimates.

Our audit effort in considering climate change was focused on ensuring that the effects of material climate risks as disclosed in the Accounting Policy note have been appropriately reflected in the asset and liability valuations and the nature and timing of future cash flows. Details of our procedures and results on expected credit loss provisions and impairment of goodwill are included in our key audit matters below. We also challenged the Directors' considerations of climate change in their assessment of going concern and viability and associated disclosures.

Whilst the Group has stated its commitment to the aspirations of the Paris Agreement to achieve net zero emissions by 2050, as stated above the impacts arising will be longer term in nature, and there is an inherent level of uncertainty in determining the full future economic impact on their business model, operational plans and customers.

Key audit matters

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

Risk	Our response to the risk
Expected Credit Loss Provisions	
At 31 December 2021 the Group reported total gross loans of £296 billion (2020: £281 billion) and £2.5 billion of expected credit losses (ECL) (2020: £3.7 billion). Management's judgments and estimates are especially subjective due to significant uncertainty associated with the assumptions used. Uncertainty related with the path to recovery from COVID-19 and the impact of climate change was considered in our risk assessment. Aspects with increased complexity in respect of the timing and measurement of ECL include: – Staging - Allocation of assets to stage 1, 2, or 3 on a timely basis using criteria in accordance with IFRS 9; – Model estimations - Accounting interpretations, modelling assumptions and data used to build and run the Probability of Default ('PD'), Loss Given Default ('LGD') and Exposure at Default ('EAD') models that calculate the ECL; – Economic scenarios - Inputs, assumptions and weightings used to estimate the impact of multiple economic scenarios particularly those influenced by COVID-19 including any changes to scenarios required through 31 December 2021; – Adjustments - Appropriateness, completeness and valuation of model adjustments which represent approximately 25% of total ECL including any COVID-19 specific adjustments due to the ongoing uncertainty which increases the risk of management override; and – Individual provisions - Measurement of individual provisions including the assessment of multiple scenarios considering the impact of COVID-19 on exit strategies, collateral valuations and time to collect.	Controls testing - We evaluated the design and operating effectiveness of controls across the processes relevant to ECL, including the judgments and estimates noted. These controls, among others, included those over: – the allocation of assets into stages including management's monitoring of stage effectiveness; – model governance including monitoring and model validation; – data accuracy and completeness; – credit monitoring; – multiple economic scenarios; – the governance and review of post-model adjustments; – individual provisions; and – production of journal entries and disclosures. In evaluating the governance process, we observed the executive finance and risk committee meetings where the inputs, assumptions and adjustments to the ECL were discussed and approved, among other procedures. Overall assessment - We performed an overall assessment of the ECL provision levels by stage to determine if they were reasonable by considering the overall credit quality of the Group's portfolios, risk profile, impact of COVID-19, government support measures and climate change on the Group's customers. We also considered the appropriateness of provisions applied to government supported lending such as bounce back loans and CBILs which included assessing the compliance with the eligibility criteria with the involvement of our EY legal specialists. We performed peer benchmarking where available to assess overall staging and provision coverage levels. For a higher risk industry, we also assessed the ECL against an independently developed methodology estimating unsustainable debt levels. Based on our assessment of the key judgments we used EY specialists to support the audit team in the areas of economics, modelling and collateral and business valuations. Staging - We evaluated the criteria used to allocate a financial asset to stage 1, 2 or 3 in accordance with IFRS 9; this included peer benchmarking to assess staging levels. We recalculated the assets in stage 1, 2 and 3 to assess if they were allocated to the appropriate stage and performed sensitivity analysis to assess the impact of different criteria on the ECL and also considered the impact of performing collective staging downgrades to industries and geographic regions particularly impacted by climate change. To test credit monitoring which drives the probability of default estimates used in the staging calculation, we recalculated the risk ratings for a sample of performing loans and focused our testing on high risk industries. We also assessed the timing of the annual review performed by management on each wholesale loan exposure to evaluate whether it appropriately considered risk factors by considering independent publicly available information. Model estimations - We performed a risk assessment on all models involved in the ECL calculation to select a sample of models to test. We involved EY modelling specialists to assist us to test this sample of ECL models by testing the assumptions, inputs and formulae used. This included a combination of assessing the appropriateness of model design and formulae, alternative modelling techniques, recalculating the PD, LGD and EAD, and model implementation. We also considered the results of the Group's internal model validation results. To evaluate data quality, we agreed a sample of ECL calculation data points to source systems, including balance sheet date data used to run the models and historic loss data to monitor models. We also tested the ECL data points from the calculation engine through to the general ledger and disclosures.

Risk	Our response to the risk
Expected Credit Loss Provisions continued	
	Economic scenarios - We involved EY economic specialists to assist us in evaluating the base case and alternative economic scenarios, including evaluating probability weights and considering contrary evidence by comparing these to other scenarios from a variety of external sources. This assessment included the latest developments related to COVID-19 at 31 December 2021. We assessed whether forecasted macroeconomic variables were complete and appropriate, such as GDP, unemployment rate, interest rates and the House Price Index. With the support of our modelling specialists we evaluated the correlation and translation of the macroeconomic factors to the ECL. Adjustments - We tested material post-model adjustments including those which continued to be applied as a result of COVID-19 uncertainty. With our modelling specialists, we assessed the risk of bias and the completeness of these adjustments and their appropriateness by considering the data, judgments, methodology, sensitivities, and governance of these adjustments as well as considering model shortcomings. Individual provisions - We recalculated and challenged the scenarios, assumptions and cash flows for a sample of individual provisions including the alternative scenarios and evaluating probability weights assigned, involving EY valuation specialists where appropriate. The sample was based on a number of factors, including higher risk sectors such as commercial real estate, agriculture, oil and gas, mining, retail, leisure and aviation, and materiality. We considered the impact COVID-19 and climate change had on collateral valuations and time to collect as well as whether planned exit strategies remained viable. Disclosure - We tested the data flows used to populate the disclosures and assessed the adequacy of disclosures for compliance with the accounting standards and regulatory considerations.

Key observations communicated to the NatWest Holdings (NWH) Group Audit Committee (1)

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

- Overall provision levels were reasonable which also considered available peer information and our understanding of the credit environment;
- Our testing of models and model assumptions identified some instances of over and under estimation. We aggregated these differences and were satisfied that the overall estimate recorded was reasonable;
- The post-model adjustments recorded were within a reasonable range to reflect risk in the portfolios;
- We recalculated the staging of retail and wholesale exposures in material portfolios and noted no material differences. We also performed sensitivity analysis on the staging criteria and noted that substantial changes would be needed to the criteria to result in a material difference;
- For individually assessed impairments, in a few instances we reported judgmental differences in respect of the extent of the impairment identified, however, none of these differences were considered material; and
- There is inherent uncertainty in predicting the longer-term impact of COVID-19, government support schemes and climate change on the Group's borrowers, their ability to make payments as they fall due and the recoverability of loans. The Group should continue to make use of reasonable and supportable information to consider the long and short term impacts of these matters on accounting judgments and estimates.

Relevant references in the Annual Report and Accounts

Credit Risk section of the Risk and capital management section
Accounting policies
Note 13 to the financial statements

(1) NWH Audit Committee covers the ring-fenced bank legal entities of NatWest Group, including the Group.

Risk	Our response to the risk
Impairment of investments in group undertakings in the Bank's financial statements	
At 31 December 2021, the Bank has reported investments in group undertakings of £2.3 billion (2020: £2.4 billion). The recognition and carrying value of investments in group undertakings in the Bank's financial statements are based on estimates of future profitability, which require significant management judgment and include the risk of management bias. Judgments and especially challenging, complex and subjective assumptions that are difficult to audit due to the forward-looking nature and inherent uncertainties associated with such assumptions include: – Revenue forecasts including the impacts of climate change which are impacted by delivery of the Group's Strategy; – Cost forecasts given the intention to significantly reduce costs over time; – Macroeconomic and model assumptions used in the recoverability and valuation assessments (discount rates, growth rates, macroeconomic assumptions, etc.) including assumptions regarding the economic consequences of COVID -19 and other political developments over an extended period; and – Disclosure adequacy including key assumptions, the sensitivity of changes to these assumptions as well as an explanation of the impairment testing performed.	Controls testing: We evaluated the design and operating effectiveness of controls over the preparation and review of the forecasts, and the significant assumptions (such as discount rate and long-term growth rate) inputs, calculations, methodologies and judgments used in the value-in-use model. This included testing controls over the selection of macroeconomic assumptions in addition to controls over the preparation and review of the revenue and cost projections. In evaluating the governance processes we reviewed the Board meeting materials and minutes where forecasts were discussed and approved, and we observed the committee meetings where the value-in-use model and outcomes were discussed and approved. Macroeconomic and model assumptions: With the support of our internal economic specialists, we tested whether macroeconomic assumptions, including the continued impact of COVID-19 as at 31 December 2021, used in the Group's forecasts were reasonable by comparing these to other scenarios from a variety of external sources. We evaluated how the discount rates and long-term growth rates used by management compared to our ranges which were developed using peer practice, external market data and calculations performed by our valuation specialists. We also assessed changes to valuation methodology and benchmarked this against industry practice with the assistance of our valuation specialists. Revenue forecasts: We evaluated the underlying business strategies, comparing to expected market trends and considering anticipated balance sheet growth. We obtained an understanding of the Group's strategy including their consideration of the impact of climate change, and considered its expected impact on the forecasts and the extent to which decisions had been factored into the forecasts, where appropriate, in accordance with the relevant accounting standards. We also inspected the findings from the review performed by management including their own sensitivity analysis of the forecasts. Cost forecasts: We tested how previous management forecasts, including the impact of cost reduction programmes, compared to actual results to evaluate the accuracy of the forecasting process. We also tested the reasonableness of key performance indicators against peers with the help of our valuation specialists to assess the reasonableness of the Group's cost forecast. Sensitivity analysis: We evaluated how management considered alternative assumptions and performed our own sensitivity and scenario analyses on certain assumptions such as cost and revenue forecasts, discount rate, long-term growth rate and other key performance indicators on both the detailed forecasts and on an overall basis. Disclosure: We evaluated the adequacy of disclosures in the financial statements including the appropriateness of assumptions and sensitivities disclosed. We tested the data and calculations included in the disclosures.

Key observations communicated to the NWH Group Audit Committee

We are satisfied that management methodologies, judgments and assumptions supporting investments in group undertakings in the Bank's financial statements, were reasonable and in accordance with IFRS. We highlighted the following matters to the NWH Group Audit Committee:

- There is inherent uncertainty in predicting revenue and costs over the five-year forecast period, particularly with respect to the impact of COVID-19, the achievement of new strategic objectives, execution risk in the planned cost reductions, the impact of regulatory and climate change developments, and the impact of competition and disruption in banking business models over an extended period.
- Investments in group undertakings:
- The directors impaired NWB's investment in Ulster Bank Limited. The sensitivity analyses we reviewed, and our independent procedures supported these assessments. We are satisfied that the disclosures appropriately reflect the sensitivity of the carrying value of investments in group undertakings to certain reasonable alternative outcomes. As there are a number of other possible outcomes and it would be impracticable to estimate the effect of all of them, the directors have disclosed the uncertainty that other possible outcomes within the next financial year could require an adjustment to the carrying amount of investments in group undertakings.

Relevant references in the Annual Report and Accounts

Accounting policies

Note 9 to the financial statements

Risk	Our response to the risk
Provisions for customer redress, litigation and other regulatory matters	
At 31 December 2021, the Group has reported £0.6 billion (2020: £0.9 billion) of provisions for liabilities and charges, including £0.3 billion (2020: £0.4 billion) for customer redress, litigation and other regulatory matters as detailed in Note 21 of the financial statements. Regulatory scrutiny and the continued litigious environment give rise to a high level of management judgment in determining appropriate provisions and disclosures for specific customer redress, litigation and other regulatory matters. Management judgment is needed to determine whether a present obligation exists and a provision should be recorded at 31 December 2021 in accordance with the accounting criteria set out under IAS 37. The most significant areas of judgment are: – Judgment and risk of management bias - Auditing the adequacy of these provisions is complex because judgment is involved in the selection and use of assumptions in the estimation of material provisions and there is a risk of management bias in the determination of whether an outflow in respect of identified material customer redress, litigation and other regulatory matters is probable and can be estimated reliably; and – Disclosure - Judgment is required to assess the adequacy of disclosures of provision for contingent liabilities given the underlying estimation uncertainty in the provisions, and other uncertainties and assumptions.	Controls testing: We evaluated the design and operating effectiveness of controls over the identification, estimation, monitoring and disclosure of provisions and other uncertainties and assumptions related to customer redress, litigation and other regulatory matters considering the potential for management override of controls. The controls tested, among others, included those to identify and monitor claims, determine when a provision is required and to ensure the completeness and accuracy of data used to estimate provisions. Examination of regulatory correspondence: We examined the relevant regulatory and legal correspondence to assess developments in certain cases. We also considered regulatory developments to identify actual or possible non-compliance with laws and regulations that might have a material effect on the financial statements. For cases which were settled during the period, we compared the actual outflows with the provision that had been recorded, considered whether further risk existed, and evaluated the level of disclosures provided. Inquiry of legal counsel: For significant legal matters, we received confirmations from the Group's external legal counsel to evaluate the likelihood of the obligation and management's estimate of the outflow at year-end. We also conducted inquiries with internal legal counsel over the existence of the legal obligations and related provision. We performed a test for unrecorded provisions to assess if there were cases not considered in the provision estimate by assessing against external legal confirmations and discussing with internal counsel. Testing of assumptions: Where appropriate, we involved our conduct risk and forensics specialists to assist us in evaluating the provision for specific customer redress, litigation and other regulatory matters. We tested the underlying data and assumptions used in the determination of the provisions recorded, including expected claim rates, legal costs, and the timing of settlement. We evaluated the accuracy of management's historical estimates by comparing the actual settlement to the provision and considered peer bank settlement in similar cases. We assessed the reasonableness of the assumptions used by management by comparing to the results of our independently performed benchmarking and sensitivity analysis. We also developed our own range of reasonable alternative estimates and compared them to management's provision. We tested utilisations of remaining provisions during the year and assessed the sufficiency of the remaining provisions yet to be paid for specific customer redress, litigation and other regulatory matters. Disclosure: We evaluated the disclosures provided on customer redress, litigation and other regulatory matters to assess whether they complied with accounting standards.

Key observations communicated to the NWH Group Audit Committee

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

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

Relevant references in the Annual Report and Accounts

Accounting policies
Note 21 and 27 to the financial statements

Risk	Our response to the risk
Pension valuation and net pension balance	
The Group operates a number of defined benefit schemes which in aggregate are significant in the context of the overall balance sheet. At 31 December 2021, the Group reported a net pension liability of £41 million (2020: £55 million) comprising £7 million of schemes in surplus and £48 million of schemes in deficit (2020: £2 million and £57 million respectively). The net pension balance is sensitive to changes in the key judgments and estimates, which include: – Assumptions - Actuarial assumptions and inputs including discount rate, inflation, pension payment and longevity to determine the valuation of retirement benefit liabilities; – Valuations - Pricing inputs and calibrations for illiquid or complex model-dependent valuations of certain investments held by the schemes; and – Augmentation cap - Quantification of trustee's rights to unilaterally augment benefits (Augmentation cap) to determine the recognition of surplus.	Controls testing - We evaluated the design and operating effectiveness of controls over the actuarial assumptions setting process, the data inputs used in the actuarial calculation and the measurement of the fair value of the schemes' assets. Assumptions - We involved our actuarial specialists to evaluate the actuarial assumptions by comparing them to independently obtained third party sources and market practice. We assessed the impact on pension liabilities due to changes in financial, demographic and longevity assumptions over the year, including the continued effects of COVID-19, and whether these were supported by objective external evidence and rationales. Valuations - We involved our valuation specialists to assess the appropriateness of management's valuation methodology including the judgments made in determining significant assumptions used in the valuation of complex and illiquid pension assets. We tested the fair value of scheme assets by independently calculating fair value for a sample of the assets held. Our sample included cash, equity and debt instruments, derivative financial instruments and illiquid assets. Augmentation cap and equalisation adjustments - We involved our actuarial specialists to test the estimation of the augmentation cap including the inputs used in the calculation. We also assessed the methodology and judgments made in calculating these estimates and the associated accounting treatment in accordance with IAS 19 and IFRIC 14. Disclosure - We assessed the adequacy of the disclosures made in the financial statements, including the appropriateness of the assumptions and sensitivities disclosed.

Key observations communicated to the NWH Group Audit Committee

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

- Our benchmarking of key actuarial assumptions including the discount rate, inflation, longevity and pension payments concluded that assumptions were within a reasonable range;
- No material differences were identified through our independent valuation testing for a sample of pension assets; and
- Management's estimate of the impact of the augmentation cap was materially consistent with our independent estimate using our own model.

Relevant references in the Annual Report and Accounts

Accounting policies
Note 5 to the financial statements

Risk	Our response to the risk
IT access management	
The IT environment is complex and pervasive to the operations of the Group due to the large volume of transactions processed in numerous locations on a daily basis with extensive reliance on automated controls. Appropriate IT controls are required to ensure that applications process data as expected and that changes are made in an appropriate manner. This risk is also impacted by the greater dependency on third parties, increasing use of cloud platforms, decommissioning of legacy systems, and migration to new systems. Such controls contribute to mitigating the risk of potential fraud or errors as a result of changes to applications and data. The Group has implemented user access management controls across IT applications, databases and operating systems. We have identified user access-related deficiencies in the past and whilst the number of deficiencies has reduced year over year, the risk of inappropriate access remains.	We evaluated the design and operating effectiveness of IT general controls over the applications, operating systems and databases that are relevant to financial reporting. During our planning and test of design phases, we performed procedures to determine whether changes in restrictions in different global locations, as a result of the ongoing global COVID-19 pandemic had caused material changes in IT processes or controls and observed no such changes that would result in an increased IT risk. Controls testing We tested user access by assessing the controls in place for in-scope applications, in particular testing the addition and periodic recertification of users' access. We continue to focus on key controls enforced by the Group's user access management tools, including the completeness of user data, automated identification of movers and leavers and the adequacy of the overall control environment. Our testing included the Group's additional attestation and leaver checks enhancing its identity and access control environment. A number of systems are outsourced to third party service providers. For these systems, we tested IT general controls through evaluating the relevant Service Organisation Controls reports (where available). This included assessing the timing of the reporting, the controls tested by the service auditor and whether they address relevant IT risks. We also tested required complementary user entity controls performed by management. Where a SOC report was not available we identified and reviewed compensating business controls to address this risk. Several systems have been migrated to a cloud-hosted infrastructure model, access management processes and controls remain in-house which formed part of our testing. Where control deficiencies were identified, we tested remediation activities performed by management and compensating controls in place and assessed what additional testing procedures were necessary to mitigate any residual risk. We also performed a further analysis of access management deficiencies identified by EY, Management and Internal Audit to revalidate our overall approach to access management testing.

Key observations communicated to the NWH Group Audit Committee

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

- We have seen an overall reduction in the number of discrete IT control deficiencies identified compared to prior year.
- Improvements were made to further standardise access management processes and controls across the Group, which was one of the drivers for the reduced number of deficiencies.
- Particular attention should continue to be paid to controls over user access management including ensuring the completeness and accuracy of the data used to perform access controls. Where issues were noted in relation to access management, these were remediated by year end or mitigated by compensating controls. We performed additional testing in response to deficiencies identified, where required.

Our application of materiality

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

Materiality

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

We determined materiality for the Group to be £136 million (2020: £144 million), which is 5% (2020: 5%) of profit before tax of the Group of £3,883 million (2020: £602 million) adjusted for loan impairment releases arising from COVID-19 economic recovery, normalised loan impairment charges, non-recurring conduct and strategic costs and certain non-recurring transactions. We believe removing items that would otherwise have a disproportionate impact on materiality reflects the most useful measure for users of the financial statements and is consistent with the prior year. The 5% basis used for Group materiality is consistent with the wider industry and is the standard for listed and regulated entities.

We determined materiality for the Bank to be £136 million (2020: £144 million) which is 0.7% (2020: 0.8%) of equity of the Bank and is consistent with the prior year. We believe this reflects the most useful measure for users of the financial statements as the Bank's primary purpose is to act as a holding company with investments in the Group's subsidiaries, not to generate operating profits and therefore a profit based measure is not relevant.

Performance materiality

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

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgment was that performance materiality was 75% (2020: 50%) of our planning materiality, namely £102 million (2020: £72 million). We have increased the percentage of performance materiality from the prior year considering that the number and amount of identified misstatements has decreased and to reflect the continued improvements in the effectiveness of the control environment and other factors affecting the entity and its financial reporting. Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £30 million to £91 million (2020: £40 million to £70 million).

Reporting threshold

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

We agreed with the NWH Group Audit Committee that we would report to them all uncorrected audit differences in excess of £7 million (2020: £7 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

Other information

The other information comprises the information included in the Annual Report and Accounts, including the Strategic report, Report of the directors, Statement of directors' responsibilities, Risk Factors, and Forward-looking statements, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:
- the information given in the Strategic report and the Report of the directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and Report of the directors have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept by the Bank, or returns adequate for our audit have not been received from branches not visited by us; or
- the Bank 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 Statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

Other matters we are required to address

- Following the recommendation from the NWH Group Audit Committee we were appointed by the Group at its annual general meeting on 4 May 2016 to audit the financial statements of the Group for the year ending 31 December 2016 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is 6 years, covering periods from our appointment through 31 December 2021.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Bank and we remain independent of the Group and the Bank in conducting the audit.
- The audit opinion is consistent with the additional report to the NWH Group Audit Committee.

Use of our report

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

DocuSigned by:
Ernst & Young LLP
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Simon Michaelson (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London, United Kingdom
17 February 2022

Consolidated income statement for the year ended 31 December 2021

	Note	2021 £m	2020 £m
Interest receivable		6,721	6,825
Interest payable		(719)	(1,015)
Net interest income	1	6,002	5,810
Fees and commissions receivable		1,862	1,685
Fees and commissions payable		(380)	(301)
Other operating income		1,785	1,761
Non-interest income	2	3,267	3,145
Total income		9,269	8,955
Staff costs		(2,815)	(2,823)
Premises and equipment		(948)	(1,044)
Other administrative expenses		(1,660)	(1,476)
Depreciation and amortisation		(776)	(841)
Operating expenses	3	(6,199)	(6,184)
Profit before impairment releases/(losses)		3,070	2,771
Impairment releases/(losses)	13	813	(2,169)
Operating profit before tax		3,883	602
Tax charge	7	(976)	(66)
Profit for the year		2,907	536
Attributable to:			
Ordinary shareholders		2,793	380
Paid-in equity holders		109	152
Non-controlling interests		5	4
		2,907	536

Consolidated statement of comprehensive income for the year ended 31 December 2021

	Note	2021 £m	2020 £m
Profit for the year		2,907	536
Items that do not qualify for reclassification			
Remeasurement of retirement benefit schemes	5	(531)	(76)
Tax		158	35
		(373)	(41)
Items that do qualify for reclassification			
FVOCI financial assets		(96)	47
Cash flow hedges		180	(218)
Currency translation		(22)	7
Tax		(40)	41
		22	(123)
Other comprehensive loss after tax		(351)	(164)
Total comprehensive income for the year		2,556	372
Attributable to:			
Ordinary shareholders		2,442	216
Paid-in equity holders		109	152
Non-controlling interests		5	4
		2,556	372

The accompanying notes on pages 106 to 166, the accounting policies on pages 100 to 105 and the audited sections of the Financial Review and Risk and capital management on pages 6 to 75 form an integral part of these financial statements.

Balance sheet as at 31 December 2021

	Note	NWB Group 2021 £m	NWB Group 2020 £m	NWB Plc 2021 £m	NWB Plc 2020 £m
Assets					
Cash and balances at central banks	9	**101,213**	62,983	**101,210**	62,878
Derivatives	12	**2,460**	3,288	**2,547**	3,438
Loans to banks - amortised cost	9	**4,182**	3,344	**3,638**	2,798
Loans to customers - amortised cost	9	**286,971**	271,581	**255,443**	238,366
Amounts due from holding companies and fellow subsidiaries	9	**3,519**	3,305	**27,122**	28,176
Securities subject to repurchase agreements		**10,813**	11,438	**10,813**	11,438
Other financial assets excluding securities subject to repurchase agreements		**18,218**	26,557	**17,836**	26,168
Other financial assets	15	**29,031**	37,995	**28,649**	37,606
Investment in group undertakings	14	**—**	—	**2,319**	2,374
Other assets	16	**7,187**	7,043	**5,183**	4,967
Total assets		**434,563**	389,539	**426,111**	380,603
Liabilities					
Bank deposits	9	**22,831**	14,871	**22,829**	14,866
Customer deposits	9	**329,440**	293,605	**292,470**	255,290
Amounts due to holding companies and fellow subsidiaries	9	**45,136**	37,559	**76,722**	69,617
Derivatives	12	**4,119**	6,552	**4,336**	6,769
Other financial liabilities	19	**7,251**	10,383	**6,384**	9,612
Subordinated liabilities	20	**211**	1,230	**205**	1,230
Notes in circulation		**904**	1,012	**904**	1,266
Other liabilities	21	**3,934**	4,435	**3,095**	3,489
Total liabilities		**413,826**	369,647	**406,945**	362,139
Owners' equity	22	**20,727**	19,882	**19,166**	18,464
Non-controlling interests		**10**	10	**—**	—
Total equity		**20,737**	19,892	**19,166**	18,464
Total liabilities and equity		**434,563**	389,539	**426,111**	380,603

Owners' equity of NWB Plc as at 31 December 2021 includes the profit for the year of £2,752 million (2020 - £722 million).

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

The accompanying notes on pages 106 to 166, the accounting policies on pages 100 to 105 and the audited sections of the Financial Review and Risk and capital management on pages 6 to 75 form an integral part of these financial statements.

The accounts were approved by the Board of directors on 17 February 2022 and signed on its behalf by:

Howard Davies
Chairman

Alison Rose-Slade
Chief Executive Officer

Katie Murray
Chief Financial Officer

National Westminster Bank Plc
Registration No. 929027

Statement of changes in equity for the year ended 31 December 2021

	NWB Group		NWB Plc	
	2021	2020	2021	2020
	£m	£m	£m	£m
Called-up share capital - at 1 January and 31 December	**1,678**	1,678	**1,678**	1,678
Share premium - at 1 January and 31 December	**2,225**	2,225	**2,225**	2,225
Paid-in equity - at 1 January	**2,370**	2,370	**2,370**	2,370
Redemption	**(934)**	—	**(934)**	—
Issued during the year	**941**	—	**941**	—
At 31 December	**2,377**	2,370	**2,377**	2,370
Merger reserve - at 1 January	**9**	167	**(140)**	(231)
Addition	**—**	(34)	**—**	—
Amortisation	**5**	(124)	**51**	91
At 31 December	**14**	9	**(89)**	(140)
FVOCI reserve - at 1 January	**280**	250	**279**	251
Unrealised gains	**26**	157	**28**	155
Realised (gains)	**(122)**	(110)	**(122)**	(110)
Tax	**8**	(17)	**8**	(17)
At 31 December	**192**	280	**193**	279
Cash flow hedging reserve - at 1 January	**(133)**	27	**(133)**	27
Amount recognised in equity	**102**	(275)	**100**	(275)
Amount transferred from equity to earnings	**78**	57	**79**	57
Tax	**(48)**	58	**(48)**	58
At 31 December	**(1)**	(133)	**(2)**	(133)
Foreign exchange reserve - at 1 January	**(63)**	(70)	**(13)**	(14)
Retranslation of net assets	**(44)**	13	**(18)**	(2)
Foreign currency gains/(losses) on hedges of net assets	**22**	(5)	**15**	3
Recycled to profit or loss on disposal businesses	**—**	(1)	**—**	—
Tax	**—**	—	**—**	—
At 31 December	**(85)**	(63)	**(16)**	(13)
Capital redemption reserve - at 1 January	**796**	796	**796**	796
Redemption of preference shares	**24**	—	**24**	—
At 31 December	**820**	796	**820**	796
Retained earnings - at 1 January	**12,720**	12,223	**11,402**	10,924
Profit attributable to ordinary shareholders and other equity owners	**2,902**	532	**2,752**	722
Ordinary dividends paid	**(1,600)**	—	**(1,600)**	—
Paid-in equity dividends paid	**(109)**	(152)	**(109)**	(152)
Remeasurement of retirement benefit schemes (1)				
- gross	**(531)**	(76)	**(545)**	(70)
- tax	**158**	35	**159**	35
Amortisation of merger reserve	**(5)**	124	**(51)**	(91)
Redemption of preference shares	**(24)**	—	**(24)**	—
Redemption of paid-in equity (2)	**(18)**	—	**(18)**	—
Share based payments (3)	**4**	45	**4**	45
Shares issued under employee share schemes	**10**	(11)	**10**	(11)
At 31 December	**13,507**	12,720	**11,980**	11,402
Owners' equity at 31 December	**20,727**	19,882	**19,166**	18,464

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

Statement of changes in equity for the year ended 31 December 2021 continued

	NWB Group		NWB Plc	
	2021 £m	2020 £m	2021 £m	2020 £m
Non-controlling interests - at 1 January	**10**	6	**—**	—
Profit attributable to non-controlling interests	**5**	4	**—**	—
Dividends paid	**(5)**	—	**—**	—
At 31 December	**10**	10	**—**	—
Total equity at 31 December	**20,737**	19,892	**19,166**	18,464
Attributable to:				
Ordinary shareholders	**18,350**	17,512	**16,789**	16,094
Paid-in equity holders	**2,377**	2,370	**2,377**	2,370
Non-controlling interests	**10**	10	**—**	—
	20,737	19,892	**19,166**	18,464

(1) Following the purchase of ordinary shares from UKGI in March 2021, NatWest Group contributed £500 million to its main pension scheme in line with the memorandum of understanding announced on 17 April 2018. After tax relief, this contribution reduced total equity by £365 million.
(2) The redemption of paid-in equity includes a tax credit of £5 million.
(3) Share-based payments includes a tax credit of £7 million.

The accompanying notes on pages 106 to 166, the accounting policies on pages 100 to 105 and the audited sections of the Financial Review and Risk and capital management on pages 6 to 75 form an integral part of these financial statements.

Cash flow statement for the year ended 31 December 2021

	Note	NWB Group 2021 £m	NWB Group 2020 £m	NWB Plc 2021 £m	NWB Plc 2020 £m
Cash flows from operating activities					
Operating profit before tax		**3,883**	602	**3,542**	689
Adjustments for:					
Impairment (releases)/losses		**(813)**	2,169	**(732)**	1,934
Amortisation of discounts and premiums of other financial assets		**181**	213	**181**	212
Depreciation and amortisation		**776**	841	**594**	650
Net impairment (reversals)/charges of investments in Group undertakings		**—**	—	**61**	50
Change in fair value taken to profit or loss of other financial assets		**1,595**	(1,436)	**1,595**	(1,436)
Change in fair value taken to profit or loss of other financial liabilities and subordinated liabilities		**(420)**	237	**(418)**	237
Elimination of foreign exchange differences		**1,120**	(758)	**1,118**	(749)
Other non-cash items		**87**	146	**58**	124
Income receivable on other financial assets		**(412)**	(250)	**(412)**	(251)
Profit on sale of other financial assets		**(120)**	(113)	**(120)**	(113)
Dividends receivable from subsidiaries		**—**	—	**(424)**	(489)
Profit on sale of subsidiaries and associates		**—**	(4)	**—**	—
Profit on sale of other assets and net assets/liabilities		**34**	(16)	**34**	(16)
Loss on redemption of own debt		**117**	—	**117**	—
Interest payable on MRELs and subordinated liabilities		**315**	344	**310**	339
Charges and releases on provisions		**388**	189	**388**	183
Defined benefit pension schemes		**173**	168	**146**	136
Net cash flows from trading activities		**6,904**	2,332	**6,038**	1,500
Decrease/(increase) in derivative assets		**930**	(261)	**991**	(309)
Increase in net loans to banks		**(89)**	(401)	**(155)**	(391)
Increase in net loans to customers		**(14,511)**	(38,384)	**(12,741)**	(38,781)
(Increase)/decrease in amounts due from holding companies and fellow subsidiaries		**(443)**	146	**5,288**	891
(Increase)/decrease in other financial assets		**(116)**	20	**(116)**	20
Increase in other assets		**(19)**	(145)	**(16)**	(59)
Increase/(decrease) in bank deposits		**7,960**	(634)	**7,963**	(621)
Increase in customer deposits		**35,835**	51,488	**28,707**	46,592
Increase in amounts due to holding companies and fellow subsidiaries		**6,033**	14,799	**5,426**	17,285
(Decrease)/increase in derivative liabilities		**(2,433)**	1,654	**(2,437)**	1,756
Decrease in other financial liabilities		**(5)**	(1,051)	**(100)**	(1,150)
(Decrease)/increase in notes in circulation		**(108)**	170	**(362)**	1,266
Decrease in other liabilities		**(1,199)**	(672)	**(1,121)**	(862)
Changes in operating assets and liabilities		**31,835**	26,729	**31,327**	25,637
Income taxes (paid)/received		**(923)**	170	**(791)**	363
Net cash flows from operating activities [1]		**37,816**	29,231	**36,574**	27,500
Cash flows from investing activities					
Sale and maturity of other financial assets		**10,272**	12,091	**9,884**	11,702
Purchase of other financial assets		**(3,193)**	(7,816)	**(2,811)**	(7,428)
Income received on other financial assets		**412**	250	**412**	251
Net movement in business interests and intangible assets	28	**(3,701)**	(387)	**(3,093)**	(353)
Dividends received from subsidiaries		**—**	—	**424**	489
Sale of property, plant and equipment		**58**	319	**17**	125
Purchase of property, plant and equipment		**(876)**	(344)	**(617)**	(176)
Net cash flows from investing activities		**2,972**	4,113	**4,216**	4,610
Cash flows from financing activities					
Movement in MRELs		**1,762**	648	**1,515**	654
Movement in subordinated liabilities		**(1,267)**	321	**(1,267)**	321
Dividends paid		**(1,714)**	(152)	**(1,709)**	(152)
Issue of paid-in equity		**941**	—	**941**	—
Redemption of paid-in equity		**(934)**	—	**(934)**	—
Net cash flows from financing activities		**(1,212)**	817	**(1,454)**	823
Effects of exchange rate changes on cash and cash equivalents		**(979)**	621	**(984)**	641
Net increase in cash and cash equivalents		**38,597**	34,782	**38,352**	33,574
Cash and cash equivalents at 1 January		**68,048**	33,266	**67,194**	33,620
Cash and cash equivalents at 31 December	30	**106,645**	68,048	**105,546**	67,194

(1) NWB Group includes interest received of £6,623 million (2020 - £6,736 million) and interest paid of £693 million (2020 - £1,092 million), and NWB Plc includes interest received of £5,937 million (2020 – £6,063 million) and interest paid of £779 million (2020 - £1,345 million).

The accompanying notes on pages 106 to 166, the accounting policies on pages 100 to 105 and the audited sections of the Financial Review and Risk and capital management on pages 6 to 75 form an integral part of these financial statements.

Accounting policies

1. Presentation of financial statements

National Westminster Bank Plc (NWB Plc) is incorporated in the UK and registered in. England and Wales The financial statements are presented in the functional currency, pounds sterling.

NWB Plc consolidated financial statements incorporate the results of NWB Plc and the entities it controls. Control arises when NWB Plc has the power to direct the activities of an entity so as to affect the return from the entity. Control is assessed by reference to our ability to enforce our will on the other entity, typically through voting rights. The consolidated financial statements are prepared under consistent accounting policies.

On the acquisition of a business from a NatWest Group company, the assets, liabilities and IFRS reserves, such as the cash flow hedging reserve, are recognised at their inherited values taken from the consolidated financial statements of NatWest Group plc and include the accounting history since initial recognition. The acquirer recognises, in merger reserve, any difference between the consideration paid and the net items recognised at inherited values.

Transactions and balances between Group companies are eliminated in the consolidated financial statements to show only those transactions and balances external to the Group.
The audited financial statements are set out on pages 95 to 166 and the audited sections of the Risk and capital management on pages 9 to 75. The directors have prepared the financial statements on a going concern basis after assessing the principal risks, forecasts, projections and other relevant evidence over the twelve months from the date the financial statements are approved (see the Report of the directors, page 76) and in accordance with UK adopted International Accounting Standards (IAS). The significant accounting policies and related judgments are set out below.

Except for certain financial instruments as described in Accounting policies 10 and 15 and investment property, the financial statements are presented on a historical cost basis.

Accounting policy changes effective 1 January 2021.
The IASB amended IFRS 16 Leases with "COVID-19 amendments on lease modifications – Amendments to IFRS 16 – Leases (IFRS 16)". The effect of the amendment on NWB Group's financial statements is immaterial.

2. Revenue recognition

Interest income and expense are recognised in the income statement using the effective interest rate method: for all financial instruments measured at amortised cost, debt instruments measured as fair value through other comprehensive income and the effective part of any related accounting hedging instruments. Finance lease income is recognised at a constant periodic rate of return before tax on the net investment on the lease. Negative interest on financial assets is presented in interest payable and negative interest on financial liabilities is presented in interest receivable.

Other interest relating to financial instruments measured at fair value is recognised as part of the movement in fair value and is reported in other operating income.

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. Staff costs

Employee costs, such as salaries, paid absences, and other benefits are recognised over the period in which the employees provide the related services to NWB Group. Employees may receive variable compensation in cash, in deferred cash or debt instruments of NWB Group or in ordinary shares of NatWest Group plc. NatWest Group operates a number of share-based compensation schemes (which NWB Group employees are eligible to) under which it grants awards of NatWest Group plc shares and share options to its employees. Such awards are subject to vesting conditions.

Variable compensation that is settled in cash or debt instruments is charged to the income statement on a straight-line basis over the period during which services are provided, taking account of forfeiture and clawback criteria. The value of employee services received in exchange for NatWest Group plc shares and share options is recognised as an expense over the vesting period, subject to deferral. clawback and forfeiture criteria with a corresponding increase in equity. The fair value of the instruments granted is based on market prices at the grant date.

Defined benefit pension scheme
A scheme that defines the benefit an employee will receive on retirement and is dependent on one or more factors such as age, salary, and years of service. The net of the recognisable scheme assets and obligations is reported on the balance sheet in other assets or other liabilities. The defined benefit obligation is measured on an actuarial basis. The charge to the income statement for pension costs (mainly the service cost and the net interest on the net defined benefit asset or liability) is recognised in operating expenses.

Actuarial gains and losses (i.e. gains and/or losses on re-measuring the net defined benefit asset or liability) due to changes in actuarial measurement assumptions are recognised in other comprehensive income in full in the period in which they arise and not subject to recycling to the income statement. The difference between scheme assets and scheme liabilities, the net defined benefit asset or liability, is recognised on the balance sheet if the criteria of the asset ceiling test are met. This requires the net defined benefit surplus to be limited to the present value of any economic benefits available to NatWest Group in the form of refunds from the plan or reduced contributions to it.

NWB Group will recognise a liability where a minimum funding requirement exists for any of its defined benefit pension schemes. This reflects agreed minimum funding and the availability of a net surplus as determined as described above. When estimating the liability for minimum funding requirements NWB Group only include contributions that are substantively or contractually agreed and do not include discretionary features, including dividend-linked contributions.

4. Intangible assets
Intangible assets are identifiable non-monetary assets without physical substance acquired by NWB Group are stated at cost less accumulated amortisation and impairment losses. Amortisation is a method to spread the cost of such assets over time to the income statement. This is charged to the income statement over the assets' estimated useful economic lives using methods that best reflect the pattern of economic benefits. The estimated useful economic lives are:

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

Expenditure on brands is charged to the income statement as incurred.

Direct costs relating to the development of internal-use computer software are reported on the balance sheet after technical feasibility and economic viability have been established. These direct costs include payroll, the costs of materials and services, and directly attributable overheads. Capitalisation of costs ceases when the software can operate as intended.

During and after development, accumulated costs are reviewed for impairment against the benefits that the software is expected to generate.

Costs incurred prior to the establishment of technical feasibility and economic viability are expensed to the income statement as incurred, as are all training costs and general overheads. The costs of licences to use computer software that are expected to generate economic benefits beyond one year are also reported on the balance sheet

5. Impairment of non-financial assets
At each balance sheet date, NWB Group assesses whether there is any indication that its intangible assets or property, plant and equipment are impaired. If any such indication exists, NWB Group estimates the recoverable amount of the asset and compares it to its balance sheet value to calculate if an impairment loss should be charged to the income statement. The balance sheet value of the asset is reduced by the amount of the impairment loss. A reversal of an impairment loss on intangible assets or property, plant and equipment is recognised in the income statement provided the increased carrying value is not greater than it would have been had no impairment loss been recognised.

The recoverable amount of an asset that does not generate cash flows that are independent from those of other assets or groups of assets, is determined as part of the cash-generating unit to which the asset belongs. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

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

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

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

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

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

Investment property comprises freehold and leasehold properties that are held to earn rentals or for capital appreciation or both. Investment property is not depreciated but is stated at fair value. Fair value is based on current prices for similar properties in the same location and condition. Any gain or loss arising from a change in fair value is recognised in profit or loss. Rental income from investment property is recognised on a straight-line basis over the term of the lease in Other operating income. Lease incentives granted are recognised as an integral part of the total rental income.

7. Foreign currencies
Foreign exchange differences arising on the settlement of foreign currency transactions and from the translation of monetary assets and liabilities are reported in income from trading activities except for differences arising on cash flow hedges and hedges of net investments in foreign operations

Non-monetary items denominated in foreign currencies that are stated at fair value are translated into the functional currency at the foreign exchange rates ruling at the dates the values are determined. Translation differences are recognised in the income statement except for differences arising on non-monetary financial assets classified as fair value through other comprehensive income.

Income and expenses of foreign subsidiaries and branches are translated into sterling at average exchange rates unless these do not approximate the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on the translation of a foreign operation are recognised in other comprehensive income. The amount accumulated in equity is reclassified from equity to the income statement on disposal of a foreign operation.

8. Provisions and contingent liabilities
NWB Group recognises a provision for a present obligation resulting from a past event when it is more likely than not that it will be required to pay to settle the obligation and the amount of the obligation can be estimated reliably.

Provision is made for restructuring costs, including the costs of redundancy, when NWB Group has a constructive obligation. An obligation exists when NWB Group has a detailed formal plan for the restructuring and has raised a valid expectation in those affected either by starting to implement the plan or by announcing its main features.

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

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

9. Tax

Tax encompassing current tax and deferred tax is recognised the income statement except when taxable items are recognised in other comprehensive income or equity . Tax consequences arising from servicing financial instruments classified as equity are recognised in the income statement in line with IAS 12.

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

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

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

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

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

10. Financial instruments

Financial instruments are measured at fair value on initial recognition on the balance sheet. Monetary financial assets are classified into one of the following subsequent measurement categories (subject to business model assessment and review of contractual cash flow for the purposes of sole payments of principal and interest where applicable):

- amortised cost measured at cost using the effective interest rate method, less any impairment allowance;
- fair value through other comprehensive income (FVOCI) measured at fair value, using the effective interest rate method and changes in fair value through other comprehensive income;
- mandatory fair value through profit or loss measured at fair value and changes in fair value reported in the income statement; or
- designated at fair value through profit or loss measured at fair value and changes in fair value reported in the income statement.

Classification by business model reflects how NWB Group manages its financial assets to generate cash flows. A business model assessment helps to ascertain the measurement approach depending on whether cash flows result from holding financial assets to collect the contractual cash flows, from selling those financial assets, or both

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

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

Certain financial assets may be designated at fair value through profit or loss (DFV) upon initial recognition if such designation eliminates, or significantly reduces, accounting mismatch.

Equity shares are measured at fair value through profit or loss unless specifically elected as at fair value through other comprehensive income (FVOCI).

Upon disposal, the cumulative gains or losses in fair value through other comprehensive income reserve are recycled to the income statement for monetary assets and non-monetary assets (equity shares) the cumulative gains or losses are transferred directly to retained earnings .

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.

Financial liabilities are classified into one of following measurement categories:

- amortised cost measured at cost using the effective interest rate method;
- held for trading measured at fair value and changes in fair value reported in income statement; or
- designated at fair value through profit or loss measured at fair value and changes in fair value reported in the income statement except changes in fair value attributable to the credit risk component recognised in other comprehensive income when no accounting mismatch occurs.

11. Impairment: expected credit losses (ECL)

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

ECL are a probability-weighted estimate of credit losses. The probability is determined by the risk of default which is applied to the cash flow estimates. In the absence of a change in credit rating, allowances are recognised when there is a reduction in the net present value of expected cash flows. Following a significant increase in credit risk, ECL are adjusted from 12 months to lifetime. This will lead to a higher impairment charge.

Judgment is exercised as follows:
- Models – in certain low default portfolios, Basel parameter estimates are also applied for IFRS 9.
- Non-modelled portfolios, mainly in Private Banking, and Lombard, use a standardised capital requirement under Basel II. Under IFRS 9, they have bespoke treatments for the identification of significant increase in credit risk. Benchmark PDs, EADs and LGDs are reviewed annually for appropriateness. The ECL calculation is based on expected future cash flows, which is typically applied at a portfolio level.
- Multiple economic scenarios (MES) – the central, or base, scenario is most critical to the ECL calculation, independent of the method used to generate a range of alternative outcomes and their probabilities.
- Significant increase in credit risk - IFRS 9 requires that at each reporting date, an entity shall assess whether the credit risk on an account has increased significantly since initial recognition. Part of this assessment requires a comparison to be made between the current lifetime PD (i.e. the current probability of default over the remaining lifetime) with the equivalent lifetime PD as determined at the date of initial recognition.

On restructuring where a financial asset is not derecognised, the revised cash flows are used in re-estimating the credit loss. Where restructuring causes derecognition of the original financial asset, the fair value of the replacement asset is used as the closing cash flow of the original asset.

Where, in the course of the orderly realisation of a loan, it is exchanged for equity shares or property, the exchange is accounted for as the sale of the loan and the acquisition of equity securities or investment property. Where NWB Group's acquired interest is in equity shares, relevant polices for control, associates and joint ventures apply.

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

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

12. Derecognition
A financial asset is derecognised (removed from the balance sheet) 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 in a contract under which NWB Group retains substantially all the risks and rewards of ownership.

A financial liability is removed from the balance sheet when the obligation is paid, or is cancelled, or expires. Cancellation includes the issuance of a substitute instrument on substantially different terms.

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

14. Capital instruments
NWB Group classifies a financial instrument that it issues as a liability if it is a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities on potentially unfavourable terms and as equity if it evidences a residual interest in the assets of NWB Group after the deduction of liabilities. Incremental costs and related tax that are directly attributable to an equity transaction are deducted from equity.

15. Derivatives and hedging
Derivatives are reported on the balance sheet at fair value.

NWB Group uses derivatives to manage its own risk such as interest rate, foreign exchange, or credit risk or in certain customer transactions. Not all derivatives used to manage risk are in hedge accounting relationships (an IFRS method to reduce accounting mismatch from changes in fair value of the derivatives reported in the income statement.

Gains and losses arising from changes in the fair value of derivatives that are not in hedge relationships and derivatives that are managed together with financial instruments designated at fair value are included in Other operating income.

Hedge accounting
NWB Group enters into three types of hedge accounting relationships (see later). Hedge accounting relationships are designated and documented at inception in line with the requirements of IAS 39 *Financial instruments – Recognition and Measurement*. The documentation identifies the hedged item, the hedging instrument and details of the risk that is being hedged and the way in which effectiveness will be assessed at inception and during the period of the hedge.

Fair value hedge - the gain or loss on the hedging instrument and the hedged item attributable to the hedged risk is recognised in the income statement. Where the hedged item is measured at amortised cost, the balance sheet amount of the hedged item is also adjusted.

Cash flow hedge - the effective portion of the designated hedge relationship is recognised in other comprehensive income and the ineffective portion in the income statement. When the hedged item (forecasted cash flows) results in the recognition of a financial asset or financial liability, the cumulative gain or loss is reclassified from equity to the income statement in the same periods in which the hedged forecasted cash flows affect the income statement.

Hedge of net investment in a foreign operation - In the hedge of a net investment in a foreign operation, the effective portion of the designated hedge relationship is recognised in other comprehensive income. Any ineffective portion is recognised in profit or loss. Non-derivative financial liabilities as well as derivatives may be designated as a hedging instrument in a net investment hedge.

Discontinuation of hedge accounting

Hedge accounting is discontinued if the hedge no longer meets the criteria for hedge accounting i.e. the hedge is not highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk, consistent with the documented risk management strategy; the hedging instrument expires or is sold, terminated or exercised; or if hedge designation is revoked.

For fair value hedging any cumulative adjustment is amortised to the income statement over the life of the hedged item. Where the hedge item is no longer on the balance sheet the adjustment to the hedged item is reported in the income statement.

For cash flow hedging the cumulative unrealised gain or loss is reclassified from equity to the income statement when the hedged cash flows occur or, if the forecast transaction results in the recognition of a financial asset or financial liability, when the hedged forecast cash flows affect the income statement. Where a forecast transaction is no longer expected to occur, the cumulative unrealised gain or loss is reclassified from equity to the income statement immediately.

For net investment hedging on disposal or partial disposal of a foreign operation, the amount accumulated in equity is reclassified from equity to the income statement.

16. Investment in Group undertakings

NWB Group 's investments in its Group undertakings (subsidiaries) are stated at cost less any impairment.

Critical accounting policies and key sources of estimation uncertainty

The reported results of NWB Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. The accounting standards used in the preparation of the financial statements (see presentation of financial statements above) require the directors, in preparing NWB Group's financial statements, to select suitable accounting policies, apply them consistently and make judgments and estimates that are reasonable and prudent. In the absence of accounting guidance, standards used in the preparation of the financial statements require the directors 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 judgments and assumptions involved in NWB Group's accounting policies that are considered by the Board to be the most important to the portrayal of its financial condition are noted below. The use of estimates, assumptions or models that differ from those adopted by NWB Group would affect its reported results. Estimation uncertainty continues to be affected by the COVID-19 pandemic. The COVID-19 pandemic continued to cause significant economic and social disruption during 2021. Key financial estimates are based on management's latest five-year revenue and cost forecasts. Measurement of deferred tax and expected credit losses are highly sensitive to reasonably possible changes in those anticipated conditions. Other reasonably possible assumptions about the future include a prolonged financial effect of the COVID-19 pandemic on the economy of the UK and other countries or greater economic effect as countries and companies implement plans to counter climate risks.

How Climate risk affects our accounting judgments and estimates

NWB Group makes use of reasonable and supportable information to make accounting judgments and estimates. This includes information about the observable effects of the physical and transition risks of climate change on the current creditworthiness of borrowers, asset values and market indicators. It also includes the effect on NWB Group's competitiveness and profitability. Many of the effects arising from climate change will be longer term in nature, with an inherent level of uncertainty, and have limited effect on accounting judgments and estimates for the current period. Some physical and transition risks can manifest in the shorter term. The following items represent the most significant effects:

- The classification of financial instruments linked to climate, or other sustainability indicators: consideration is given to whether the effect of climate related terms prevent the instrument cashflows being solely payments of principal and interest.
- The measurement of expected credit loss considers the ability of borrowers to make payments as they fall due. Future cashflows are discounted, so long dated cashflows are less likely to affect current expectations on credit loss. NWB Group's assessment of sector specific risks, and whether additional adjustments are required, include expectations on the ability of those sectors to meet their financing needs in the market. Changes in credit stewardship and credit risk appetite that stem from climate considerations, such as oil and gas, will directly affect our positions.
- The assessment of asset impairment and deferred tax are based upon value in use. This represents the value of future cashflows and uses the Group's five-year forecast and the expectation of long term economic growth beyond this period. The five-year forecast takes account of management's current expectations on competitiveness and profitability, including near term effects on climate transition risk. The long term growth rate reflects external indicators which will include market expectations of climate risk. NWB Group did not consider any additional adjustments to this indicator.
- The use of market indicators as inputs to fair value is assumed to include current information and knowledge regarding the effect of climate risk.

Changes in judgments and assumptions could result in a material adjustment to those estimates in the next reporting periods. Consideration of this source of estimation uncertainty has been set out in the notes below (as applicable).

Critical accounting policy	Note
Deferred tax	7
Fair value - financial instruments	10
Loan impairment provisions	13
Provisions for liabilities and charges	21

Future accounting developments

International Financial Reporting Standards

Effective 1 January 2022

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

Other new standards and amendments that are effective for annual periods beginning after 1 January 2023, with earlier application permitted, are set out below.

Effective 1 January 2023

- IFRS 17 Insurance Contracts (Amendments to IFRS 17 Insurance Contracts);
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1);
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12);
- Definition of Accounting Estimates (Amendments to IAS 8 and
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2).

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

Notes to the financial statements

1 Net interest income

	2021 £m	2020 £m
Balances at central banks	66	43
Loans to banks - amortised cost	53	36
Loans to customers - amortised cost	6,448	6,493
Amounts due from holding companies and fellow subsidiaries	33	2
Other financial assets	121	251
Interest receivable	6,721	6,825
Bank deposits	82	80
Customer deposits	247	452
Amounts due to holding companies and fellow subsidiaries	220	272
Other financial liabilities	137	163
Subordinated liabilities	33	48
Interest payable	719	1,015
Net interest income	6,002	5,810

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

For accounting policy information see Accounting policies note 2.

2 Non-interest income

	2021 £m	2020 £m
Net fees and commissions (1)	1,482	1,384
Other operating income		
Loss on redemption of own debt	(117)	—
Operating lease and other rental income	230	240
Changes in fair value of other financial assets held at mandatory fair value through profit or loss (2)	5	7
Hedge ineffectiveness	45	(38)
Cost of economic hedging	76	66
Loss on disposal of amortised cost assets	(27)	(20)
Profit on disposal of fair value through other comprehensive income assets	120	113
(Loss)/profit on sale of property, plant and equipment (3)	(36)	10
Share of loss on associated entities	(6)	(8)
Profit on disposal of subsidiaries and associates	—	4
Other income (4,5)	1,495	1,387
	1,785	1,761
	3,267	3,145

(1) Refer to Note 4 for further analysis.
(2) Includes instruments that have failed Solely payment of principle and interest testing under IFRS 9.
(3) Includes £44 million loss on the purchase of freeholds for properties where the Group was the primary leaseholder.
(4) Includes income from recharging shared services to other NatWest Group subsidiaries and income from activities other than banking.
(5) 2020 includes £58 million loss on acquisition of a £3.0 billion prime UK mortgages portfolio from Metro Bank plc.

For accounting policy information see Accounting policies note 2.

3 Operating expenses

	2021 £m	2020 £m
Wages, salaries and other staff costs	**2,079**	2,110
Temporary and contract costs	**206**	213
Social security costs	**241**	236
Pension costs	**289**	264
- defined benefit schemes (see Note 5)	**173**	168
- defined contribution schemes	**116**	96
Staff costs	**2,815**	2,823
Premises and equipment (1)	**948**	1,044
Depreciation and amortisation (2)	**776**	841
Other administrative expenses (3)	**1,660**	1,476
Administrative expenses	**3,384**	3,361
	6,199	6,184

(1) 2021 includes a cost of £7 million including accelerated depreciation of £28 million (2020 - £144 million including £71 million accelerated depreciation) in relation to the planned reduction of the property portfolio (2021 – freehold £3 million; leasehold £4 million; 2020 - freehold £1million; leasehold £143 million).
(2) 2021 includes a £36 million charge relating to the reduction in property portfolio, leasehold £29 million and freehold £7 million (2020 - £100 million charge, leasehold £81 million and freehold £19 million).
(3) Includes litigation and conduct costs. Further details are provided in Note 21.

NWB Group provides shared services to NatWest Group. Direct costs incurred are recovered through legal entity recharging and recorded in Other operating income.

For accounting policy information see Accounting policies note 3.

The average number of persons employed in continuing operations, rounded to the nearest hundred, during the year, excluding temporary staff, was 52,000 (2020 – 51,900). The number of people employed in continued operations at 31 December 2021, excluding temporary staff was as follows:

	2021	2020
Retail Banking	**15,100**	15,800
Commercial Banking	**8,100**	9,100
Private Banking	**1,600**	1,900
Central items & other	**27,100**	25,300
Total	**51,900**	52,100
UK	**36,700**	37,800
India	**13,500**	13,100
Poland	**1,400**	900
Rest of the World	**300**	300
Total	**51,900**	52,100

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

3 Operating expenses continued
Share-based payments

NWB Group grants share-based awards to employees principally on the following bases:

Award plan	Eligible employees	Nature of award	Vesting conditions (1)	Settlement
Sharesave	UK, Channel Islands, Gibraltar, Isle of Man, Poland and India.	Option to buy shares under employee savings plan	Continuing employment or leavers in certain circumstances	2022 to 2026
Deferred performance awards	All	Awards of ordinary shares and conditional shares	Continuing employment or leavers in certain circumstances	2022 to 2028
Long-term incentives (2)	Senior employees	Awards of ordinary shares and conditional shares	Continuing employment or leavers in certain circumstances and/or satisfaction of the pre-vest assessment and underpins	2022 to 2028

(1) All awards have vesting conditions which may not be met.
(2) Long-term incentives include buy-out awards offered to compensate certain new hires for the loss of forfeited awards from their previous employment. All awards are granted under the Employee Share Plan.

The fair value of Sharesave options granted in 2021 was determined using a pricing model that included: expected volatility of shares determined at the grant date based on historical volatility over a period of up to five years; expected option lives that equal the vesting period; expected dividends on equity shares; and risk-free interest rates determined from UK gilts with terms matching the expected lives of the options.

The exercise price of options and the fair value on granting awards of fully paid shares is the average market price over the five trading days (three trading days for Sharesave) preceding grant date. When estimating the fair value of the award, the number of shares granted, and the prevailing share price (as defined in the NWG ARA on pages 146-147) are used. The fair value of the award is recognised as services are provided over the vesting period.

Bonus awards
The following tables analyse NWB Group's bonus awards.

	2021 £m	2020 £m	Change %
Non-deferred cash awards (1)	**32**	27	19%
Deferred cash awards	**150**	66	127%
Deferred share awards	**24**	14	71%
Total deferred bonus awards	**174**	80	118%
Total bonus rewards (2)	**206**	107	93%

Reconciliation of bonus awards to income statement charge

	2021 £m	2020 £m
Bonus awarded	**206**	107
Less: deferral of charge for amounts awarded for current year	**(63)**	(36)
Income statement charge for amounts awarded in current year	**143**	71
Add: current year charge for amounts deferred from prior years	**40**	63
Less: forfeiture of amounts deferred from prior years	**(4)**	(7)
Income statement charge for amounts deferred from prior years	**36**	56
Income statement charge for bonus awards (2)	**179**	127

(1) Non-deferred cash awards are limited to £2,000 for all employees.
(2) Excludes other performance related compensation.

4 Segmental analysis

Reportable operating segments

The reportable operating segments are as follows:

Retail Banking serves personal customers in the UK and includes Ulster Bank customers.

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

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

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

2021	Retail Banking £m	Private Banking £m	Commercial Banking £m	Central items & other £m	Total £m
Net interest income	**3,541**	**461**	**2,171**	**(171)**	**6,002**
Net fees and commissions	**303**	**239**	**947**	**(7)**	**1,482**
Other operating income	**42**	**24**	**93**	**1,626**	**1,785**
Total income	**3,886**	**724**	**3,211**	**1,448**	**9,269**
Depreciation and amortisation	**—**	**—**	**(146)**	**(630)**	**(776)**
Other operating expenses	**(1,917)**	**(513)**	**(1,746)**	**(1,247)**	**(5,423)**
Impairment releases	**23**	**53**	**737**	**—**	**813**
Operating profit/(loss)	**1,992**	**264**	**2,056**	**(429)**	**3,883**

2020	Retail Banking £m	Private Banking £m	Commercial Banking £m	Central items & other £m	Total £m
Net interest income	3,114	466	2,302	(72)	5,810
Net fees and commissions	300	235	854	(5)	1,384
Other operating income	(28)	16	80	1,693	1,761
Total income	3,386	717	3,236	1,616	8,955
Depreciation and amortisation	—	(8)	(149)	(684)	(841)
Other operating expenses	(2,064)	(444)	(1,862)	(973)	(5,343)
Impairment losses	(669)	(106)	(1,378)	(16)	(2,169)
Operating profit/(loss)	653	159	(153)	(57)	602

	Total revenue (1)				
2021	Retail Banking £m	Private Banking £m	Commercial Banking £m	Central items & other £m	Total £m
External	**4,660**	**703**	**3,030**	**1,975**	**10,368**
Intersegment	**97**	**161**	**147**	**(405)**	**—**
Total	**4,757**	**864**	**3,177**	**1,570**	**10,368**
2020					
External	4,490	662	2,909	2,210	10,271
Intersegment	26	199	196	(421)	—
Total	4,516	861	3,105	1,789	10,271

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

	Total income				
2021	Retail Banking £m	Private Banking £m	Commercial Banking £m	Central items & other £m	Total £m
External	**3,791**	**668**	**3,191**	**1,619**	**9,269**
Intersegment	**95**	**56**	**20**	**(171)**	**—**
Total	**3,886**	**724**	**3,211**	**1,448**	**9,269**
2020					
External	3,374	613	3,185	1,783	8,955
Intersegment	12	104	51	(167)	—
Total	3,386	717	3,236	1,616	8,955

4 Segmental analysis continued

Analysis of net fees and commissions

2021	Retail Banking £m	Private Banking £m	Commercial Banking £m	Central items & other £m	Total £m
Fees and commissions receivable					
- Payment services	**248**	**33**	**415**	**—**	**696**
- Credit and debit card fees	**276**	**10**	**111**	**—**	**397**
- Lending and financing	**11**	**10**	**416**	**—**	**437**
- Brokerage	**38**	**5**	**—**	**—**	**43**
- Investment management, trustee and fiduciary services	**3**	**214**	**—**	**—**	**217**
- Other	**—**	**35**	**128**	**(91)**	**72**
Total	**576**	**307**	**1,070**	**(91)**	**1,862**
Fees and commissions payable	**(273)**	**(68)**	**(123)**	**84**	**(380)**
Net fees and commissions	**303**	**239**	**947**	**(7)**	**1,482**
2020					
Fees and commissions receivable					
- Payment services	209	26	390	—	625
- Credit and debit card fees	239	9	96	—	344
- Lending and financing	34	7	382	—	423
- Brokerage	41	6	—	—	47
- Investment management, trustee and fiduciary services	3	205	—	—	208
- Other	1	26	82	(71)	38
Total	527	279	950	(71)	1,685
Fees and commissions payable	(227)	(44)	(96)	66	(301)
Net fees and commissions	300	235	854	(5)	1,384

2021	Retail Banking £m	Private Banking £m	Commercial Banking £m	Central items & other £m	Total £m
Assets	**168,228**	**18,509**	**83,347**	**164,479**	**434,563**
Liabilities	**153,653**	**37,219**	**133,156**	**89,798**	**413,826**
2020					
Assets	156,829	17,113	84,629	130,968	389,539
Liabilities	143,638	30,392	125,635	69,982	369,647

4 Segmental analysis continued

Geographical segments

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

2021	UK £m	RoW £m	Total £m
Total revenue	**10,250**	**118**	**10,368**
Interest receivable	**6,650**	**71**	**6,721**
Interest payable	**(642)**	**(77)**	**(719)**
Net fees and commissions	**1,482**	**—**	**1,482**
Other operating income	**1,738**	**47**	**1,785**
Total income	**9,228**	**41**	**9,269**
Operating profit before tax	**3,825**	**58**	**3,883**
Total assets	**419,978**	**14,585**	**434,563**
Total liabilities	**413,527**	**299**	**413,826**
Contingent liabilities and commitments	**81,721**	**94**	**81,815**
Cost to acquire property, plant and equipment and intangible assets	**1,308**	**166**	**1,474**

2020	UK £m	RoW £m	Total £m
Total revenue	10,219	52	10,271
Interest receivable	6,825	—	6,825
Interest payable	(1,001)	(14)	(1,015)
Net fees and commissions	1,384	—	1,384
Other operating income	1,710	51	1,761
Total income	8,918	37	8,955
Operating profit/(loss) before tax	986	(384)	602
Total assets	375,223	14,316	389,539
Total liabilities	369,441	206	369,647
Contingent liabilities and commitments	77,766	25	77,791
Cost to acquire property, plant and equipment and intangible assets	750	32	782

5 Pensions

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

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

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

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

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

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

For accounting policy information see Accounting policies note 3.

Investment strategy
The assets of the Main section, which is typical of other group schemes, represent 97% of all plan assets at 31 December 2021 (2020 - 97%) and are invested as shown below.

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

	2021			2020		
Major classes of plan assets as a percentage of total plan assets of the Main section	Quoted %	Unquoted %	Total %	Quoted %	Unquoted %	Total %
Equities	3.7	4.7	8.4	3.9	4.6	8.5
Index linked bonds	46.7	—	46.7	49.4	—	49.4
Government bonds	9.8	—	9.8	6.2	—	6.2
Corporate and other bonds	10.7	4.4	15.1	11.8	5.0	16.8
Real estate	—	4.4	4.4	—	4.2	4.2
Derivatives	—	8.8	8.8	—	10.0	10.0
Cash and other assets	—	6.8	6.8	—	4.9	4.9
	70.9	29.1	100.0	71.3	28.7	100.0

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

	2021			2020		
	Notional amounts £bn	Fair value Assets £m	Fair value Liabilities £m	Notional amounts £bn	Fair value Assets £m	Fair value Liabilities £m
Inflation rate swaps	20	1,408	796	18	1,390	1,716
Interest rate swaps	172	8,385	4,421	68	11,197	6,215
Currency forwards	12	61	98	11	334	38
Equity and bond call options	—	1	—	1	169	1
Equity and bond put options	—	1	3	3	1	19
Other	1	9	10	2	63	17

5 Pensions continued

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

At 31 December 2021, the gross notional value of the swaps was £192 billion (2020 - £88 billion) and had a net positive fair value of £4,573 million (2020 - £4,706 million) against which the counterparties had posted approximately 95% collateral.

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

	NWB Group				NWB Plc			
Changes in value of net pension (asset)/liability	Fair value of plan assets £m	Present value of defined benefit obligation (1) £m	Asset ceiling/ minimum funding (2) £m	Net pension (asset)/ liability £m	Fair value of plan assets £m	Present value of defined benefit obligation (1) £m	Asset ceiling/ minimum funding (2) £m	Net pension (asset)/ liability £m
At 1 January 2020	47,953	40,822	7,179	48	46,555	39,683	6,886	14
Currency translation and other adjustments	1	5	—	4	—	5	—	5
Income statement	963	985	146	168	936	931	141	136
Statement of comprehensive income	5,586	5,327	335	76	5,486	5,130	426	70
Contributions by employer	243	—	—	(243)	212	—	—	(212)
Contributions by plan participants and other scheme members	23	23	—	—	31	31	—	—
Benefits paid	(1,950)	(1,950)	—	—	(1,897)	(1,897)	—	—
Liabilities extinguished upon settlement	—	(2)	—	(2)	—	—	—	—
Transfer to/from fellow subsidiaries	—	4	—	4	—	—	—	—
At 1 January 2021	52,819	45,214	7,660	55	51,323	43,883	7,453	13
Currency translation and other adjustments	2	(1)	1	(2)	—	(1)	1	—
Income statement								
Net interest expense	735	623	107	(5)	727	614	107	(6)
Current service cost	—	178	—	178	—	164	—	164
Less, direct contributions from other scheme members	—	(9)	—	(9)	—	(18)	—	(18)
Past service cost	—	9	—	9	—	6	—	6
	735	801	107	173	727	766	107	146
Statement of comprehensive income								
Return on plan assets excluding recognised interest income	857	—	—	(857)	852	—	—	(852)
Experience gains and losses	—	(244)	—	(244)	—	(245)	—	(245)
Effect of changes in actuarial financial assumptions	—	(1,192)	—	(1,192)	—	(1,184)	—	(1,184)
Effect of changes in actuarial demographic assumptions	—	346	—	346	—	348	—	348
Asset ceiling adjustments	—	—	2,478	2,478	—	—	2,478	2,478
	857	(1,090)	2,478	531	852	(1,081)	2,478	545
Contributions by employer	716	—	—	(716)	696	—	—	(696)
Contributions by plan participants and other scheme members	20	20	—	—	28	28	—	—
	—	—	—	—	—	—	—	—
Benefits paid	(1,618)	(1,618)	—	—	(1,611)	(1,611)	—	—
Liabilities extinguished upon settlement	—	—	—	—	—	—	—	—
Transfer to/from fellow subsidiaries	—	—	—	—	1,366	1,163	207	4
At 31 December 2021	53,531	43,326	10,246	41	53,381	43,147	10,246	12

(1) Defined benefit obligations are subject to annual valuation by independent actuaries.

(2) NWB Group recognises the net pension scheme surplus or deficit as a net asset or liability. In doing so, the funded status is adjusted to reflect any schemes with a surplus that NWB Group may not be able to access, as well as any minimum funding requirement to pay in additional contributions. This is most relevant to the Main section, where the current surplus is not recognised as the trustees may have control over the use of the surplus. Other NWB Group schemes that this applies to include the Ulster Bank Pension Scheme (NI).

(3) NWB Group expects to make contributions to the Main section of £714 million in 2022. Following the £500m contribution in March 2021, additional contributions of up to £500 million will be paid to the Main section in 2022, should NatWest Group make further distributions in 2022. This leaves one remaining payment of up to £500 million to be paid to the Main Section after 2022, in line with the ring-fencing agreement with the Trustee. Such contributions do not constitute a minimum funding requirement as the obligation to pay only arises on the payment of a distribution to shareholders.

(4) In May 2021, following the changes to Ulster Bank Limited, NWB Group assumed responsibility as Principal Employer for the Ulster Bank Pension Scheme (NI).

5 Pensions continued

Amounts recognised on the balance sheet	All schemes 2021 £m	2020 £m
Fund assets at fair value	**53,531**	52,819
Present value of fund liabilities	**43,326**	45,214
Funded status	**10,205**	7,605
Asset ceiling/minimum funding	**10,246**	7,660
	(41)	(55)

Net pension asset/(liability) comprises	NWB Group 2021 £m	2020 £m	NWB Plc 2021 £m	2020 £m
Net assets of schemes in surplus (included in Other assets, Note 16)	**7**	2	**—**	—
Net liabilities of schemes in deficit (included in Other liabilities, Note 21)	**(48)**	(57)	**(12)**	(13)
	(41)	(55)	**(12)**	(13)

Funding and contributions by NWB Group

In the UK, the trustees of defined benefit pension schemes are required to perform funding valuations every three years. The trustees and the sponsor, with the support of the Scheme Actuary, agree the assumptions used to value the liabilities and to determine future contribution requirements. The funding assumptions incorporate a margin for prudence over and above the expected cost of providing the benefits promised to members, taking into account the sponsor's covenant and the investment strategy of the scheme. Similar arrangements apply in the other territories where NWB Group sponsors defined benefit pension schemes.

A full triennial funding valuation of the Main section, effective 31 December 2020, was completed during the year.

This triennial funding valuation determined the funding level to be 104%, pension liabilities to be £49 billion and the surplus to be £2 billion, all assessed on the agreed funding basis. The average cost of the future service of current members is 49% of salary before contributions from those members. In addition, the sponsor has agreed to meet administrative expenses. Following the ring-fencing agreement with the Trustee reached in 2018, additional contributions of up to £500 million p.a. are payable to the Main section should the Group make distributions to shareholders of an equal amount.

These contributions are capped at £1.5 billion in total; £500 million were made in 2021 (2020 – Nil).

The key assumptions used to determine the funding liabilities were the discount rate, which is determined based on fixed interest swap and gilt yields plus 0.64% per annum, and mortality assumptions, which result in life expectancies of 27.7/29.4 years for males/females who are currently age 60 and 28.9/30.7 years from age 60 for males/females who are currently aged 40.

The 2020 triennial valuation of the Group Pension Fund included an allowance for the estimated impact of guaranteed minimum pension equalisation, which is reflected in the IAS 19 valuation at 31 December 2021. As such, no explicit allowance is required in the IAS 19 figures (2020: £169 million).

Accounting Assumptions

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

5 Pensions continued

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

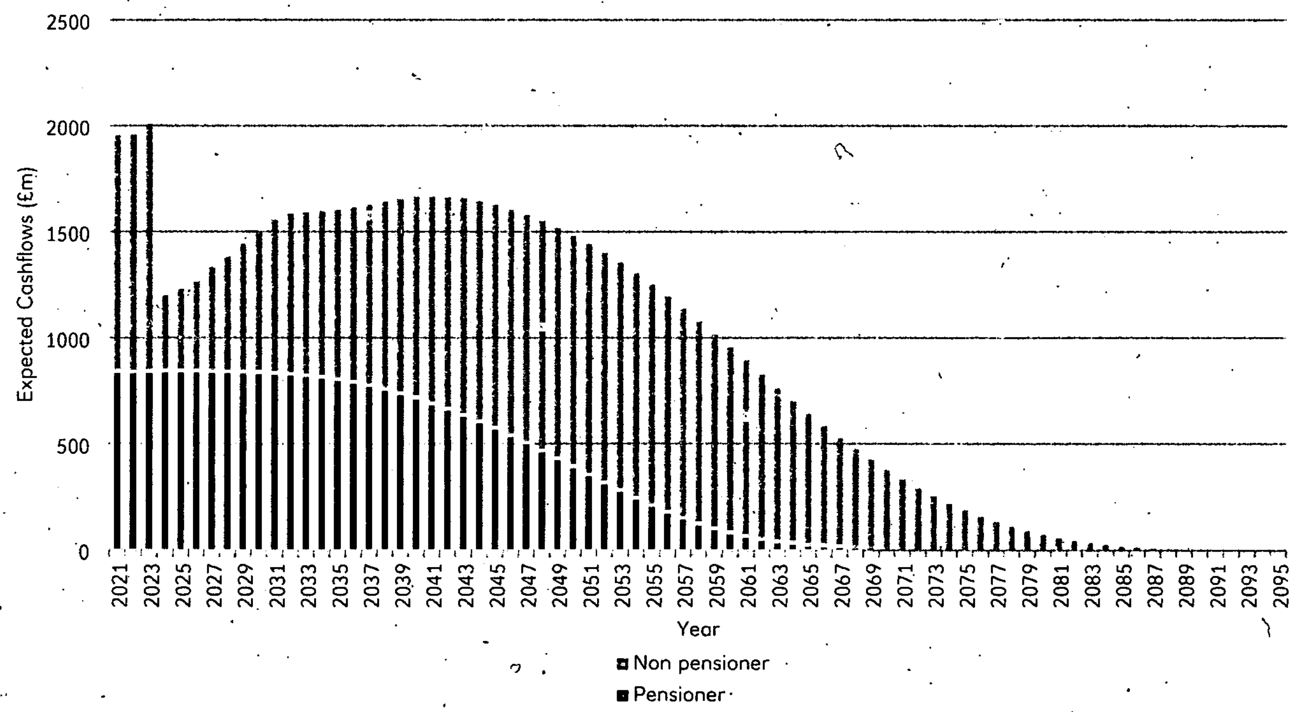
	Principal IAS 19 actuarial assumptions	
	2021	2020
	%	%
Discount rate	1.8	1.4
Inflation assumption (RPI)	3.3	2.9
Rate of increase in salaries	1.8	1.8
Rate of increase in deferred pensions	3.7	3.0
Rate of increase in pensions in payment	2.5	2.7
Lump sum conversion rate at retirement	18	20
Longevity at age 60:	years	years
Current pensioners		
Males	27.3	27.1
Females	29.0	29.0
Future pensioners, currently aged 40		
Males	28.2	28.3
Females	30.1	30.4

Discount rate

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

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

The weighted average duration of the Main section's defined benefit obligation at 31 December 2021 is 20 years (2020 - 22 years). The chart below shows the projected benefit payment pattern for the Main section in nominal terms. These cashflows are based on the most recent formal actuarial valuation, effective 31 December 2020.



The larger outflow in the first three years represents the expected level of transfers out to 31 December 2023.

5 Pensions continued

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

2021	(Decrease)/ increase in value of assets £m	(Decrease)/ increase in value of liabilities £m	Increase in net pension (obligations)/ assets £m
0.25% increase in interest rates/discount rate	**(2,917)**	**(1,926)**	**(991)**
0.25% increase in inflation	**1,883**	**1,329**	**554**
0.25% increase in credit spreads	**(3)**	**(1,926)**	**1,923**
Longevity increase of one year	**—**	**1,790**	**(1,790)**
0.25% additional rate of increase in pensions in payment	**—**	**1,485**	**(1,485)**
Increase in equity values of 10% (1)	**442**	**—**	**442**

2020			
0.25% increase in interest rates/discount rate	(2,585)	(2,384)	(201)
0.25% increase in inflation	2,204	1,603	601
0.25% increase in credit spreads	(6)	(2,384)	2,378
Longevity increase of one year	—	1,930	(1,930)
0.25% additional rate of increase in pensions in payment	—	1,608	(1,608)
Increase in equity values of 10% (1)	454	—	454

(1) Includes both quoted and private equity.

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

2021		Change in life expectancies - 2 years £bn	- 1 years £bn	No change £bn	+ 1 year £bn	+ 2 years £bn
Change in credit spreads	+50 bps	**6.9**	**5.3**	**3.8**	**2.3**	**0.8**
	No change	**3.6**	**1.8**	**—**	**(1.8)**	**(3.6)**
	-50 bps	**(0.3)**	**(2.4)**	**(4.5)**	**(6.6)**	**(8.7)**

2020		Change in life expectancies - 2 years £bn	- 1 years £bn	No change £bn	+ 1 year £bn	+ 2 years £bn
Change in credit spreads	+50 bps	7.8	6.1	4.5	2.9	1.3
	No change	3.9	1.9	—	(1.9)	(3.9)
	-50 bps	(0.6)	(2.8)	(5.1)	(7.4)	(9.7)

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

Membership category	2021 %	2020 %
Active members	**10.7**	14.2
Deferred members	**47.6**	50.9
Pensioners and dependants	**41.7**	34.9
	100.0	100.0

The experience history of NWB Group schemes is shown below:

History of defined benefit schemes	NWB Group 2021 £m	2020 £m	2019 £m	2018 £m	2017 £m	NWB Plc 2021 £m	2020 £m	2019 £m	2018 £m	2017 £m
Fair value of plan assets	**53,531**	52,819	47,953	45,061	46,199	**53,381**	51,323	46,555	43,807	44,653
Present value of defined benefit obligations	**43,326**	45,214	40,822	36,435	39,120	**43,147**	43,883	39,683	35,466	37,937
Net surplus/(deficit)	**10,205**	7,605	7,131	8,626	7,079	**10,234**	7,440	6,872	8,341	6,716
Experience (losses)/gains on plan liabilities	**244**	431	264	(124)	(107)	**245**	427	275	(122)	(108)
Experience (losses)/gains on plan assets	**857**	5,586	3,156	(1,937)	1,602	**852**	5,486	3,021	(1,892)	1,580
Actual return on plan assets	**1,592**	6,549	4,437	(782)	2,790	**1,579**	6,422	4,266	(769)	2,735
Actual return on plan assets	**3.0%**	13.7%	9.8%	(1.7%)	6.2%	**3.1%**	13.8%	9.7%	(1.7%)	6.2%

6 Auditor's remuneration

Amounts payable to NWB Group's auditors for statutory audit and other services are set out below:

	2021 £m	2020 £m
Fees payable for:		
- the audit of NWB Group's annual accounts	11.6	12.4
- the audit of NWB Plc's subsidiaries	2.1	2.1
Total audit and audit-related assurance service fees	13.7	14.5

Fees payable to the auditor for non-audit services are disclosed in the consolidated financial statements of NatWest Group plc.

7 Tax

	2021 £m	2020 £m
Current tax		
Charge for the year	(998)	(190)
Over provision in respect of prior years	38	10
	(960)	(180)
Deferred tax		
(Charge)/credit for the year	(195)	40
UK tax rate change impact (1)	161	82
Increase/(decrease) in the carrying value of deferred tax assets in respect of UK losses	14	(7)
Over/(under) provision in respect of prior years (2)	4	(1)
Tax charge for the year	(976)	(66)

(1) It was announced in the UK Government's budget on 3 March 2021 that the main UK corporation tax rate will increase from 19% to 25% from 1 April 2023. This legislative change was enacted on 10 June 2021.
(2) Prior year tax adjustments incorporate refinements to tax computations made on submission and agreement with the tax authorities and adjustments to provisions in respect of uncertain tax positions.

The actual tax charge differs from the expected tax charge, computed by applying the standard rate of UK corporation tax of 19% (2020 – 19%), as follows:

	2021 £m	2020 £m
Expected tax charge	(738)	(114)
Losses and temporary differences in period where no deferred tax asset recognised	1	—
Foreign profits taxed at other rates	(6)	(3)
Items not allowed for tax:		
- losses on disposals and write-downs	(50)	(5)
- UK bank levy	(12)	(18)
- regulatory and legal actions	(73)	22
- other disallowable items	(15)	(39)
Non-taxable items	9	6
Taxable foreign exchange movements	1	—
Unrecognised losses brought forward and utilised	2	—
Increase/(decrease) in the carrying value of deferred tax assets in respect of:		
- UK losses	14	(7)
Banking surcharge	(328)	(28)
Tax on paid in equity	16	29
UK tax rate change impact	161	82
Adjustments in respect of prior years	42	9
Actual tax charge	(976)	(66)

Judgment: Tax contingencies

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

For accounting policy information see Accounting policies note 9.

7 Tax continued

Deferred tax

	NWB Group 2021 £m	NWB Group 2020 £m	NWB Plc 2021 £m	NWB Plc 2020 £m
Deferred tax liability	**209**	166	**—**	—
Deferred tax asset	**(1,268)**	(1,289)	**(1,244)**	(1,248)
Net deferred tax asset	**(1,059)**	(1,123)	**(1,244)**	(1,248)

Net deferred tax asset comprised:

NWB Group	Pension £m	Accelerated capital allowances £m	Expense provisions £m	Financial instruments £m	Tax losses carried forward £m	Other £m	Total £m
At 1 January 2020	(249)	(195)	(68)	18	(545)	(22)	(1,061)
Acquisitions and disposals of subsidiaries	—	(2)	(1)	—	—	—	(3)
Charge/(credit) to income statement	12	(84)	9	7	(55)	(3)	(114)
Charge to other comprehensive income	101	—	—	(41)	—	—	60
Currency translation and other adjustments	—	(1)	—	—	—	(4)	(5)
At 31 December 2020	(136)	(282)	(60)	(16)	(600)	(29)	(1,123)
Charge/(credit) to income statement	**15**	**12**	**2**	**1**	**(8)**	**(6)**	**16**
Charge/(credit) to other comprehensive income	**14**	**—**	**(3)**	**40**	**—**	**(3)**	**48**
Currency translation and other adjustments	**1**	**(2)**	**—**	**—**	**—**	**1**	**—**
At 31 December 2021	**(106)**	**(272)**	**(61)**	**25**	**(608)**	**(37)**	**(1,059)**

NWB Plc	Pension £m	Accelerated capital allowances £m	Expense provisions £m	Financial instruments £m	Tax losses carried forward £m	Other £m	Total £m
At 1 January 2020	(243)	(354)	(58)	24	(530)	(23)	(1,184)
Acquisitions and disposal of subsidiaries	—	(2)	—	—	—	—	(2)
Charge/(credit) to income statement	12	(82)	11	4	(62)	(4)	(121)
Charge/(credit) to other comprehensive income	101	—	—	(41)	—	—	60
Currency translation and other adjustments	—	—	(1)	—	—	—	(1)
At 31 December 2021	(130)	(438)	(48)	(13)	(592)	(27)	(1,248)
Charge/(credit) to income statement	**13**	**(29)**	**—**	**—**	**(9)**	**(7)**	**(32)**
Charge/(credit) to other comprehensive income	**14**	**—**	**(3)**	**40**	**—**	**(3)**	**48**
Amounts transferred from Ulster Bank Limited	**—**	**(2)**	**(2)**	**—**	**(7)**	**(1)**	**(12)**
At 31 December 2021	**(103)**	**(469)**	**(53)**	**27**	**(608)**	**(38)**	**(1,244)**

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

	2021 £m	2020 £m
UK tax losses carried forward		
- NWB Plc	**608**	592
- Ulster Bank Limited	**—**	8
	608	600

7 Tax continued

Critical accounting policy: Deferred tax

The deferred tax assets of £1,268 million as at 31 December 2021 (2020 - £1,289 million) principally comprises losses which arose in the UK, and temporary differences. These deferred tax assets are recognised to the extent that it is probable that there will be future taxable profits to recover them.

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

Estimate - These estimates are based on forecast performance for management's detailed plans. They have regard to inherent uncertainties, such as climate change and the impact of COVID.

UK tax losses - Under UK tax rules, tax losses can be carried forward indefinitely. As the recognised tax losses in the Group arose prior to 1 April 2015, credit in future periods is given against 25% of profits at the main rate of UK corporation tax, excluding the Banking Surcharge 8% rate introduced by The Finance (No. 2) Act 2015.

It was announced in the UK Government's budget on 3 March 2021 that the main UK corporation tax rate will increase from 19% to 25% from 1 April 2023. This legislative change was enacted on 10 June 2021. NWB Group's closing deferred tax assets and liabilities have therefore been recalculated taking into account this change of rate and the applicable period the deferred tax assets and liabilities are expected to crystallise. As a result, the net deferred tax asset position in NWB Group has increased by £156 million, with a £161 million tax credit included in the income statement (refer to reconciling item above), and a £5 million tax charge included in other comprehensive income.

It was subsequently announced in the UK Government's budget on 27 October 2021 that the UK banking surcharge will decrease from 8% to 3% from 1 April 2023. This legislative change was substantively enacted on 2 February 2022. Had this rate reduction been substantively enacted as at the balance sheet date, the estimated rate change impact would not have been material.

National Westminster Bank Plc – A deferred tax asset of £608 million (2020 - £592 million) has been recognised in respect of total losses of £2,610 million. The losses arose principally as a result of significant impairment and conduct charges between 2009 and 2012 during challenging economic conditions in the UK banking sector. NWB Plc expects the deferred tax asset to be utilised against future taxable profits by the end of 2025.

Unrecognised deferred tax

Deferred tax assets of £237 million (2020 - £191 million) have not been recognised in respect of tax losses and other deductible temporary differences carried forward of £949 million (2020 - £1,003 million) in jurisdictions where doubt exists over the availability of future taxable profits. The tax losses and other deductible temporary differences carried forward have no expiry date.

Deferred tax liabilities of £123 million (2020 - £103 million) on aggregate underlying temporary differences of £490 million (2020 - £479 million) have not been recognised in respect of retained earnings of overseas subsidiaries and held-over gains on the incorporation of certain overseas branches. Retained earnings of overseas subsidiaries are expected to be reinvested indefinitely or remitted to the UK free from further taxation. No taxation is expected to arise in the foreseeable future in respect of held-over gains on which deferred tax is not recognised. Changes to UK tax legislation largely exempts from UK tax overseas dividends received on or after 1 July 2009.

8 Profit/(loss) dealt with in the accounts of the NWB Plc

As permitted by section 408(3) of the Companies Act 2006, no income statement for the Bank has been presented as a primary financial statement.

9 Financial instruments – classification

The following tables analyse financial assets and liabilities in accordance with the categories of financial instruments on an IFRS 9 basis.

	NWB Group				
	MFVTPL £m	FVOCI £m	Amortised cost £m	Other assets £m	Total £m
Assets					
Cash and balances at central banks			101,213		101,213
Derivatives (1)	2,460				2,460
Loans to banks - amortised cost (2)			4,182		4,182
Loans to customers - amortised cost (3)			286,971		286,971
Amounts due from holding companies and fellow subsidiaries	348		2,554	617	3,519
Other financial assets	226	26,148	2,657		29,031
Other assets				7,187	7,187
31 December 2021	3,034	26,148	397,577	7,804	434,563
Cash and balances at central banks			62,983		62,983
Derivatives (1)	3,288				3,288
Loans to banks - amortised cost (2)			3,344		3,344
Loans to customers - amortised cost (3)			271,581		271,581
Amounts due from holding companies and fellow subsidiaries	556		2,683	66	3,305
Other financial assets	476	33,853	3,666		37,995
Other assets				7,043	7,043
31 December 2020	4,320	33,853	344,257	7,109	389,539

	Held-for-trading £m	Amortised cost £m	Other liabilities £m	Total £m
Liabilities				
Bank deposits (4)		22,831		22,831
Customer deposits		329,440		329,440
Amounts due to holding companies and fellow subsidiaries	—	45,034	102	45,136
Derivatives (1)	4,119			4,119
Other financial liabilities	99	7,152		7,251
Subordinated liabilities		211		211
Notes in circulation		904		904
Other liabilities (5)		1,071	2,863	3,934
31 December 2021	4,218	406,643	2,965	413,826
Bank deposits (4)		14,871		14,871
Customer deposits		293,605		293,605
Amounts due to holding companies and fellow subsidiaries		37,558	1	37,559
Derivatives (1)	6,552			6,552
Other financial liabilities	3	10,380		10,383
Subordinated liabilities		1,230		1,230
Notes in circulation		1,012		1,012
Other liabilities (5)		1,509	2,926	4,435
31 December 2020	6,555	360,165	2,927	369,647

(1) Includes net hedging derivative assets of £113 million (2020 – £1 million) and net hedging derivative liabilities of £71 million (2020 - £173 million).
(2) Includes items in the course of collection from other third party banks of £3 million (2020 - £2 million).
(3) Includes finance lease receivables of £8,434 million (2020 - £8,577 million).
(4) Includes items in the course of transmission to other banks is £19 million (2020 - £1 million).
(5) Includes lease liabilities of £1,008 million (2020 - £1,398 million) held at amortised cost.

Judgment: classification of financial assets

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

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

For accounting policy information see Accounting policies notes 10, 12, 13 and 15.

9 Financial instruments - classification continued

	NWB Plc				
	MFVTPL £m	FVOCI £m	Amortised cost £m	Other assets £m	Total £m
Assets					
Cash and balances at central banks			**101,210**		**101,210**
Derivatives (1)	**2,547**				**2,547**
Loans to banks - amortised cost (2)			**3,638**		**3,638**
Loans to customers - amortised cost (3)			**255,443**		**255,443**
Amounts due from holding companies and fellow subsidiaries	**1,012**		**25,354**	**756**	**27,122**
Other financial assets	**226**	**26,148**	**2,275**		**28,649**
Investment in group undertakings				**2,319**	**2,319**
Other assets				**5,183**	**5,183**
31 December 2021	**3,785**	**26,148**	**387,920**	**8,258**	**426,111**
Cash and balances at central banks			62,878		62,878
Derivatives (1)	3,438				3,438
Loans to banks - amortised cost (2)			2,798		2,798
Loans to customers - amortised cost (3)			238,366		238,366
Amounts due from holding companies and fellow subsidiaries	937		27,067	172	28,176
Other financial assets	476	33,853	3,277		37,606
Investment in group undertakings				2,374	2,374
Other assets				4,967	4,967
31 December 2020	4,851	33,853	334,386	7,513	380,603

	NWB Plc				
	Held-for-trading £m	DFV £m	Amortised cost £m	Other liabilities £m	Total £m
Liabilities					
Bank deposits (4)			**22,829**		**22,829**
Customer deposits			**292,470**		**292,470**
Amounts due to holding companies and fellow subsidiaries	**—**	**242**	**76,344**	**136**	**76,722**
Derivatives (1)	**4,336**				**4,336**
Other financial liabilities	**99**	**—**	**6,285**		**6,384**
Subordinated liabilities			**205**		**205**
Notes in circulation			**904**		**904**
Other liabilities (5)			**958**	**2,137**	**3,095**
31 December 2021	**4,435**	**242**	**399,995**	**2,273**	**406,945**
Bank deposits (4)			14,866		14,866
Customer deposits			255,290		255,290
Amounts due to holding companies and fellow subsidiaries		—	69,617		69,617
Derivatives (1)	6,769				6,769
Other financial liabilities	3	—	9,609		9,612
Subordinated liabilities			1,230		1,230
Notes in circulation			1,266		1,266
Other liabilities (5)			1,375	2,114	3,489
31 December 2020	6,772	—	353,253	2,114	362,139

(1) Includes net hedging derivative assets of £108 million (2020 - £1 million) and net hedging derivative liabilities of £55 million (2020 - £149 million).
(2) Includes items in the course of collection from other banks of £3 million (2020 - £2 million).
(3) Includes finance lease receivables of £531 million (2020 - £657 million).
(4) Includes items in the course of transmission to other banks of £19 million (2020 - £1 million).
(5) Includes lease liabilities of £898 million (2020 - £1,280 million) held at amortised cost.

9 Financial instruments - classification continued

The following tables include amounts due from/to holding companies and fellow subsidiaries:

	NWB Group					
	2021			2020		
	Holding companies £m	Fellow subsidiaries £m	Total £m	Holding companies £m	Fellow subsidiaries £m	Total £m
Assets						
Loans to banks - amortised cost	—	2,542	2,542	—	2,663	2,663
Loans to customers - amortised cost	—	12	12	8	12	20
Other financial assets	—	348	348	—	556	556
Other assets	14	603	617	63	3	66
Amounts due from holding companies and fellow subsidiaries	14	3,505	3,519	71	3,234	3,305
Derivatives (1)	47	910	957	83	959	1,042
Liabilities						
Bank deposits	—	25,216	25,216	—	22,722	22,722
Customer deposits	11,029	28	11,057	7,571	48	7,619
Subordinated liabilities	3,074	—	3,074	3,309	—	3,309
MREL instruments issued to NatWest Holdings Ltd	5,687	—	5,687	3,908	—	3,908
Other liabilities	—	102	102	—	1	1
Amounts due to holding companies and fellow subsidiaries	19,790	25,346	45,136	14,788	22,771	37,559
Derivatives (1)	127	695	822	94	1,594	1,688

	NWB Plc							
	2021				2020			
	Holding companies £m	Fellow subsidiaries £m	Subsidiaries £m	Total £m	Holding companies £m	Fellow subsidiaries £m	Subsidiaries £m	Total £m
Assets								
Loans to banks - amortised cost	—	2,042	7,595	9,637	—	2,079	9,310	11,389
Loans to customers - amortised cost	—	11	15,706	15,717	8	12	15,658	15,678
Other financial assets	—	352	660	1,012	—	556	381	937
Other assets	14	529	213	756	63	—	109	172
Amounts due from holding companies and fellow subsidiaries	14	2,934	24,174	27,122	71	2,647	25,458	28,176
Derivatives (1)	47	910	97	1,054	83	959	178	1,220
Liabilities								
Bank deposits	—	22,746	28,840	51,586	—	20,871	28,892	49,763
Customer deposits	11,029	10	5,200	16,239	7,571	34	5,032	12,637
Subordinated liabilities	3,074	—	—	3,074	3,309	—	—	3,309
MREL instruments issued to NatWest Holdings Ltd	5,687	—	—	5,687	3,908	—	—	3,908
Other liabilities	—	99	37	136	—	—	—	—
Amounts due to holding companies and fellow subsidiaries	19,790	22,855	34,077	76,722	14,788	20,905	33,924	69,617
Derivatives (1)	127	695	222	1,044	94	1,593	218	1,905

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

9 Financial instruments - classification continued

Interest rate benchmark reform

The Natwest Group IBOR program successfully delivered the conversion of the vast majority of the IBOR exposures to risk free rates (RFR) in advance of the cessation date. This encompasses loans, deposits, capital instruments and derivatives, which have been converted using fallback provisions, switch provisions or as part of market-wide conversion events in the case of derivatives subject to clearing. These instruments will convert at the first repricing date post cessation.

The total amount of exposure for NWB Group at 31 December 2021 subject to above conversion provisions is £14,141 million of assets, £700 million of liabilities, £9,399 million of loan commitments and £114.0 billion of derivative notionals. The exposure for NWB Plc at 31 December 2021 subject to above conversion provisions is £10,972 million of assets, £700 million of liabilities, £9,356 million of loan commitments and £114.0 billion of derivative notionals.

Despite the significant conversion levels achieved, certain instruments remain in discussion with customers and counterparties to achieve consensual conversion. If consensual conversion is not achieved these instruments will default to synthetic LIBOR in line with relevant legislation.

The level of exposures without explicit or agreed conversion provisions as of 31 December 2021 is as follows:

	NWB Group			
	Rates subject to IBOR reform			
	GBP LIBOR	USD IBOR (1)	Other IBOR (2)	Total
2021	£m	£m	£m	£m
Loans to customers - amortised cost	2,129	2,659	4	4,792
Other financial assets	744	37	—	781
Other financial liabilities	1,070	—	—	1,070
Amounts due to holding companies and fellow subsidiaries	—	3,058	—	3,058
Loan commitments (3)	790	3,785	55	4,630
Derivatives notional (£bn)	0.1	27.4	—	27.5

	NWB Group				
	Rates subject to IBOR reform				
	GBP LIBOR	USD IBOR (1)	EURIBOR(2)	Other IBOR	Total
2020	£m	£m	£m	£m	£m
Loans to banks - amortised cost	2	82	—	—	84
Loans to customers - amortised cost	25,113	3,192	60	97	28,462
Other financial assets	1,415	37	65	—	1,517
Other financial liabilities	1,114	—	1,157	—	2,271
Subordinated liabilities	—	519	170	—	689
Amounts due to holding companies and fellow subsidiaries	733	4,696	—	—	5,429
Loan commitments (3)	15,260	4,809	1,071	570	21,710
Derivatives notional (£bn)	143.9	26.5	37.0	0.8	208.2

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

9 Financial instruments - classification continued

	NWB Plc			
	Rates subject to IBOR reform			
	GBP LIBOR	USD IBOR (1)	Other IBOR (2)	Total
2021	£m	£m	£m	£m
Loans to customers - amortised cost	1,946	2,113	—	4,059
Other financial assets	744	37	—	781
Other financial liabilities	1,070	—	—	1,070
Amounts due to holding companies and fellow subsidiaries	—	3,058	—	3,058
Loan commitments (3)	754	3,785	55	4,594
Derivatives notional (£bn)	0.1	27.4	—	27.5

	NWB Plc				
	Rates subject to IBOR reform				
	GBP LIBOR	USD IBOR (1)	EURIBOR (2)	Other IBOR	Total
2020	£m	£m	£m	£m	£m
Loans to banks - amortised cost	2	82	—	—	84
Loans to customers - amortised cost	20,487	2,557	7	48	23,099
Other financial assets	1,415	37	65	—	1,517
Amounts due from holding companies and fellow subsidiaries	588	—	80	—	668
Other financial liabilities	1,114	—	1,157	—	2,271
Subordinated liabilities	—	519	170	—	689
Amounts due to holding companies and fellow subsidiaries	730	4,696	—	—	5,426
Loan commitments (3)	15,040	4,808	1,065	565	21,478
Derivatives notional (£bn)	144.0	26.5	37.0	0.8	208.3

(1) In 2021 the FCA declared that USD IBOR will be non-representative post 30 June 2023; at the time of preparing the 2020 Annual Report and Accounts this date was expected to be 31 December 2021.
(2) In 2021 management concluded that EURIBOR is not expected to be significantly reformed further and therefore any uncertainty due to interest benchmark rate reform for EURIBOR has ended. 31 December 2020 data includes EURIBOR exposure as subject to reform.
(3) Certain loan commitments are multi-currency facilities. Where these are fully undrawn, they are allocated to the principal currency of the facility. Where the facilities are partly drawn, the remaining loan commitment is allocated to the currency with the largest drawn amount.

At December 2021 NWB Group held certain currency swaps with both legs subject to IBOR reform, for which only the GBP LIBOR leg has an explicit or agreed conversion provisions as of 31 December 20201, but not the entire contract. These include currency swaps of GBP LIBOR of £0.4 billion with USD IBOR; and currency swaps of USD IBOR of £0.4 billion with GBP LIBOR.

Included within the above December 2020 tables for derivatives were currency swaps with corresponding legs also subject to IBOR reform of GBP LIBOR of £2.7 billion with USD IBOR of £0.3 billion and EURIBOR £2.4 billion. Currency swaps of USD IBOR of £0.8 billion with GBP LIBOR of £0.5 billion and EURIBOR £0.3 billion. Currency swaps of EURIBOR of £0.3 billion with USD IBOR of £0.3 billion.

AT1 issuances

NWB Plc has issued certain capital instruments (AT1), under which reset clauses are linked to IBOR rates subject to reform. Where under the contractual terms of the instrument the coupon resets to a rate which has IBOR as a specified component of its pricing structure these are subject to IBOR reform and are shown in Note 22.

As part of its capital management activities the NWB Plc has acquired certain equity instruments issued by its subsidiaries which contain coupons or reset clauses linked to IBOR rates subject to reform.

This is outlined below:

	31 December 2021	31 December 2020
	£m	£m
£167 million 6%	167	167
£35 million 6.09%	35	35
£60 million 7.335%	60	60

9 Financial instruments - classification continued

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

	NWB Group								
	Offsetable Instruments			Offsetable potential not recognised by IFRS					
2021	Gross £m	IFRS offset £m	Balance sheet £m	Effect of master netting and similar agreements £m	Cash collateral £m	Securities collateral £m	Net amount after the effect of netting agreements and related collateral £m	Amounts not subject to offset £m	Balance sheet total £m
Derivatives assets	10,399	(7,961)	2,438	(1,644)	(96)	—	698	22	2,460
Derivative liabilities	12,676	(8,568)	4,108	(1,644)	(355)	(1,842)	267	11	4,119
Net position (1)	(2,277)	607	(1,670)	—	259	1,842	431	11	(1,659)
Non trading reverse repos	33,397	(7,594)	25,803	—	—	(25,803)	—	—	25,803
Non trading repos	29,267	(7,594)	21,673	—	—	(21,673)	—	—	21,673
Net position	4,130	—	4,130	—	—	(4,130)	—	—	4,130
2020									
Derivatives assets	14,069	(10,807)	3,262	(2,445)	(2)	—	815	26	3,288
Derivative liabilities	18,090	(11,540)	6,550	(2,445)	(790)	(2,433)	882	2	6,552
Net position (1)	(4,021)	733	(3,288)	—	788	2,433	(67)	24	(3,264)
Non trading reverse repos	33,202	(9,936)	23,266	—	—	(23,266)	—	—	23,266
Non trading repos	21,373	(9,936)	11,437	—	—	(11,437)	—	—	11,437
Net position	11,829	—	11,829	—	—	(11,829)	—	—	11,829

	NWB Plc								
	Offsetable Instruments			Offsetable potential not recognised by IFRS					
2021	Gross £m	IFRS offset £m	Balance sheet £m	Effect of master netting and similar agreements £m	Cash collateral £m	Securities collateral £m	Net amount after the effect of netting agreements and related collateral £m	Amounts not subject to offset £m	Balance sheet total £m
Derivatives assets	10,476	(7,961)	2,515	(1,649)	(96)	—	770	32	2,547
Derivative liabilities	12,682	(8,568)	4,114	(1,649)	(355)	(1,842)	268	222	4,336
Net position (1)	(2,206)	607	(1,599)	—	259	1,842	502	(190)	(1,789)
Non trading reverse repos	33,397	(7,594)	25,803	—	—	(25,803)	—	—	25,803
Non trading repos	29,267	(7,594)	21,673	—	—	(21,673)	—	—	21,673
Net position (1)	4,130	—	4,130	—	—	(4,130)	—	—	4,130
2020									
Derivatives assets	14,188	(10,807)	3,381	(2,446)	(2)	—	933	57	3,438
Derivative liabilities	18,096	(11,540)	6,556	(2,446)	(790)	(2,433)	887	213	6,769
Net position (1)	(3,908)	733	(3,175)	—	788	2,433	46	(156)	(3,331)
Non trading reverse repos	33,202	(9,936)	23,266	—	—	(23,266)	—	—	23,266
Non trading repos	21,373	(9,936)	11,437	—	—	(11,437)	—	—	11,437
Net position	11,829	—	11,829	—	—	(11,829)	—	—	11,829

(1) Within NWB Group and NWB Plc, the net IFRS offset balance of £607 million (2020 - £733 million) relates to variation margin netting reflected on other balance sheet lines.

10 Financial instruments - valuation

(D) = Descriptive; (T) = Table

Critical accounting policy: Fair value - financial instruments

Financial instruments classified as mandatory fair value through profit or loss; held-for-trading; designated fair value through profit or loss and fair value through other comprehensive income are recognised in the financial statements at fair value. All derivatives are measured at fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement considers the characteristics of the asset or liability and the assumptions that a market participant would consider when pricing the asset or liability.

NWB Group manages some portfolios of financial assets and financial liabilities based on its net exposure to either market or credit risk. In these cases, the fair value is derived from the net risk exposure of that portfolio with portfolio level adjustments applied to incorporate bid-offer spreads, counterparty credit risk, and funding costs (see 'Valuation Adjustments').

Where the market for a financial instrument is not active, fair value is established using a valuation technique. These valuation techniques involve a degree of estimation, the extent of which depends on the instrument's complexity and the availability of market-based data. The complexity and uncertainty in the financial instrument's fair value is categorised using the fair value hierarchy.

For accounting policy information see Accounting policies notes 10 and 15.

Valuation

Fair value hierarchy

Financial instruments carried at fair value have been classified under the fair value hierarchy. The classification ranges from level 1 to level 3, with more expert judgment and price uncertainty for those classified at level 3.

The determination of an instrument's level cannot be made at a global product level as a single product type can be in more than one level. For example, a single name corporate credit default swap could be in level 2 or level 3 depending on the level of market activity for the referenced entity.

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

Level 2 - instruments valued using valuation techniques that have observable inputs. Observable inputs are those that are readily available with limited adjustments required. Examples include most government agency securities, investment-grade corporate bonds, certain mortgage products - including CLOs, most bank loans, repos and reverse repos, state and municipal obligations, most notes issued, certain money market securities, loan commitments and most OTC derivatives.

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

10 Financial instruments – valuation continued

Valuation techniques

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

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

Non-modelled products can fall into any fair value levelling hierarchy depending on the observable market activity, liquidity, and assessment of valuation uncertainty of the instruments. The assessment of fair value and the classification of the instrument to a fair value level is subject to the valuation controls discussed in the "Valuation control" section.

Modelled products valued using a pricing model range in complexity from comparatively vanilla products such as interest rate swaps and options (e.g., interest rate caps and floors) through to more complex derivatives (e.g., balance guarantee swaps).

For modelled products, the fair value is derived using the model and the appropriate model inputs or parameters, as opposed to from a cash price equivalent. Model inputs are taken either directly or indirectly from available data, where some inputs are also modelled.

Fair value classification of modelled instruments is either level 2 or level 3, depending on the product/model combination, the observability and quality of input parameters and other factors. All these must be assessed to classify a position. The modelled product is assigned to the lowest fair value hierarchy level of any significant input used in that valuation.

Most derivative instruments, for example vanilla interest rate swaps, foreign exchange swaps and liquid single name credit derivatives, are classified as level 2. This is because they are vanilla products valued using standard market models and with observable inputs. Level 2 products range from vanilla to more complex products, where more complex products remain classified as Level 2 due to the materiality of any unobservable inputs.

Inputs to valuation models

When using valuation techniques, the fair value can be significantly affected by the choice of valuation model and underlying assumptions. Factors considered include the cashflow amounts and timing of those cash flows, and application of appropriate discount rates, incorporating both funding and credit risk. Values between and beyond available data points are obtained by interpolation and extrapolation. The principal inputs to these valuation techniques are as follows:

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

Credit spreads - these express the return required over a benchmark rate or index to compensate for the referenced credit risk. Where available, these are derived from the price of credit default swaps or other credit-based instruments, such as debt securities. When direct prices are not available, credit spreads are determined with reference to available prices of entities with similar characteristics.

Interest rates - these are principally based on interest rate swap prices referencing benchmark interest rates. Benchmark rates include Interbank Offered Rates (IBOR) and the Overnight Index Swap (OIS) rate, including SONIA (Sterling Overnight Interbank Average Rate). Other quoted interest rates may also be used from both the bond and futures markets.

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

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

Price volatilities and correlations - volatility is a measure of the tendency of a price to change with time. Correlation measures the degree which two or more prices or variables are observed to move together. Variables that move in the same direction show positive correlation; those that move in opposite directions are negatively correlated.

Prepayment rates - rates used to reflect how fast a pool of assets prepay. The fair value of a financial instrument that can be prepaid by the issuer or borrower differs from that of an instrument that cannot be prepaid. When valuing prepayable instruments, the value of this prepayment option is considered.

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

Valuation control

NWB Group's control environment for the determination of the fair value of financial instruments includes formalised procedures for the review and validation of fair values. This review is performed by an independent price verification (IPV) team.

IPV is a key element of the control environment. Valuations are first performed by the business which entered into the transaction. These valuations are then reviewed by the IPV team, independent of those trading the financial instruments, in light of available pricing evidence.

Independent pricing data is collated from a range of sources. Each source is reviewed for quality and the independent data applied in the IPV processes using a formalised input quality hierarchy. Consensus services are one source of independent data and encompass interest rate, currency, credit, and bond markets, providing comprehensive coverage of vanilla products and a wide selection of exotic products.

Where measurement differences are identified through the IPV process these are grouped by the quality hierarchy of the independent data. If the size of the difference exceeds defined thresholds, an adjustment is made to bring the valuation to within the independently calculated fair value range.

10 Financial instruments – valuation continued

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

The quality and completeness of the information gathered in the IPV process gives an indication as to the liquidity and valuation uncertainty of an instrument and forms part of the information considered when determining fair value hierarchy classifications.

Initial fair value level classification of a financial instrument is carried out by the IPV team. These initial classifications are subject to senior management review. Particular attention is paid to instruments transferring from one level to another, new instrument classes or products, instruments where the transaction price is significantly different from the fair value and instruments where valuation uncertainty is high.

Valuation Committees are made up of valuation specialists and senior business representatives from various functions and oversee pricing, reserving and valuations issues. These committees meet monthly to review and ratify any methodology changes. The Executive Valuation Committee meets quarterly to address key material and subjective valuation issues, to review items escalated by Valuation Committees and to discuss other relevant industry matters.

The Group model risk policy sets the policy for model documentation, testing and review. Governance of the model risk policy is carried out by the Group model risk oversight committee, which comprises model risk owners and independent model experts. All models are required to be independently validated in accordance with the Model Risk Policy.

Key areas of judgment

Over the years the business has simplified, with most products classified as level 1 or 2 of the fair value hierarchy. However, the diverse range of products historically traded by NWB Group means some products remain classified as level 3. Level 3 indicates a significant level of pricing uncertainty, where expert judgment is used. As such, extra disclosures are required in respect of level 3 instruments.

In general, the degree of expert judgment used and hence valuation uncertainty depends on the degree of liquidity of an instrument or input.

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

A key related matter is where a market moves from liquid to illiquid or vice versa. Where this movement is considered temporary, the fair value level is not changed. For example, if there is little market trading in a product on a reporting date but at the previous reporting date and during the intervening period the market has been liquid. In this case, the instrument will continue to be classified at the same level in the hierarchy. This is to provide consistency so that transfers between levels are driven by genuine changes in market liquidity and do not reflect short term or seasonal effects. Material movements between levels are reviewed quarterly by the Business and IPV. The breadth and depth of the IPV data allows for a rules-based quality assessment to be made of market activity, liquidity, and pricing uncertainty, which assists with the process of allocation to an appropriate level. Where suitable independent pricing information is not readily available, the quality assessment will result in the instrument being assessed as level 3.

The table below shows the assets and liabilities held by NWB Group split by fair value hierarchy level. Level 1 are considered the most liquid instruments, and level 3 the most illiquid, valued using expert judgment and hence carrying the most significant price uncertainty.

	2021				2020			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets								
Derivatives	—	2,459	1	2,460	—	3,283	5	3,288
Amounts due from holding companies and fellow subsidiaries	—	348	—	348	—	556	—	556
Other financial assets								
Securities	20,229	5,718	2	25,949	—	426	50	476
Loans - MFVTPL	—	165	50	215	27,707	6,146	—	33,853
Loans - FVOCI	—	210	—	210	—	—	—	—
Total financial assets held at fair value	20,229	8,900	53	29,182	27,707	10,411	55	38,173
As % of total fair value assets	69%	31%	0%		73%	27%	0%	
Liabilities								
Derivatives	—	3,980	139	4,119	—	6,324	228	6,552
Other financial liabilities								
Deposits - HFT	—	99	—	99	—	3	—	3
Total financial liabilities held at fair value	—	4,079	139	4,218	—	6,327	228	6,555
As % of total fair value liabilities	—	97%	3%		—	97%	3%	

(1) Transfers between levels are deemed to have occurred at the beginning of the quarter in which the instrument was transferred.

10 Financial instruments – valuation continued

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

Adjustment	2021 £m	2020 £m
Funding – FVA	31	19
Credit – CVA	1	2
Bid – Offer	27	24
	59	45

Funding valuation adjustments (FVA)

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

Funding levels are applied to estimated potential future exposures. For uncollateralised derivatives, the exposure reflects the future valuation of the derivative. For collateralised derivatives, the exposure reflects the difference between the future valuation of the derivative and the level of collateral posted.

Credit valuation adjustments (CVA)

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

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

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

Bid-offer

Fair value positions are required to be marked to exit, represented by bid (long positions) or offer (short positions) levels. Non-derivative positions are typically marked directly to bid or offer prices. However derivative exposures are adjusted to exit levels by taking bid-offer reserves calculated on a portfolio basis. The bid-offer approach is based on current market spreads and standard market bucketing of risk.

Bid-offer spreads vary by maturity and risk type to reflect different spreads in the market. For positions where there is no observable quote, the bid-offer spreads are widened in comparison to proxies to reflect reduced liquidity or observability.

Netting is applied on a portfolio basis to reflect the value at which NWB Group believes it could exit the net risk of the portfolio, rather than the sum of exit costs for each of the portfolio's individual trades. This is applied where the asset and liability positions are managed as a portfolio for risk and reporting purposes.

Product and deal specific

On initial recognition of financial assets and liabilities valued using valuation techniques which have a significant dependence on information other than observable market data, any difference between the transaction price and that derived from the valuation technique is deferred. Such amounts are recognised in the income statement over the life of the transaction, when market data becomes observable, or when the transaction matures or is closed out as appropriate.

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

L3 additional information

For illiquid assets and liabilities, classified as level 3, additional information is provided on the valuation techniques used and price sensitivity of the products to those inputs. This is to enable the reader to gauge the level of uncertainty that arises from positions with significant unobservable inputs or modelling parameters.

Level 3 ranges of unobservable inputs

The table below provides additional information on level 3 instruments and inputs. This shows the valuation technique used for the fair value calculation, the unobservable input or inputs and input range.

				2021		2020	
Financial instrument	Valuation technique	Unobservable inputs	Units	Low	High	Low	High
Other financial assets							
Loans	Discount cash flow	Discount margin	bps	113	169	154	194
Derivative assets and liabilities							
Interest rate & FX derivatives	Discount cash flow	Conditional prepayment risk	%	4	6	6	8

(1) NWB Group does not have any material liabilities measured at fair value that are issued with an inseparable third party credit enhancement.

10 Financial instruments: valuation continued

The level 3 sensitivities presented below are calculated at a trade or low-level portfolio basis rather than an overall portfolio basis. As individual sensitivities are aggregated with no reflection of the correlated nature between instruments, the overall portfolio sensitivity may not be accurately reflected. For example, some portfolios may be negatively correlated to others, where a downwards movement in one asset would produce an upwards movement in another. However, due to the additive presentation of the above figures this correlation impact cannot be displayed. As such, the actual potential downside sensitivity of the total portfolio may be less than the non-correlated sum of the additive figures as shown in the below table.

Alternative assumptions

Reasonably plausible alternative assumptions of unobservable inputs are determined based on a specified target level of certainty of 90%.

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

Other considerations

Whilst certain inputs used to calculate CVA and FVA are not based on observable market data, the uncertainty of these inputs is not considered to have a significant effect on the net valuation of the related derivative portfolios.

As such, the fair value levelling of the derivative portfolios is not determined by CVA or FVA inputs. In addition, any fair value sensitivity driven by these inputs is not included in the level 3 sensitivities presented.

The table below shows the high and low range of fair value of the level 3 assets and liabilities. This range incorporates the range of fair value inputs as described in the previous table.

	2021			2020		
	Level 3 £m	Favourable £m	Unfavourable £m	Level 3 £m	Favourable £m	Unfavourable £m
Assets						
Derivatives	1	—	—	5	—	—
Other financial assets						
Loans - MFVTPL	50	—	—	50	—	—
Securities	2	—	—	—	—	—
	53	—	—	55	—	—
Liabilities						
Derivatives	139	10	(10)	228	—	—
	139	10	(10)	228	—	—

Movement in level 3 assets and liabilities over the reporting period

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

	2021				2020			
	Trading assets (2) £m	Other financial assets (3) £m	Total assets £m	Total liabilities £m	Trading assets (2) £m	Other financial assets (3) £m	Total assets £m	Total liabilities £m
At 1 January	5	50	55	228	4	—	4	181
Amounts recorded in the income statement (1)	(1)	3	2	(70)	4	—	4	70
Level 3 transfers in	—	—	—	—	—	50	50	—
Level 3 transfers out	—	(3)	(3)	—	—	—	—	—
Purchases/originations	—	2	2	—	—	—	—	—
Settlements/other decreases	(3)	—	(3)	(19)	(3)	—	(3)	(23)
At 31 December	1	52	53	139	5	50	55	228
Amounts recorded in the income statement in respect of balances held at year end:								
- unrealised	(3)	—	(3)	(89)	4	—	4	48
- realised	3	—	3	19	—	—	—	23

(1) Net gains on trading assets and liabilities of £69 million (2020 – net losses £66 million) were recorded in income from trading activities.
(2) Trading assets comprise assets held at fair value in trading portfolios.
(3) Other financial assets comprise fair value through other comprehensive income, designated as at fair value through profit or loss and other fair value through profit or loss.

10 Financial instruments: valuation continued

Fair value of financial instruments measured at amortised cost on the balance sheet

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

	NWB Group						NWB Plc					
	Items where fair value approximates carrying value	Carrying value	Fair value	Fair value hierarchy level			Items where fair value approximates carrying value	Carrying value	Fair value	Fair value hierarchy level		
				Level 1	Level 2	Level 3				Level 1	Level 2	Level 3
2021	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Financial assets												
Cash and balances at central banks	101.2						101.2					
Loans to banks		4.1	4.0	—	3.5	0.5		3.6	3.6	—	3.5	0.1
Loans to customers		287.0	283.0	—	27.6	255.4		255.4	251.3	—	27.5	223.8
Amounts due from holding companies and fellow subsidiaries		2.5	2.5	—	0.3	2.2		25.3	25.5	—	17.6	7.9
Other financial assets - securities		2.7	2.7	1.6	0.7	0.4		2.3	2.3	1.6	0.7	—
2020												
Financial assets												
Cash and balances at central banks	63.0						62.9					
Loans to banks		3.3	3.3	—	2.4	0.9		2.8	2.8	—	2.4	0.4
Loans to customers		271.6	271.1	—	23.3	247.8		238.4	237.7	—	23.2	214.5
Amounts due from holding companies and fellow subsidiaries		2.7	2.7	—	0.3	2.4		27.1	27.8	—	17.3	10.5
Other financial assets - securities		3.7	3.8	2.2	1.2	0.4		3.3	3.4	2.2	1.2	—
2021												
Financial liabilities												
Bank deposits	3.7	19.1	18.8	—	18.8	—	3.7	19.1	18.8	—	18.8	—
Customer deposits	305.4	24.1	24.3	—	17.5	6.9	270.4	22.1	22.4	—	17.5	4.9
Amounts due to holding companies and fellow subsidiaries	2.8	42.2	42.3	—	9.8	32.5	1.8	74.6	74.6	—	22.5	52.1
Other financial liabilities												
Debt securities in issue		7.2	7.2	—	3.0	4.2		6.3	6.4	—	3.0	3.4
Settlement balances	—						—					
Subordinated liabilities		0.2	0.3	—	0.3	—		0.2	0.3	—	0.3	—
Notes in circulation	0.9						0.9					
2020												
Financial liabilities												
Bank deposits	3.4	11.5	11.5	—	11.3	0.2	3.4	11.5	11.5	—	11.3	0.2
Customer deposits	253.3	40.3	40.4	—	9.2	31.2	230.0	25.3	25.4	—	9.2	16.2
Amounts due to holding companies and fellow subsidiaries	16.8	20.8	21.1	—	8.0	13.1	16.1	53.5	54.1	—	20.2	33.9
Other financial liabilities												
Debt securities in issue		7.1	7.2	—	3.1	4.1		6.3	6.4	—	3.1	3.3
Settlement balances	3.3						3.3					
Subordinated liabilities		1.2	1.3	—	1.3	—		1.2	1.3	—	1.3	—
Notes in circulation	1.0						1.3					

10 Financial instruments: fair value of financial instruments measured at amortised cost continued

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

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

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

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

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

Debt securities and subordinated liabilities
Most debt securities are valued using quoted prices in active markets or from quoted prices of similar financial instruments in active markets. Fair values of the remaining population are determined using market standard valuation techniques, such as discounted cash flows, adjusting for own credit spreads where appropriate.

Bank and customer deposits
Fair values of deposits are estimated using discounted cash flow valuation techniques. Where required, methodologies can be revised as additional information and valuation inputs become available.

11 Financial instruments - maturity analysis
Remaining maturity

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

NWB Group	2021 Less than 12 months £m	2021 More than 12 months £m	2021 Total £m	2020 Less than 12 months £m	2020 More than 12 months £m	2020 Total £m
Assets						
Cash and balances at central banks	101,213	—	101,213	62,983	—	62,983
Derivatives	159	2,301	2,460	197	3,091	3,288
Loans to banks - amortised cost	4,173	9	4,182	3,335	9	3,344
Loans to customers - amortised cost	78,287	208,684	286,971	64,102	207,479	271,581
Amounts due from holding companies and fellow subsidiaries (1)	2,635	267	2,902	2,936	303	3,239
Other financial assets	4,642	24,389	29,031	4,180	33,815	37,995
Liabilities						
Bank deposits	10,831	12,000	22,831	9,871	5,000	14,871
Customer deposits	328,748	692	329,440	292,631	974	293,605
Derivatives	123	3,996	4,119	336	6,216	6,552
Amounts due to holding companies and fellow subsidiaries (2)	35,795	9,239	45,034	29,984	7,574	37,558
Other financial liabilities	3,551	3,700	7,251	6,644	3,739	10,383
Subordinated liabilities	88	123	211	313	917	1,230
Notes in circulation	904	—	904	1,012	—	1,012
Lease liabilities	203	805	1,008	142	1,256	1,398

NWB Plc	2021 Less than 12 months £m	2021 More than 12 months £m	2021 Total £m	2020 Less than 12 months £m	2020 More than 12 months £m	2020 Total £m
Assets						
Cash and balances at central banks	101,210	—	101,210	62,878	—	62,878
Derivatives	156	2,391	2,547	197	3,241	3,438
Loans to banks - amortised cost	3,638	—	3,638	2,798	—	2,798
Loans to customers - amortised cost	67,008	188,435	255,443	51,137	187,229	238,366
Amounts due from holding companies and fellow subsidiaries (1)	10,633	15,733	26,366	12,577	15,427	28,004
Other financial assets	4,260	24,389	28,649	3,791	33,815	37,606
Liabilities						
Bank deposits	10,829	12,000	22,829	9,866	5,000	14,866
Customer deposits	291,780	690	292,470	254,317	973	255,290
Amounts due to holding companies and fellow subsidiaries (2)	52,883	23,703	76,586	48,094	21,523	69,617
Derivatives	120	4,216	4,336	340	6,429	6,769
Other financial liabilities	3,551	2,833	6,384	6,644	2,968	9,612
Subordinated liabilities	88	117	205	313	917	1,230
Notes in circulation	904	—	904	1,266	—	1,266
Lease liabilities	194	704	898	132	1,148	1,280

(1) Amounts due from holding companies and fellow subsidiaries relating to non-financial instruments of £617 million (2020 - £66 million) for NWB Group and £756 million (2020 – £172 million) for NWB Plc have been excluded from the tables.
(2) Amounts due to holding companies and fellow subsidiaries relating to non-financial instruments of £102 million (2020 - £1 million) for NWB Group and £136 million (2020 – nil) for NWB Plc have been excluded from the tables.

11 Financial instruments - maturity analysis continued
Liabilities by contractual cash flows up to 20 years
The tables below show the timing of cash outflows to settle financial liabilities, prepared on the following basis:

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

The settlement date of debt securities issued by certain securitisation vehicles consolidated by the Group depends on when cash flows are received from the securitised assets. Where these assets are prepayable, the timing of cash outflow relating to securities assumes that each asset will be prepaid at the earliest possible date.

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

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

Held-for-trading liabilities amounting to £4.1 billion (2020 - £6.4 billion) for the NWB Group and £4.4 billion (2020 - £6.6 billion) for the bank have been excluded from the tables.

	NWB Group					
2021	0-3 months £m	3-12 months £m	1-3 years £m	3-5 years £m	5-10 years £m	10-20 years £m
Liabilities by contractual maturity up to 20 years						
Bank deposits	**10,828**	**—**	**—**	**12,003**	**—**	**—**
Customer deposits	**325,645**	**2,864**	**913**	**4**	**—**	**—**
Amounts due to holding companies and fellow subsidiaries (1)	**24,079**	**10,096**	**4,117**	**3,149**	**4,112**	**110**
Derivatives held for hedging	**5**	**5**	**53**	**32**	**24**	**13**
Other financial liabilities	**2,285**	**1,177**	**2,915**	**289**	**499**	**79**
Subordinated liabilities	**—**	**103**	**21**	**21**	**58**	**200**
Notes in circulation	**904**	**—**	**—**	**—**	**—**	**—**
Lease liabilities	**64**	**136**	**170**	**129**	**219**	**205**
	363,810	**14,381**	**8,189**	**15,627**	**4,912**	**607**
Guarantees and commitments notional amount						
Guarantees (2)	**796**	**—**	**—**	**—**	**—**	**—**
Commitments (3)	**78,742**	**—**	**—**	**—**	**—**	**—**
	79,538	**—**	**—**	**—**	**—**	**—**
2020						
Liabilities by contractual maturity up to 20 years						
Bank deposits	9,612	258	—	5,001	—	—
Customer deposits	287,847	4,789	955	5	18	—
Amounts due to holding companies and fellow subsidiaries (1)	24,562	5,679	940	4,094	2,618	106
Derivatives held for hedging	11	35	82	41	31	12
Other financial liabilities	5,368	1,286	870	2,476	397	79
Subordinated liabilities	14	344	133	37	90	315
Notes in circulation	1,012	—	—	—	—	—
Lease liabilities	40	103	233	201	358	409
	328,466	12,494	3,213	11,855	3,512	921
Guarantees and commitments notional amount						
Guarantees (2)	762	—	—	—	—	—
Commitments (3)	74,858	—	—	—	—	—
	75,620	—	—	—	—	—

11 Financial instruments - maturity analysis continued

	NWB Plc					
2021	0-3 months £m	3-12 months £m	1-3 years £m	3-5 years £m	5-10 years £m	10-20 years £m
Liabilities by contractual maturity up to 20 years						
Bank deposits	**10,826**	**—**	**—**	**12,003**	**—**	**—**
Customer deposits	**289,509**	**2,033**	**911**	**4**	**—**	**—**
Amounts due to holding companies and fellow subsidiaries (1)	**31,445**	**17,388**	**6,134**	**9,988**	**11,883**	**377**
Derivatives held for hedging	**3**	**3**	**49**	**29**	**19**	**13**
Other financial liabilities	**2,285**	**1,177**	**2,915**	**—**	**—**	**—**
Subordinated liabilities	**—**	**103**	**21**	**21**	**52**	**200**
Notes in circulation	**904**	**—**	**—**	**—**	**—**	**—**
Lease liabilities	**62**	**129**	**153**	**123**	**216**	**199**
	335,034	**20,833**	**10,183**	**22,168**	**12,170**	**789**
Guarantees and commitments notional amount						
Guarantees (2)	**742**	**—**	**—**	**—**	**—**	**—**
Commitments (3)	**74,875**	**—**	**—**	**—**	**—**	**—**
	75,617	**—**	**—**	**—**	**—**	**—**
2020						
Liabilities by contractual maturity up to 20 years						
Bank deposits (1)	9,607	258	—	5,001	—	—
Customer deposits	250,637	3,684	955	5	18	—
Amounts due to holding companies and fellow subsidiaries (1)	40,984	7,808	6,599	9,510	4,651	2,220
Derivatives held for hedging	11	32	76	36	23	11
Other financial liabilities	5,367	1,286	870	2,180	—	—
Subordinated liabilities	14	344	133	37	90	315
Notes in circulation	1,266	—	—	—	—	—
Lease liabilities	38	96	222	190	349	385
	307,924	13,508	8,855	16,959	5,131	2,931
Guarantees and commitments notional amount						
Guarantees (2)	674	—	—	—	—	—
Commitments (3)	68,636	—	—	—	—	—
	69,310	—	—	—	—	—

(1) Amounts due to holding companies and fellow subsidiaries relating to non-financial instruments have been excluded from the tables.
(2) NWB Group is only called upon to satisfy a guarantee when the guaranteed party fails to meet its obligations. NWB Group expects most guarantees it provides to expire unused.
(3) NWB Group has given commitments to provide funds to customers under undrawn formal facilities, credit lines and other commitments to lend subject to certain conditions being met by the counterparty. NWB does not expect all facilities to be drawn, and some may lapse before drawdown.

12 Derivatives

NWB Group uses derivatives to manage its own risk such as interest rate, foreign exchange, or credit risk or in certain customer transactions.

	NWB Group					
	2021			2020		
	Notional £bn	Assets £m	Liabilities £m	Notional £bn	Assets £m	Liabilities £m
Exchange rate contracts	26	180	218	25	163	528
Interest rate contracts	428	2,280	3,901	389	3,113	6,024
Credit derivatives	—	—	—	—	12	—
		2,460	4,119		3,288	6,552

	NWB Plc					
	2021			2020		
	Notional £bn	Assets £m	Liabilities £m	Notional £bn	Assets £m	Liabilities £m
Exchange rate contracts	27	184	231	26	163	631
Interest rate contracts	437	2,363	4,105	400	3,263	6,138
Credit derivatives	—	—	—	—	12	—
		2,547	4,336		3,438	6,769

For accounting policy information see Accounting policies notes 10 and 15.

Refer to Note 9 for amounts due from/to fellow NatWest Group subsidiaries.

NWB Group applies hedge accounting to reduce the accounting mismatch caused in the income statement by using derivatives to hedge the following risks: interest rate, foreign exchange and net investment in foreign operations.

NWB Group's interest rate hedging relates to the management of NWB Group's non-trading structural interest rate risk, caused by the mismatch between fixed interest rates and floating interest rates on its financial instruments. NWB Group manages this risk within approved limits. Residual risk positions are hedged with derivatives, principally interest rate swaps.

Suitable larger fixed rate financial instruments are subject to fair value hedging; the remaining exposure, where possible, is hedged by derivatives designated as cash flow hedges.

Cash flow hedges of interest rate risk relate to exposures to the variability in future interest payments and receipts due to the movement of benchmark interest rates on forecast transactions and on financial assets and financial liabilities. This variability in cash flows is hedged by interest rate swaps, which convert variable cash flows into fixed. For these cash flow hedge relationships, the hedged items are actual and forecast variable interest rate cash flows arising from financial assets and financial liabilities with interest rates linked to the relevant benchmark rates, most notably LIBOR, EURIBOR, SONIA and the Bank of England Official Bank Rate. The variability in cash flows due to movements in the relevant benchmark rate is hedged; this risk component is identified using the risk management systems of NWB Group and encompasses the majority of cash flow variability risk.

Fair value hedges of interest rate risk involve interest rate swaps transforming the fixed interest rate risk in financial assets and financial liabilities to floating. The hedged risk is the risk of changes in the hedged item's fair value attributable to changes in the benchmark interest rate risk component of the hedged item. The significant benchmarks identified as risk components are USD/GBP LIBOR, EURIBOR and SONIA. These risk components are identified using the risk management systems of NWB Group and encompass the majority of the hedged item's fair value risk.

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

Exchange rate risk also arises in NWB Group where payments are denominated in currencies other than the functional currency. Residual risk positions are hedged with forward foreign exchange contracts, fixing the exchange rate the payments will be settled in. The derivatives are documented as cash flow hedges.

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

IBOR reform - NWB Group in the year continued to apply, for relationships directly affected by interest rate benchmark reform, Interest Rate Benchmark Reform Amendments to IAS39 and IFRS 7 issued September 2019 ("Phase 1 relief") and Interest Rate Benchmark Reform – Phase 2 Amendments to IAS 39 and IFRS 7 issued August 2020 ("Phase 2 relief").

Significant transitions in the year were the GBP, JPY and CHF derivatives subject to cash flow and fair value hedging transitioned as part of the LCH 'big bang' conversion in December 2021. The swaps were restructured to reprice off the appropriate risk free rate from the next repricing date post 31 December 2021 plus a spread adjustment. All impacted hedge accounting relationships had their designations updated to reflect this transition

USD cash flow and fair value hedges of interest rate risk that mature post 30 June 2023 continue to be directly affected by interest rate benchmark reform.

12 Derivatives continued

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

	NWB Group							
	2021				2020			
	Notional £bn	Assets £m	Liabilities £m	Change in fair value used for hedge ineffectiveness (1) £m	Notional £bn	Assets £m	Liabilities £m	Change in fair value used for hedge ineffectiveness (1) £m
Fair value hedging - interest rate contracts	32.7	462	1,273	1,200	36.7	677	2,773	(1,366)
Cash flow hedging - interest rate contracts	86.5	538	550	183	51.2	114	345	(250)
Cash flow hedging - exchange rate contracts	0.2	6	—	26	2.0	—	19	2
Net investment hedging - exchange rate contracts	0.2	4	1	7	0.1	—	3	7
	119.6	1,010	1,824	1,416	90.0	791	3,140	(1,607)
IFRS netting		(897)	(1,753)			(790)	(2,967)	
		113	71			1	173	

	NWB Plc							
	2021				2020			
	Notional £bn	Assets £m	Liabilities £m	Change in fair value used for hedge ineffectiveness (1) £m	Notional £bn	Assets £m	Liabilities £m	Change in fair value used for hedge ineffectiveness (1) £m
Fair value hedging - interest rate contracts	32.4	462	1,255	1,198	36.7	677	2,752	(1,366)
Cash flow hedging - interest rate contracts	86.5	538	550	183	51.2	114	345	(250)
Cash flow hedging - exchange rate contracts	0.1	5	—	25	2.0	—	19	2
	119.0	1,005	1,805	1,406	89.9	791	3,116	(1,614)
IFRS netting		(897)	(1,750)			(790)	(2,967)	
		108	55			1	149	

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

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

	NWB Group		NWB Plc	
	2021 £bn	2020 £bn	2021 £bn	2020 £bn
Fair value hedging				
EURIBOR (1)	—	5.5	—	5.4
GBP LIBOR	—	7.3	—	7.3
USD LIBOR (2)	10.6	12.4	10.6	12.4
Cash flow hedging				
EURIBOR (1)	—	0.2	—	0.2
GBP LIBOR	—	6.8	—	6.8
USD LIBOR (2)	1.3	0.7	1.3	0.7

(1) In 2021 management concluded that EURIBOR is not expected to be significantly reformed further and therefore any uncertainty due to interest benchmark rate reform for EURIBOR has ended.
(2) In 2021 the FCA declared that USD LIBOR will be non-representative post 30 June 2023; at the time of preparing the 2020 Annual Report and Accounts was expected to be 31 December 2021.
(3) Notional of £17 million GBP LIBOR derivative contracts in fair value hedge relationships will convert to repricing off SONIA at the first repricing date post cessation.

12 Derivatives continued

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

2021	0-3 months £bn	3-12 months £bn	1-3 years £bn	3-5 years £bn	5-10 years £bn	10-20 years £bn	20+ years £bn	Total £bn
	NWB Group							
Fair value hedging								
Hedging assets - interest rate risk	**0.7**	**1.6**	**3.0**	**4.8**	**5.3**	**3.6**	**3.2**	**22.2**
Hedging liabilities - interest rate risk	**0.5**	**—**	**3.9**	**2.6**	**3.5**	**—**	**—**	**10.5**
Cash flow hedging								
Hedging assets - interest rate risk	**0.3**	**—**	**5.5**	**16.0**	**4.5**	**—**	**—**	**26.3**
Average fixed interest rate (%)	***2.09***	***—***	***0.53***	***0.48***	***0.53***	***—***	***—***	***0.52***
Hedging liabilities - interest rate risk	**8.3**	**15.2**	**30.0**	**4.4**	**2.3**	**—**	**—**	**60.2**
Average fixed interest rate (%)	***0.45***	***0.21***	***0.30***	***0.40***	***0.74***	***—***	***—***	***0.32***
Hedging liabilities - exchange rate risk	**0.1**	**0.1**	**—**	**—**	**—**	**—**	**—**	**0.2**
Net investment hedging								
Exchange rate risk	**0.2**	**—**	**—**	**—**	**—**	**—**	**—**	**0.2**

2020	0-3 months £bn	3-12 months £bn	1-3 years £bn	3-5 years £bn	5-10 years £bn	10-20 years £bn	20+ years £bn	Total £bn
	NWB Group							
Fair value hedging								
Hedging assets - interest rate risk	1.1	1.5	3.8	6.4	7.7	3.8	3.5	27.8
Hedging liabilities - interest rate risk	—	0.3	0.6	5.7	2.3	—	—	8.9
Cash flow hedging								
Hedging assets - interest rate risk	—	0.1	2.3	2.2	2.3	—	—	6.9
Average fixed interest rate (%)	—	*2.18*	*0.47*	*0.46*	*0.40*	—	—	*0.46*
Hedging liabilities - interest rate risk	—	10.6	27.2	3.6	2.9	—	—	44.3
Average fixed interest rate (%)	—	*0.59*	*0.28*	*0.48*	*0.41*	—	—	*0.38*
Hedging liabilities - exchange rate risk	0.1	1.2	—	0.7	—	—	—	2.0
Net investment hedging								
Exchange rate risk	0.1	—	—	—	—	—	—	0.1

12 Derivatives continued

The table below analyses assets and liabilities, including intercompany, subject to hedging derivatives:

	NWB Group			
2021	Carrying value of hedged assets and liabilities £m	Impact on hedged items included in carrying value £m	Change in fair value used as a basis to determine ineffectiveness (1) £m	Impact of hedged items ceased to be adjusted for hedging gains or losses £m
Fair value hedging - interest rate				
Loans to customers – amortised cost	**2,270**	**58**	**(186)**	**27**
Other financial assets - securities	**25,936**	**506**	**(1,396)**	**—**
Total	**28,206**	**564**	**(1,582)**	**27**
Other financial liabilities - debt securities in issue	**7,828**	**144**	**288**	**—**
Subordinated liabilities	**2,374**	**(41)**	**107**	**—**
Total	**10,202**	**103**	**395**	**—**
Cash flow hedge - interest rate				
Loans to banks and customers – amortised cost	**26,329**		**623**	
Other financial assets - securities	**28**		**1**	
Total	**26,357**		**624**	
Customer deposits	**59,605**		**(770)**	
Other financial liabilities - debt securities in issue	**560**		**(6)**	
Total	**60,165**		**(776)**	
Cash flow hedge - exchange rate				
Subordinated liabilities	**—**		**(15)**	
Other	**200**		**(10)**	
Total	**200**		**(25)**	
2020				
Fair value hedging - interest rate				
Loans to customers – amortised cost	2,076	224	140	29
Other financial assets - securities	31,499	2,102	1,479	—
Total	33,575	2,326	1,619	29
Other financial liabilities - debt securities in issue	6,185	432	(172)	—
Subordinated liabilities	2,918	153	(92)	—
Total	9,103	585	(264)	—
Cash flow hedge - interest rate				
Loans to banks and customers – amortised cost	6,870		(37)	
Other financial assets - securities	38		(39)	
Total	6,908		(76)	
Customer deposits	43,472		292	
Other financial liabilities - debt securities in issue	804		7	
Total	44,276		299	
Cash flow hedge - exchange rate				
Subordinated liabilities	1,831		—	
Other	151		(2)	
Total liabilities	1,982		(2)	

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

12 Derivatives continued

	NWB Plc			
2021	Carrying value (CV) of hedged assets and liabilities £m	Impact on hedged items included in carrying value £m	Change in fair value used as a basis to determine ineffectiveness (1) £m	Impact of hedged items ceased to be adjusted for hedging gains or losses £m
Fair value hedging - interest rate				
Loans to customers – amortised cost	2,178	42	(179)	—
Other financial assets - securities	25,936	506	(1,397)	—
Total	28,114	548	(1,576)	—
Other financial liabilities - debt securities in issue	7,588	148	283	—
Subordinated liabilities	2,374	(41)	107	—
Total	9,962	107	390	—
Cash flow hedge - interest rate				
Loans to banks and customers – amortised cost	26,329		623	
Other financial assets - securities	28		1	
Total	26,357		624	
Customer deposits	59,605		(770)	
Other financial liabilities - debt securities in issue	560		(6)	
Total	60,165		(776)	
Cash flow hedge - exchange rate				
Subordinated liabilities	—		(15)	
Other	150		(9)	
Total	150		(24)	
2020				
Fair value hedging - interest rate				
Loans to customers – amortised cost	1,935	202	139	1
Other financial assets - securities	31,499	2,102	1,479	—
Total	33,434	2,304	1,618	1
Other financial liabilities - debt securities in issue	6,185	432	(172)	—
Subordinated liabilities	2,918	153	(92)	—
Total	9,103	585	(264)	—
Cash flow hedge - interest rate				
Loans to banks and customers – amortised cost	6,870		(37)	
Other financial assets - securities	38		(39)	
Total	6,908		(76)	
Customer deposits	43,472		292	
Other financial liabilities - debt securities in issue	804		7	
Total	44,276		299	
Cash flow hedge - exchange rate				
Subordinated liabilities	1,831		—	
Other	151		(2)	
Total	1,982		(2)	

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

12 Derivatives continued

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

	NWB Group				NWB Plc			
	2021		2020		2021		2020	
	Notional £bn	Hedged adjustment £m	Notional £bn	Hedged adjustment £m	Notional £bn	Hedged adjustment £m	Notional £bn	Hedged adjustment £m
Fair value hedging								
EURIBOR (1)	—	—	5.5	173	—	—	5.4	161
GBP LIBOR	—	—	7.3	731	—	—	7.3	722
USD LIBOR (2)	**10.6**	**147**	12.4	270	**10.6**	**147**	12.4	270
Cash flow hedging								
EURIBOR (1)	—	—	0.2	1	—	—	0.2	1
USD LIBOR (2)	**1.3**	**19**	0.7	(18)	**1.3**	**19**	0.7	(18)
BOE Base rate (3)	—	—	6.8	93	—	—	6.8	93

(1) In 2021 management concluded that EURIBOR is not expected to be significantly reformed further and therefore any uncertainty due to interest benchmark rate reform for EURIBOR has ended.
(2) In 2021 the FCA declared that USD LIBOR will be non-representative post 30 June 2023; at the time of preparing the 2020 disclosures this date was expected to be 31 December 2021.
(3) Hedge relationships subject to reform are those where either the hedged item or the hedging instrument is subject to the IBOR reform.

The following shows analysis of the pre-tax cash flow hedge reserve and foreign exchange hedge reserve:

	NWB Group			
	2021		2020	
	Cash flow hedge reserve £m	Foreign exchange hedge reserve £m	Cash flow hedge reserve £m	Foreign exchange hedge reserve £m
Continuing				
Interest rate risk	**(2)**	**—**	(151)	—
Foreign exchange risk (1)	**6**	**20**	(19)	2
De-designated				
Interest rate	**(6)**	**—**	(12)	—
Foreign exchange risk (1)	**—**	**7**	—	3
Total	**(2)**	**27**	(182)	5

	NWB Plc			
	2021		2020	
	Cash flow hedge reserve £m	Foreign exchange hedge reserve £m	Cash flow hedge reserve £m	Foreign exchange hedge reserve £m
Continuing				
Interest rate risk	**(2)**	**—**	(151)	—
Foreign exchange risk	**5**	**17**	(19)	2
De-designated				
Interest rate	**(6)**	**—**	(12)	—
Total	**(3)**	**17**	(182)	2

For the notes to these tables refer to the following page.

12 Derivatives continued

	NWB Group			
	2021		2020	
	Cash flow hedge reserve £m	Foreign exchange hedge reserve £m	Cash flow hedge reserve £m	Foreign exchange hedge reserve £m
Amount recognised in equity				
Interest rate risk	99	—	(274)	—
Foreign exchange risk	3	22	(1)	(5)
Total	102	22	(275)	(5)
Amount transferred from equity to earnings				
Interest rate risk to net interest income	57	—	53	—
Interest rate risk to non-interest income (2)	(2)	—	—	—
Foreign exchange risk to net interest income	3	—	—	—
Foreign exchange risk to non-interest income	17	—	—	—
Foreign exchange risk to operating expenses	3	—	4	—
Total	78	—	57	—

	NWB Plc			
	2021		2020	
	Cash flow hedge reserve £m	Foreign exchange hedge reserve £m	Cash flow hedge reserve £m	Foreign exchange hedge reserve £m
Amount recognised in equity				
Interest rate risk	99	—	(274)	—
Foreign exchange risk	1	15	(1)	(5)
Total	100	15	(275)	(5)
Amount transferred from equity to earnings				
Interest rate risk to net interest income	58	—	53	—
Interest rate risk to non-interest income (2)	(2)	—	—	—
Foreign exchange risk to net interest income	3	—	—	—
Foreign exchange risk to non-interest income	17	—	—	—
Foreign exchange risk to operating expenses	3	—	4	—
Total	79	—	57	—

(1) There was £2 million reclassified from the cash flow reserve to earnings due to forecasted cash flows that are no longer expected to occur.

Hedge ineffectiveness recognised in other operating income comprised:

	NWB Group 2021 £m	2020 £m
Fair value hedging		
(Losses)/gains on the hedged items attributable to the hedged risk	(1,187)	1,355
Gains/(Losses) on the hedging instruments	1,200	(1,366)
Fair value hedging ineffectiveness	13	(11)
Cash flow hedging		
- Interest rate risk	32	(27)
Cash flow hedging ineffectiveness	32	(27)
Total	45	(38)

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

- the effect of the counterparty credit risk on the fair value of the interest rate swap, which is not reflected in the fair value of the hedged item attributable to the change in interest rate; and
- upfront present values on the hedging derivatives where hedge accounting relationships have been designated after the trade date.

13 Loan impairment provisions

Loan exposure and impairment metrics

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

	NWB Group		NWB Plc	
	31 December 2021 £m	31 December 2020 £m	31 December 2021 £m	31 December 2020 £m
Loans - amortised cost				
Stage 1	**264,656**	217,575	**236,255**	192,484
Stage 2	**26,003**	57,864	**22,492**	49,473
Stage 3	**2,985**	3,254	**2,548**	2,438
Inter-Group (1)	**2,555**	2,685	**25,362**	27,092
Total	**296,199**	281,378	**286,657**	271,487
ECL provisions (2)				
Stage 1	**231**	365	**207**	305
Stage 2	**1,105**	2,060	**1,026**	1,808
Stage 3	**1,167**	1,285	**1,037**	1,093
Inter-Group	**1**	2	**8**	25
	2,504	3,712	**2,278**	3,231
ECL provision coverage (3)				
Stage 1 (%)	**0.09**	0.17	**0.09**	0.16
Stage 2 (%)	**4.25**	3.56	**4.56**	3.65
Stage 3 (%)	**39.10**	39.49	**40.70**	44.83
Inter-Group (%)	**0.04**	0.07	**0.03**	0.09
	0.85	1.33	**0.87**	1.31
Impairment (releases)/losses				
ECL (release)/charge (4)				
Stage 1	**(995)**	(69)	**(945)**	(51)
Stage 2	**(30)**	1,839	**48**	1,638
Stage 3	**213**	397	**183**	327
Third party	**(812)**	2,167	**(714)**	1,914
Inter-Group	**(1)**	2	**(18)**	20
	(813)	2,169	**(732)**	1,934
Amounts written-off	**388**	517	**352**	487

(1) NWB Group's intercompany assets are classified in Stage 1.
(2) Includes £3 million (2020 – £5 million) related to assets classified as FVOCI.
(3) ECL provisions coverage is calculated as total ECL provisions divided by third party loans – amortised cost and FVOCI.
(4) Includes a £1 million charge (2020 – £9 million charge) related to other financial assets, of which a £2 million release (2020 – £2 million charge) related to assets classified as FVOCI; and a £13 million release (2020 – £13 million charge) related to contingent liabilities.
(5) The table shows gross loans only and excludes amounts that are outside the scope of the ECL framework. Refer to Financial instruments within the scope of the IFRS 9 ECL framework for further details. Other financial assets within the scope of the IFRS 9 ECL framework were cash and balances at central banks totaling £100.6 billion (2020 – £62.0 billion) and debt securities of £28.2 billion (2020 – £37.1 billion).

Credit risk enhancement and mitigation

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

Critical accounting policy: Loan impairment provisions

Accounting policies note 11 sets out how the expected loss approach is applied. At 31 December 2021, customer loan impairment provisions amounted to £2,504 million (2020 - £3,712 million). A loan is impaired when there is objective evidence that the cash flows will not occur in the manner expected when the loan was advanced. Such evidence includes changes in the credit rating of a borrower, the failure to make payments in accordance with the loan agreement, significant reduction in the value of any security, breach of limits or covenants, and observable data about relevant macroeconomic measures.

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

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

IFRS 9 ECL model design principles

Refer to Credit risk – IFRS 9 ECL model design principles section for further details.

Approach for multiple economic scenarios (MES)

The base scenario plays a greater part in the calculation of ECL than the approach to MES. Refer to Credit risk – economic loss drivers – probability weightings of scenarios section for further details.

14 Investments in Group undertakings

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

	NWB Plc	
	2021 £m	2020 £m
At 1 January	**2,374**	2,394
Currency translation and other adjustments	**(7)**	14
Additional investments in Group undertakings	**13**	16
Impairment of investments	**(61)**	(50)
At 31 December	**2,319**	2,374

The recoverable amount of investments in Group undertakings is the higher of net asset value as a proxy for fair value less cost to sell or value in use. Where recoverable value is based on net asset value, the fair value measurement is categorised as Level 3 of the fair value hierarchy. The carrying value of Investments in Group undertakings at 31 December 2021 is supported by the respective recoverable values of the entities.

In 2021, additions relate to additional investments in World Learning Limited and Silvermere Holdings Limited. 2020 additions were related to the investments in Esme Loans Limited and Silvermere Holdings Limited.

In 2021, Impairment of investments includes a £42 million impairment of the company's investment in Ulster Bank Limited due to a decline in its net asset value mainly driven by dividends paid during the year and losses incurred by the business. The impairment in 2020 was also related to Ulster Bank Limited.

The value in use review as at 31 December 2021 did not indicate the need for a further impairment in the investment in Coutts & Company. Future value in use is primarily affected by changes in profitability, and changes in discount rate. Adverse changes would lead to value in use falling below carrying value. The most likely cause for this would be a failure to meet budgeted targets, including cost targets, or external downgrades in the UK economy. If the carrying value is also not supported by the net asset value, an impairment will be recorded. Beneficial changes would lead to a reversal of historic impairment.

The principal subsidiary undertakings(2) of the company are shown below and are wholly-owned directly or indirectly through intermediate holding companies. Their capital consists of ordinary shares and additional Tier 1 notes which are unlisted. All those subsidiary undertakings are included in NWB Group's consolidated financial statements and have an accounting reference date of 31 December.

	Nature of business	Country of incorporation and principal area of operations
Coutts & Company (1)	Private banking	Great Britain
Lombard North Central PLC	Leasing	Great Britain

(1) Coutts & Company is incorporated with unlimited liability.
(2) The business of Ulster Bank Limited, which was included in the principal subsidiary undertakings in 2020, was transferred to NatWest Bank Plc on 3 May 2021. The planned removal of the Ulster Bank Limited license remains subject to regulatory application and approval.

For accounting policy information see Accounting policies note 16.

For full information on all related undertakings refer to Note 36.

15 Other financial assets

	NWB Group							
	Debt securities							
	Central and local government			Other		Equity		
	UK	US	Other	debt	Total	shares	Loans	Total
2021	£m	£m	£m	£m	£m	£m	£m	£m
Mandatory fair value through profit or loss	—	—	—	—	—	11	215	226
Fair value through other comprehensive income	10,118	6,088	2,845	6,885	25,936	2	210	26,148
Amortised cost	1,582	—	—	1,075	2,657	—	—	2,657
Total	11,700	6,088	2,845	7,960	28,593	13	425	29,031
2020								
Mandatory fair value through profit or loss	—	—	—	—	—	—	476	476
Fair value through other comprehensive income	16,089	7,870	3,747	6,147	33,853	—	—	33,853
Amortised cost	2,096	—	—	1,570	3,666	—	—	3,666
Total	18,185	7,870	3,747	7,717	37,519	—	476	37,995

	NWB Plc							
	Debt securities							
	Central and local government			Other		Equity		
	UK	US	Other	debt	Total	shares	Loans	Total
2021	£m	£m	£m	£m	£m	£m	£m	£m
Mandatory fair value through profit or loss	—	—	—	—	—	11	215	226
Fair value through other comprehensive income	10,118	6,088	2,845	6,885	25,936	2	210	26,148
Amortised cost	1,582	—	—	693	2,275	—	—	2,275
Total	11,700	6,088	2,845	7,578	28,211	13	425	28,649
2020								
Mandatory fair value through profit or loss	—	—	—	—	—	—	476	476
Fair value through other comprehensive income	16,089	7,870	3,747	6,147	33,853	—	—	33,853
Amortised cost	2,096	—	—	1,181	3,277	—	—	3,277
Total	18,185	7,870	3,747	7,328	37,130	—	476	37,606

For accounting policy information see Accounting policies note 10.

16 Other assets

	NWB Group		NWB Plc	
	2021 £m	2020 £m	2021 £m	2020 £m
Intangible assets (Note 17)	1,232	1,092	1,100	977
Property, plant and equipment (Note 18)	3,644	3,671	1,989	1,968
Pension schemes in net surplus (Note 5)	7	2	—	—
Assets of disposal groups	37	17	34	8
Prepayments	342	307	310	264
Accrued income	150	134	76	79
Tax recoverable	30	23	5	—
Deferred tax (Note 7)	1,268	1,289	1,244	1,248
Acceptances	58	90	55	84
Other assets	419	418	370	339
	7,187	7,043	5,183	4,967

17 Intangible assets

	NWB Group					
	2021			2020		
	Goodwill £m	Other (1) £m	Total £m	Goodwill £m	Other (1) £m	Total £m
Cost						
At 1 January	623	2,570	3,193	664	2,276	2,940
Currency translation and other adjustments	—	29	29	—	—	—
Additions	—	465	465	—	340	340
Disposals and write-off of fully amortised assets	—	(50)	(50)	(41)	(46)	(87)
At 31 December	623	3,014	3,637	623	2,570	3,193
Accumulated amortisation and impairment						
At 1 January	564	1,537	2,101	606	1,269	1,875
Currency translation and other adjustments	—	31	31	(1)	2	1
Disposals and impairment of fully amortised assets	—	(28)	(28)	(41)	(24)	(65)
Amortisation charge for the year	—	299	299	—	281	281
Impairment of intangible assets	—	2	2	—	9	9
At 31 December	564	1,841	2,405	564	1,537	2,101
Net book value at 31 December	59	1,173	1,232	59	1,033	1,092

	NWB Plc	
	2021 (1) £m	2020 £m
Cost		
At 1 January	2,478	2,192
Currency translation and other adjustments	24	—
Additions	433	316
Disposals and write-off of fully amortised assets	(46)	(30)
At 31 December	2,889	2,478
Accumulated amortisation		
At 1 January	1,502	1,229
Currency translation and other adjustments	24	—
Disposals and write-off of fully amortised assets	(26)	(9)
Charge for the year	289	272
Impairment of intangible assets	—	9
At 31 December	1,789	1,501
Net book value at 31 December	1,100	977

(1) Principally internally generated software.

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

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

The recoverable amounts for all CGUs at 31 December 2021 were based on value in use, using management's latest five-year revenue and cost forecasts. These are discounted cash flow projections over five years. The forecast is then extrapolated in perpetuity using a long-term growth rate to compute a terminal value, which comprises the majority of the value in use. The long-term growth rates have been based on expected growth of the CGUs. The pre-tax risk discount rates are based on those observed to be applied to businesses regarded as peers of the CGUs.

For accounting policy information see Accounting policies notes 4 and 5.

18. Property, plant and equipment

2021	Investment properties £m	Property, plant and equipment £m	Operating leases £m	Total £m
	NWB Group			
Cost or valuation				
At 1 January	760	6,954	1,129	8,843
Transfers to disposal groups	—	(71)	—	(71)
Transfers from fellow subsidiaries	—	3	—	3
Currency translation and other adjustments	(64)	13	—	(51)
Additions	144	767	98	1,009
Disposals and write-off of fully depreciated assets	—	(696)	(132)	(828)
At 31 December	840	6,970	1,095	8,905
Accumulated impairment, depreciation and amortisation				
At 1 January	—	4,643	529	5,172
Transfers to disposal groups	—	(39)	—	(39)
Currency translation and other adjustments(1)	—	260	—	260
Disposals and write-off of fully depreciated assets	—	(507)	(100)	(607)
Charge for the year	—	312	140	452
Impairment of property, plant and equipment	—	23	—	23
At 31 December	—	4,692	569	5,261
Net book value at 31 December	840	2,278	526	3,644
2020				
Cost or valuation				
At 1 January	868	7,124	1,120	9,112
Transfers to disposal groups	(71)	(6)	—	(77)
Transfers from/(to) holding company and fellow subsidiaries	—	15	—	15
Currency translation and other adjustments	26	(5)	—	21
Additions	11	299	132	442
Disposals and write-off of fully depreciated assets	(74)	(473)	(123)	(670)
At 31 December	760	6,954	1,129	8,843
Accumulated impairment, depreciation and amortisation				
At 1 January	—	4,542	467	5,009
Transfers to disposal groups	—	(5)	—	(5)
Transfers from/(to) holding company and fellow subsidiaries	—	7	—	7
Currency translation and other adjustments	—	(5)	—	(5)
Disposals and write-off of fully depreciated assets	—	(302)	(83)	(385)
Charge for the year	—	306	145	451
Impairment of property, plant and equipment	—	100	—	100
At 31 December	—	4,643	529	5,172
Net book value at 31 December	760	2,311	600	3,671

(1) Other adjustments include the effect of the purchase of freeholds for properties where the Group was the primary leaseholder.

Investment property valuations principally employ present value techniques that discount expected cash flows. Expected cash flows reflect rental income, occupancy and residual market values; valuations are sensitive to changes in these factors. The investment property fair value measurements are categorised as level 3. A 5% change in the most sensitive assumption, residual values, is £27 million (2020: £22 million) on the value of Investment property.

Valuations were carried out by qualified surveyors who are members of the Royal Institution of Chartered Surveyors, or an equivalent overseas body; property with a fair value of £236 million (2020 - £270 million) was valued by independent valuersfor the purposes of year end valuations.

For accounting policy information see Accounting policies notes 5 and 6.

18 Property, plant and equipment continued

2021	NWB Plc Investment properties £m	Property, plant and equipment £m	Total £m
Cost or valuation			
At 1 January	6	6,346	6,352
Transfers to disposal groups	—	(71)	(71)
Transfers from subsidiaries and fellow subsidiaries	—	132	132
Currency translation and other adjustments	—	(5)	(5)
Additions	—	735	735
Disposals and write-off of fully depreciated assets	—	(658)	(658)
At 31 December	6	6,479	6,485
Accumulated impairment, depreciation and amortisation			
At 1 January	—	4,384	4,384
Transfers to disposal groups	—	(39)	(39)
Transfers from subsidiaries and fellow subsidiaries	—	83	83
Currency translation and other adjustments (1)	—	239	239
Disposals and write-off of fully depreciated assets	—	(476)	(476)
Charge for the year	—	282	282
Impairment of property, plant and equipment	—	23	23
At 31 December	—	4,496	4,496
Net book value at 31 December	6	1,983	1,989

2020	Investment properties £m	Property, plant and equipment £m	Total £m
Cost or valuation			
At 1 January	—	6,525	6,525
Transfers to disposal groups	6	5	11
Transfers from/(to) holding company and fellow subsidiaries	—	(10)	(10)
Currency translation and other adjustments	—	—	—
Additions	—	249	249
Disposals and write-off of fully depreciated assets	—	(423)	(423)
At 31 December	6	6,346	6,352
Accumulated impairment, depreciation and amortisation			
At 1 January	—	4,283	4,283
Transfers to disposal groups	—	2	2
Transfers from/(to) holding company and fellow subsidiaries		(7)	(7)
Currency translation and other adjustments	—	—	—
Disposals and write-off of fully depreciated assets	—	(261)	(261)
Charge for the year	—	270	270
Impairment of property, plant and equipment	—	97	97
At 31 December	—	4,384	4,384
Net book value at 31 December	6	1,962	1,968

(1) Other adjustments include the effect of the purchase of freeholds for properties where the Group was the primary leaseholder.

19 Other financial liabilities

	NWB Group		NWB Plc	
	2021	2020	2021	2020
	£m	£m	£m	£m
Bank deposits - held-for-trading	66	1	66	1
Customer deposits - held-for-trading	33	2	33	2
Settlement balances (1)	—	3,297	—	3,297
Debt securities in issue - amortised cost	7,152	7,083	6,285	6,312
Total	7,251	10,383	6,384	9,612

(1) In 2020 £3.1 billion pertains to purchase price consideration of Metro Bank's mortgage portfolio which was settled in February 2021.

For accounting policy information see Accounting policies notes 10 and 14.

20 Subordinated liabilities

	NWB Group		NWB Plc	
	2021	2020	2021	2020
	£m	£m	£m	£m
Dated loan capital	—	309	—	309
Undated loan capital	93	778	87	778
Preference shares	118	143	118	143
	211	1,230	205	1,230

(1) The table above excludes amounts due to holding company and fellow subsidiaries of £3,074 million (2020 - £3,309 million) for NWB Group and £3,074 million (2020 - £3,309 million) for NWB Plc. Refer to intercompany balances in Note 10.

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

For accounting policy information see Accounting policies notes 10 and 14.

The following tables analyse third party subordinated liabilities:

Dated loan capital	Capital Treatment	2021 £m	2020 £m
National Westminster Bank Plc			
£300 million 6.50% notes 2021 (not callable)	Tier 2	—	309
		—	309

(1) In the event of certain changes in tax laws, dated loan capital issues may be redeemed in whole, but not in part, at the option of the issuer, at the principal amount thereof plus accrued interest, subject to prior regulatory approval.
(2) Except as stated above, claims in respect of NWB Group's dated loan capital are subordinated to the claims of other creditors. None of NWB Group's dated loan capital is secured.
(3) Interest on all floating rate subordinated notes is calculated by reference to market rates.

Undated loan capital	Capital Treatment	2021 £m	2020 £m
National Westminster Bank Plc			
US$193 million floating rate notes (callable semi-annually) (5)	Tier 2	—	142
US$229 million floating rate notes (callable semi-annually) (5)	Tier 2	—	168
US$285 million floating rate notes (callable semi-annually) (5)	Tier 2	—	209
€178 million floating rate notes (callable quarterly) (5)	Tier 2	—	160
€10 million floating rate notes (callable quarterly) (5)	Tier 2	—	10
£53 million 7.125% notes (callable every five years from October 2022)	Tier 2	56	55
£35 million 11.50% notes (callable December 2022) (1)	Tier 2	31	34
		87	778

(1) Exchangeable at the option of the issuer into 8.392% (gross) non-cumulative preference shares of £1 each of NWB Plc at any time.
(2) NWB Group can satisfy interest payment obligations by issuing sufficient ordinary shares to appointed Trustees to enable them, on selling these shares, to settle the interest payment.
(3) Except as stated above, claims in respect of NWB Group's undated loan capital are subordinated to the claims of other creditors. None of NWB Group's undated loan capital is secured.
(4) In the event of certain changes in tax laws, undated loan capital issues may be redeemed in whole, but not in part, at the option of NWB Group, at the principal amount thereof plus accrued interest, subject to prior regulatory approval.
(5) Interest on all floating rate subordinated notes is calculated by reference to market rates.

20 Subordinated liabilities continued

Preference shares (1)	Capital Treatment	2021 £m	2020 £m
National Westminster Bank Plc			
£140 million 9.00% Series A Non-cumulative preference shares of £1 (not callable)	Tier 1	118	143
		118	143

(1) Further details of the contractual terms of the preference shares are given in Note 22.

Redemptions in the period (values as at date of transaction)	Capital Treatment	2021 £m	2020 £m
National Westminster Bank Plc			
£300 million 6.5% subordinated notes 2021 (not callable)	Tier 2	300	—
€10 million floating rate notes (callable quarterly)	Upper Tier 2	9	—
€178 million floating rate notes (callable quarterly)	Upper Tier 2	152	—
US$193 million floating rate notes (callable semi-annually)	Upper Tier 2	138	—
US$229 million floating rate notes (callable semi-annually)	Upper Tier 2	167	—
US$285 million floating rate notes (callable semi-annually)	Upper Tier 2	201	—
£35 million 11.5% notes (callable December 2022) (partial redemption)	Upper Tier 2	3	—
£140 million 9% cumulative preference shares of £1 (not callable)	Tier 1	24	—
		994	—

The following tables analyse the intercompany subordinated liabilities.

	NWB Group and Bank 2021 £m	2020 £m
Dated loan capital	2,374	2,609
Undated loan capital	700	700
Preference shares	—	—
	3,074	3,309

Dated loan capital	Capital treatment	2021 £m	2020 £m
National Westminster Bank Plc			
US$1,900 million subordinated loan capital 2024	Tier 2	—	1,519
US$750 million 3.754% dated notes 2029	Tier 2	567	580
£500 million 3.622% dated notes 2030 (callable once in August 2025)	Tier 2	491	510
£1,000 million 2.105% dated notes 2031 (callable November 2026)	Tier 2	975	—
€411.4 million 3.622% dated notes 2032 (callable September 2027)	Tier 2	341	—
		2,374	2,609
Undated loan capital			
National Westminster Bank Plc			
£700 million floating rate notes (callable quarterly from September 2016)	Tier 2	700	700
		700	700

Issuances in the period (values as at date of transaction)	Capital treatment	2021 £m	2020 £m
National Westminster Bank Plc			
£500 million 3.622% dated notes 2030 (callable once in August 2025)	Tier 2	—	500
£1,000 million 2.105% dated notes 2031 (callable anytime from November 2026)	Tier 2	1,000	—
€411.4 million 1.043% dated notes 2032 (callable anytime from September 2027)	Tier 2	351	—
		1,351	500
Redemptions in the period (values as at date of transaction)			
National Westminster Bank Plc			
US$1,900 million subordinated loan capital 2024	Tier 2	1,357	—
		1,357	—

21 Other liabilities

	NWB Group 2021 £m	NWB Group 2020 £m	NWB Plc 2021 £m	NWB Plc 2020 £m
Lease liabilities (Note 23)	1,008	1,398	898	1,280
Provisions for liabilities and charges	640	943	604	868
Retirement benefit liabilities (Note 5)	48	57	12	13
Accruals	1,185	790	1,051	686
Deferred income	204	213	186	190
Current tax	21	160	1	154
Deferred tax (Note 7)	209	166	—	—
Acceptances	58	90	55	84
Other liabilities	561	618	288	214
	3,934	4,435	3,095	3,489

	NWB Group					
Provisions for liabilities and charges	Customer redress (1) £m	Litigation and other regulatory £m	Property (3) £m	Financial commitments and guarantees £m	Other (2) £m	Total £m
At 1 January 2021	440	12	208	106	177	943
Expected credit losses impairment release	—	—	—	(41)	—	(41)
Currency translation and other movements	—	—	—	(2)	—	(2)
Charge to income statement	108	270	93	—	141	612
Release to income statement	(18)	(8)	(109)	—	(89)	(224)
Provisions utilised	(232)	(270)	(26)	—	(120)	(648)
At 31 December 2021	298	4	166	63	109	640

	NWB Plc					
Provisions for liabilities and charges	Customer redress (1) £m	Litigation and other regulatory £m	Property (3) £m	Financial commitments and guarantees £m	Other (2) £m	Total £m
At 1 January 2021	432	1	197	95	143	868
Expected credit losses impairment release	—	—		(37)	—	(37)
Currency translation and other movements	2	—	5	2	6	15
Charge to income statement	99	270	90	—	133	592
Release to income statement	(14)	—	(107)	—	(83)	(204)
Provisions utilised	(226)	(270)	(22)	—	(112)	(630)
At 31 December 2021	293	1	163	60	87	604

(1) Includes payment protection insurance provision which reflects the estimated cost of PPI redress attributable to claims prior to the Financial Conduct Authority (FCA) complaint deadline of 29 August 2019. All pre-deadline complaints have been processed which removes complaint volume estimation uncertainty from the provision estimate. NatWest Group continues to conclude remaining bank-identified closure work and conclude cases with the Financial Ombudsmen Service.
(2) Other materially comprises provisions relating to restructuring costs.
(3) Property provision materially includes dilapidation provisions. Release in property provision includes the effect of purchase of freeholds for properties where the group was the primary leaseholder.

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

For accounting policy information see Accounting policies note 8.

Critical accounting policy: Provisions for liabilities

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

Estimates - Provisions are liabilities of uncertain timing or amount and are recognised when there is a present obligation as a result of a past event, the outflow of economic benefit is probable and the outflow can be estimated reliably. Any difference between the final outcome and the amounts provided will affect the reported results in the period when the matter is resolved.
- Customer redress: Provisions reflect the estimated cost of redress attributable to claims where it is determined that a present obligation exists.
- Litigation and other regulatory: NWB Group is engaged in various legal proceedings, both in the UK and in overseas jurisdictions, including the US. For further information in relation to legal proceedings and discussion of the associated uncertainties, refer to Note 27.
- Property: This includes provision for contractual costs such as rates associated with vacant properties.
- Other provisions: These materially comprise provisions for onerous contracts and restructuring costs. Onerous contract provisions comprise an estimate of the costs involved in fulfilling the terms and conditions of contracts net of any expected benefits to be received. This includes provision for contractual costs such as rates associated with vacant properties. Redundancy and restructuring provisions comprise the estimated cost of restructuring, including redundancy costs where an obligation exists.

Background information on all material provisions is given in Note 27.

22 Share capital and reserves

Allotted, called up and fully paid	2021 £m	2020 £m	Number of shares - 000s 2021	Number of shares - 000s 2020
Ordinary shares of £1	**1,678**	1,678	**1,678,177**	1,678,177
Non-cumulative preference shares of £1	**116**	140	**116,349**	140,000

Ordinary shares
No ordinary shares were issued during 2021 or 2020.

In 2021, NWB plc paid an ordinary dividend of £1.6 billion to NWH Ltd (2020 - nil).

Preference shares
The 9% non-cumulative preference shares Series A of £1 each are non-redeemable.

The holders of sterling preference shares are entitled, on the winding-up of NWB Plc, to priority over the ordinary shareholders as regards payment of capital. Otherwise the holders of preference shares are not entitled to any further participation in the profits or assets of NWB Plc and accordingly these shares are classified as non-equity shares.

The holders of sterling preference shares are not entitled to receive notice of, attend, or vote at any general meeting unless the business of the meeting includes the consideration of a resolution for the winding-up of NWB Plc or the sale of the whole of the business of NWB Plc or any resolution directly affecting any of the special rights or privileges attached to any of the classes of preference shares.

Under IFRS, NWB Plc preference shares are classified as debt and are included in subordinated liabilities on the balance sheet (Note 20).

In June 2021, the company purchased 23,650,959 9% non-cumulative preference shares Series A (nominal value £23,650,959) at a purchase price of 175% for the total consideration of £41,778,334 by way of a tender offer launched on 7 June 2021 inviting holders to tender all such securities for purchase by the company for cash.

Paid-in equity
Comprises equity instruments issued by NWB Plc other than those legally constituted as shares.

Additional Tier 1 Instruments issued by NWB Plc having the legal form of debt are classified as equity under IFRS. The coupons on these Instruments are non-cumulative and payable at NWB Plc's discretion.

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

	2021 £m	2020 £m
Additional Tier 1 instruments		
US$2,000 billion 3.8495% instruments callable August 2023	1,436	1,436
US$1,300 billion 6.49% instruments callable August 2023	-	934
US$750 thousand 4.3517% instruments callable December 2031	541	-
GBP£400 thousand 3.9438% instruments callable September 2028	400	-
	2,377	2,370

Reserves
Under UK companies legislation, when shares are redeemed or purchased wholly or partly out of NWB Plc's profits, the amount by which NWB Plc's issued share capital is diminished must be transferred to the capital redemption reserve. The capital maintenance provisions of UK companies legislation apply to the capital redemption reserve as if it were part of NWB Plc's paid up share capital.

UK law prescribes that only reserves of NWB Plc are taken into account for the purpose of making distributions and the permissible applications of the share premium account and capital redemption reserve of £631 million (2020 - £608 million) included within other reserves.

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

For accounting policy information see Accounting policies note 14.

23 Leases
Lessees

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

	NWB Group	
	2021 £m	2020 £m
Amounts recognised in consolidated income statement		
Interest payable	(30)	(33)
Depreciation (1)	(117)	(170)
Rental expense on short term leases	—	(1)
Income from subleasing right-of-use assets	12	14

	NWB Group		NWB Plc	
	2021 £m	2020 £m	2021 £m	2020 £m
Amounts recognised on balance sheet				
Right of use assets included in property, plant and equipment (2),(3)	603	779	503	671
Additions to right of use assets	67	67	55	60
Lease liabilities (3),(4)	(1,008)	(1,398)	(898)	(1,280)

The total cash outflow for leases for NWB Group was £149 million (2020: £168 million) and for NWB Plc £138 million (2020: £151 million). This included payment of principal for NWB Group of £126 million (2020: £135 million) and NWB Plc of £114 million (2020: £122 million). These amounts are included in the operating activities in cash flow statement.

(1) Depreciation includes impairment of right of use assets of £29 million (2020 - £80 million).
(2) Includes right of use asset for property, plant and equipment of £9 million (2020 - £8 million) and depreciation of £4 million (2020 - £2 million).
(3) Includes the effect of the purchase of freeholds for properties where the Group was the primary leaseholder.
(4) Contractual cashflows of lease liabilities is shown in Note 11.

Lessor

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

	NWB Group	
Amounts included in consolidated income statement	2021 £m	2020 £m
Finance leases		
Finance income on the net investment in leases	293	266
Operating leases		
Lease income	169	168

The following table shows the reconciliation of undiscounted finance lease receivables to net investment in finance leases:

	NWB Group		NWB Plc	
Amount receivable under finance leases	2021 £m	2020 £m	2021 £m	2020 £m
Within 1 year	3,252	2,978	271	22
1 to 2 years	2,019	2,095	138	195
2 to 3 years	1,433	1,521	55	266
3 to 4 years	748	943	21	101
4 to 5 years	420	438	20	33
After 5 years	1,356	1,617	54	75
Lease payments total	9,228	9,592	559	692
Unguaranteed residual values	225	232	—	—
Future drawdowns	(21)	(22)	—	—
Unearned income	(856)	(1,034)	(15)	(20)
Present value of lease payments	8,576	8,768	544	672
Impairments	(142)	(191)	(13)	(15)
Net investment in finance leases	8,434	8,577	531	657

23 Leases continued

The following tables show undiscounted lease receipts due from operating leases:

	NWB Group	
	2021	2020
Amounts receivable under operating leases receivables	£m	£m
Within 1 year	131	143
1 to 2 years	92	112
2 to 3 years	50	79
3 to 4 years	23	34
4 to 5 years	11	14
After 5 years	9	11
Total	316	393

	NWB Group	
	2021	2020
	£m	£m
Nature of operating lease assets on the balance sheet		
Transportation	282	327
Cars and light commercial vehicles	21	28
Other	223	245
	526	600

Fair value of investment properties under operating lease are £820 million (2020 - £741 million) and had lease income of £54 million (2020 - £58 million). The following table shows undiscounted lease receivables from investment properties:

	2021	2020
Amounts receivable under investment properties	£m	£m
Within 1 year	62	63
1 to 2 years	61	124
2 to 3 years	58	51
3 to 4 years	56	73
4 to 5 years	51	85
After 5 years	300	121
Total	588	517

24 Structured entities

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

Consolidated structured entities

Securitisations

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

NWB Group also acts as an underwriter and depositor in securitisation transactions in both client and proprietary transactions.

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

Other credit risk transfers securitisations

NWB Group also transfers credit risk on originated loans and mortgages without the transfer of the assets to a SE. As part of this, NWB Group enters into credit derivative and financial guarantee contracts with consolidated SEs. At 31 December 2021, debt securities in issue by such SEs (and held by third parties) were £867 million (2020 - £772 million). The associated loans and mortgages at 31 December 2021 were £7,137 million (2020 - £10,027 million). At 31 December, ECL in relation to non-defaulted assets was reduced by £28 million (2020 - £183 million) as a result of financial guarantee contracts with consolidated SEs.

Covered bond programme

Certain loans to customers have been assigned to bankruptcy remote limited liability partnerships to provide security for issues of debt securities by NWB Group. NWB Group retains all of the risks and rewards of these loans. The partnerships are consolidated by NWB Group, the loans retained on NWB Group's balance sheet and the related covered bonds included within debt securities in issue of the NWB Group. At 31 December 2021, £8,267 million of loans to customers have been assigned to bankruptcy remote limited liability partnerships to provide security for issues of debt securities by the NWB Group of £2,886 million (2020 - loans to customers - £10,012 million, debt securities in issue – £3,020 million).

Unconsolidated structured entities

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

	2021			2020		
	Asset backed securitisation vehicles £m	Investment funds and other £m	Total £m	Asset backed securitisation vehicles £m	Investment funds and other £m	Total £m
Non-trading assets						
Loans to customers	5	208	213	15	216	231
Other financial assets	964	—	964	1,480	—	1,480
Total	969	208	1,177	1,495	216	1,711
Liquidity facilities/loan commitments	1	55	56	1	65	66
Maximum exposure	970	263	1,233	1,496	281	1,777

25 Asset transfers

Transfers that do not qualify for derecognition

NWB Group enters into securities repurchase agreements and securities lending transactions under which it transfers securities in accordance with normal market practice. Generally, the agreements require additional collateral to be provided if the value of the securities falls below a predetermined level.

Under standard terms for repurchase transactions in the UK and US markets, the recipient of collateral has an unrestricted right to sell or re-pledge it, subject to returning equivalent securities on settlement of the transaction.

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

For accounting policy information see Accounting policies note 12.

The following assets have failed derecognition (1)	NWB Group 2021 £m	NWB Group 2020 £m	NWB Plc 2021 £m	NWB Plc 2020 £m
Loans to banks - amortised cost	**38**	5	**38**	5
Loans to customers - amortised cost	**1,837**	39	**1,837**	39
Other financial assets	**10,813**	11,438	**10,813**	11,438
	12,688	11,482	**12,688**	11,482

(1) Associated liabilities were £10,783 million for both NWB Group and NWB Plc (2020- £11,391 million).

Assets pledged as collateral

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

Assets pledged against liabilities	NWB Group 2021 £m	NWB Group 2020 £m	NWB Plc 2021 £m	NWB Plc 2020 £m
Loans to banks - amortised cost	**62**	49	**—**	—
Loans to customers - amortised cost	**20,108**	9,675	**20,108**	9,675
Other financial assets (1)	**2,429**	2,710	**2,429**	2,710
	22,599	12,434	**22,537**	12,385

(1) Includes amount pledged for pension derivatives.

The following table analyses assets that have been transferred but have failed the derecognition rules under IFRS 9 and therefore continue to be recognised on NWB Plc's balance sheet.

Asset type (1)	2021 £m	2020 £m
UK mortgages - covered bond programme	**8,267**	10,012

(1) The associated liabilities are £8,166 million (2020 - £9,916 million).

26 Capital resources

Regulatory capital is assessed against minimum requirements that are set out under the Capital Requirements Regulation on a legal entity and consolidated basis. Transitional arrangements on the phasing in of end-point capital resources are set by the relevant regulatory authority.

The capital resources under the PRA transitional basis for NWB Plc are set out below.

	2021 £m	2020 £m
Shareholders' equity (excluding non-controlling interests)		
Shareholders' equity	**19,166**	18,464
Other equity instruments	**(2,377)**	(2,370)
	16,789	16,094
Regulatory adjustments and deductions		
Cash flow hedging reserve	**2**	133
Deferred tax assets	**(541)**	(523)
Prudential valuation adjustments	**(12)**	(9)
Goodwill and other intangible assets	**(703)**	(525)
Instruments of financial sector entities where the institution has a significant investment	**(607)**	(499)
Significant investments in excess of secondary capital	**(73)**	—
Foreseeable charges	**(993)**	—
Foreseeable pension contributions	**(365)**	(266)
Adjustment under IFRS 9 transition arrangements	**429**	1,019
Other regulatory adjustments	**(2)**	—
	(2,865)	(670)
CET1 capital	**13,924**	15,424
Additional Tier 1 (AT1) capital		
Qualifying instruments and related share premium	**2,377**	2,370
Qualifying instruments and related share premium subject to phase out	**—**	58
	2,377	2,428
Tier 1 capital		
Instruments of financial sector entities where the institution has a significant investment	**(262)**	(262)
Tier 1 capital	**16,039**	17,590
Qualifying Tier 2 capital		
Qualifying instruments and related share premium	**3,156**	3,386
Tier 2 deductions		
Instruments of financial sector entities where the institution has a significant investment	**(367)**	(332)
Other regulatory adjustments	**117**	121
	(250)	(211)
Tier 2 capital	**2,906**	3,175
Total regulatory capital	**18,945**	20,765

In the management of capital resources, NWB Plc is governed by NatWest Group's policy to maintain a strong capital base, to expand it as appropriate and to utilise it efficiently throughout its activities to optimise the return to shareholders while maintaining a prudent relationship between the capital base and the underlying risks of the business. In carrying out this policy, NatWest Group has regard to the supervisory requirements of the PRA. The PRA uses capital ratios as a measure of capital adequacy in the UK banking sector, comparing a bank's capital resources with its risk-weighted assets (the assets and off-balance sheet exposures are weighted to reflect the inherent credit and other risks); by international agreement, the Pillar 1 capital ratios, excluding capital buffers should be not less than 8% with a Common equity Tier 1 component of not less than 4%. NWB Plc has complied with the PRA's capital requirements throughout the year.

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

27 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 2021. Although NWB Group is exposed to credit risk in the event of non-performance of the obligations undertaken by customers, the amounts shown do not, and are not intended to, provide any indication of NWB Group's expectation of future losses.

For accounting policy information see Accounting policies note 8.

	NWB Group		NWB Plc	
	2021 £m	2020 £m	2021 £m	2020 £m
Contingent liabilities and commitments				
Guarantees	**796**	762	**742**	674
Other contingent liabilities	**1,193**	1,404	**1,187**	1,361
Standby facilities, credit lines and other commitments	**79,826**	75,625	**75,936**	69,372
	81,815	77,791	**77,865**	71,407

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

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

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

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

Standby facilities and credit lines - under a loan commitment NWB Group agrees to make funds available to a customer in the future. Loan commitments, which are usually for a specified term, may be unconditionally cancellable or may persist, provided all conditions in the loan facility are satisfied or waived.

Commitments to lend include commercial standby facilities and credit lines, liquidity facilities to commercial paper conduits and unutilised overdraft facilities.

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

Indemnity deed
In April 2019, NWM Plc and NWB Plc entered into a cross indemnity agreement for losses incurred within the entities in relation to business transferred to or from the ring-fenced bank under the NatWest Group's structural re-organisation. Under the agreement, NWM Plc is indemnified by NWB Plc against losses relating to the NWB Plc transferring businesses and ring-fenced bank obligations and NWB Plc is indemnified by NWM Plc against losses relating to NWM Plc transferring businesses and non ring-fenced bank obligations with effect from the relevant transfer date.

Capital Support Deed
NWB Plc, together with certain other subsidiaries of NatWest Holdings Limited, is party to a Capital Support Deed (CSD). Under the terms of the CSD, the Bank 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 NWB Plc's capital resources in excess of the capital and financial resources needed to meet its regulatory requirements. NWB Plc 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 NWB Plc from other parties to the CSD becomes immediately repayable, such repayment being limited to the NWB Plc's available resources.

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

	NWB Group		NWB Plc	
	2021 £m	2020 £m	2021 £m	2020 £m
Capital expenditure on other property, plant and equipment	**14**	7	**13**	7
Contracts to purchase goods or services (1)	**677**	722	**568**	603
	691	729	**581**	610

(1) Of which due within 1 year: £298 million (2020 - £263 million) for NWB Group and £273 million (2020 - £239 million) for NWB Plc.

27 Memorandum items continued

Trustee and other fiduciary activities
In its capacity as trustee or other fiduciary role, NWB Group may hold or place assets on behalf of individuals, trusts, companies, pension schemes and others. The assets and their income are not included in NWB Group's financial statements. NWB Group earned fee income of £216 million (2020 - £185 million) from these activities.

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

Litigation and regulatory matters
NWB Plc and its subsidiary and associated undertakings ('NWB Group') are party to legal proceedings and involved in regulatory matters, including as the subject of investigations and other regulatory and governmental action (Matters) in the United Kingdom (UK), the United States (US), the European Union (EU) and other jurisdictions.

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

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

There are situations where NWB Group may pursue an approach that in some instances leads to a settlement agreement. This may occur in order to avoid the expense, management distraction or reputational implications of continuing to contest liability, or in order to take account of the risks inherent in defending claims or regulatory matters, even for those Matters for which NWB Group believes it has credible defences and should prevail on the merits. The uncertainties inherent in all such Matters affect the amount and timing of any potential outflows for both Matters with respect to which provisions have been established and other contingent liabilities. It is not practicable to provide an aggregate estimate of potential liability for our legal proceedings and regulatory matters as a class of contingent liabilities.

The future outflow of resources in respect of any Matter may ultimately prove to be substantially greater than or less than the aggregate provision that NWB Group has recognised. Where (and as far as) liability cannot be reasonably estimated, no provision has been recognised. NWB Group expects that in future periods, additional provisions, settlement amounts and customer redress payments will be necessary, in amounts that are expected to be substantial in some instances. Please refer to Note 21 for information on material provisions.

We have provided information below on the procedural history of certain Matters, where we believe appropriate, to aid the understanding of the Matter.

For a discussion of certain risks associated with NWB Group's litigation and regulatory matters, see the Risk factor relating to legal, regulatory and governmental actions and investigations set out on page 185.

Litigation
London Interbank Offered Rate (LIBOR) and other rates litigation
In January 2019, a class action antitrust complaint was filed in the United States District Court for the Southern District of New York alleging that the defendants (USD ICE LIBOR panel banks and affiliates) have conspired to suppress USD ICE LIBOR from 2014 to the present by submitting incorrect information to ICE about their borrowing costs. The NatWest Group defendants are NatWest Group plc, NatWest Markets Plc, NatWest Markets Securities Inc., and NWB Plc. The defendants made a motion to dismiss this case, which was granted by the court in March 2020. One plaintiff sought to appeal the dismissal, but on 14 February 2022, the United States Court of Appeals for the Second Circuit (US Court of Appeals) dismissed the appeal because that plaintiff lacks standing to maintain the appeal.

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

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

27 Memorandum items continued

Litigation and regulatory matters

US Anti-Terrorism Act litigation

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

In March 2019, the trial court granted summary judgment in favour of NWB Plc. In April 2021, the US Court of Appeals affirmed the trial court's judgment in favour of NWB Plc. In September 2021, the plaintiffs filed a petition seeking discretionary review by the United States Supreme Court and that petition remains pending.

Regulatory matters (including investigations and customer redress programmes)

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

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

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

Investigations

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

Following an FCA investigation, commenced in 2017, into potential breaches of the UK Money Laundering Regulations 2007 ('MLR 2007'), NWB Plc pled guilty in October 2021 to three offences under regulation 45(1) of the MLR 2007 for failure to comply with regulation 8(1) between 7 November 2013 and 23 June 2016, and regulations 8(3) and 14(1) between 8 November 2012 and 23 June 2016. These regulations required the firm to determine, conduct and demonstrate risk sensitive due diligence and ongoing monitoring of its relationships with its customers for the purposes of preventing money laundering. The offences relate to operational weaknesses between 2012 and 2016, during which period NWB Plc did not adequately monitor the accounts of a UK incorporated customer. In December 2021, NWB Plc was fined £264.8 million, incurred a confiscation order and was ordered to pay costs. This was met by NWB Plc from existing provisions, with a small additional provision taken in Q4 2021.

Other material adverse collateral consequences may occur as a result of this matter, as further described in the Risk factor relating to legal, regulatory and governmental actions and investigations set out on page 185.

Systematic Anti-Money Laundering Programme assessment

In December 2018, the FCA commenced a Systematic Anti-Money Laundering Programme assessment of NatWest Group. In August 2019, the FCA instructed NatWest Group to appoint a Skilled Person under section 166 of the Financial Services and Markets Act 2000 to provide assurance on financial crime governance arrangements in relation to two financial crime change programmes. The Skilled Person's final report was received in January 2022.

Customer redress programmes

FCA review of NatWest Group's treatment of SMEs

In 2014, the FCA appointed an independent Skilled Person under section 166 of the Financial Services and Markets Act 2000 to review NatWest Group's treatment of SME customers whose relationship was managed by NatWest Group's Global Restructuring Group (GRG) in the period 1 January 2008 to 31 December 2013. In response to the Skilled Person's final report and update in 2016, NatWest Group announced redress steps for SME customers in the UK and the Republic of Ireland that were in GRG between 2008 and 2013. These steps were (i) an automatic refund of certain complex fees; and (ii) a new complaints process, overseen by an independent third party. Both processes have now been completed. Accordingly, NatWest Group retains only a small residual provision at December 2021.

Investment advice review

In October 2019, the FCA notified NatWest Group of its intention to appoint a Skilled Person under section 166 of the Financial Services and Markets Act 2000 to conduct a review of whether NatWest Group's past business review of investment advice provided during 2010 to 2015 was subject to appropriate governance and accountability and led to appropriate customer outcomes. The Skilled Person's review has concluded and, after discussion with the FCA, NatWest Group is now conducting additional review / remediation work.

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

	NWB Group 2021 £m	NWB Group 2020 £m	NWB Plc 2021 £m	NWB Plc 2020 £m
Value recognised for business transferred from fellow subsidiary	—	(47)	—	(22)
Additional investments in subsidiaries and associates	(11)	—	(23)	(16)
Net assets/liabilities purchased (1)	(3,256)	(19)	(2,666)	(19)
Net outflow of cash in respect of purchases	(3,267)	(66)	(2,689)	(57)
Net assets/liabilites sold	29	14	27	14
Profit on disposal of net assets	2	6	2	6
Net inflow of cash in respect of disposals	31	20	29	20
Net cash expenditure on intangible assets	(465)	(341)	(433)	(316)
Net outflow of cash	(3,701)	(387)	(3,093)	(353)

(1) NWB Group Net assets/liabilities purchased is the settlement of the 2020 purchase of Loans and advances to customers from Metro Bank plc of £3.2 billion. NWB Plc Net assets/liabilities purchased includes the Metro Bank plc transaction as for NWB Group, and the transfer of Ulster Bank Limited business including cash and cash equivalents of £266m, Loans and advances to customers of £3.5 billion, and Customer deposits of £8.5 billion.

29 Analysis of changes in financing during the year

	NWB Group						NWB Plc					
	Called up share capital, share premium, and paid-in equity		Subordinated liabilities		MRELs		Called up share capital, share premium, and paid-in equity		Subordinated liabilities		MRELs	
	2021 £m	2020 £m	2021 £m	2020 £m	2021 £m	2020 £m	2021 £m	2020 £m	2021 £m	2020 £m	2021 £m	2020 £m
At 1 January	6,273	6,273	4,539	4,029	3,908	3,116	6,273	6,273	4,539	4,029	3,597	2,805
Issue of paid-in equity	941	—					941	—				
Redemption of paid-in equity	(934)	—					(934)	—				
Issue of subordinated liabilities			1,351	500					1,351	500		
Redemption of subordinated liabilities			(2,468)	—					(2,468)	—		
Interest on subordinated liabilities			(150)	(179)					(150)	(179)		
Issue of MRELs					1,931	809					1,679	809
Interest on MRELs					(169)	(161)					(164)	(155)
Net cash inflow/(outflow) from financing	7	—	(1,267)	321	1,762	648	7	—	(1,267)	321	1,515	654
Effects of foreign exchange			(53)	(75)	66	(173)			(54)	(75)	73	(174)
Changes in fair value of subordinated liabilities and MRELs			(195)	82	(225)	155			(195)	82	(223)	155
Interest on subordinated liabilities and MRELs			139	182	176	162			139	182	171	157
Loss on redemption of own debt			117	—					117	—		
Other	—	—	5	—	—	—	—	—	—	—	—	—
At 31 December	6,280	6,273	3,285	4,539	5,687	3,908	6,280	6,273	3,279	4,539	5,133	3,597

30 Analysis of cash and cash equivalents

In the cash flow statement, cash and cash equivalents comprises cash and loans to banks with an original maturity of less than three months that are readily convertible to known amounts of cash and subject to insignificant risk of change in value.

	NWB Group 2021 £m	NWB Group 2020 £m	NWB Plc 2021 £m	NWB Plc 2020 £m
At 1 January				
- cash	62,983	27,457	62,878	26,377
- cash equivalents	5,065	5,809	4,316	7,243
	68,048	33,266	67,194	33,620
Net increase in cash and cash equivalents	38,597	34,782	38,352	33,574
At 31 December	106,645	68,048	105,546	67,194
Comprising:				
Cash and balances at central banks	101,213	62,983	101,210	62,878
Other financial assets	7	165	7	165
Loans to banks including intragroup balances (1)	5,425	4,900	4,329	4,151
Cash and cash equivalents	106,645	68,048	105,546	67,194

(1) Includes cash collateral posted with bank counterparties in respect of derivative liabilities of £7 million (2020 - £165 million).

31 Directors' and key management remuneration

The composition of NWB Plc's board of directors is aligned to its intermediate holding company NatWest Holdings Ltd. The directors are remunerated for their services to NatWest Group as a whole, and their remuneration cannot be apportioned in respect of their services to NWB Plc.

The directors' emoluments in the table below represent the NWH Group emoluments of the directors.

Directors' remuneration	2021 £000	2020 £000
Non-executive directors emoluments	**1,955**	2,078
Chairman and executive directors emoluments	**4,688**	4,349
	6,643	6,427
Amounts receivable under long-term incentive plans and share option plans	**549**	609
	7,192	7,036

The total emoluments and amounts receivable under long-term incentive plans and share option plans of the highest paid director were £2,808,000 (2020 - £2,561,000).

No directors accrued benefits under defined benefit schemes or defined contribution schemes during 2021 and 2020. The executive directors may participate in the NatWest Group's long-term incentive plans, executive share option and sharesave schemes. Where directors of NWB Plc are also directors of NatWest Group plc, details of their share interests can be found in the 2020 Annual Report and Accounts of NatWest Group plc, in line with regulations applying to NatWest Group plc as a premium listed company.

Compensation of key management

The aggregate remuneration of directors and other members of key management[1] during the year was as follows:

	2021 £000	2020 £000
Short-term benefits	**15,604**	15,099
Post-employment benefits	**280**	363
Share-based payments	**1,967**	2,707
	17,851	18,169

(1) Key management comprises members of the NWH Ltd Executive Committee.

32 Transactions with directors and key management

At 31 December 2021, amounts outstanding in relation to transaction, arrangements and agreements entered into by authorised institutions in NWB Group, as defined in UK legislation, were £7,032,240 in respect of loans to eight persons who were directors of NWB Plc at any time during the financial period.

For the purposes of IAS 24 'Related Party Disclosures', key management comprise directors of NWB Plc and members of the NWB Plc Executive Committee. Amounts in the table below are attributed to each person at their highest level of NatWest Group key management.

	2021 £000	2020 £000
Loans to customers - amortised cost	**8,632**	5,105
Customer deposits	**45,719**	39,164

Key management have banking relationships with NatWest Group entities which are entered into in the normal course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with other persons of a similar standing or, where applicable, with other employees. These transactions did not involve more than the normal risk of repayment or present other unfavourable features. Key management had no reportable transactions or balances with the holding companies.

33 Related parties

UK Government

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

At 31 December 2021, HM Treasury's holding in NatWest Group's ordinary shares was 52.96%.

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

Bank of England facilities

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

Members of NWB Group that are UK authorised institutions are required to maintain non-interest bearing (cash ratio) deposits with the Bank of England amounting to 0.406% of their average eligible liabilities in excess of £600 million. They also have access to Bank of England reserve accounts: sterling current accounts that earn interest at the Bank of England base rate.

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

Other related parties

(a) In their roles as providers of finance, NWB Group companies provide development and other types of capital support to businesses. These investments are made in the normal course of business. In some instances, the investment may extend to ownership or control over 20% or more of the voting rights of the investee company.
(b) NWB Group recharges NatWest Group Pension Fund with the cost of administration services incurred by it. The amounts involved are not material to NWB Group.
(c) In accordance with IAS 24, transactions or balances between NWB Group entities that have been eliminated on consolidation are not reported.
(d) The captions in the primary financial statements of the parent company include amounts attributable to subsidiaries. These amounts have been disclosed in aggregate in the relevant notes to the financial statements. Other net income/(expenses) represents the share of post-tax results of associates and joint ventures, profit (or loss) on disposal of subsidiaries, associates and joint ventures, and gains on acquisitions.

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

	2021 £m	2020 £m
Interest receivable	**33**	2
Interest payable	**(220)**	(272)
Fees and commissions receivable	**31**	—
Fees and commissions payable	**(6)**	(2)
Other administrative expenses	**34**	12
	(128)	(260)

34 Ultimate holding company

NWB Group's ultimate holding company is NatWest Group plc and its intermediate parent company is NatWest Holdings Limited ('NWH Ltd' or 'the intermediate holding company').

NatWest Group plc is incorporated in the United Kingdom and registered in Scotland and NWH Ltd is registered in England. As at 31 December 2021, NatWest Group plc heads the largest group in which NWB Group is consolidated. Copies of the consolidated accounts of both companies may be obtained from Legal, Governance & Regulatory Affairs, NatWest Group plc, Gogarburn, PO Box 1000, Edinburgh EH12 1HQ, the Registrar of Companies or at natwestgroup.com.

Following placing and open offers by NatWest Group plc in December 2008 and April 2009, the UK Government, through HM Treasury, currently holds 52.96% of the issued ordinary share capital of the ultimate holding company and is therefore NWB Group's ultimate controlling party.

35 Post balance sheet events

There have been no other significant events between 31 December 2021 and the date of approval of these accounts which would require a change to or additional disclosure in the accounts.

36 Related undertakings

Legal entities and activities at 31 December 2021

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

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

Entity name	Activity	Regulatory treatment	Notes
Caledonian Sleepers Rail Leasing Ltd	BF	FC	(1)
Coutts & Company	CI	FC	(10)
Coutts Finance Company	BF	FC	(10)
Esme Loans Ltd	BF	FC	(1)
FreeAgent Central Ltd	SC	FC	(18)
FreeAgent Holdings Ltd	SC	FC	(18)
G L Trains Ltd	BF	FC	(13)
Gatehouse Way Developments Ltd	INV	DE	(1)
KUC Properties Ltd	BF	DE	(3)
Land Options (West) Ltd	INV	DE	(3)
Lombard & Ulster Ltd	BF	FC	(9)
Lombard Business Finance Ltd	BF	FC	(1)
Lombard Business Leasing Ltd	BF	FC	(1)
Lombard Corporate Finance (December 1) Ltd	BF	FC	(1)
Lombard Corporate Finance (December 3) Ltd	BF	FC	(1)
Lombard Corporate Finance (June 2) Ltd	BF	FC	(1)
Lombard Discount Ltd	BF	FC	(1)
Lombard Finance Ltd	BF	FC	(1)
Lombard Industrial Leasing Ltd	BF	FC	(1)
Lombard Lease Finance Ltd	BF	FC	(1)
Lombard Leasing Company Ltd	BF	FC	(1)
Lombard Leasing Contracts Ltd	BF	FC	(1)
Lombard Lessors Ltd	BF	FC	(1)
Lombard Maritime Ltd	BF	FC	(1)
Lombard North Central Leasing Ltd	BF	FC	(1)
Lombard North Central Plc	BF	FC	(1)
Lombard Property Facilities Ltd	BF	FC	(1)
Lombard Technology Services Ltd	BF	FC	(1)
Mettle Ventures Ltd	OTH	FC	(1)
National Westminster Home Loans Ltd	BF	FC	(1)
NatWest Corporate Investments	BF	FC	(1)
NatWest Invoice Finance Ltd	OTH	FC	(1)
NatWest Property Investments Ltd	INV	DE	(1)
Pittville Leasing Ltd	BF	FC	(1)
Premier Audit Company Ltd	BF	FC	(1)
R.B. Capital Leasing Ltd	BF	FC	(1)
R.B. Leasing (September) Ltd	BF	FC	(1)
R.B. Quadrangle Leasing Ltd	BF	FC	(1)
RBS Asset Management Holdings	BF	FC	(10)
RBS Collective Investment Funds Ltd	BF	FC	(7)
RBS Invoice Finance Ltd	BF	FC	(1)
RBSG Collective Investments Holdings Ltd	BF	FC	(7)
RBSSAF (2) Ltd	BF	FC	(1)
RBSSAF (8) Ltd	BF	FC	(1)
RBSSAF (25) Ltd	BF	FC	(1)
Royal Bank Leasing Ltd	BF	FC	(3)
Royal Bank of Scotland (Industrial Leasing) Ltd	BF	FC	(3)
Royal Scot Leasing Ltd	BF	FC	(3)
RoyScot Trust Plc	BF	FC	(1)
The Royal Bank of Scotland Group Independent Financial Services Ltd	BF	FC	(3)
Ulster Bank Ltd.	CI	FC	(9)
Ulster Bank Pension Trustees Ltd	TR	DE	(9)
Voyager Leasing Ltd	BF	FC	(1)
Walton Lake Developments Ltd	INV	DE	(1)
World Learning Limited	BF	FC	(16)

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

Entity name	Activity	Regulatory treatment	Notes
Airside Properties AB	BF	FC	(2)
Airside Properties ASP Denmark AS	BF	FC	(8)
Airside Properties Denmark AS	BF	FC	(8)
Arkivborgen KB	BF	FC	(2)
Artul Koy	BF	FC	(4)
Backsmedjan KB	BF	FC	(2)
BD Lagerhus AS	BF	FC	(5)
Bilfastighet i Akalla AB	BF	FC	(2)
Bioenergie Wiesenburg GmbH & Co. KG	INV	DE	(30)
Brödmagasinet KB	BF	FC	(2)
Eiendomsselskapet Apteno La AS	BF	FC	(5)
Espeland Naering AS	BF	FC	(5)
Eurohill 4 KB	BF	FC	(2)
Fab Ekenäs Formanshagen 4	BF	FC	(4)
Fastighets AB Flöjten I Norrköping	BF	FC	(11)
Fastighets Aktiebolaget Sambiblioteket	BF	FC	(2)
Fastighetsbolaget Holma I Höör AB	BF	FC	(11)
Forskningshöjden KB	BF	FC	(2)
Förvaltningsbolaget Dalkyrkan KB	BF	FC	(11)
Förvaltningsbolaget Klöverbacken Skola KB	BF	FC	(11)
Fyrsate Fastighets AB	BF	FC	(11)
Gredelinen KB	BF	FC	(2)
Grinnhagen KB	BF	FC	(2)
Hatros 1 AS	BF	FC	(5)
Horrsta 4:38 KB	BF	FC	(2)
IR Fastighets AB	BF	FC	(2)
IR IndustriRenting AB	BF	FC	(2)
Kallebäck Institutfastigheter AB	BF	FC	(11)
Kastrup Commuter K/S	BF	FC	(8)
Kastrup Hangar 5 K/S	BF	FC	(8)
Kastrup V & L Building K/S	BF	FC	(8)
KB Eurohill	BF	FC	(2)
KB Lagermannen	BF	FC	(2)
KB Likriktaren	BF	FC	(2)
Koy Espoon Entresse II	BF	FC	(4)
Koy Helsingin Mechelininkatu 1	BF	FC	(4)

36 Related undertakings continued

Entity name	Activity	Regulatory treatment	Notes
Koy Helsingin Osmontie 34	BF	FC	(4)
Koy Helsingin Panuntie 6	BF	FC	(4)
Koy Helsingin Panuntie 11	BF	FC	(4)
Koy Iisalmen Kihlavirta	BF	FC	(4)
Koy Jämsän Keskushovi	BF	FC	(4)
Koy Jasperintie 6	BF	FC	(14)
Koy Kokkolan Kaarlenportti Fab	BF	FC	(4)
Koy Kouvolan Oikeus ja Poliisitalo	BF	FC	(4)
Koy Lahjan Ojamonharjuntie 61	BF	FC	(4)
Koy Millennium	BF	FC	(4)
Koy Nummelan Portti	BF	FC	(4)
Koy Nuolialan päiväkoti	BF	FC	(4)
Koy Peltolantie 27	BF	FC	(14)
Koy Pennalan Johtotie 2	BF	FC	(4)
Koy Porkkanakatu 2	BF	FC	(24)
Koy Puotikuja 2 Vaasa	BF	FC	(4)
Koy Raision Kihlakulma	BF	FC	(4)
Koy Ravattulan Kauppakeskus	BF	FC	(4)
Koy Tapiolan Louhi	BF	FC	(4)
Koy Vantaan Rasti IV	BF	FC	(4)
Koy Vapaalan Service-Center	BF	FC	(4)
Kvam Eiendom AS	BF	FC	(5)
Läkten 1 KB	BF	FC	(2)
Leiv Sand Eiendom AS	BF	FC	(5)
LerumsKrysset KB	BF	FC	(2)
Limstagården KB	BF	FC	(2)
Lundbyfilen 5 AB	BF	FC	(11)
Narmovegen 455 AS	BF	FC	(5)
National Westminster International Holdings B.V.	BF	FC	(34)
NatWest Services (Switzerland) Ltd	SC	FC	(29)
Nordisk Renting AB	BF	FC	(2)
Nordisk Renting AS	BF	FC	(27)
Nordisk Renting OY	BF	FC	(4)
Nordisk Specialinvest AB	BF	FC	(2)
Nordiska Strategifastigheter Holding AB	BF	FC	(2)
NWM Services India Private Ltd	SC	FC	(21)
Nybergflata 5 AS	BF	FC	(5)
Optimus KB	BF	FC	(2)
RBS Asset Management (Dublin) Ltd	BF	FC	(31)
RBS Deutschland Holdings GmbH	BF	FC	(19)
RBS Polish Financial Advisory Services Sp. Z o.o.	BF	FC	(28)
RBS Services India Private Ltd	SC	FC	(24)
Rigedalen 44 Eiendom AS	BF	FC	(5)
Ringdalveien 20 AS	BF	FC	(5)
Sandmoen Naeringsbygg AS	BF	FC	(5)
SFK Kommunfastigheter AB	BF	FC	(2)
Sjöklockan KB	BF	FC	(2)
Skinnarängen KB	BF	FC	(2)
Sletta Eiendom II AS	BF	FC	(5)
Snipetjernveien 1 AS	BF	FC	(5)
Solbänken KB	BF	FC	(2)
Solnorvika AS	BF	FC	(5)
Strand European Holdings AB	BF	FC	(11)
Svenskt Fastighetskapital AB	BF	FC	(2)
Svenskt Energikapital AB	BF	FC	(2)
Svenskt Fastighetskapital Holding AB	BF	FC	(2)
Tygverkstaden 1 KB	BF	FC	(2)

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

Entity name	Activity	Regulatory treatment	Notes
West Granite Homes Inc.	INV	DE	(22)

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

Entity name	Activity	Accounting treatment	Regulatory treatment	Group %	Notes
Falcon Wharf Ltd	OTH	EAJV	PC	50	(17)
GWNW City Developments Ltd	BF	EAJV	DE	50	(17)
Jaguar Cars Finance Ltd	BF	FC	FC	50	(1)
JCB Finance (Leasing) Ltd	BF	FC	FC	75	(15)
JCB Finance Ltd	BF	FC	FC	75	(15)
Landpower Leasing Ltd	BF	FC	FC	75	(15)
London Rail Leasing Ltd	BF	EAJV	PC	50	(25)
Natwest Covered Bonds (LM) Ltd	BF	IA	PC	20	(12)
Natwest Covered Bonds LLP	BF	FC	FC	73	(13)
Pollinate Networks Ltd	OTH	AHC	DE	30	(35)
Silvermere Holdings Ltd	BF	FC	FC	95	(7)

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

Entity name	Activity	Accounting treatment	Regulatory treatment	Group %	Notes
Nightingale CRE 2018-1 Ltd	BF	FC	DE	0	(6)
Nightingale LF 2021-1 Ltd	BF	FC	DE	0	(6)
Nightingale Project Finance 2019 1 Ltd	BF	FC	DE	0	(6)
Nightingale Securities 2017-1 Ltd	BF	FC	DE	0	(6)
Nightingale UK Corp 2020 2 Ltd	BF	FC	DE	0	(6)
Pharos Estates Ltd	OTH	AHC	DE	49	(23)
Wiśniowy Management sp. Z.o.o.	SC	AHC	DE	25	(28)

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

Entity name	Accounting treatment	Regulatory treatment	Group %	Notes
Belfast Bankers' Clearing Company Ltd	AHC	DE	25	(26)
NatWest Capital Finance Ltd	FC	FC	100	(1)
Northern Isle Ferries Ltd	FC	FC	100	(1)
NatWest Nominees Ltd	FC	FC	100	(1)
RBS Asset Finance Europe Ltd	FC	FC	100	(1)

36 Related undertakings continued

The following table details related undertakings that are dormant

Entity name	Accounting treatment	Regulatory treatment	Group %	Notes
Dixon Vehicle Sales Ltd	FC	FC	100	(1)
Dunfly Trustee Ltd	FC	FC	100	(1)
JCB Finance Pension Ltd	FC	DE	88	(9)
Lombard Ireland Group Holdings Unlimited	FC	FC	100	(20)
Lombard Ireland Ltd	FC	FC	100	(20)
NatWest FIS Nominees Ltd	FC	FC	100	(1)
NatWest Group Secretarial Services Ltd	FC	FC	100	(3)
NatWest Pension Trustee Ltd	NC	DE	100	(1)
NatWest PEP Nominees Ltd	FC	FC	100	(1)
Nordisk Renting A/S	FC	FC	100	(33)
Nordisk Renting HB	FC	FC	100	(2)
R.B. Leasing (March) Ltd	FC	FC	100	(1)
RBS Investment Executive Ltd	NC	DE	100	(3)
RBS Retirement Savings Trustee Ltd	FC	FC	100	(1)
RBSG Collective Investments Nominees Ltd	FC	FC	100	(7)
RoosterMoney UK Limited	FC	FC	100	(16)
Strand Nominees Ltd	FC	FC	100	(10)
Syndicate Nominees Ltd	FC	FC	100	(1)
The Royal Bank of Scotland Group Ltd	FC	FC	100	(1)

The following table details the overseas branches of NWB Group

Subsidiary	Geographic location
National Westminster Bank Plc	Germany

Key:

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

Notes	Registered addresses	Country of incorporation
(1)	250 Bishopsgate, London, EC2M 4AA	UK
(2)	c/o Nordisk Renting AB, Jakobsbergsgatan 13, 8 storey, Box 14044, SE-111 44, Stockholm	Sweden
(3)	RBS Gogarburn, 175 Glasgow Road, Edinburgh, EH12 1HQ	UK
(4)	c/o Epicenter, Mikonkatu 9, 6th Floor, 00100, Helsinki	Finland
(5)	c/o Advokatfirmaet Wiersholm AS, Postboks 1400, 0115 Oslo	Norway
(6)	44 Esplanade, St Helier, JE4 9WG	Jersey
(7)	6-8 George Street, Edinburgh, EH2 2PF	UK
(8)	C/O Visma Services Danmark A/S, Lyskaer 3C-3D, 2730 Herlev	Denmark
(9)	11-16 Donegall Square East, Belfast, Co Antrim, BT1 5UB	UK
(10)	440, Strand, London, England, WC2R OQS	UK
(11)	C/O Nordisk Renting AB, Box 14044, SE-104 40 Stockholm	Sweden
(12)	1 Bartholomew Lane London EC2N 2AX	UK
(13)	1 Princes Street, London, EC2R 8BP	UK
(14)	c/o Nordisk Renting Oy, Mikonkatu 9, 00100 Helsinki	Finland
(15)	The Mill, High Street, Rocester, Staffordshire, ST14 5JW	UK
(16)	64 New Cavendish Street, London, W1G 8TB	UK
(17)	Gate House, Turnpike Road, High Wycombe, Buckinghamshire, HP12 3NR	UK
(18)	One Edinburgh Quay, 133 Fountainbridge, Edinburgh, EH3 9QG	UK
(19)	Roßmarkt 10, Frankfurt am Main, 60311	Germany
(20)	Ulster Bank Group Centre, George's Quay, Dublin 2	Rol.
(21)	1st floor, Tower A, Building No. 1, Candor Techspace, IT/ITES SEZ, Sector 21, Gurugram, Haryana, 122016	India
(22)	200, Bellevue Parkway, Suite 210, Wilmington, DE 19809	USA
(23)	24 Demostheni Severi, 1st Floor, Nicosia, 1080, Cyprus	Cyprus
(24)	6th Floor,Tower A, Building 2, Candor Techspace, IT/ITES SEZ, Sector 21, Gurugram, Haryana, 122016	India
(25)	99 Queen Victoria Street, London, EC4V 4EH	UK
(26)	C/o Pinsent Masons Llp, The Soloist, 1 Lanyon Place, Belfast, Co. Antrim, BT1 3LP	UK
(27)	H. Heyerdahlsgate 1, Postboks 2020 Vika, Oslo, 0125	Norway
(28)	Ilzecka 26 Street, Warsaw, 02-135	Poland
(29)	Lerchenstrasse 18, Zurich, CH 8022	Switzerland
(30)	Liszt Straße 10, Regensburg, D-93053	Germany
(31)	One Dockland Central, Guild Street, IFSC, Dublin 1	Rol
(32)	The Chestnuts Brewers End, Takeley, Bishop's Stortford, CM22 6QJ	UK
(33)	c/o Adv Jan-Erik Svensson, HC Andersens Boulevard 12, Kopenhaum V, 1553	Denmark
(34)	Kokermolen 16, Houten, 3994 DH	Netherlands
(35)	2nd Floor 120 Old Broad Street, London, EC2N 1AR	UK

Risk factors

Principal Risks and Uncertainties

Set out below are certain risk factors that could adversely affect NWB Group's future results, its financial condition and prospects and cause them to be materially different from what is forecast or expected, and directly or indirectly impact the value of its securities in issue. These risk factors are broadly categorised and should be read in conjunction with other sections of this annual report, including the forward-looking statements section, the strategic report and the risk and capital management section. They should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties facing NWB Group. The COVID-19 pandemic may exacerbate any of the risks described below.

Economic and political risk

The impact of the COVID-19 pandemic and related uncertainties continue to affect the UK, global economies and financial markets and NWB Group's customers, as well as its competitive environment, which may continue to have an adverse effect on NWB Group

In many countries, including the UK (NWB Group's most significant market), the COVID-19 pandemic has, at times, resulted in the imposition of 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 COVID-19 pandemic has also, at times, caused significant reductions in levels of consumer and commercial activity, reductions in consumer spending, increased levels of corporate debt and, for some customers, personal debt, increased unemployment and significant market volatility in asset prices, interest rates and foreign exchange rates. It has also, at times, caused physical disruption to global supply chains and working practices, all of which have affected NWB Group's customers. NatWest Group has significant exposures to many of the commercial sectors economically impacted by the COVID-19 pandemic, including property, retail, leisure and travel.

Despite widespread COVID-19 vaccination within the geographical regions in which NWB Group operates, the proliferation of COVID-19 variants continues to affect the UK and global economies. Further waves of infection or the spread of new strains may result in renewed restrictions in affected countries and regions. As a result, significant uncertainties remain as to how long the impact of the COVID-19 pandemic will last, and how it will continue to affect the global economy.

In response to the COVID-19 pandemic, central banks, governments, regulators and legislatures in the UK and elsewhere have offered unprecedented levels of support and various schemes to assist impacted businesses and individuals. This has included forms of financial assistance and legal and regulatory initiatives. Many of these support schemes have now been curtailed. However, uncertainty remains as to the impact of the ending or tapering of these schemes and the repayment of the loans involved on customers, the economic environment and NWB Group. Moreover, it is unclear as to how any further measures, such as rising interest rates and inflation, may affect NWB Group's business and performance.

The COVID-19 pandemic has prompted many changes that may prove to be permanent shifts in customer behaviour and economic activity, such as changes in spending patterns and significantly more people working from home. These changes may have long-lasting impacts on asset prices, the economic environment and its customers' financial needs.

Uncertainties relating to the COVID-19 pandemic has made reliance on analytical models, planning and forecasting for NWB Group more complex, and may result in uncertainty impacting the risk profile of NWB Group and/or that of the wider banking industry. The medium and long-term implications of the COVID-19 pandemic for NWB Group customers, the UK housing market, and the UK and global economies and financial markets remain uncertain.

Any of the above may have a negative impact on NWB Group.

NWB Group faces continued economic and political risks and uncertainty in the UK and global markets.

The outlook for the global economy over the medium-term remains uncertain due to a number of factors including: the COVID-19 pandemic, societal inequalities and changes, trade barriers and the increased possibility of and/or continuation of trade wars, widespread political instability (including as a result of populism and nationalism, which may lead to protectionist policies, state and privately sponsored cyber and terrorist acts or threats, efforts to destabilise regimes or armed conflict), changes in inflation and interest rates (including negative interest rates), supply chain disruption, climate, environmental, social and other sustainability-related risks and global regional variations in the impact and responses to these factors.

These conditions could be worsened by a number of factors including macro-economic deterioration, increased instability in the global financial system and concerns relating to further financial shocks or contagion (for example, due to economic concerns in emerging markets), market volatility or fluctuations in the value of the pound sterling, new or extended economic sanctions, volatility in commodity prices or concerns regarding sovereign debt. This may be compounded by the changing demographics of the populations in the markets that NWB Group serves, increasing social and other inequalities, or rapid change to the economic environment due to the adoption of technology and artificial intelligence. Any of the above developments could adversely impact NWB Group directly (for example, as a result of credit losses) or indirectly (for example, by impacting global economic growth and financial markets and NWB Group's customers and their banking needs).

In addition, NWB Group is exposed to risks arising out of geopolitical events or political developments, such as, exchange controls and other measures taken by sovereign governments that may hinder economic or financial activity levels. Furthermore, unfavourable political, military or diplomatic events, including secession movements or the exit of other member states from the EU, armed conflict, pandemics and widespread public health crises (including the current COVID-19 pandemic and any future epidemics or pandemics), state and privately sponsored cyber and terrorist acts or threats, and the responses to them by governments and markets, could negatively affect the business and performance of NWB Group, including as a result of the indirect effect on regional or global trade and/or NWB Group's customers.

NWB Group faces political uncertainty in Scotland as a result of a possible second Scottish independence referendum. Independence may adversely impact NWB Group since NatWest Group plc and other NatWest Group entities are incorporated in Scotland. Any changes to Scotland's relationship with the UK or the EU would impact the environment in which NatWest Group and its subsidiaries operate, and may require further changes to NatWest Group's (including NWB Group's) structure, independently or in conjunction with other mandatory or strategic structural and organisational changes which, any of which could adversely impact NWB Group

Any of the above may have a negative effect on NWB Group.

Continuing uncertainty regarding the effects and extent of the UK's post Brexit divergence from EU laws and regulation, and NWB Group's post Brexit EU operating model may continue to adversely affect NWB Group and its operating environment.
The UK ceased to be a member of the EU and the European Economic Area ('EEA') on 31 January 2020 ('Brexit') and the 2020 EU-UK Trade and Cooperation Agreement ('TCA') ended the transition period on 31 December 2020. The TCA provides for free trade between the UK and EU with zero tariffs and quotas on all goods that comply with the appropriate rules of origin, with minimal coverage. However, for financial services, UK-incorporated financial services providers no longer have EU passporting rights and there is no mutual recognition regime. Financial services may largely be subject to individual equivalence decisions by relevant regulators. A number of temporary equivalence decisions have been made that cover certain services offered by NWB Group. The EU's equivalence regime does not cover most lending and deposit taking, and determinations in respect of third countries have not, to date, covered the provision of most investment services. In addition, equivalence determinations do not guarantee permanent access rights and can be withdrawn with short notice. The TCA is accompanied by a Joint Declaration on financial services which sets out an intention for the EU and UK to cooperate on matters of financial regulation and to agree a Memorandum of Understanding, which has yet to be signed. In late 2021 the European Commission proposed legislation that would require non-EU firms to establish a branch or subsidiary in the EU before providing "banking services" in the EU. If these proposals become law all "banking services" will be licensable activities in each EU member state and member states will not be permitted to offer bilateral permissions to financial institutions outside the EU allowing them to provide "banking services" in the EU. Uncertainty remains as to whether "banking services" will also include investment products.

NatWest Group continues to evaluate its post Brexit EU operating model, making adaptations as necessary. NatWest Group also continues to assess where NatWest Group companies can obtain bilateral regulatory permissions to facilitate intragroup transactions and/or to permit business to continue from its UK entities, transferring what cannot be continued to be rendered from the UK to an EEA subsidiary or branch, where permitted. Where such regulatory permissions are temporary or are withdrawn, a different approach may need to be taken or may result in a change in operating model or some business being ceased. Not all NatWest Group entities have applied for bilateral regulatory permissions and instead intend to move EEA business to an EEA licensed subsidiary or branch. There is a risk that these EEA licenses may not be granted, or may be withdrawn, and where these permissions are not obtained, further changes to NatWest Group's operating model may be required or some business may need to be ceased. In addition, failure to obtain required regulatory permissions or licences in one part of NatWest Group may impact other parts of NatWest Group adversely. Certain permissions are required in order to maintain the ability to clear euro payments. Other permissions, including the ability to have two intermediate EU parent undertakings, would allow NatWest Group to continue to serve EEA customers from both the ring-fenced and non-ring-fenced banking entities. Furthermore, transferring business to an EEA based subsidiary is a complex exercise and involves legal, regulatory and execution risks, and could result in a loss of business and/or customers or greater than expected costs. The changes to NatWest Group's operating model have been costly and further changes to its business operations, product offering and customer engagement could result in further costs and operating complexity.

In addition, to improve efficiencies and best serve customers, following Brexit, NatWest Group expects that certain assets, liabilities, transactions and activities of its Western European corporate portfolio (principally including term funding and revolving credit facilities), will be transferred from the ring-fenced subgroup of NatWest Group, including NWB Group, to NWM Group on a rolling basis, subject to certain regulatory and customer requirements. The timing and quantum of these transfers remain uncertain as is the impact of these transactions on its go-forward results of operations and financial position. As a result, NWB Group's business, results of operations, financial position and prospects could be adversely affected.

The long-term effects of Brexit and the uncertainty regarding NWB Group's EU operating model may have a negative impact on NWB Group's operating business. These may be exacerbated by wider global macro-economic trends and events, particularly COVID-19 pandemic related uncertainties, which may significantly impact NWB Group and its customers and counterparties who are themselves dependent on trading with the EU or personnel from the EU.

They may exacerbate the global macro-economic impacts on the UK, the Republic of Ireland ('ROI') and the rest of the EU/EEA.

Significant uncertainties remain as to the extent to which EU/EEA laws will diverge from UK law (including bank regulation), whether and what equivalence determinations will be made by the various regulators, whether the proposed EEA licensed subsidiary is granted a banking licence, whether banking services will be harmonised across the EEA and, therefore, what the respective legal and regulatory arrangements will be, under which NWB Group and its subsidiaries will operate. This divergence could lead to further market fragmentation. These risks and uncertainties may require costly changes to NWB Group's EU operating model. The legal and political uncertainty, and any actions taken as a result of this uncertainty, as well as the approach taken by regulators and new or amended rules, could have a significant adverse impact on NWB Group's businesses, non-UK operations and/or legal entity structure, including attendant operating, compliance and costs, level of impairments, capital requirements, changes to intragroup arrangements, increased complexity, regulatory environment and tax implications and as a result may adversely impact NWB Group's profitability, competitive position, business model and product offering.

Changes in interest rates have significantly affected and will continue to affect NWB Group's business and results.
Interest rate risk is significant for NWB Group. Monetary policy has been accommodative in recent years, including initiatives implemented by the Bank of England and HM Treasury such as the Term Funding Scheme with additional incentives for SMEs ('TFSME'), which have helped to support demand at a time of pronounced fiscal tightening and balance sheet repair. However, market expectations are currently that

benchmark interest rates such as UK base rate, could begin to rise further and faster than had been anticipated previously and that this could be accompanied by other measures to reverse accommodative policy, such as quantitative tightening.

While increases in medium term swap interest rates may support the yield of NWB Group's equity structural hedge interest income, sharp rises could have macroeconomic effects that lead to adverse outcomes for the business or customers. For example, they could lead to generally weaker than expected growth, or even contracting GDP, reduced business confidence, higher default rates on customer loans, higher levels of unemployment or underemployment, and falling property prices in the markets in which NWB Group operates, all of which could adversely affect the business and performance of NWB Group. Conversely, decreases in interest rates and/or continued sustained low, zero or negative interest rates would be expected to put pressure on NWB Group's interest income and profitability.

Unexpected moves in interest rates will also affect valuations of assets and liabilities that are recognised at fair value on the balance sheet. Changes in these valuations may be adverse. Unexpected movements in spreads between key benchmark rates could have adverse impacts and also adversely affect NWB Group's financial position.

Changes in foreign currency exchange rates may affect NWB Group's results and financial position.
Decisions of major central banks (including the Bank of England, the European Central Bank and the US Federal Reserve) and political or market events which are outside NWB Group's control, may lead to sharp and sudden variations in foreign exchange rates.

NWB Group's foreign exchange exposure arises from structural foreign exchange risk, including capital deployed in NWB Group's foreign subsidiaries, branches and joint arrangements, and non-trading foreign exchange risk, including customer transactions, profits, and losses that are in a currency other than the functional currency of the transaction entity. NWB Group also issues instruments in foreign currencies that assist in meeting NWB Group's minimum requirements for own funds and eligible liabilities ('MREL'). NWB Group maintains policies and procedures designed to manage the impact of exposures to fluctuations in currency rates.

Nevertheless, changes in currency rates, particularly in the sterling-US dollar and euro-sterling exchange rates, can adversely affect the value of assets, liabilities (including the total amount of MREL-eligible instruments), income and expenses, RWAs and hence the reported earnings and financial condition of NWB Plc.

HM Treasury (or UKGI on its behalf) could exercise a significant degree of influence over NatWest Group and NWB Group is controlled by NatWest Group.
In its March 2021 Budget, the UK Government announced its intention to continue the process of privatisation of NatWest Group plc and to carry out a programme of sales of NatWest Group plc ordinary shares with the objective of selling all of its remaining shares in NatWest Group plc by 2025-2026. As a result of a directed buyback of NatWest Group plc shares by NatWest Group plc from UK Government Investments Limited ('UKGI') in March 2021, sales of Natwest Group plc shares by UKGI by accelerated bookbuild in May 2021 and purchases made under NatWest Group plc's on-market buyback program announced in July 2021, as at 11 February 2022, the UK Government held 50.94% of the issued share capital with voting rights of NatWest Group plc. In addition to the £750 million on-market buyback announced on 18 February 2022, NatWest Group may participate in further directed or on-market buybacks in the future. The timing, extent and continuation of UKGI's sell-downs is uncertain, which could result in a prolonged period of increased price volatility on NatWest Group plc's ordinary shares.

HM Treasury has indicated that it intends to respect the commercial decisions of NatWest Group and that NatWest Group entities (including NWB Group) will continue to have their own independent board of directors and management team determining their own strategy. However, for as long as HM Treasury remains NatWest Group plc's, largest single shareholder, HM Treasury and UKGI (as manager of HM Treasury's shareholding) could exercise a significant degree of influence over the election of directors and appointment of senior management, NatWest Group's (including NWB Group's) capital strategy, dividend policy, remuneration policy or the conduct of NatWest Group's (including NWB Group's) operations, amongst others.

HM Treasury or UKGI's approach depends on government policy, which could change. The manner in which HM Treasury or UKGI exercises HM Treasury's rights as the largest single shareholder of NatWest Group could give rise to conflicts between the interests of HM Treasury and the interests of other shareholders, including as a result of a change in government policy. The exertion of such influence over NatWest Group could in turn have an adverse effect on the governance or business strategy of NWB Group.

In addition, NWB Plc is a wholly owned subsidiary of NatWest Group plc, and NatWest Group plc therefore controls NWB Group's board of directors, corporate policies and strategic direction. The interests of NatWest Group plc as an equity holder and as NWB Group's parent may differ from the interests of NWB Group or of potential investors in NWB Group's securities.

Strategic risk

NatWest Group (NWB Plc's parent company) continues to implement its purpose-led strategy, which carries significant execution and operational risks and may not achieve its stated aims and targeted outcomes.
In February 2020, NatWest Group (NWB's parent company) announced a new strategy, focused on becoming a purpose-led business, designed to champion potential and to help individuals, families and businesses to thrive. This strategy is intended to reflect the rapidly shifting environment and backdrop of unprecedented disruption in society driven by technology and changing customer expectations, as accelerated by the COVID-19 pandemic.

The purpose-led strategy has required an internal cultural shift across NWB Group as to how performance is perceived and how NWB Group conducts its business. These changes are substantial and will take many years to fully embed. These changes may not result in the expected outcome within the timeline and in the manner currently contemplated.

As part of its purpose-led strategy, NatWest Group has set a number of financial, capital and operational targets and expectations, both for the short term and throughout the implementation period. Realising these cost reductions may result in material strategic costs, which may be more than currently expected. The continued focus on meeting cost reduction targets may also mean limited investment in other areas, which could affect NWB Group's long-term prospects, product offering or competitive position, its ability to meet its other targets and commitments (including those related to customer satisfaction) and its capacity to respond to climate-related risks. NWB Group's ability to meet its planned reductions in its annual underlying costs may vary considerably from year to year. Any of the factors above could jeopardise NWB Group's ability to achieve its associated financial targets and generate sustainable returns.

The financial services industry is currently experiencing a trend towards consolidation and technological advancement and disruption. In pursuing its purpose-led strategy, NatWest Group (and NWB Group) may decide to undertake divestments, restructurings or reorganisations of certain of its customer segments. Conversely, it may decide to grow its business through acquisitions, joint ventures, investments and/or strategic partnerships as well as other transactions and initiatives, in certain customer segments and including to: (i) enhance capabilities that may lead to better productivity or cost efficiencies; (ii) acquire talent; (iii) pursue new products or expand existing products; or (iv) enter new markets or enhance its presence in existing markets. There are risks that NatWest Group (and NWB Group) may not fully realise the expected benefits and value from these transactions and initiatives. In particular, NatWest Group (and NWB Group) may: (i) fail to realise the business rationale for the transaction or initiative or assumptions underlying the business plans supporting the valuation of a target business may prove inaccurate, for example, regarding synergies and expected commercial demand; (ii) fail to successfully integrate any acquired businesses (including in respect of technologies, existing strategies, products and human capital); (iii) fail to retain key employees, customers and suppliers of any acquired business; (iv) be required or wish to terminate pre-existing contractual relationships, which could prove costly and/or be executed at unfavourable terms and conditions; (v) fail to discover certain contingent or undisclosed liabilities in businesses that it acquires, or its due diligence to discover any such liabilities may be inadequate; and (vi) not obtain necessary regulatory and other approvals or onerous conditions may be attached to such approvals. Accordingly, NatWest Group (and NWB Group) may not be successful in growing its business through these types of transactions and initiatives and any particular transaction may not succeed, may be limited in scope or scale (including due to NatWest Group's current ownership structure) and may not conclude on the terms contemplated, or at all. Any of the above may materially and adversely affect NWB Group's results of operations, financial condition or prospects.

On 27 January 2022, NatWest Group announced that, in order to further support its customers' growth ambitions and deliver on the next phase of its strategy, it is evolving its Commercial, NatWest Markets and RBS International businesses to form a single franchise to best support its customers across the full non-personal customer lifecycle. The transition is expected to begin over the coming months and be effective from July 2022.

In pursuing its strategy, NatWest Group (and NWB Group) may not be able to successfully: (i) implement all aspects of its strategy; (ii) reach any or all of the related targets or expectations of its strategy; or (iii) realise the intended strategic objectives of any other future strategic or growth initiative. The scale and scope of NatWest Group's (and NWB Group's) strategy and the intended changes continue to present material business, operational (including compliance with the UK ring-fencing regime), legal, execution, IT system, internal culture, conduct and people risks to NatWest Group (and NWB Group). Implementing many changes and strategic actions concurrently, including in respect of any growth initiatives, will require application of robust governance and controls frameworks and robust IT systems; there is a risk that NatWest Group (and NWB Group) may not be successful in these respects. The implementation of the purpose-led strategy and any other strategic initiatives could result in materially higher costs than initially contemplated (including due to material uncertainties and factors outside of NatWest Group and NWB Group's control) and may not be completed as planned, or at all, or could be phased or could progress in a manner other than currently expected. This could lead to additional management actions by NatWest Group (or NWB Group).

Changes in the economic, political and regulatory environment in which NWB Group operates, or regulatory uncertainty and changes, strong market competition and industry disruption or economic volatility may require NWB Group to adjust aspects of its strategy or the timeframe for its implementation including in relation to its financial, capital and operational targets and expectations. As certain initiatives depend on achieving growth in new ventures and opportunities for NatWest Group, NWB Group's strategy is vulnerable to an economic downturn. NWB Group's strategy also requires ongoing confidence from customers and the wider market, without which customer activity and related income levels may fall or NWB Group's reputation may be adversely affected.

Each of these risks, and others identified in these Risk Factors, individually or collectively could jeopardise the implementation and delivery of the purpose-led strategy and other strategic initiatives, result in higher than expected costs, impact NWB Group's products and services offering, its reputation with customers or business model and adversely impact NWB Group's ability to deliver its strategy and meet its targets and guidance, each of which could have a negative impact on NWB Group.

Trends relating to the COVID-19 pandemic may adversely affect NWB Group's strategy and impair its ability to meet its targets and strategic objectives.

The trajectory of the COVID-19 pandemic's impact on the UK and global economy and NWB Group remain uncertain. If trends relating to the COVID-19 pandemic negatively impact the UK and global economy, NWB Group may be unable to meet its financial, capital and operational targets and expectations. It is uncertain as to how the broader macroeconomic business environment and societal norms may be impacted by the COVID-19 pandemic, causing significant wider societal changes. For example, one of the most notable effects of the COVID-19 pandemic has been its disproportionate impact on the most vulnerable groups of society and concerns about systemic racial biases and social inequalities.

In addition, the COVID-19 pandemic has accelerated existing economic trends that may radically change the way businesses are run and people live their lives. These trends include digitalisation, decarbonisation, automation, e-commerce and agile working, each of which has resulted in significant market volatility in asset prices. There is also increased investor, regulatory and customer scrutiny regarding how businesses address these changes and related climate, environmental, social, governance and other sustainability issues, including tackling inequality, working conditions, workplace health, safety and wellbeing, diversity and inclusion, data protection and management, workforce management, human rights and supply chain management. Any failure or delay by NWB Group to successfully adapt its business strategy and to establish and maintain effective governance, procedures, systems and controls in response to these changes and to manage emerging climate, environmental, social, governance and other sustainability-related risks and opportunities may have a material adverse impact on NWB Group's reputation, business, results of operations, outlook and the value of NWB Group's securities. See also '*Any* *failure by NWB Group to implement effective and compliant climate change resilient systems, controls and procedures could adversely affect NWB Group's ability to manage climate-related risks*'.

The COVID-19 pandemic may also result in unexpected developments or changes in financial markets, the fiscal, tax and regulatory frameworks and consumer customer and corporate client behaviour, which could intensify competition in the financial services industry. This could negatively impact NWB Group if it is not able to adapt or compete effectively.

Financial resilience risk

NWB Group may not meet the targets it communicates or generate sustainable returns.

As part of NatWest Group's strategy, NWB Group has set a number of financial, capital and operational targets for NatWest Group as part of its purpose-led strategy including in respect of: MREL targets, funding plans, employee engagement, diversity and inclusion as well as ESG (including climate and sustainable funding and financing targets). See also, '*NatWest Group (NWB Plc's parent company) continues to implement its purpose-led strategy, which carries significant execution and operational risks and may not achieve its stated aims and targeted outcomes*'.

NWB Group's ability to meet NatWest Group and NWB Group's respective targets and to successfully meet its strategy are subject to various internal and external factors and risks. These include, but are not limited to: the impact of the COVID-19 pandemic, market, regulatory, macroeconomic and political uncertainties, developments relating to litigation, governmental actions, investigations and regulatory matters, and operational risks and risks relating to NWB Group's business model and strategy (including risks associated with climate, environmental, social, governance and other sustainability-related issues issues). A number of factors, including the economic and other effects of the COVID-19 pandemic, may impact the Bank's ability to maintain its current CET1 ratio, including: impairments, limited organic capital generation or unanticipated increases in RWAs. In addition, the run-down of RWAs may be accompanied by the recognition of disposal losses which may be higher than anticipated. See also '*NatWest Group (NWB Plc's parent company) continues to implement its purpose-led strategy, which carries significant execution and operational risks and may not achieve its stated aims and targeted outcomes*'.

There is a risk that NatWest Group's purpose-led strategy may not be successfully executed, that NWB Group will not meet its targets and expectations, or that NWB Group will not be a viable, competitive or profitable banking business.

The impact of the COVID-19 pandemic on the credit quality of NWB Group's counterparties may negatively impact NWB Group.

The effects of the COVID-19 pandemic have adversely affected the credit quality of some of NWB Group's borrowers and other counterparties, and government support schemes may delay the effects of defaults by such counterparties.

As government support schemes reduce, defaults are expected to rise with more customers moving from IFRS 9 Stage 2 to Stage 3. As a result, NWB Group continues to experience elevated exposure to credit risk and demands on its funding, and the long-term effects remain uncertain. If borrowers or other counterparties face increasing levels of debt and default or suffer deterioration in credit, this would increase impairment charges, write-downs, regulatory expected loss and impact credit reserves. See also, '*NWB Group has significant exposure to counterparty and borrower risk*'.

In line with certain mandated COVID-19 pandemic support schemes, NWB Group has sought to assist affected customers with a number of initiatives including NWB Group's participation in BBLS, CBILS and CLBILS products. NWB Group has sought to manage the risks of fraud and money laundering against the need for the fast and efficient release of funds to customers and businesses. NWB Group may be exposed to fraud, conduct and litigation risks arising from inappropriate approval (or denial) of BBLS or CBILS or the enforcing or pursuing repayment of BBLS and CBILS (or a failure to exercise forbearance), which may have an adverse effect on NWB Group's reputation and results of operations. The implementation of the initiatives and efforts mentioned above may result in litigation, regulatory and government actions and proceedings. These actions may result in judgments, settlements, penalties or fines.

Any of the above may have a negative impact on NWB Group.

NWB Group has significant exposure to counterparty and borrower risk.

NWB Group has exposure to many different industries, customers and counterparties, and risks arising from actual or perceived changes in credit quality and the recoverability of monies due from borrowers and other counterparties are inherent in a wide range of NWB Group's businesses. NWB Group's lending strategy and associated processes may fail to identify or anticipate weaknesses or risks in a particular sector, market or borrower, or fail to adequately value physical or financial collateral. This may result in increased default rates or a higher loss given default for loans, which may, in turn, impact NWB Group's profitability. See also '*Risk and capital management — Credit Risk*'.

The credit quality of NWB Group's borrowers and other counterparties may be affected by a deterioration in prevailing economic and market conditions (including those caused by the COVID-19 pandemic) and by changes in the legal and regulatory landscape in the UK and countries where NatWest Group is exposed to credit risk any deterioration in such conditions or changes to legal or regulatory landscapes (including the extent of the UK's post-Brexit divergence from EU laws and regulation). These could worsen borrower and counterparty credit quality or impact the enforcement of contractual rights over security, increasing credit risk.

An increase in drawings upon committed credit facilities may also increase NWB Group's RWAs. In addition, the level of household indebtedness in the UK remains high. The ability of households to service their debts could be worsened by a period of high unemployment (including as a result of the COVID-19 pandemic), increasing interest rates and higher inflation, particularly if prolonged.

NWB Group may be affected by volatility in property prices (including as a result of the general UK political or economic climate or the COVID-19 pandemic) given that NWB Group's mortgage loan and wholesale property loan portfolios as at 31 December 2021, amounted to £190.3 billion, representing 65% of NWB Group's customer loan exposure. If property prices were to weaken this could lead to higher impairment charges, particularly if default rates also increase. In addition, NWB Group's credit risk may be exacerbated if the collateral that it holds cannot be realised as a result of market conditions or regulatory intervention or if it is liquidated at prices not sufficient to recover the net amount after accounting for any IFRS provisions already made. This is most likely to occur during periods of illiquidity or depressed asset valuations.

Concerns about, or a default by, a financial institution could lead to significant liquidity problems and losses or defaults by other financial institutions, since the commercial and financial soundness of many financial institutions is closely related and interdependent as a result of credit, trading, clearing and other relationships. Any perceived lack of creditworthiness of a counterparty may lead to market-wide liquidity problems and losses for NWB Group. This systemic risk may also adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with which NWB Group interacts on a daily basis. See also, '*NWB Group may not be able to adequately access sources of liquidity and funding*'.

As a result, adverse changes in borrower and counterparty credit risk may cause accelerated impairment charges under IFRS 9, increased repurchase demands, higher costs, additional write-downs and losses for NWB Group and an inability to engage in routine funding transactions.

NWB Group has applied an internal analysis of multiple economic scenarios (MES) together with the determination of specific overlay adjustments to inform its IFRS 9 ECL (Expected Credit Loss). The recognition and measurement of ECL is complex and involves the use of significant judgment and estimation. This includes the formulation and incorporation of multiple forward-looking economic scenarios into ECL to meet the measurement objective of IFRS 9. The ECL provision is sensitive to the model inputs and economic assumptions underlying the estimate. Going forward, NWB Group anticipates observable credit deterioration of a proportion of assets resulting in a systematic uplift in defaults, which is mitigated by those economic assumption scenarios being reflected in the Stage 2 ECL across portfolios, along with a combination of post model overlays in both wholesale and retail portfolios reflecting the uncertainty of credit outcomes. See also, '*Risk and capital management — Credit Risk*'. A credit deterioration would also lead to RWA increases. Furthermore, the assumptions and judgments used in the MES and ECL assessment at 31 December 2021 may not prove to be adequate resulting in incremental ECL provisions for NWB Group. As government support schemes reduce, defaults are expected to rise with more ECLs cases moving from Stage 2 to Stage 3.

If NWB Group experiences losses and a reduction in future profitability, this is likely to affect the recoverable value of fixed assets, including goodwill and deferred taxes, which may lead to further write-downs.

NWB Group operates in markets that are highly competitive, with increasing competitive pressures and technology disruption.
The market for UK financial services is highly competitive. NWB Group expects such competition to continue and intensify in response to various changes.

These include: evolving customer behaviour, technological changes (including digital currencies, stablecoins and the growth of digital banking, including from fintech entrants), competitor behaviour, new entrants to the market (including non-traditional financial services providers such as large retail or technology conglomerates, who may have competitive advantages in scale, technology and customer engagement), competitive foreign-exchange offerings, industry trends resulting in increased disaggregation or unbundling of financial services or conversely the re-intermediation of traditional banking services, and the impact of regulatory actions and other factors. In particular, developments in the financial sector resulting from new banking, lending and payment solutions offered by rapidly evolving incumbents, challengers and new entrants, notably with respect to payment services and products, and the introduction of disruptive technology may impede NWB Group's ability to grow or retain its share and impact its revenues and profitability, particularly in its key UK retail and commercial banking segments. Moreover, innovations such as biometrics, artificial intelligence, the cloud, blockchain, cryptocurrencies and quantum computing may rapidly facilitate industry transformation.

These trends have accelerated during the COVID-19 pandemic and may be catalysed by various regulatory and competition policy interventions, including the UK initiative on Open Banking (PSD2), Open Finance and other remedies imposed by the Competition and Markets Authority ('CMA') which are designed to further promote competition within retail banking. The competition enhancing measures under NatWest Group's independently administered Alternative Remedies Package ('ARP') benefits grant recipients and eligible competitors. The ARP may be more costly than anticipated and may adversely impact customer service for NWB Group's own customers, its competitive position and reputation. Failure to comply with the terms of the scheme could result in the imposition of additional measures or limitations on NWB Group's operations, additional supervision by NWB Group's regulators, and loss of investor confidence.

Increasingly many of the products and services offered by NWB Group are, and will become, more technology intensive. For example, NWB Group recently invested in a number of fintech ventures, including Mettle, FreeAgent, Tyl, Rapid Cash and Rooster Money. See also, '*NatWest Group (NWB Plc's parent company) continues to implement its purpose-led strategy, which carries significant execution and operational risks and may not achieve its stated aims and targeted outcomes*'. NWB Group's ability to develop such digital solutions (which also need to comply with applicable and evolving regulations) has become increasingly important to retaining and growing NWB Group's customer business in the UK. There can be no certainty that NWB Group's innovation strategy (which includes investment in its IT capability intended to address the material increase in customer use of online and mobile technology for banking as well as selective acquisitions, which carry associated risks) will be successful or that it will allow NWB Group to continue to grow such services in the future. Certain of NWB Group's current or future competitors may be more successful in implementing innovative technologies for delivering products or services to their customers. NWB Group may also fail to identify future opportunities or derive benefits from disruptive technologies in the context of rapid technological innovation, changing customer behaviour and growing regulatory demands resulting in increased competition from traditional banking businesses as well as new providers of financial services, including technology companies with strong brand recognition, that may be able to develop financial services at a lower cost base.

NWB Group's competitors may also be better able to attract and retain customers and key employees, may have better IT systems, and may have access to lower cost funding and/or be able to attract deposits on more favourable terms than NWB Group. Although NWB Group invests in new technologies and participates in industry and research led initiatives aimed at developing new technologies, such investments may be insufficient or ineffective, especially given NWB Group's focus on its cost savings targets. This may limit additional investment in areas such as financial innovation and could therefore affect NWB Group's offering of innovative products or technologies for delivering products or services to customers and its competitive position. Furthermore, the development of innovative products depends on NWB Group's ability to produce underlying high quality data, failing which its ability to offer innovative products may be compromised.

If NWB Group is unable to offer competitive, attractive and innovative products that are also profitable and timely, it will lose share, incur losses on some or all of its activities and lose opportunities for growth. In this context, NWB Group is investing in the automation of certain solutions and interactions within its customer-facing businesses, including through artificial intelligence. Such initiatives may result in operational, reputational and conduct risks if the technology used is defective, inadequate or is not fully integrated into NWB Group's current solutions. There can be no certainty that such initiatives will deliver the expected cost savings and investment in automated processes will likely also result in increased short-term costs for NWB Group.

In addition, the implementation of NatWest Group's purpose-led strategy (including in relation to acquisitions, reorganisations and/or partnerships), may also have an impact on NWB Group's ability to compete effectively and intensified competition from incumbents, challengers and new entrants could affect NWB Group's ability to maintain satisfactory returns. Moreover, activist investors have increasingly become engaged and interventionist in recent years, which may pose a threat to NatWest Group's strategic initiatives. Furthermore, continued consolidation or technological or other developments in certain sectors of the financial services industry could result in NWB Group's remaining competitors gaining greater capital and other resources, including the ability to offer a broader range of products and services and geographic diversity, or the emergence of new competitors each of which may adversely affect NWB's business and result of operations.

NWB Group may not meet the prudential regulatory requirements for capital and MREL, or manage its capital effectively, which could trigger the execution of certain management actions or recovery options.

NatWest Group and NWB Plc (on a standalone basis) are required by regulators in the UK, the EU and other jurisdictions in which they undertake regulated activities to maintain adequate financial resources. Adequate capital provides NatWest Group (including NWB Group) with financial flexibility in the face of turbulence and uncertainty in the global economy and specifically in their core UK operations.

As at 31 December 2021, NWB Plc's CET1 ratio was 16.1%. NatWest Group currently targets a CET1 ratio of 13-14% by the end of 2023. NatWest Group's target capital ratio is based on a combination of its expected regulatory requirements and internal modelling, including stress scenarios and management's and/or the Prudential Regulation Authority's (PRA) views on appropriate buffers above minimum operating levels.

NatWest Group's current capital strategy for NWB Plc is based on: the expected accumulation of additional capital through the accrual of profits over time; the receipt of assets and resultant RWAs from other NatWest Group entities; RWA growth in the form of regulatory uplifts and lending growth and other capital management initiatives which focus on improving capital efficiency through improved data and upstreaming of dividends from NWB Plc to NatWest Group plc and ensuring NatWest Group meets its medium to long term targets.

A number of factors may impact NWB Group's ability to maintain its current CET1 ratio target and achieve its capital strategy. These include, amongst other things:

- a depletion of its capital resources through increased costs or liabilities or reduced profits;
- an increase in the quantum of RWAs in excess of that expected, including due to regulatory changes or a failure in internal controls or procedures to accurately measure and report RWAs; and
- changes in prudential regulatory requirements including NWB Plc's Total Capital Requirement set by the PRA, including Pillar 2 requirements and regulatory buffers as well as any applicable scalars.

In addition to regulatory capital, NWB Plc is required to maintain a set quantum of internal MREL set as the higher of its scaled RWAs or leverage requirement. The internal MREL requirement is met with loss-absorbing senior funding and regulatory capital instruments internally issued (indirectly) up to NatWest Group plc. The Bank of England has identified single point-of-entry as the preferred resolution strategy for NatWest Group. As a result, only NatWest Group plc is able to issue Group MREL eligible liabilities to third-party investors, using the proceeds to fund the internal capital and MREL targets and/or requirements of its operating entities, including NWB Plc. NWB Plc is therefore dependent not only on NatWest Group plc to fund NWB Plc's internal MREL targets over time, but also on NatWest Group plc's ability to issue and maintain sufficient amounts of external MREL liabilities to support this. In turn, NWB Plc is required to fund the internal capital and MREL requirements of its subsidiaries. See also, '*NWB Group is reliant on NatWest Group for capital and funding support, and is substantially reliant on NatWest Group plc's ability to issue sufficient amounts of capital and external MREL securities and downstream the proceeds to NWB Group. The inability to do so may adversely affect NWB Group*'.

If, under a stress scenario, the level of capital or MREL falls outside of risk appetite, there are a range of recovery management actions (focused on risk reduction and mitigation) that NWB Group could take to manage its capital levels, but any such actions may not be sufficient to restore adequate capital levels. Under the EU Bank Recovery and Resolution Directives I and II ('BRRD'), as implemented in the UK, NatWest Group must maintain a recovery plan acceptable to its regulator, such that a breach of NWB Group's applicable capital or leverage requirements may trigger the application of NatWest Group's recovery plan to remediate a deficient capital position. NatWest Group's regulator may request that NWB Group carry out certain capital management actions or, if NatWest Group's CET1 ratio falls below 7%, certain regulatory capital instruments issued by NatWest Group will be written-down or converted into equity and there may be an issue of additional equity by NatWest Group, which could result in the dilution of the holdings of NatWest Group's existing shareholders. The success of such issuances will also be dependent on favourable market conditions and NatWest Group may not be able to raise the amount of capital required on acceptable terms or at all. Separately, NatWest Group may address a shortage of capital by taking action to reduce leverage exposure and/or RWAs via asset or business disposals. Such actions may, in turn, affect, among other things, NWB Group's product offering, credit ratings, ability to operate its businesses, pursue its current strategies and pursue strategic opportunities, any of which may affect the underlying profitability of NWB Group and future growth potential. See also, '*NatWest Group (including NWB Group) may become subject to the application of UK statutory stabilisation or resolution powers which may result in, among other actions, the write-down or conversion of NWB Group's Eligible Liabilities*'.

NWB Group may not be able to adequately access sources of liquidity and funding.
NWB Group is required to access sources of liquidity and funding through retail and wholesale deposits, as well as through the debt capital markets. As at 31 December 2021, NWB Plc held £352.3 billion in deposits. The level of deposits may fluctuate due to factors outside NWB Group's control, such as a loss of investor confidence (including in other NatWest Group entities), sustained low or negative interest rates, government support, increasing competitive pressures for retail and corporate customer deposits or the reduction or cessation of deposits by wholesale depositors, which could result in a significant outflow of deposits within a short period of time. An inability to grow, or any material decrease in NWB Group's deposits could, particularly if accompanied by one of the other factors described above, materially affect NWB Group's ability to satisfy its liquidity or funding needs. In turn, this could require NWB Group to adapt its funding plans.

The effects of the COVID-19 pandemic, current economic uncertainties and any significant market volatility could affect NWB Group's ability to access sources of liquidity and funding, which may result in higher funding costs and failure to comply with regulatory capital, funding and leverage requirements. As a result, NWB Group could be required to adapt their funding plans. This could exacerbate funding and liquidity risk, which could have a negative effect on NWB Group.

If NWB Group's liquidity position were to come under stress, and if NWB Group were unable to raise funds through deposits or in the debt capital markets on acceptable terms or at all, its liquidity position could be adversely affected and it might be unable to meet deposit withdrawals on demand or at their contractual maturity, to repay borrowings as they mature, to meet its obligations under committed financing facilities, to comply with regulatory funding requirements, to undertake certain capital and/or debt management activities, or to fund new loans, investments and businesses. NWB Group may need to liquidate unencumbered assets to meet its liabilities, including disposals of assets not previously identified for disposal to reduce its funding commitments or trigger the execution of certain management actions or recovery options. In a time of reduced liquidity, NWB Group may be unable to sell some of its assets, or may need to sell assets at depressed prices, which in either case could negatively affect NWB Group's results.

NWB Group is reliant on NatWest Group for capital and funding support, and is substantially reliant on NatWest Group plc's ability to issue sufficient amounts of capital and external MREL securities and downstream the proceeds to NWB Group. The inability to do so may adversely affect NWB Group.
NWB Plc receives capital and funding from NatWest Group. NWB Plc has set target levels for different tiers of capital and for the internal MREL, as percentages of its RWAs. The level of capital and funding required for NWB Plc to meet its internal targets is therefore a function of the level of RWAs and its leverage exposure in NWB Plc and this may vary over time.

NWB Plc's internal MREL comprises the capital value of regulatory capital instruments and loss-absorbing senior funding issued by NWB Plc to its ultimate parent, NatWest Group plc. The Bank of England has identified that the preferred resolution strategy for NatWest Group is as a single point of entry. As a result, only NatWest Group plc is able to issue Group MREL eligible liabilities to third-party investors, using the proceeds to fund the internal MREL targets and/or requirements of its operating entities, including NWB Plc.

NWB Plc is therefore dependent on NatWest Group plc to fund its internal capital targets and its ability to source appropriate funding at NatWest Group plc level to support this. NWB Plc is also dependent on NatWest Group plc to fund its internal MREL target over time and its ability to raise and maintain sufficient amounts of external MREL liabilities to support this.

If NatWest Group plc is unable to issue adequate levels of MREL securities such that it is unable to downstream sufficient amounts to NWB Plc, this could lead to a failure of NWB Group to meet its own individual internal MREL requirements as well as the internal MREL requirements of subsidiaries within NWB Group. See also, '*NWB Group may not meet the prudential regulatory requirements for capital and MREL, or manage its capital effectively, which could trigger the execution of certain management actions or recovery options*'.

Any reduction in the credit rating and/or outlooks assigned to NatWest Group plc, any of its subsidiaries (including NWB Plc or other NWB Group subsidiaries) or any of their respective debt securities could adversely affect the availability of funding for NWB Group, reduce its liquidity position and increase the cost of funding.

Rating agencies regularly review NatWest Group plc, NWB Plc and other NatWest Group entity credit ratings and outlooks, which could be negatively affected by a number of factors that can change over time, including: the credit rating agency's assessment of NWB Group's strategy and management's capability; its financial condition including in respect of profitability, asset quality, capital, funding and liquidity; the level of political support for the industries in which NWB Group operates; the implementation of structural reform; the legal and regulatory frameworks applicable to NWB Group's legal structure; business activities and the rights of its creditors; changes in rating methodologies; changes in the relative size of the loss-absorbing buffers protecting bondholders and depositors; the competitive environment, political and economic conditions in NWB Group's key markets (including the impact of the COVID-19 pandemic and any further Scottish independence referendum); any reduction of the UK's sovereign credit rating and market uncertainty.

In addition, credit ratings agencies are increasingly taking into account sustainability-related factors, including climate, environmental, social and governance related risk, as part of the credit ratings analysis, as are investors in their investment decisions.

Any reductions in the credit ratings of NatWest Group plc, NWB Plc or of certain other NatWest Group entities, including, in particular, downgrades below investment grade, or a deterioration in the capital markets' perception of NWB Group's financial resilience could significantly affect NWB Group's access to money markets, reduce the size of its deposit base and trigger additional collateral or other requirements in derivatives contracts and other secured funding arrangements or the need to amend such arrangements, which could adversely affect NWB Group's (and, in particular, NWB Plc's) cost of funding and its access to capital markets and could limit the range of counterparties willing to enter into transactions with NWB Group (and, in particular, with NWB Plc). This could in turn adversely impact NWB Group's competitive position and threaten its prospects in the short to medium-term.

NWB Group may be adversely affected if NatWest Group fails to meet the requirements of regulatory stress tests.
NatWest Group is subject to annual stress tests by its regulator in the UK and is also subject to stress tests by European regulators with respect to NWM N.V. and Ulster Bank Ireland DAC. Stress tests are designed to assess the resilience of banks to potential adverse economic or financial developments and ensure that they have robust, forward-looking capital planning processes that account for the risks associated with their business profile. If the stress tests reveal that a bank's existing regulatory capital buffers are not sufficient to absorb the impact of the stress, then it is possible that the bank will need to take action to strengthen its capital position.

Failure by NatWest Group to meet the quantitative and qualitative requirements of the stress tests as set forth by its UK regulator or those elsewhere may result in: NatWest Group's regulators requiring NatWest Group to generate additional capital, reputational damage, increased supervision and/or regulatory sanctions, restrictions on capital distributions and loss of investor confidence. This may, in turn, negatively affect NWB Group.

NWB Group could incur losses or be required to maintain higher levels of capital as a result of limitations or failure of various models.
Given the complexity of NWB Group's business, strategy and capital requirements, NWB Group relies on analytical and other models for a wide range of purposes, including to manage its business, assess the value of its assets and its risk exposure, as well as to anticipate capital and funding requirements (including to facilitate NatWest Group's mandated stress testing). In addition, NWB Group utilises models for valuations, credit approvals, calculation of loan impairment charges on an IFRS 9 basis, financial reporting and for financial crime (criminal activities in the form of money laundering, terrorist financing, bribery and corruption, tax evasion and sanctions as well as fraud risk management (collectively, 'financial crime')). NWB Group's models, and the parameters and assumptions on which they are based, are periodically reviewed and updated to maximise their accuracy.

As models analyse scenarios based on assumed inputs and a conceptual approach, model outputs therefore remain uncertain. Failure of models (including due to errors in model design) or new data inputs (including non-representative data sets), for example, to accurately reflect changes in the micro and macroeconomic environment in which NWB Group operates (for example to account for the impact of the COVID-19 pandemic) to capture risks and exposures at the subsidiary level and to update for changes to NatWest Group's or NWB Group's current business model or operations, or for findings of deficiencies by NatWest Group's (and in particular, NWB Group's) regulators (including as part of NatWest Group's mandated stress testing) may render some business lines uneconomic, result in increased capital requirements, may require management action or may subject NWB Group to regulatory sanction. NWB Group may also face adverse consequences as a result of actions based on models that are poorly developed, implemented or used, models that are based on inaccurate or compromised data or as a result of the modelled outcome being misunderstood, or by such information being used for purposes for which it was not designed.

NWB Group's financial statements are sensitive to the underlying accounting policies, judgments, estimates and assumptions.
The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income, expenses, exposures and RWAs. While estimates, judgments and assumptions take into account historical experience and other factors, (including market practice and expectations of future events that are believed to be reasonable under the circumstances), actual results may differ due to the inherent uncertainty in making estimates, judgments and assumptions (particularly those involving the use of complex models).

The accounting policies deemed critical to NWB Group's results and financial position, based upon materiality and significant judgments and estimates, which include loan impairment provisions, are set out in '*Critical accounting policies and key sources of estimation uncertainty*'. New accounting standards and interpretations that have been issued by the International Accounting Standards Board but which have not yet been adopted by NWB Group are discussed in '*Future accounting developments*'.

Changes in accounting standards may materially impact NWB Group's financial results.
Changes in accounting standards or guidance by accounting bodies or in the timing of their implementation, whether immediate or foreseeable, could result in NWB Group having to recognise additional liabilities on its balance sheet, or in further write-downs or impairments to its assets and could also significantly impact the financial results, condition and prospects of NWB Group.

The valuation of financial instruments, including derivatives, measured at fair value can be subjective, in particular where models are used which include unobservable inputs. Generally, to establish the fair value of these instruments, NWB Group relies on quoted market prices or, where the market for a financial instrument is not sufficiently credible, internal valuation models that utilise observable market data. In certain circumstances, the data for individual financial instruments or classes of financial instruments utilised by such valuation models may not be available or may become unavailable due to prevailing market conditions. In these circumstances, NWB Group's internal valuation models require NWB Group to make assumptions, judgments and estimates to establish fair value, which are complex and often relate to matters that are inherently uncertain.

NatWest Group (including NWB Group) may become subject to the application of UK statutory stabilisation or resolution powers which may result in, among other actions, the write-down or conversion of NWB Group's Eligible Liabilities.
HM Treasury, the Bank of England and the PRA and FCA (together, the 'Authorities') are granted substantial powers to resolve and stabilise UK-incorporated financial institutions.

Five stabilisation options exist: (i) transfer of all of the business of a relevant entity or the shares of the relevant entity to a private sector purchaser; (ii) transfer of all or part of the business of the relevant entity to a 'bridge bank' wholly-owned by the Bank of England; (iii) transfer of part of the assets, rights or liabilities of the relevant entity to one or more asset management vehicles for management of the transferor's assets, rights or liabilities; (iv) the write-down, conversion, transfer, modification, or suspension of the relevant entity's equity, capital instruments and liabilities ('Eligible Liabilities'); and (v) temporary public ownership of the relevant entity. These tools may be applied to NatWest Group plc as the parent company or to NWB Group, as an affiliate, where certain conditions are met (such as, whether the firm is failing or likely to fail, or whether it is reasonably likely that action will be taken (outside of resolution) that will result in the firm no longer failing or being likely to fail). Moreover, there are modified insolvency and administration procedures for relevant entities, and the Authorities have the power to modify or override certain contractual arrangements in certain circumstances and amend the law for the purpose of enabling their powers to be used effectively and may promulgate provisions with retrospective applicability.

Under the UK Banking Act, the Authorities are generally required to have regard to specified objectives in exercising the powers provided for by the Banking Act. One of the objectives (which is required to be balanced as appropriate with the other specified objectives) refers to the protection and enhancement of the stability of the financial system of the UK. Moreover, the 'no creditor worse off' safeguard contained in the Banking Act may not apply in relation to an application of the separate write-down and conversion power relating to capital instruments under the Banking Act, in circumstances where a stabilisation power is not also used. Holders of debt instruments which are subject to the power may, however, have ordinary shares transferred to or issued to them by way of compensation.

Uncertainty exists as to how the Authorities may exercise their powers including the determination of actions undertaken in relation to the ordinary shares and other securities issued by NatWest Group (including NWB Group), which may depend on factors outside of NWB Group's control. Moreover, the Banking Act provisions remain untested in practice.

If NatWest Group is at or is approaching the point of non-viability such that regulatory intervention is required, there may be a corresponding adverse effect on the business, results of operations and outlook of NWB Group.

NatWest Group is subject to Bank of England and PRA oversight in respect of resolution, and NWB Group could be adversely affected should the Bank of England deem NatWest Group's preparations to be inadequate.
NatWest Group is subject to regulatory oversight by the Bank of England and the PRA, and is required (under the PRA rulebook) to carry out an assessment of its preparations for resolution, submit a report of the assessment to the PRA, and disclose a summary of this report. The initial report was submitted to the PRA on 30 September 2021 and the Bank of England's assessment of NatWest Group's preparations is scheduled to be released on 10 June 2022 although the Bank of England may provide feedback before then.

NatWest Group has dedicated significant resources towards the preparation of NatWest Group for a potential resolution scenario.

However, if the Bank of England assessment identifies a significant gap in NatWest Group's ability to achieve the resolvability outcomes, or reveals that NatWest Group is not adequately prepared to be resolved, or did not have adequate plans in place to meet resolvability requirements which came into effect on 1 January 2022, NatWest Group may be required to take action to enhance its preparations to be resolvable, resulting in additional costs and the dedication of additional resources. These actions may have an impact on NatWest Group (and NWB Group) as, depending on the Bank of England's assessment, potential action may include, but is not limited to, restrictions on maximum individual and aggregate exposures, a requirement to dispose of specified assets, a requirement to change legal or operational structure, a requirement to cease carrying out certain activities and/or maintaining a specified amount of MREL. This may also impact NatWest Group's (and NWB Group's) strategic plans and may have an adverse effect on the financial position of NWB Group or result in reputational damage or a loss of investor confidence.

Climate and sustainability-related risks

NWB Group and its customers face significant climate-related risks, including in transitioning to a net zero economy, which may adversely impact NWB Group.
Climate-related risks and uncertainties are continuing to receive increasing regulatory, judicial, political and societal scrutiny.

Financial and non-financial risks from climate change arise through physical and transition risks. Furthermore, NWB Group may also face a variety of climate-related legal risks, both physical and transition, from potential litigation and conduct liability. See also, '*NWB Group may be subject to potential climate, environmental and other sustainability-related litigation, enforcement proceedings, investigations and conduct risk*'.

There are significant uncertainties as to the extent and timing of the manifestation of the physical risks of climate change, such as more severe and frequent extreme weather events (flooding, subsidence, heat waves and long-lasting wildfires), rising sea levels, biodiversity loss and resource scarcity. Damage to NWB Group customers' properties and operations could disrupt business, impair asset values and negatively impact the creditworthiness of customers leading to increased default rates, delinquencies, write-offs and impairment charges in NWB Group's portfolios. In addition, NWB Group's premises and operations, or those of its critical outsourced functions may experience damage or disruption leading to increased costs and negatively affecting NatWest Group's business continuity and reputation.

In October 2021, the UK Government published its Net Zero Strategy which sets out how the UK will deliver on its commitment to reach net zero emissions by 2050. The timing, content and implementation of the specific policies and proposals remain uncertain.

Widespread transition to a net zero economy across all sectors of the economy and markets in which NWB Group operates will be required to meet the goals of the 2015 Paris Agreement, the UK's Net Zero Strategy and the Glasgow Climate Pact of 2021. The impact of the extensive commercial, technological, policy and regulatory changes required to achieve transition remains uncertain, but it is expected to be significant and may be disruptive across the global economy and markets, especially if these changes do not occur in an orderly or timely manner or are not effective in reducing emissions sufficiently. Some sectors such as property, energy (including oil and gas), mining, infrastructure, transport (including automotive and aviation) and agriculture are expected to be particularly impacted. The timing and pace of the transition to a net zero economy is also uncertain and may be near term, gradual and orderly or delayed, rapid and disorderly, or the combination of these.

Climate-related risks may be drivers of several different risk categories simultaneously and may exacerbate existing risks, including credit risk, operational risk (business continuity), market risk (both traded and non-traded), liquidity and funding risk (for example, net cash outflows or depletion of liquidity buffers).

If NWB Group fails to adapt its business and operating model in a timely manner to the climate-related risks and opportunities and changing regulatory and market expectations, or to appropriately identify, measure, manage and mitigate climate change related physical, transition and legal risks and opportunities that NWB Group, its customers and value chain face, NWB Group's reputation, business, operations or value chain and results of operations and outlook may be impacted adversely.

NatWest Group's purpose-led strategy includes climate change as one its three areas of focus. This is likely to require material changes to the business and operating model of NWB Group which entails significant execution risk.
In February 2020, NatWest Group announced its ambition to become a leading bank on climate in the UK, helping to address the climate challenge by setting itself the challenge to at least halve the climate impact of its financing activity by 2030 and intending to do what is necessary to achieve alignment with the 2015 Paris Agreement. In addition, in April 2021, NatWest Group by joining the Net Zero Banking Alliance 'Business Ambition to 1.5C', stated its ambition to reach net zero by 2050. Furthermore, as part of its efforts to support the transition to a net zero economy, NatWest Group has also announced its ambitions to phase out providing banking services to UK coal production, coal fired generation and coal related infrastructure by 1 October 2024, with a global phase out by 1 January 2030; to plan to stop financing new customer relationships with corporate customers who explore for, extract or produce coal or operate unabated coal powered plants; and that it will not provide services to existing customers who are increasing coal mining activity by exploring for new coal, developing new coal mines or increasing thermal coal production.

To achieve its 2030 and 2050 ambitions, NatWest Group has also announced other climate ambitions, targets and commitments, and going-forward it may also announce other climate ambitions, targets and commitments, including science-based targets to be validated by the Science Based Target Initiative.

Making the changes necessary to achieving these ambitions may materially affect NWB Group's business and operations and will require significant reductions to its financed emissions and to its exposure to customers that do not align with a transition to a net zero economy or do not have a credible transition plan. Increases in lending and financing activities may wholly or partially offset some or all of these reductions, which may increase the extent of changes and reductions necessary. It is anticipated that achieving these reductions, together with the active management of climate-related risks and other regulatory, policy and market changes, are likely to necessitate material and accelerated changes to NWB Group's business, operating model and existing exposures (potentially on accelerated timescales and outside of risk appetite) which may negatively impact NWB Group's ability to achieve its financial targets and generate sustainable returns.

NWB Group's ability to achieve these ambitions, targets and commitments through its own specific targets will depend to a large extent on many factors beyond NWB Group's control. These include the macroeconomic environment, the extent and pace of climate change, including the timing and manifestation of physical and transition risks and the effectiveness of actions of governments, legislators, regulators, businesses, investors, customers and other stakeholders to adapt and/or mitigate the impact of climate-related risks, changes in customer behaviour and demand, the challenges related with the implementation and integration of adoption policy tools, changes in the available technology for mitigation and adaptation, the availability of accurate, verifiable, reliable, consistent and comparable data. See also, '*NatWest Group (NWB Plc's parent company) continues to implement its purpose-led strategy, which carries significant execution and operational risks and may not achieve its stated aims and targeted outcomes*' and 'There are significant challenges in relation to climate-related data due to quality and other limitations, lack of standardisation, consistency and incompleteness which amongst other factors contribute to the significant uncertainties inherent in accurately modelling the impact of climate-related risks'

These internal and external factors and uncertainties will make it challenging for NWB Group to meet its climate ambitions, targets and commitments and there is a significant risk that all or some of them will not be achieved. Any delay or failure by NWB Group's contribution to in setting, making progress against or meeting NatWest Group's climate-related ambitions, targets and commitments through its own specific targets may have a material adverse impact on NWB Group, its reputation, business, results of operations, outlook, market and competitive position and may increase the climate-related risks NWB Group faces.

Any failure by NWB Group to implement effective and compliant climate change resilient systems, controls and procedures could adversely affect NWB Group's ability to manage climate-related risks.
The prudential regulation of climate-related risks is an important driver in how NatWest Group develops its risk appetite for financing activities or engaging with counterparties that do not align with a transition to a net zero economy or do not have a credible transition plan.

Legislative and regulatory authorities are publishing expectations as to how banks should prudently manage and transparently disclose climate-related and environmental risks under prudential rules.

In April 2019 the PRA published a supervisory statement (the 'SS 3/19') with particular focus on the management of financial risks from climate change with respect to governance, risk management, scenario analysis and disclosures. Following the submission of initial plans by UK banks in October 2019, in July 2020 the PRA issued a 'Dear CEO' letter requiring firms to embed fully their approaches to managing climate-related financial risks by the end of 2021. In response, on 8 October 2020, NatWest Group provided the PRA with an update to its original plan noting that the COVID-19 pandemic had disrupted some elements of NatWest Group's original plan and, as a result, the updated plan would require additional operating cycles reaching into 2022 and beyond to prove embedding. Subsequently the PRA issued its 'Climate Change Adaptation Report' in October 2021 advising firms of the need to continue to refine and innovate ways to further integrate the financial risks from climate change within risk management practices and it restated that by the end of 2021, firms should be able to demonstrate that the expectations set out in SS3/19 have been implemented and embedded throughout the firms' organisation as fully as possible. In January 2022, NatWest Group provided the PRA with an update on how it has addressed the commitments made in its October 2020 plan, noting the delivery of a 1st generation, largely qualitative in nature, approach to supervisory requirements.

In June 2021, the Bank of England launched its 2021 Biennial Exploratory Scenario ('CBES') to stress test the resilience of the current business models of the largest banks, insurers and the financial system to the physical and transition risks from climate change under three climate scenarios. NatWest Group delivered its CBES submission to the PRA in October 2021. The Bank of England has since announced that the CBES is likely to include a second round over February and March 2022, which is likely to be largely qualitative in nature.

The Bank of England guidance for the CBES confirmed that it is exploratory in nature and not intended to be used to set capital requirements. In the aforementioned 'Climate Change Adaptation Report 2021', the Bank of England confirmed that over the coming year it will undertake further analysis to explore enhancements to the regulatory capital frameworks as they relate to climate related financial risk. To support this work, the Bank of England will put out a 'Call for Papers' and host a Research Conference on the interaction between climate change and capital in Q4 2022. Informed by these steps and internal analysis, the Bank of England is expected to publish a follow-up report on the use of capital including on the role of any future scenario exercises by the end of 2022. It is therefore likely that in the coming years financial institutions, including NatWest Group (including NWB Group), may be required to hold additional capital to enhance their resilience against systemic and/or institution specific vulnerabilities to climate-related financial risks, which could, in turn, negatively impact NWB Group.

Any failure of NWB Group to fully and timely embed climate-related risks into its risk management practices and framework to appropriately identify, measure, manage and mitigate the various climate-related physical and transition risks and apply the appropriate product governance in line with applicable legal and regulatory requirements and expectations, may have a material and adverse impact on NWB Group's regulatory compliance, prudential capital requirements, liquidity position, reputation, business, results of operations and outlook.

There are significant challenges in relation to climate-related data due to quality and other limitations, lack of standardisation, consistency and incompleteness which amongst other factors contribute to the significant uncertainties inherent in accurately modelling the impact of climate-related risks.

Meaningful reporting of climate-related risks and opportunities and their potential impacts and related metrics depend on access to accurate, reliable, consistent and comparable climate-related data from counterparties or customers. These may not be generally available or, if available, may not be accurate, verifiable, reliable, consistent, or comparable. Any failure of NatWest Group to incorporate climate-related factors into its counterparty and customer data sourcing and accompanying analytics, or to develop accurate, reliable, consistent and comparable counterparty and customer data, may have a material adverse impact on NatWest Group's ability to prepare meaningful reporting of climate-related risks and opportunities, its regulatory compliance, reputation, business and its competitive position.

In the absence of other sources, reporting of financed emissions by financial institutions, including NWB Group, is necessarily based therefore on aggregated information developed by third parties that may be prepared in an inconsistent way using different methodologies, interpretations, or assumptions. Accordingly, our climate-related disclosures use a greater number and level of assumptions and estimates than many of our financial disclosures. These assumptions and estimates are highly likely to change over time, and, when coupled with the longer time frames used in these climate related disclosures, make any assessment of materiality inherently uncertain. In particular, in the absence of actual emissions monitoring and measurement, emissions estimates are based on industry and other assumptions that may not be accurate for a given counterparty or customer. There may also be data gaps, particularly for private companies, that are filled using proxy data, such as sectoral averages, again developed in different ways. As a result, our climate related disclosures may be amended, updated or restated in the future as the quality and completeness of our data and methodologies continues to improve. These data quality challenges, gaps and limitations could have a material impact on NWB Group's ability to make effective business decisions about climate risks and opportunities, including risk management decisions, comply with disclosure requirements and our ability to monitor and report our progress in meeting our ambitions, targets and commitments.

Significant risks, uncertainties and variables are inherent in the assessment, measurement and mitigation of climate-related risks. These include data quality gaps and limitations mentioned above, the pace at which climate science, greenhouse gas accounting standards and various emissions reduction solutions develop. In addition, there is a significant uncertainty about how climate change and the transition to a net zero economy will unfold over the coming decades and affect how and when climate-related risks will manifest. These timeframes are considerably longer than NWB Group's historical strategic, financial, resilience and investment planning horizons.

As a result, it is very difficult to predict and model the impact of climate-related risks into precise financial and economic outcomes and impacts. Climate-related risks present significant methodological challenges due to their forward-looking nature, the lack and/or quality of historical testing capabilities, lack of standardisation and incompleteness of emissions and other climate and sub-sector related data and the immature nature of risk measurement and modelling methodologies. The evaluation of climate-related risk exposure and the development of associated potential risk mitigation techniques largely depend on the choice of climate scenario modelling methodology and the assumptions made which involves a number of risks and uncertainties, for example

- climate scenarios are not predictions of what is likely to happen or what NatWest Group would like to happen, they rather explore the possible implications of different judgments and assumptions by considering a series of scenarios;
- climate scenarios do not provide a comprehensive description of all possible future outcomes;
- it requires a special skill set that banks traditionally do not have and therefore NWB Group needs to rely on third party advice, modelling, and data which is also subject to many limitations and uncertainties;
- modelling approaches and data on climate-related risks on financial assets is immature in nature and it is expected that techniques and understanding will evolve rapidly in the coming years;
- it is challenging to benchmark or back test the climate scenarios given their forward-looking nature and the multiple possible outcomes;
- there is a significant uncertainty as to how the climate will evolve over time, how and when governments, regulators, businesses, investors and customers respond and how those responses impact the economy, asset valuations, land systems, energy systems, technology, policy and wider society;
- the assumptions will be continually evolving with more data/information which may affect the baselines for comparability across reporting periods and impact internal and external verification processes; and
- the pace of the development of the methodologies across different sectors may be different and therefore it may be challenging to report on the whole balance sheet with regard to emissions.

Accordingly, these risks and uncertainties coupled with significantly longer timeframes make the outputs of climate-related risk modelling, including emissions reductions targets and pathways, inherently more uncertain than outputs modelled for traditional financial planning cycles based on historical financial information.

Capabilities within NWB Group to appropriately assess, model and manage climate-related risks and the suitability of the assumptions required to model and manage climate-related risks appropriately are developing. Even when those capabilities are developed, the high level of uncertainty regarding any assumptions modelled, the highly subjective nature of risk measurement and mitigation techniques, incorrect or inadequate assumptions and judgments and data quality gaps and limitations may lead to inadequate risk management information and frameworks, or ineffective business adaptation or mitigation strategies, which may have a material adverse impact on NWB Group's regulatory compliance, reputation, business, results of operations and outlook.

A failure to adapt NWB Group's business strategy, governance, procedures, systems and controls to manage emerging sustainability-related risks and opportunities may have a material adverse effect on NWB Group, its reputation, business, results of operations and outlook.
Investors, customers, international organisations, regulators and other stakeholders are increasingly focusing on identification, measurement, management and mitigation of 'sustainability-related' risks and opportunities such as environmental (including biodiversity and loss of natural capital); social (including diversity and inclusion, the living wage, fair taxation and value chains); and governance (including board diversity, ethics, executive compensation and management structure) related risks and opportunities and on long term sustainable value creation.

Financial institutions, including NWB Group, are directly and indirectly exposed to multiple types of environmental and biodiversity-related risk through their activities, including risk of default by clients. Additionally, there is a growing need to move from safeguards and interventions that focus on reducing negative impacts on environment and biodiversity towards those that focus on increasing positive impact on environment and biodiversity and nature-based solutions. In 2021, NatWest Group (including NWB Group) accordingly classified 'Biodiversity and Nature Loss' as an emerging risk for NatWest Group (including NWB Group) within its Risk Management Framework. This is an evolving and complex area which requires collaborative approaches with partners, stakeholders and peers to help measure and mitigate negative impacts of financing activities on the environment, biodiversity and nature as well as supporting the growing sector of nature-based solutions, habitat restoration and biodiversity markets. NatWest Group is in the early stages of developing its approach and NatWest Group recognises the need for more progress.

There is also increased investor, regulatory and customer scrutiny regarding how businesses address social issues, including tackling inequality, working conditions, workplace health, safety and wellbeing, diversity and inclusion, data protection and management, workforce management, human rights and supply chain management, which may impact NWB Group's employees, customers and their business activities or the communities in which they operate. There is also growing attention on the need for a 'just transition' and "energy justice" – in recognition that the transition to a net zero economy should not disproportionally affect the most disadvantaged members of society. The increased focus on these issues may create reputational and other risks for financial institutions, including NWB Group.

In addition to climate-related risks, sustainability-related risks (i) may also adversely affect economic activity, asset pricing and valuations of issuers' securities and, in turn, the wider financial system; (ii) may impact economic activities directly (for example through lower corporate profitability or the devaluation of assets) or indirectly (for example through macro-financial changes); (iii) may also affect the viability or resilience of business models over the medium to longer term, particularly those business models most vulnerable to sustainability-related risks; (iv) can trigger further losses stemming directly or indirectly from legal claims (liability risks) and reputational damage as a result of the public, customers, counterparties and/or investors associating NWB Group or its customers with adverse sustainability-related issues; and (v) intersect with and further complexity and challenge to achieving our purpose-led strategy including climate ambitions, targets and commitments. Together with climate-related risks, these risks may combine to generate even greater adverse effects on our business.

Furthermore, sustainability-related risks may be drivers of several different risk categories simultaneously and may exacerbate the risks described herein, including credit risk, operational risk (business continuity), market risk (both traded and non-traded), liquidity and funding risk (for example, net cash outflows or depletion of liquidity buffers).

Accordingly, any or delay by NatWest Group to successfully adapt its business strategy and to establish and maintain effective governance, procedures, systems and controls in response to these issues, and to manage these emerging sustainability-related risks and opportunities may have a material adverse impact on NWB Group's reputation, liquidity position, business, results of operations, outlook and the value of NatWest Group's securities

Any reduction in the ESG ratings of NatWest Group (including NWB Group) could have a negative impact on NatWest Group's (including NWB Group) reputation and on investors' risk appetite and customers' willingness to deal with NatWest Group.
ESG ratings from agencies and data providers which rate how NatWest Group (including NWB Group) manages environmental, social and governance risks are increasingly influencing investment decisions or being used as a basis to label financial products and services as green or sustainable. ESG ratings are (i) unsolicited; (ii) subject to the assessment and interpretation by the ESG rating agencies; (iii) provided without warranty; (iv) not a sponsorship, endorsement, or promotion of NatWest Group (including NWB Group) by the relevant rating agency; and (v) may depend on many factors some of which are beyond NatWest Group's and NWB Group's control (e.g. any change in rating methodology). Any reduction in the ESG ratings of NatWest Group (including NWB Group) could have a negative impact on NWB Group's reputation and could influence investors' risk appetite for NWB Group's and/or its subsidiaries' securities, particularly ESG securities and could affect a customer's willingness to deal with NWB Group.

Increasing levels of climate, environmental and sustainability-related laws, regulation and oversight may adversely affect NWB Group's business and expose NWB Group to increased costs of compliance, regulatory sanction and reputational damage.
There are an increasing number of EU, UK and other regulatory and legislative initiatives to address issues around climate, environmental and sustainability risks and opportunities and to promote the transition to a net zero economy. As a result, an increasing number of laws,

regulations, legislative actions are likely to affect the financial sector and the real economy, including proposals, guidance, policy and regulatory initiatives many of which have been introduced or amended recently and are subject to further changes.

Many of these initiatives are focused on developing standardised definitions for green and sustainable criteria of assets and liabilities, integrating climate change and sustainability into decision-making and customers access to green and sustainable financial products and services which may have a significant impact on the services provided by NWB Group and its subsidiaries, especially mortgage lending, and its associated credit, market and financial risk profile. They could also impact NWB Group's recognition of its climate and sustainable funding and financing activity and may adversely affect NWB Group's ability to achieve its climate strategy and climate and sustainable funding and financing ambitions.

In addition, NatWest Group and its subsidiaries are and will be subject to increasing entity wide climate-related and other non-financial disclosure requirements. pursuant to the recommendations of the Task Force on Climate-related Financial Disclosure ('TCFD') and under other regimes. From February 2022, NatWest Group (including NWB Group) will be required to provide enhanced climate-related disclosures consistent with the TCFD recommendations to comply with the FCA Policy Statement on the new Listing Rules (PS 20/17) that require commercial companies with a UK premium listing – such as NatWest Group - to make climate related disclosures, consistent with TCFD, on a 'comply or explain' basis. The FCA is proposing to expand this requirement to a wider scope of listed issuers which would include NatWest Group' subsidiaries - including NWB Group - as it moves towards mandatory TCFD reporting across the UK economy by 2025 (See also, '*There are significant challenges in relation to climate-related data due to quality and other limitations, lack of standardisation, consistency and incompleteness which amongst other factors contribute to the significant uncertainties inherent in accurately modelling the impact of climate-related risks.*')

In addition, NatWest Group's EU subsidiaries and branches are and will continue to be subject to an increasing array of the EU/EEA climate and sustainability-related legal and regulatory requirements. These requirements may be used as the basis for UK laws and regulations (such as the UK Green Taxonomy) or regarded by investors and regulators as best practice standards whether or not they apply to UK businesses. Any divergence between UK, EU/EEA and US climate and sustainability-related legal and regulatory requirements may result in NatWest Group not meeting investors' expectations, may increase the cost of doing business and may restrict access of NatWest Group's UK business to the EU/EEA market.

NatWest Group (including NWB Group) is also participating in various voluntary carbon reporting and other standard setting initiatives for disclosing climate and sustainability-related information, many of which have differing objectives and methodologies and are at different stages of development in terms of how they apply to financial institutions.

Compliance with these developing and evolving climate and sustainability-related requirements is likely to require NWB Group to implement significant changes to its business models, product and other governance, internal controls over financial reporting, disclosure controls and procedures, modelling capability and risk management systems, which may increase the cost of doing business, entail additional change risk and compliance costs.

Failure to implement and comply with these legal and regulatory requirements or emerging best practice expectations may have a material adverse effect on NWB Group's regulatory compliance and may result in regulatory sanction, reputational damage and investor disapproval each of which could have an adverse effect on NWB Group's business, results of operations and outlook.

NWB Group may be subject to potential climate, environmental and other sustainability-related litigation, enforcement proceedings, investigations and conduct risk.

Due to increasing new climate and sustainability-related jurisprudence, laws and regulations in the UK and other jurisdictions, growing demand from investors and customers for environmentally sustainable products and services, and regulatory scrutiny, financial institutions, including NWB Group, may through their business activities face increasing litigation, conduct, enforcement and contract liability risks related to climate change, environmental degradation and other social, governance and sustainability-related issues.

These risks may arise, for example, from claims pertaining to: (i) failures to meet obligations, targets or commitments relating to, or to disclose accurately, or provide updates on material climate and/or sustainability related risks or otherwise provide appropriate disclosure to investors, customers, counterparties and other stakeholders; (ii) conduct, mis-selling and other customer protection type claims; (iii) marketing that portrays products, securities, activities or policies as producing positive climate, environmental or sustainable outcomes to an extent that may not the case; (iv) damages claims under various tort theories, including common law public nuisance claims, or negligent mismanagement of physical and/or transition risks; (v) alleged violations of officers', directors' and other fiduciaries' fiduciary duties, for example by financing various carbon-intensive, environmentally harmful or otherwise highly exposed assets, companies, and industries; (vi) changes in understanding of what constitutes positive climate, environmental or sustainable outcomes as a result of developing climate science, leading to discrepancy between current product offerings and investor and/or market and/or broader stakeholder expectations; (vi) any weaknesses or failures in specific systems or processes associated particularly with climate, environmental or sustainability linked products, including any failure in timely implementation, onboarding and/or updating of such systems or processes; or (vii) counterparties, collaborators and third parties in NWB Group's value chain action who act, or fail to act, or undertake due diligence, or apply appropriate risk management and product governance in a manner that impacts Natwest Group's reputation or sustainability credentials.

Furthermore, there is a risk that shareholders, campaign groups, customers and special interest groups could seek to take legal action against NWB Group for financing or contributing to climate change and environmental degradation and for not supporting the principles of "just transition" (i.e. maximising the social benefits of the transition, mitigating the social risks of the transition, empowering those affected by the change, anticipating future shifts to address issues up front and mobilising investments from the public and private sectors).

There is a risk that as climate science develops and societal understanding of climate science increases and deepens, courts, regulators and enforcement authorities may apply the then current understandings of climate related matters retrospectively when assessing claims about historic conduct or dealings of financial institutions, including NWB Group.

These potential litigation, conduct, enforcement and contract liability risks may have a material adverse effect on NWB Group's ability to achieve its strategy, including its climate ambition, and they could have an adverse effect on NWB Group's reputation, business, financial results, position and prospects, results of operations and outlook.

Operational and IT resilience risk

Operational risks (including reliance on third party suppliers and outsourcing of certain activities) are inherent in NWB Group's businesses.

Operational risk is the risk of loss resulting from inadequate or failed internal processes, procedures, people or systems, or from external events, including legal risks. NWB Group offers a diverse range of products and services supported directly or indirectly by third party suppliers. As a result, operational risks or losses can arise from a number of internal or external factors (including financial crime and fraud), for which there is now greater scrutiny by third parties on NWB Group's compliance with financial crime requirements; see '*NWB Group is exposed to the risks of various litigation matters, regulatory and governmental actions and investigations as well as remedial undertakings, including conduct related reviews, anti-money laundering and redress projects, the outcomes of which are inherently difficult to predict, and which could have an adverse effect on NWB Group*'). These risks are also present when NWB Group relies on third-party suppliers or vendors to provide services to it or its customers, as is increasingly the case as NWB Group outsources certain activities, including with respect to the implementation of new technologies, innovation and responding to regulatory and market changes.

Operational risks continue to be heightened as a result of the implementation of NatWest Group's purpose-led strategy, NatWest Group's current cost-reduction measures, and conditions affecting the financial services industry generally (including the COVID-19 pandemic and other geo-political developments) as well as the legal and regulatory uncertainty resulting therefrom. It is unclear as to how the future ways of working may evolve, including in respect of how working practices may develop, or how NWB Group will evolve to best serve its customers. Any of the above may place significant pressure on NWB Group's ability to maintain effective internal controls and governance frameworks.

NWB Group increasingly provides certain shared critical services, including property and financial accounting, regulatory reporting and certain administrative, treasury and legal services to other entities within NatWest Group (in particular, NWM Plc). The increased reliance by other NatWest Group entities on the provision of such services by NWB Group may result in increased costs or liabilities to NWB Group should NWB Group have to increase its capacity to provide these services internally, if it is required to outsource to third parties in order to provide or maintain these services, or if a NatWest Group entity ceases to require such services. The effective management of operational risks is critical to meeting customer service expectations and retaining and attracting customer business. Although NWB Group has implemented risk controls and mitigation actions, with resources and planning having been devoted to mitigate operational risk, such measures may not be effective in controlling each of the operational risks faced by NWB Group. Ineffective management of such risks could adversely affect NWB Group.

NWB Group is subject to increasingly sophisticated and frequent cyberattacks.

NWB Group experiences a constant threat from cyberattacks across the entire NatWest Group (including NWB Group) and against NatWest Group and NWB Group's supply chain, reinforcing the importance of due diligence of and close working relationship with the third parties on which NWB Group relies. NWB Group is reliant on technology, against which there is a constantly evolving series of attacks that are increasing in terms of frequency, sophistication, impact and severity. As cyberattacks evolve and become more sophisticated, NWB Group is required to continue to invest in additional capability designed to defend against the emerging threats. In 2021, NWB Group and its supply chain were subjected to a small number of Distributed Denial of Service ('DDOS') and ransomware attacks, which are a pervasive and significant threat to the global financial services industry. The focus is to manage the impact of the attacks and sustain availability of services for NWB Group's customers. NWB Group continues to invest significant resources in the development and evolution of cyber security controls that are designed to minimise the potential effect of such attacks.

Hostile attempts are made by third parties to gain access to, introduce malware (including ransomware) into and exploit vulnerabilities of NWB Group's IT systems. NWB Group has information and cyber security controls in place to minimise the impact of any attack, which are subject to review on a continuing basis, but given the nature of the threat, there can be no assurance that such measures will prevent all attacks in the future. See also, '*NWB Group's operations are highly dependent on its complex IT systems (including those that enable remote working) and any IT failure could adversely affect NWB Group*'.

Any failure in NWB Group's cybersecurity policies, procedures or controls, may result in significant financial losses, major business disruption, inability to deliver customer services, or loss of data or other sensitive information (including as a result of an outage) and may cause associated reputational damage. Any of these factors could increase costs (including costs relating COVID-19 to notification of, or compensation for customers, credit monitoring or card reissuance), result in regulatory investigations or sanctions being imposed, or may affect NWB Group's ability to retain and attract customers. Regulators in the UK, US and Europe continue to recognise cybersecurity as an important systemic risk to the financial sector and have highlighted the need for financial institutions to improve their monitoring and control of, and resilience (particularly of critical services) to cyberattacks, and to provide timely notification of them, as appropriate.

Additionally, third parties may also fraudulently attempt to induce employees, customers, third party providers or other users who have access to NWB Group's systems to disclose sensitive information in order to gain access to NWB Group's data or that of NWB Group's customers or employees. Cybersecurity and information security events can derive from groups or factors such as: internal or external threat actors, human error, fraud or malice on the part of NWB Group's employees or third parties, including third party providers, or may result from accidental technological failure.

NWB Group expects greater regulatory engagement, supervision and enforcement to continue at a high level in relation to its overall resilience to withstand IT systems and related disruption, either through a cyberattack or some other disruptive event. Such increased regulatory engagement, supervision and enforcement is uncertain in relation to the scope, cost, consequence and the pace of change, which could negatively impact NWB Group. Due to NWB Group's reliance on technology and the increasing sophistication, frequency and impact of cyberattacks, such attacks may have a negative impact on NWB Group.

In accordance with the Data Protection Act 2018 and the European Union Withdrawal Act 2018, the Data Protection, Privacy and Electronic Communications (Amendments Etc.) (EU Exit) Regulations 2019, as amended by the Data Protection, Privacy and Electronic Communications (Amendments Etc.) (EU Exit) Regulations 2020 ('UK Data Protection Framework') and European Banking Authority ('EBA') Guidelines on ICT and Security Risk Management, NWB Group is required to ensure it implements timely, appropriate and effective organisational and technological safeguards against unauthorised or unlawful access to the data of NWB Group, its customers and its employees. In order to meet this requirement, NWB Group relies on the effectiveness of its internal policies, controls and procedures to protect the confidentiality, integrity and availability of information held on its IT systems, networks and devices as well as with third parties with whom NWB Group interacts. A failure to monitor and manage data in accordance with the UK Data Protection Framework and EBA requirements of the applicable legislation may result in financial losses, regulatory fines and investigations and associated reputational damage.

NWB Group operations and strategy are highly dependent on the accuracy and effective use of data.
NWB Group relies on the effective use of accurate data to support, monitor, evaluate, manage and enhance its operations and deliver its strategy. The availability of current, complete, detailed, accurate and, wherever possible, machine-readable customer segment and sub-sector data, together with appropriate governance and accountability for data, is fast becoming a critical strategic asset, which is subject to increased regulatory focus. Failure to have that data or the ineffective use or governance of that data could result in a failure to manage and report important risks and opportunities or satisfy customers' expectations including the inability to deliver innovative products and services. This could also reduce in a failure to deliver NWB Group's strategy and could place NWB Group at a competitive disadvantage by increasing its costs, inhibiting its efforts to reduce costs or its ability to improve its systems, controls and processes, which could result in a failure to deliver NWB Group's strategy. These data limitations, or the unethical or inappropriate use of data, and/or non-compliance with customer data protection laws could give rise to conduct and litigation risks and may increase the risk of operational events, losses or other adverse consequences due to inappropriate models, systems, processes, decisions or other actions.

NWB Group's operations are highly dependent on its complex IT systems (including those that enable remote working) and any IT failure could adversely affect NWB Group.
NWB Group's operations are highly dependent on the ability to process a very large number of transactions efficiently and accurately while complying with applicable laws and regulations. The proper functioning of NatWest Group's (including NWB Group's) payment systems, financial crime, fraud systems and controls, risk management, credit analysis and reporting, accounting, customer service and other IT systems (some of which are owned and operated by other entities in NatWest Group or third parties), as well as the communication networks between their branches and main data processing centres, is critical to NWB Group's operations.

Individually or collectively, any critical system failure, material loss of service availability or material breach of data security could cause serious damage to NWB Group's ability to provide services to its customers, which could result in reputational damage, significant compensation costs or regulatory sanctions (including fines resulting from regulatory investigations), or a breach of applicable regulations and could affect its regulatory approvals, competitive position, business and brands, which could undermine its ability to attract and retain customers. This risk is heightened as most of NWB Group's employees continue to work remotely, as it outsources certain functions and as it continues to innovate and offer new digital solutions to its customers as a result of the trend towards online and mobile banking.

In 2021, NWB Group continued to make considerable investments to further simplify, upgrade and improve its IT and technology capabilities (including migration of certain services to cloud platforms). NWB Group also continues to develop and enhance digital services for its customers and seeks to improve its competitive position through enhancing controls and procedures and strengthening the resilience of services including cyber security. Any failure of these investment and rationalisation initiatives to achieve the expected results, due to cost challenges or otherwise, could negatively affect NWB Group's operations, its reputation and ability to retain or grow its customer business or adversely impact its competitive position, thereby negatively impacting NWB Group.

Remote working may adversely affect NWB Group's ability to maintain effective internal controls.
From March 2020 to September 2021, many of NWB Group's employees worked exclusively on a remote basis. Following the lifting of government restrictions, NWB Group will implement a new hybrid working policy whereby many employees may work remotely the majority of the time in the ordinary course of their roles.

Remote working arrangements for NWB Group employees continues to place heavy reliance on the IT systems that enable remote working and increased exposure to fraud, conduct, operational and other risks and may place additional pressure on NWB Group's ability to maintain effective internal controls and governance frameworks. Remote working arrangements are also subject to regulatory scrutiny to ensure adequate recording, surveillance and supervision of regulated activities, and compliance with regulatory requirements and expectations, including requirements to: meet threshold conditions for regulated activities; ensure the ability to oversee functions (including any outsourced functions); ensure no detriment is caused to customers; and ensure no increased risk of financial crime. See also, '*A failure in NWB Group's risk management framework could adversely affect NWB Group, including its ability to achieve its strategic objectives*'. Moreover, the IT systems that enable remote working interface with third-party systems, and NWB Group could experience service denials or disruptions if such systems exceed capacity or if a third-party system fails or experiences any interruptions, all of which could result in business and customer interruption and related reputational damage, significant compensation costs, regulatory sanctions and/or a breach of applicable regulations. See also, '*NWB Group's operations are highly dependent on its complex*

IT systems (including those that enable remote working) and any IT failure could adversely affect NWB Group'.

Sustained periods of remote working may also negatively affect workforce morale. Whilst NWB Group has taken measures seeking to maintain the health, wellbeing and safety of its employees, these measures may be ineffective.

Any of the above could impair NWB Group's ability to hire, retain and engage well-qualified employees, especially at a senior level, which in turn may adversely impact NWB Group's ability to serve its customers efficiently and impact productivity across NWB Group. This could also adversely affect NWB Group's reputation, and competitive position and its ability to grow its business.

NWB Group relies on attracting, retaining and developing diverse senior management and skilled personnel, and is required to maintain good employee relations.
NWB Group's success depends on its ability to attract, retain through creating an inclusive environment, and develop highly skilled and qualified diverse personnel, including senior management, directors and key employees especially for technology and data focused roles, in a highly competitive market and under internal cost reduction pressures. NWB Group's ability to do this may be more difficult due to the cost reduction pressures, heightened regulatory oversight of banks and the increasing scrutiny of, and (in some cases) restrictions placed upon, employee compensation arrangements (in particular those of banks in receipt of government support such as NatWest Group). This increases the cost of hiring, training and retaining diverse skilled personnel. In addition, certain economic, market and regulatory conditions and political developments may reduce the pool of diverse candidates for key management and non-executive roles, including non-executive directors with the right skills, knowledge and experience, or increase the number of departures of existing employees. Moreover, a failure to foster a diverse and inclusive workforce may have an adverse impact on NWB Group's employee engagement and the formulation and execution of its strategy, and could also have a negative effect on its reputation with customers, investors and regulators.

The inability to compensate employees competitively and/or any reduction of compensation, as a result of negative economic developments or otherwise, could have an adverse effect on NWB Group's ability to hire, retain and engage well qualified employees, especially at a senior level, which may have a negative impact on the financial position and prospects of NWB Group.

Many of NWB Group's employees in the UK, the ROI and continental Europe are represented by employee representative bodies, including trade unions and works councils. Engagement with its employees and such bodies is important to NWB Group in maintaining good employee relations. Any failure to do so could impact NWB Group's ability to operate its business effectively.

A failure in NWB Group's risk management framework could adversely affect NWB Group, including its ability to achieve its strategic objectives.
Risk management is an integral part of all of NWB Group's activities and includes the definition and monitoring of NWB Group's risk appetite and reporting on its risk exposure and the potential impact thereof on its financial condition. Financial risk management is highly dependent on the use and effectiveness of internal stress tests and models and ineffective risk management may arise from a wide variety of factors, including lack of transparency or incomplete risk reporting, unidentified conflicts or misaligned incentives, lack of accountability control and governance, incomplete risk monitoring and management or insufficient challenges or assurance processes. Failure to manage risks effectively could adversely impact NWB Group's reputation or its relationship with its regulators, customers, shareholders or other stakeholders.

In addition, financial crime risk management is dependent on the use and effectiveness of financial crime assessment, systems and controls. Weak or ineffective financial crime processes and controls may risk NatWest Group inadvertently facilitating financial crime which may result in regulatory investigation, sanction, litigation and reputational damage. Financial crime continues to evolve, whether through fraud, scams, cyber-attacks or other criminal activity. NatWest Group (and NWB Group) has made and continues to make significant, multi-year investments to strengthen and improve its overall financial crime control framework with prevention systems and capabilities. As part of its ongoing programme of investment, there is current and future investment planned to further strengthen financial crime controls over the coming years, including investment in new technologies and capabilities to further enhance customer due diligence, transaction monitoring, sanctions and anti-bribery and corruption systems.

NWB Group's operations are inherently exposed to conduct risks, which include business decisions, actions or reward mechanisms that are not responsive to or aligned with NWB Group's regulatory obligations, customers' needs or do not reflect NWB Group's customer-focused strategy, ineffective product management, unethical or inappropriate use of data, information asymmetry, implementation and utilisation of new technologies, outsourcing of customer service and product delivery, the possibility of mis-selling of financial products and mishandling of customer complaints. Some of these risks have materialised in the past and ineffective management and oversight of conduct risks may lead to further remediation and regulatory intervention or enforcement.

NWB Group's businesses are also exposed to risks from employee-misconduct including non-compliance with policies and regulations, negligence or fraud (including financial crimes and fraud), any of which could result in regulatory fines or sanctions and serious reputational or financial harm to NWB Group. These risks may be exacerbated as most of NWB Group's employees continue to work remotely, which places additional pressure on NWB Group's ability to maintain effective internal controls and governance frameworks.

NWB Group has been seeking to embed a strong risk culture across the organisation and has implemented policies and allocated new resources across all levels of the organisation to manage and mitigate conduct risk and expects to continue to invest in its risk management framework. However, such efforts may not insulate NWB Group from future instances of misconduct and no assurance can be given that NWB Group's strategy and control framework will be effective. Any failure in NWB Group's risk management framework could negatively affect NWB Group and its financial condition through reputational and financial harm and may result in the inability to achieve its strategic objectives for their customers, employees and wider stakeholders.

NWB Group's operations are subject to inherent reputational risk.
Reputational risk relates to stakeholder and public perceptions of NWB Group arising from an actual or perceived failure to meet stakeholder expectations, including with respect to NatWest Group's purpose-led strategy and related targets, due to any events, behaviour, action or inaction by NWB Group, its employees or those with whom NWB Group is associated. See also, '*NWB Group's businesses are subject to substantial regulation and oversight,*

which are constantly evolving and may adversely affect NWB Group. This includes brand damage, which may be detrimental to NWB Group's business, including its ability to build or sustain business relationships with customers, and may cause low employee morale, regulatory censure or reduced access to, or an increase in the cost of, funding.

Reputational risk may arise whenever there is a material lapse in standards of integrity, compliance, customer or operating efficiency and may adversely affect NWB Group's ability to attract and retain customers. In particular, NWB Group's ability to attract and retain customers (particularly, corporate and retail depositors) may be adversely affected by, amongst others: negative public opinion resulting from the actual or perceived manner in which NWB Group or any other member of NatWest Group conducts or modifies its business activities and operations, media coverage (whether accurate or otherwise), employee misconduct, NWB Group's financial performance, IT systems failures or cyberattacks, data breaches, financial crime and fraud, the level of direct and indirect government support, or the actual or perceived practices in the banking and financial industry in general, or a wide variety of other factors.

Modern technologies, in particular online social networks and other broadcast tools that facilitate communication with large audiences in short timeframes and with minimal costs, may also significantly increase and accelerate the impact of damaging information and allegations.

Although NWB Group has implemented a Reputational Risk Policy to improve the identification, assessment and management of customers, transactions, products and issues which represent a reputational risk, NWB Group cannot be certain that it will be successful in avoiding damage to its business from reputational risk.

Legal, regulatory and conduct risk
NWB Group's businesses are subject to substantial regulation and oversight, which are constantly evolving and may adversely affect NWB Group.
NWB Group is subject to extensive laws, regulations, corporate governance practice and disclosure requirements, administrative actions and policies in each jurisdiction in which it operates. Many of these have been introduced or amended recently and are subject to further material changes, which may increase compliance and conduct risks, particularly if EU/EEA and UK laws diverge as a result of Brexit. NWB Group expects government and regulatory intervention in the financial services industry to remain high for the foreseeable future.

In recent years, regulators and governments have focused on reforming the prudential regulation of the financial services industry and the manner in which the business of financial services is conducted. Amongst others, measures have included: enhanced capital, liquidity and funding requirements, implementation of the UK ring-fencing regime, implementation and strengthening of the recovery and resolution framework applicable to financial institutions in the UK, the EU and the US, financial industry reforms (including in respect of MiFID II), corporate governance requirements, restrictions on the compensation of senior management and other employees, enhanced data protection and IT resilience requirements, financial market infrastructure reforms (including enhanced data protection and IT resilience requirements, enhanced regulations in respect of the provision of 'investment services and activities'), and increased regulatory focus in certain areas, including conduct, consumer protection, competition and disputes regimes, anti-money laundering, anti-corruption, anti-bribery, anti-tax evasion, payment systems, sanctions and anti-terrorism laws and regulations.

Other areas in which, and examples of where, governmental policies, regulatory and accounting changes and increased public and regulatory scrutiny could have an adverse impact (some of which could be material) on NWB Group include, but are not limited to, the following:

- general changes in government, central bank, regulatory or competition policy, or changes in regulatory regimes that may influence investor decisions in the jurisdictions in which NWB Group operates;
- rules relating to foreign ownership, expropriation, nationalisation and confiscation of assets;
- increased scrutiny from the CMA, FCA and Payment Systems Regulator ('PSR') for the protection and resilience of, and competition and innovation in, digital markets, UK payment systems and retail banking developments relating to the UK initiative on Open Banking, Open Finance and the European directive on payment services;
- the ongoing compliance by NatWest Group with CMA's Retail Banking Market Order 2017 (the 'Order') as well as the ongoing consultation by the UK Government to introduce penalties for breaches of the Order (in addition to the current customer remediation requirements);
- ongoing competition litigation in the English courts around payment card interchange fees, combined with increased regulatory scrutiny (from the PSR) of the Visa and Mastercard card schemes;
- new or increased regulations relating to customer data protection as well as IT controls and resilience, including the UK Data Protection Framework and the impact of the Court of Justice of the EU (CJEU) decision (known as Schrems II), in which the CJEU ruled that the Privacy Shield (an EU/US data transfer mechanism) is now invalid, leading to more onerous due diligence requirements for the Group prior to sending personal data of its EU customers and employees to non-EEA countries, including the UK and the US;
- the introduction of, and changes to, taxes, levies or fees applicable to NWB Group's operations, such as the imposition of a financial transaction tax, introduction of global minimum tax rules; changes in tax rates, changes in the scope and administration of the Bank Levy, increases in the bank corporation tax surcharge in the UK, restrictions on the tax deductibility of interest payments or further restrictions imposed on the treatment of carry-forward tax losses that reduce the value of deferred tax assets and require increased payments of tax;
- increased regulatory focus on customer protection (such as the FCA's consumer duty consultation paper (CP21/13)) in retail or other financial markets;
- the potential introduction by the Bank of England of a Central Bank Digital Currency which could result in deposit outflows, higher funding costs, and/or other implications for UK banks including NWB Group; and
- regulatory enforcement in the form of PRA imposed financial penalties for failings in banks' regulatory reporting governance and controls, and regulatory scrutiny following the 2019 PRA "Dear CEO letter" letter regarding PRA's ongoing focus on: the integrity of regulatory reporting, which the PRA considers has equal standing with financial reporting; the PRA's thematic reviews of the governance, controls and processes for preparing regulatory returns of selected UK banks, including NatWest Group; the publication of the PRA's common findings from those reviews in September 2021; and NatWest Group's programme of improvements to meet PRA expectations.

These and other recent regulatory changes, proposed or future developments and heightened levels of public and regulatory scrutiny in the UK, the EU and the US have resulted in increased capital, funding and liquidity requirements, changes in the competitive landscape, changes in other regulatory requirements and increased operating costs, and have impacted, and will continue to impact, competitive position, product offerings and business models. Future competition investigations, market reviews, or the regulation of mergers may lead to the imposition of financial penalties or market remedies that may adversely impact NatWest Group's competitive or financial position. Any of these developments (including any failure to comply with new rules and regulations) could also have a significant impact on NWB Group's authorisations and licences, the products and services that NWB Group may offer, its reputation and the value of its assets, NWB Group's operations or legal entity structure, and the manner in which NWB Group conducts its business. Material consequences could arise should NWB Group be found to be non-compliant with these regulatory requirements. Regulatory developments may also result in an increased number of regulatory investigations and proceedings and have increased the risks relating to NWB Group's ability to comply with the applicable body of rules and regulations in the manner and within the timeframes required.

Changes in laws, rules or regulations, or in their interpretation or enforcement, or the implementation of new laws, rules or regulations, including contradictory or conflicting laws, rules or regulations by key regulators or policymakers in different jurisdictions, or failure by NWB Group to comply with such laws, rules and regulations, may adversely affect NWB Group's business, results of operations and outlook. In addition, uncertainty and insufficient international regulatory coordination as enhanced supervisory standards are developed and implemented may adversely affect NWB Group's ability to engage in effective business, risk and capital management planning.

NWB Group is exposed to the risks of various litigation matters, regulatory and governmental actions and investigations as well as remedial undertakings, including conduct-related reviews, anti-money laundering and redress projects, the outcomes of which are inherently difficult to predict, and which could have an adverse effect on NWB Group.
NWB Group's operations are diverse and complex and it operates in legal and regulatory environments that expose it to potentially significant legal proceedings, and civil and criminal regulatory and governmental actions. NWB Group has resolved a number of legal and regulatory actions over the past several years but continues to be, and may in the future be, involved in such actions in the US, the UK, Europe and other jurisdictions.

NWB Group is currently, has recently been and will likely be involved in a number of significant legal and regulatory actions, including investigations, proceedings and ongoing reviews (both formal and informal) by governmental law enforcement and other agencies and litigation proceedings relating to, among other matters, the setting of benchmark rates such as LIBOR and related derivatives trading, product mis-selling, customer mistreatment, anti-money laundering and various other compliance issues. Legal and regulatory actions are subject to many uncertainties, and their outcomes, including the timing, amount of fines, damages or settlements or the form of any settlements, which may be material and in excess of any related provisions, are often difficult to predict, particularly in the early stages of a case or investigation. NWB Group's expectations for resolution may change and substantial additional provisions and costs may be recognised in respect of any matter.

The resolution of significant investigations includes National Westminster Bank Plc's October 2021 guilty plea for breaches of the UK Money Laundering Regulations 2007, which resulted in a fine of approximately £265 million. For additional information relating to these and other legal and regulatory proceedings and matters to which NWB Group is currently exposed, see '*Litigation and regulatory matters*' at Note 27 to the consolidated accounts.

The recent guilty pleas, other recently resolved matters or adverse outcomes or resolution of current or future legal or regulatory actions, including conduct-related reviews or redress projects, could increase the risk of greater regulatory and third party scrutiny and could have material collateral consequences for NWB Group's business and result in restrictions or limitations on NWB Group's operations. These may include consequences resulting from the need to reapply for various important licences or obtain waivers to conduct certain existing activities of NWB Group, which may take a significant period of time and the results of which are uncertain.

Failure to obtain such licences or waivers could adversely impact NWB Group's business, including if it results in NWB Group being precluded from carrying out certain activities. This in turn and/or any fines, settlement payments or penalties could adversely impact NWB Group's capital position. Similar consequences could result from legal or regulatory actions relating to other parts of NatWest Group.

Failure to comply with undertakings made by NWB Group to its regulators may result in additional measures or penalties being taken against NWB Group. In addition, any failure to administer conduct redress processes adequately, or to handle individual complaints fairly or appropriately, could result in further claims as well as the imposition of additional measures or limitations on NWB Group's operations, additional supervision by NWB Group's regulators, and loss of investor confidence.

NWB Group may not effectively manage the transition of LIBOR and other IBOR rates to alternative risk free rates.
UK and international regulators are driving the transition from the use of interbank offer rates ('IBORs'), including LIBOR, to alternative primarily risk free rates ('RFRs'). As of 31 December 2021, LIBOR, as currently determined, has ceased for all tenors of GBP, JPY, CHF, EUR, and for the 1 week and 2 month tenors for USD. The remaining USD LIBOR tenors, as currently determined, are due to cease after 30 June 2023. The FCA has used its powers under the UK Benchmarks Regulation ('UK BMR') to require, for a limited period of time after 31 December 2021, the ongoing publication of the 1, 3, and 6 month GBP and JPY LIBOR tenors using a changed methodology (i.e., 'Art23A LIBOR' on a synthetic basis). The UK has passed the Critical Benchmarks (References and Administrators' Liability) Act 2021 ('Critical Benchmarks Act') which establishes a framework that allows the ongoing use of Art23A LIBOR under certain circumstances where contracts have pro-actively transitioned onto alternative rates. However, the FCA has been clear that the solutions provided under UK BMR and the Critical Benchmarks Act are not permanent and cannot be guaranteed after the end of 2022 (and for JPY the FCA has confirmed that Art23A LIBOR will no longer be available after the end of 2022). This framework and its lack of permanence may expose NatWest Group, its customers and the financial services industry more widely to various risks, including: (i) the FCA further restricting use of Art23A LIBOR resulting in proactive transition of contracts onto alternative rates and, depending on the notice given for any further restrictions, this transition may need to be completed

very quickly; and (ii) mis-matches between positions in cleared derivatives and the exposures they are hedging where those exposures are permitted to make use of Art23A LIBOR, as the FCA has chosen not to permit the use of Art23A LIBOR for cleared derivatives. Although the formal cessation date for the remaining USD LIBOR tenors (as currently determined) is not until the end of June 2023, US and UK regulators have been clear that this is only to support the rundown of back book USD LIBOR exposures, and that no new contracts should reference these USD LIBOR tenors after 31 December 2021, other than in a very limited range of circumstances. NWB Group will continue to have ongoing exposure to the remaining USD LIBOR tenors until they cease at the end of June 2023.

NWB Group had significant exposures to IBORs and has actively sought to transition away from these during 2021 in accordance with regulatory expectations and milestones. Transition measures have included the pro-active development of new products on using alternative rates, primarily but not exclusively RFRs rather than LIBOR, pro-actively restructuring existing LIBOR exposures so that they cease to reference LIBOR and instead reference alternative rates, and embedding language into contracts that allows for the automatic conversion to alternative rates when LIBOR ceases to be available. The main Central Counterparty Clearing houses (CCPs) have conducted mass conversion exercises in December 2021 covering GBP, JPY, CHF and EUR LIBOR cleared derivatives to fully transition all outstanding LIBOR exposure to the relevant RFR . NWB Group entities, along with many of their major counterparties, have already adhered to the ISDA IBOR fall-backs supplement and protocol which establishes a clear, industry accepted, contractual process to manage the transition from IBORs to RFRs for non-cleared derivative products.

These transition efforts include extensive engagement with customers, industry working groups and regulators to seek to deliver transition in a transparent and economically appropriate manner. Any economic impacts will be dependent on, amongst other things, the establishment of deep and liquid RFR markets, the establishment of clear and consistent market conventions for all replacement products, as well as counterparties' willingness to accept, and transition to, these conventions. Furthermore, certain IBOR obligations may not be able to be pro-actively changed which could, depending on any over-arching legislative transition frameworks, potentially result in fundamentally different economic outcomes than originally intended. The uncertainties around the manner of transition to RFRs, and the ongoing broader acceptance and use of RFRs across the market, expose NWB Group, its clients and the financial services industry more widely to risks.

Examples of these risks may include (i) legal (including litigation) risks relating to documentation for new and the majority of existing transactions (including, but not limited to, changes, lack of changes, unclear contractual provisions, and disputes in respect of these); (ii) financial risks from any changes in valuation of financial instruments linked to impacted IBORs that may impact

NWB Group's performance, including its cost of funds and its risk management related financial models; (iii) pricing, interest rate or settlement risks such as changes to benchmark rates that could impact pricing, interest rate or settlement mechanisms in or on certain instruments; (iv) operational risks due to the requirement to adapt IT systems, trade reporting infrastructure and operational processes, as well as ensuring compliance with restrictions on new USD LIBOR usage after December 2021; (v) conduct and litigation risks arising from communication regarding the potential impact on customers, and engagement with customers during and after the transition period, or non-acceptance by customers of replacement rates; and (vi) different legislative provisions in different jurisdictions, for example, unlike certain US states and the EU, the UK has not provided a clear and robust safe harbour to protect against litigation and potential liability arising out of the switch to 'synthetic LIBOR'.

Notwithstanding all efforts to date, until the transition away from LIBOR onto alternative rates has been fully completed, and there is greater experience of how RFRs are adopted across different products and customer groups, it remains difficult to determine to what extent the changes will affect NWB Group, or the costs of implementing any relevant remedial action. Uncertainty as to the nature and extent of such potential changes, the take up of alternative reference rates, or other reforms, may adversely affect financial instruments originally referencing LIBOR as the benchmark. The implementation of any alternative RFRs may be impossible or impracticable under the existing terms of certain financial instruments and could have an adverse effect on the value of, return on and trading market for, certain financial instruments and on NWB Group's profitability.

Changes in tax legislation or failure to generate future taxable profits may impact the recoverability of certain deferred tax assets recognised by NWB Group.

In accordance with the accounting policies set out in '*Critical accounting policies and key sources of estimation uncertainty*', NWB Group has recognised deferred tax assets on losses available to relieve future profits from tax only to the extent it is probable that they will be recovered. The deferred tax assets are quantified on the basis of current tax legislation and accounting standards and are subject to change in respect of the future rates of tax or the rules for computing taxable profits and offsetting allowable losses.

Failure to generate sufficient future taxable profits or further changes in tax legislation (including with respect to rates of tax) or accounting standards may reduce the recoverable amount of the recognised tax loss deferred tax assets, amounting to £608 million as at 31 December 2021. Changes to the treatment of certain deferred tax assets may impact NWB Group's capital position. In addition, NWB Group's interpretation or application of relevant tax laws may differ from those of the relevant tax authorities and provisions are made for potential tax liabilities that may arise on the basis of the amounts expected to be paid to tax authorities. The amounts ultimately paid may differ materially from the amounts provided depending on the ultimate resolution of such matters.

Forward-looking statements

Cautionary statement regarding forward-looking statements

This document contains forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995, such as statements that include, without limitation, the words 'expect', 'estimate', 'project', 'anticipate', 'commit', 'believe', 'should', 'intend', 'will', 'plan', 'could', 'probability', 'risk', 'Value-at-Risk (VaR)', 'target', 'goal', 'objective', 'may', 'endeavour', 'outlook', 'optimistic', 'prospects' and similar expressions or variations on these expressions. These statements concern or may affect future matters, such as NWB Group's future economic results, business plans and current strategies. In particular, this document may include forward-looking statements relating to NWB Group in respect of, but not limited to: the impact of the COVID-19 pandemic, its regulatory capital position and related requirements, its financial position, profitability and financial performance (including financial, capital, cost savings and operational targets), the implementation of NatWest Group's purpose-led strategy, NWB Group's ESG and climate related targets, its access to adequate sources of liquidity and funding, increasing competition from new incumbents and disruptive technologies, its exposure to third party risks, its ongoing compliance with the UK ring-fencing regime and ensuring operational continuity in resolution, its impairment losses and credit exposures under certain specified scenarios, substantial regulation and oversight, ongoing legal, regulatory and governmental actions and investigations, the transition of LIBOR and IBOR rates to alternative risk free rates and NWB Group's exposure to economic and political risks (including with respect to terms surrounding Brexit and climate change), operational risk, conduct risk, financial crime risk, cyber, data and IT risk, key person risk and credit rating risk. Forward-looking statements are subject to a number of risks and uncertainties that might cause actual results and performance to differ materially from any expected future results or performance expressed or implied by the forward-looking statements. Factors that could cause or contribute to differences in current expectations include, but are not limited to, the impact of the COVID-19 pandemic, the outcome of legal, regulatory and governmental actions and investigations, legislative, political, fiscal and regulatory developments, accounting standards, competitive conditions, technological developments, interest and exchange rate fluctuations and general economic and political conditions and the impact of climate related risks and the transitioning to net zero economy. These and other factors, risks and uncertainties that may impact any forward-looking statement or the NWB Group's actual results are discussed in the NWB Plc's UK 2021 Annual Report and Accounts (ARA). The forward-looking statements contained in this document speak only as of the date of this document and NWB Plc does not assume or undertake any obligation or responsibility to update any of the forward-looking statements contained in this document, whether as a result of new information, future events or otherwise, except to the extent legally required.